AQA

ASSESSMENT and
QUALIFICATIONS
ALLIANCE

General Certificate of Education

Economics ECN2

Unit 2   The National Economy

Mark Scheme

2007 examination - January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

AQA Advanced Subsidiary Economics

January 2007 3 **ECN2/1**

This component is an objective test for which the following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1.	D	9.	B
2.	A	10.	A
3.	C	11.	A
4.	D	12.	B
5.	C	13.	A
6.	C	14.	D
7.	A	15.	C
8.	D		

Advanced Subsidiary Economics

January 2007 **ECN2/2**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 6 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for marking part (c) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 5. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 6. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

In part (c) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can 'evaluate economic arguments and evidence, and make informed judgements'. It is not necessary that the candidate identifies a wide range of issues. As indicated below, the Quality of Written Communication used should be taken into account when awarding the marks.

Level 1
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology. **0 to 3 marks**
Mid-Point: 2 marks

Level 2
One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused. There may be some attempt to present alternative points of view but any attempt at evaluation is superficial. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately. **4 to 6 marks**
Mid-Point: 5 marks

Level 3
Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology. **7 to 10 marks**
Mid-Point: 9 marks

Level 4
Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology. **11 to 13 marks**
Mid-Point: 12 marks

Level 5
Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology. **14 to 15 marks**
Mid-Point: 15 marks

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D   Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I   Where a relevant **ISSUE** is raised by the candidate.

K   Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question.   This should also be used where the candidate quotes relevant examples.

Ap   Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A   Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E   Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i)   use of appropriate form and style of writing to organise relevant information clearly and coherently;
(ii)   use of specialist vocabulary, where appropriate;
(iii)   legibility of handwriting;
(iv)   accuracy of spelling, punctuation and grammar.

EITHER   **Total for this question: 25 marks**

1 INCOME AND SAVING

1(a) Using **Extract A**, compare the trend in GDP per capita with the trend in the
household savings ratio for the period 1995 to 2004.   *(4 marks)*

**Award up to 2 marks for each valid point made (one mark for identification and
one mark for supporting reference(s) to the data). For example:**

- the year on year increases in GDP per capita throughout the period without
  exception compared to the overall decline in the savings ratio
- the inverse relationship between GDP per capita and the savings ratio
- the overall decline in the savings ratio is not without exception during the period;
  GDP per capita data do not display such exceptions
- only in one year is the savings ratio in double figures and this occurs when GDP
  per capita is at its lowest point in the period
- when GDP per capita is at its highest, the savings ratio is at its lowest point in the
  period
- while GDP per capita shows an increase of 57% over the period, the savings ratio
  shows a 58% fall

A maximum of **2 marks** may be awarded if there is no use of statistics to support the
points made or if the candidate simply trawls through the data from year to year.

A maximum of **2 marks** may be awarded if there is no attempt at comparison.

MAXIMUM FOR PART (a) 4 MARKS

> 1(b) **Extract B (**lines 1 and 2) suggests that UK households will become a 'nation of savers again next year'. Explain **two** possible determinants of household saving.
> *(6 marks)*

For candidates who:

define saving in a way not given in Extract A, e.g. that part of disposable income not consumed **1 mark**

explain two determinants of household saving, e.g.

- income trends (even though the data does not indicate this), e.g. household income can be expected to rise over time(1 mark), because of higher earnings and/or lower taxes/higher welfare benefits (1 mark), so creating higher disposable income (1 mark), leading to a higher (marginal) propensity to save (1 mark)
- precautionary saving/saving for the future, perhaps explained in the context of an ageing population, government pressure for households to take greater responsibility for their future incomes, declining confidence in future job security
- to assist in the purchase of assets which could not be purchased from current income, e.g. a deposit on a first house or for a second home within the UK or overseas
- government policies encouraging savings, e.g. stakeholder pensions, ISAs, and/or availability/attractiveness of private sector savings schemes in banks and building societies etc.
- interest rates
- taxation of interest income
- declining trust in financial institutions, e.g. the Equitable Life scandal
- the 'living for today' mentality perhaps because of the 'state will always look after us' syndrome, or arising from the impact of terrorism, or because of the intention of releasing equity from property in retirement

1 mark for identification of a determinant and up to 3 marks for explanation.

For use of relevant and accurate diagrams (which are not a requirement for an award of full marks) up to 2 marks to be awarded within the 4 marks per determinant

While reference to the data should be given credit, candidates who do not go beyond copying from the data should be awarded a maximum of **1 mark.**

Candidates who explain more than two determinants should be awarded marks for the best two explanations.

MAXIMUM FOR PART (b) 6 MARKS

> 1(c)   Using the data and your economic knowledge, evaluate the importance to UK macroeconomic performance of increases in income per head of the population.
> *(15 marks)*

The data offer some guidance on what could be discussed, e.g. the 'wealth effect' of higher house prices and interest rates affecting AD, but also a need to consider the potential impact of supply-side improvements. It is expected that candidates will be able to develop these and other points, with some evaluative comments, to arrive at an appropriate conclusion.

Evaluation

Candidates will need to demonstrate that they are able to evaluate issues and arguments if they are to be awarded **more than 7 marks.**

Candidates who make a genuine attempt at evaluation should be well rewarded. *In the context of this question they might, for example, argue that although income per head helps determine consumption, which in turn is the major component of AD, sustained growth will require attention to the supply side also; the potential for conflict between macroeconomic objectives as income per head rises; rising income per head may help create the conditions conducive to encouraging supply-side improvements; in an open economy such as the UK, it will be income trends within our major trading partners which will also be important.*

Candidates should not be awarded above **Level 3** if evaluation does not go beyond the superficial. However, within this constraint, there is scope to reward the more implicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 marks or more),** there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented.

Where there is no explicit reference to the data, award a maximum of **12 marks**.

Issues and areas for discussion:

- macroeconomic performance criteria
- rising income per head and AD
- other components of AD
- rising income per head and economic growth
- rising income per head in relation to actual and trend growth
- rising income per head and the balance of payments
- rising income per head and employment
- uses to which rising income per head is put, e.g. purchase of assets rather than current consumption
- the impact on savings trends
- savings helping to fund investment
- rising income per head as a potential cause of conflict between macroeconomic objectives
- rising income per head as an inducement to private sector supply-side improvements

- the impact of rising income per head perhaps being influenced by trends in other components of AD
- the impact of corrective action by the authorities should rising income per head bring macroeconomic problems such as inflation
- level of household wealth

Also give credit for:

- references to the UK and/or other economies
- the use of diagrams
- the use of data
- an overview of the issues raised; a final judgement

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 5 and 6

MAXIMUM FOR PART (c) 15 MARKS

OR **Total for this question: 25 marks**

2 GROWTH AND UNEMPLOYMENT

2(a) Using **Extract D**, compare the changes in UK real GDP growth with the changes in the rate of unemployment for the period 1997 to 2006.
(4 marks)

Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data). For example:

- both the annual % change in real GDP and the % of the labour force unemployed show a decline 1997 to 2006
- the rate of unemployment sees a year-on-year decline while the annual changes in the rate of growth of real GDP are more variable
- the similarity in the range of differentials of real GDP growth rates (1.8% and 3.9%) and unemployment levels (4.7% to 7.1%)
- the average rate of growth of real GDP for the period (2.8%) in relation to the extremes compared to the average rate of unemployment (5.4%) in relation to the extremes
- both sets of data show some fluctuations from year to year but usually in moderation, i.e. there is not a highly volatile picture displayed

A maximum of **2 marks** may be awarded if there is no use of statistics to support the points made or if the candidate simply trawls through the data from year to year.

A maximum of **2 marks** may be awarded if there is no attempt at comparison.

A maximum of **2 marks** may be awarded if, throughout the answer, there is evidence of confusion between a fall in the rate of growth of GDP and a decrease in GDP.

MAXIMUM FOR PART (a) 4 MARKS

2(b) **Extract F** (lines 5 and 6) states that, by 2005, the UK had experienced its 'longest unbroken period of economic growth on record'. Explain **two** factors which might influence the rate of economic growth.   *(6 marks)*

For candidates who:

define economic growth, e.g. an increase in the productive capacity of an economy, but accept also a reference to a sustained rise in GDP   **1 mark**

explain two determinants of economic growth, e.g.

- investment, e.g. investment can be regarded as a prime cause of economic growth (1 mark), in that it will create productive capacity (1 mark), which could allow both an increase in productivity (1 mark) and in total output (1 mark)
- R&D/innovation
- education and training
- the discovery of/improved accessibility to natural resources and/or more efficient use of resources
- AD creating the atmosphere in which the supply side can be encouraged
- productivity
- macroeconomic stability
- supply-side reforms, perhaps with use of examples

1 mark for identification of a determinant and up to 3 marks for explanation.

For use of relevant and accurate diagrams (which are not a requirement for an award of full marks) up to 2 marks to be awarded within the 4 marks per determinant

While reference to the data should be given credit, candidates who do not go beyond copying from the data should be awarded a maximum of **1 mark.**

Candidates who explain more than two causes should be awarded marks for the best two explanations.

MAXIMUM FOR PART (b) 6 MARKS

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2 (c)   Using the data and your economic knowledge, evaluate the importance of managing aggregate demand to bring about a sustained reduction in the rate of unemployment in the UK economy.   *(15 marks)*

The data offer some guidance on what could be discussed, e.g. the relevance of the Bank of England's monetary policy and government fiscal policy to achieving macroeconomic stability and a need to consider the potential impact of supply-side improvements. It is expected that candidates will be able to develop these and other points, with some evaluative comments, to arrive at an appropriate conclusion. Reward candidates well who recognise the importance of managing, rather than simply achieving continuous increases in, aggregate demand in order to bring about a sustained rise in unemployment.

Evaluation

Candidates will need to demonstrate that they are able to evaluate issues and arguments if they are to be awarded **more than 7 marks.**

Candidates who make a genuine attempt at evaluation should be well rewarded. *In the context of this question they might, for example, argue that we associate macroeconomic stability with demand-management and yet sustained falls in unemployment may also rely on supply-side improvements; the authorities' attempts at stability using demand-management policies may be overdone, so adversely affecting unemployment; managing aggregate demand may mostly help demand-deficient/cyclical unemployment and not have the same direct impact on more supply-side orientated causes of unemployment.*

Candidates should not be awarded above **Level 3** if evaluation does not go beyond the superficial. However, within this constraint, there is scope to reward the more implicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 marks or more),** there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented.

Where there is no explicit reference to the data, award a maximum of **12 marks**.

Issues and areas for discussion:

- The concept of aggregate demand
- Types of unemployment
- Relevance of aggregate demand management to the reduction in unemployment
- Relevance of aggregate demand management in achieving stable prices as a basis for reducing unemployment
- Aggregate demand management encouraging employment-creating investment from domestic/foreign sources
- Failure to manage aggregate demand successfully as a cause of inflation and potential job loss as competitiveness declines

- The ways in which aggregate demand management may encourage supply-side improvements
- The authorities' overcorrection of the macroeconomy through fear of future inflation, hence causing more unemployment
- The limited contribution that aggregate demand management may make to some causes of unemployment and to voluntary unemployment
- The significance of the global economic environment to unemployment trends

Also give credit for:

- references to the UK and/or other economies
- the use of diagrams
- the use of data
- an overview of the issues raised; a final judgement

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 5 and 6

MAXIMUM FOR PART (c) 15 MARKS