General Certificate of Education

Economics

ECN2: The National Economy

Mark Scheme

2007 examination - June 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.

AQA Advanced Subsidiary Economics

June 2007   **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.	C	6.	A	11.	A
2.	D	7.	C	12.	C
3.	B	8.	D	13.	B
4.	B	9.	D	14.	B
5.	D	10.	B	15.	D

June 2007   **ECN2/1**

Advanced Subsidiary Economics

June 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

1 UK OVERSEAS PERFORMANCE   **Total for this question: 25 marks**

> 1(a) Using **Extract A,** identify the main features of the UK balance of payments on current account for the period 1998 to 2005.   *(4 marks)*

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

the balance of payments on current account is quite volatile over the period

the deficit as a % of GDP deteriorates over the period

only in 1998 does the current account move into surplus as a % of GDP

the largest deficit as a % of GDP is in late 2000, although early 1999 and late 2005 are of very similar size

the period from late 2000 to early 2003 sees an improving picture overall

the periods from late 1998 to late 2000 and again from early 2003 to 2005 see deteriorating pictures overall

late 1998 and mid-2005 are notable periods of deterioration in the current account

any other valid point

Up to 2 marks may be awarded if there is no use of statistics to support the points made (ie a recognition that the data refer to % of GDP) or if candidates simply trawl through the data.

Up to 3 marks may be awarded where there is evidence of an overview being taken, even though parts of the answer give the impression of a trawl through the data.

MAXIMUM FOR PART (a) 4 MARKS

1(b) **Extract C** (lines 1-2) states that the 'rate of growth of labour productivity in the UK has fallen to its lowest level in 15 years'. Explain **two** determinants of productivity performance. *(6 marks)*

For candidates who:

define productivity, eg labour productivity: output per person employed per period of time:
1 mark

explain two determinants of productivity performance, eg:

- education and training (1 mark), leading to higher skill levels/updating of skills (1 mark), the possibility of higher status and remuneration leading to greater motivation (1 mark), resulting in tasks more efficiently completed (1 mark)

- improved working practices such as multi-skilling and job rotation schemes

- more R&D/technological progress

- investment in new equipment

- pay incentives, eg performance-related pay, profit-sharing schemes

- greater mobility of resources from less productive to more productive uses

- stability/growth in the macroeconomy (as long as the relevance of this to productivity is explained, eg greater confidence of business to invest in new technology and the ability to introduce more innovative pay schemes)

- encouragement to enterprise (perhaps government initiated)

- the rate of growth of employment exceeds the rate of growth of output
    up to 4 marks (1 + 3) per reason explained including up to 2 marks (1 mark for curve/axes labelling, 1 mark for information shown) for use of relevant diagrams accurately drawn

It would be quite legitimate for candidates to write in terms of factors bringing a decrease in productivity rather than an increase.

If candidates explain more than two determinants award marks to the two best explanations.

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

MAXIMUM FOR PART (b): 6 MARKS

1(c)   Using the data and your economic knowledge, evaluate the importance of rising productivity in bringing about an improvement in the UK balance of payments on current account.   *(15 marks)*

It is anticipated that candidates will draw on ideas included in **Extract B**, which gives an explanation of why productivity can be important but also suggests other factors which can be analysed and evaluated.

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, for example, candidates might suggest that productivity improvements will be of limited value if occurring mainly in sectors whose output is not tradeable, or for which world demand is in long-term decline; productivity gains might be cancelled out to some extent by an accelerating rate of inflation and/or by an appreciating exchange rate; productivity improvements will have limited benefit if many of the major markets for UK output are in recession or in a downswing.*

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, ie where there is some evidence of judgements having been made 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.

A maximum of **12 marks** should be rewarded if there is no **explicit** reference to the data.

Issues and areas for discussion:

- definition of the balance of payments on current account
- the composition of the current account
- explanation of productivity
- the significance of productivity to unit costs, to competitiveness and hence to the current account
- the significance of the exchange rate (which may be linked to elasticity although this is not an AS topic in this context)
- the rate of inflation
- the significance of macroeconomic conditions in world markets
- the importance of where in the economy productivity improvements are more prominent
- other aspects of competitiveness not related to productivity, eg design and reliability
- the need to import because of the substantial decline of the UK manufacturing sector
- the price inelastic demand for some resources, eg oil
- rising income and/or greater availability of cheap credit bringing a surge in imports
- significance of components (Net income, Net current transfers) not related to productivity trends

Also give credit for:

- use of diagrams, eg AD/AS
- reference to the UK and/or other economies
- an overview of 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, or others of their choosing, in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c): 15 MARKS

TOTAL FOR THIS QUESTION: 25 MARKS

OR

2 GOVERNMENT EXPENDITURE   Total for this question: 25 marks

2(a) Using **Extract D,** compare government expenditure as a % of GDP in the UK and the
USA for the period 2002 to 2007.   *(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). These include:**

the UK shows a more significant % point increase (4% points compared to 0.3% points for
USA)

the UK has just under a 10% increase in government expenditure, the USA just under 1%

the UK shows continuous year-on-year increases, the USA shows a decrease 2003 to 2004

the figures for the UK are always over 40%, for the USA, always under 40%

the peak for the UK is forecast to be in 2007, for the USA, 2006

any other valid point

1 mark may be awarded if there is no comparison and a maximum of **2 marks** if there is no
use of statistics to support the points made or if the comparison is confined to one economy.

Up to 2 marks may be awarded if candidates simply trawl through the data.

Up to 3 marks may be awarded where there is evidence of an overview being taken even
though parts of the answer give the impression of a trawl through the data.

MAXIMUM FOR PART (a): 4 MARKS

2(b) **Extract E** refers to various reasons for government expenditure. Explain **two** economic reasons. *(6 marks)*

For candidates who:

make a relevant introductory comment, eg defining government expenditure, putting government expenditure into the context of fiscal policy as a whole, suggesting how it might be analysed, eg by department, current/capital spending. **1 mark**

explain two reasons, eg:

- to influence AD (1 mark), thus helping to draw an economy more quickly out of a recession and allow a faster recovery (1 mark), generating a multiplier process (1 mark), so causing both employment and general economic activity to increase (1 mark)

- to help the process of economic growth through various supply-side improvements such as innovation and skills

- the provision of goods and services, with reference to public goods

- the provision of goods and services, with reference to merit goods

- to help improve the quality of resources, eg subsidising training or capital investment

- to help finance R&D and so bring about more technological progress

- to influence the distribution of income

- environmental reasons

- sectoral/industry subsidies

up to 4 marks (1 + 3) per reason explained including up to 2 marks (1 mark for curve/axes labelling, 1 mark for information shown) for use of relevant diagrams accurately drawn

If candidates explain more than two reasons award marks to the two best explanations.

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

MAXIMUM FOR PART (b): 6 MARKS

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2 (c)   Using the data and your economic knowledge, evaluate the contribution that the growth of government expenditure may make to UK economic performance.

(15 marks)

It is anticipated that most candidates will discuss expenditure in terms of the mainstream macroeconomic indicators: growth, employment, prices and the balance of payments. It is hoped that stronger candidates will make use of the latter part of Extract F, which offers some more sophisticated arguments for keeping government expenditure under control and which have macroeconomic implications.

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, for example, candidates might suggest that the impact can depend on the actual level of government expenditure and not simply the fact that it is increasing over a period of years for the UK as shown in Extract D; there is a need to consider the influence of non-fiscal policy influencing macroeconomic performance, notably interest rates; there may also be a need to consider the influence of non-policy factors affecting macroeconomic performance; that the impact of government spending could be put into the context of taxation changes and changes to borrowing which may be needed; that the value of the multiplier will be devalued by withdrawals.*

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 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.

A maximum of **12 marks** should be rewarded if there is no **explicit** reference to the data.

Issues and areas for discussion:

- the nature of government spending, eg current v capital
- composition and level of spending
- government expenditure in the context of fiscal policy generally
- a review of the term 'economic performance'
- potential significance of monetary policy
- AD, the multiplier process and the impact of withdrawals
- impact on disposable income
- the relevance of government expenditure to economic growth
- the potential impact on the balance of payments
- the risks to price stability
- employment v unemployment
- the varying consequences for economic performance of different types of expenditure, eg the supply-side implications of more spending on welfare, subsidies to industry, infra-structure development, education and training
- other non-policy influences on economic performance
- implications of government expenditure for taxation and borrowing

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Also give credit for:

- use of diagrams, eg AD/AS
- reference to the UK and/or other economies
- an overview of 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, or others of their choosing, in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c): 15 MARKS

TOTAL FOR THIS QUESTION: 25 MARKS