**General Certificate of Education
June 2011**

Economics   **ECON2**

Unit 2:   **The National Economy**

Final

Mark Scheme

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.

June 2011   **ECON2/1**

Advance Subsidiary Economics Unit 2

Section A: Objective Test (ECON2/1)

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1.	A	9.	D	17.	B
2.	B	10.	A	18.	D
3.	D	11.	C	19.	B
4.	B	12.	B	20.	B
5.	D	13.	A	21.	C
6.	B	14.	C	22.	C
7.	A	15.	B	23.	A
8.	C	16.	A	24.	D
				25.	D

Advanced Subsidiary Economics

June 2011   **ECON2/2**

Mark Scheme

Section B: Data Response

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:

(i)   **An issue based approach.** The mark scheme for questions **01**, **02**, **03**, **05**, **06** and **07** 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.

(ii)   **A levels approach.** This approach is used for marking questions **04** and **08** of the data response questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated at each level. First decide the level into which an answer falls. 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. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up and down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the levels descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

LEVES OF RESPONSE MARK SCHEME: QUESTIONS 04 AND 08 ONLY

AS LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) **Good analysis and good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis but limited evaluation** OR	Good throughout the answer with few errors and weaknesses	Good application to issues Good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning	Limited but showing some appreciation of alternative points of view
Reasonable analysis and reasonable evaluation	Good throughout much of the answer with few errors and weaknesses	Some good application to issues. Some good use of data to support answer	Largely relevant and well organised with reasonable logic and coherence	Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues No use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

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 and/or makes use of data to support the answer.

An   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

Quality of Written Communication (QWC) will be assessed in Questions 04 and 08 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear

- select and use a form and style of writing appropriate to purpose and complex subject matter

- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

EITHER

Context 1

UK TRADE IN GOODS AND SERVICES

| 01 | Define the term 'aggregate demand' (**Extract C**, line 5). | *(5 marks)* |

For an acceptable definition	
• total spending/expenditure on all goods and services produced in the domestic economy during a given time period • total spending/expenditure on all goods and services produced in the economy • total planned expenditure in the economy • total expenditure in the economy at a given price level • the total amount spent at different price levels • the total demand in the economy and is equal to C+I+G+X-M	**5 marks**
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'aggregate demand', even if the definition is not exactly the same as the acceptable examples quoted above. An accurate definition of the aggregate demand curve should also be awarded full marks, eg the relationship between the price level and total planned expenditure.	

If the definition is incomplete, marks may be broken down, for example as follows:

For giving the formula: AD = C+I+G+X-M **or** AD = C+I+G+X	**4 marks**
The total demand in the economy, ie repeats the word 'demand' without explanation	**3 marks**
For drawing an accurately labelled diagram showing an AD curve	**2 marks**
For identifying/writing about one or more components of aggregate demand, eg consumption or investment	**1 mark per component of AD, up to a maximum of 4 marks**
For just stating that aggregate = total	**1 mark**
If a candidate defines the demand for an individual product or service, eg micro demand curve	**1 mark**

Do not award any marks for identifying/explaining policies that can be used to influence aggregate demand.

Maximum of 4 marks if the definition is incomplete or inaccurate

MAXIMUM FOR PART 01: 5 MARKS

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02   Using **Extract A**, identify **two** significant features of the changes in the value of
         UK trade in goods and services over the period shown.   *(8 marks)*

Award up to 4 marks each for <u>each</u> point made:

Identifies a significant feature Makes accurate use of the data to support the feature identified Unit of measurement given accurately	**4 marks**
Identifies a significant feature Makes use of the data to support the feature identified However, no unit of measurement is given **and/or** the unit of measurement is used/applied inaccurately	**3 marks**
Identifies a significant feature No use of correct data to support the feature identified	**2 marks**
A significant feature of **part** of the data is identified but this does **not** provide an overview of the whole data series Makes accurate use of the data to support feature identified Unit of measurement given accurately	**1 mark**

If a candidate identifies more than two significant features, reward the best two ('significant' such as highs, lows or major changes/trends over a period of time).

The significant features include:
- the value of exports was higher at the start of the period (£101.3 billion) than at the end of the period (£100.1 billion)
- the value of imports was higher at the start of the period (£112.6 billion) than at the end of the period (£109.6 billion)
- exports were less than imports throughout the whole of the period (e.g. in 2008 Q3 when the deficit/difference was £10.9 billion)
- the difference between the value of exports and imports was larger at the start of the period (2008 Q1 £11.3 billion) than at the end of the period (2009 Q3 £9.5 billion)
- the value of exports peaked in 2008 Q3 at £107.9 billion
- the value of imports peaked in 2008 Q3 at £118.8 billion
- the value of exports reached their lowest value in 2009 Q2 at £93.9 billion
- the value of imports reached their lowest value in 2009 Q2 at £102.3 billion
- the largest deficit was in 2008 Q1 at -£11.3 billion
- the smallest deficit was in 2008 Q4 at -£5.9 billion
- the value of exports and imports show a similar pattern of growth and decline. Both sets of data show growth between 2008 Q1 and 2008 Q3, they both decline between 2008 Q3 and 2009 Q2 before starting to grow again between 2009 Q3 and Q4 (e.g. for exports, the growth between 2008 Q1 and 2008 Q3 was £101.3 billion to £107.9 billion and the decline between 2008 Q3 and 2009 Q2 was £107.9 billion to £93.9 billion. Between 2009 Q2, and Q4 exports grew from £93.9 billion to £100.1 billion).
- the quarterly deficit on the balance of trade in goods and services declined in 2008 from -£11.3 billion to -£5.9 billion. However, during 2009 the quarterly deficit rose from -£7.8 billion to -£9.5 billion.
- the overall deficit in 2008, -£38.2bn, is larger than the overall deficit in 2009, -£33.8bn.

- the **largest** fall in the deficit is between 2008 Q3 and 2008 Q4, falling from -£10.9bn to -£5.9bn.

Candidates should not be penalised for failing to include the minus sign, when quoting figures relating to the balance of trade in goods and services, PROVIDED that they clearly state that the account is in deficit.

MAXIMUM FOR PART 02: 8 MARKS

03	**Extract B** (lines 9-10) states that 'optimism about the prospects for the export of UK manufactured goods rose to its highest level since 1995'.
	Explain **two** factors that might lead to an increase in the demand for UK exports. *(12 marks)*

For a candidate who provides a relevant definition, eg exports, manufactured goods. Do **not** credit a definition of aggregate demand.	**1 mark per definition To a max of 2 marks**

Award up to 8 marks for each of the following factors identified and explained. 2 marks should be awarded for identifying the factor and up to a further 6 marks for explaining why it might lead to an increase in UK exports. Award 'this increases the quantity of exports sold/demand for exports' only once, not for each factor.

A fall in the value of the pound/exchange rate **(2 marks)** will reduce the (foreign currency) price of UK exports **(2 marks)** this will make UK exports more competitive (relatively cheaper) than products exported by other countries **(2 marks)**, as a result, the quantity of exports sold should increase/demand for UK exports should increase **(2 marks)**, the extent to which exports increase depends on the price elasticity of demand for UK exports **(2 marks).** **Note:** Candidates do **not** have to state that it is the *foreign currency* price of exports that falls. However, if a candidate explains why the foreign currency price falls then an extra 2 marks can be awarded but the overall constraint of 8 marks still applies.	**Up to 8 marks**
Growth (or rising incomes/economic recovery/falling unemployment) in UK export markets.	**Up to 8 marks**
Low inflation in the UK, making UK products more price competitive - the better candidates are likely to consider the rate of inflation in the UK relative to inflation in other countries.	**Up to 8 marks**
Improvements in productivity that make UK products more price competitive.	**Up to 8 marks**
Other supply-side improvements that increase the non-price competitiveness of UK products, eg design, latest technology, quality, availability and delivery dates.	**Up to 8 marks**

Award up to 4 additional marks for the use of relevant diagrams. One example of a relevant diagram could be: an AD/AS diagram that shows a rightward shift in the AS curve (either LRAS or SRAS) representing a supply-side improvement in the economy and a movement along the AD curve resulting from more competitive exports. Break down of marks for diagrams as follows:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but **not** Quantity or Q). Original AD and AS curves labelled correctly. Dotted lines and the associated labelling showing the original equilibrium ($PL_1 Y_1$).	**1 mark**
Correct shift in curve	**2 marks**
Dotted lines and the associated labelling showing the new equilibrium ($PL_2 Y_2$)	**1 mark**

Note: Do **not** award additional marks for a written explanation of a diagram that just describes what the diagram shows.

If a candidate identifies more than two reasons, award the marks based upon the best two explanations.

A maximum of 10 marks can be awarded if the candidate only explains one factor that might lead to an increase in UK exports.

MAXIMUM FOR PART 03: 12 MARKS

04	**Extract C** (lines 8-10) states that a 'sustained improvement in the UK economy requires…that spending switches away from household consumption and government spending towards exports'.
	Using the data and your economic knowledge, assess the importance of an increase in exports for achieving an improvement in the performance of the UK economy. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

A maximum of **21 marks** may be awarded if there is no explicit use of the data.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• definitions of, for example, exports, consumption and government spending • an explanation of what is meant by 'spending switches away from private consumption and government spending towards exports' • explanation of what is meant by an improvement in the performance of the United Kingdom economy – this is most likely to relate to the 4 main macroeconomic policy objectives but might also consider reducing the budget deficit and improving aspects of the supply-side performance of the economy • a brief outline of the current problems of the UK economy.
Developing the response to the question	• exports as a component of aggregate demand • the relevance of aggregate demand to aspects of the performance of the economy, eg employment, growth, inflation and the budget balance • the current state of the economy and the role of aggregate demand in achieving improvements in current economic performance • why cuts in government spending are likely and why the growth in consumption may be fairly restrained • the growth of exports as a means of replacing demand that is lost through cuts in public spending and, possibly, slow growth in consumption • links with the need to reduce the twin deficits facing the UK economy, i.e. the budget deficit and the deficit on the current account of the balance of payments • multiplier effects of an increase in exports

	• the regional impact of an increase in exports • factors on the supply-side of the economy that might be considered important in achieving an improvement in the economy, eg higher productivity, labour mobility, more skilled workforce, more investment, effective regulation of financial markets • Other factors that might be considered important in achieving an improvement in the economy, eg encouraging banks to increase their lending to business, sustainable levels of consumer debt, managing the growth in AD and controlling inflation, preventing the over-heating of the economy.
Evaluation	• an assessment of the extent to which it is important that the growth of demand comes from a growth in exports rather than from consumption or government spending • an assessment of the growth of investment as an alternative means of increasing aggregate demand • diverting demand from consumption and government spending into exports is likely to involve, at least in the short run, a reduction in living standards • the problems associated with relying on exports as the means of generating the required growth in aggregate demand • an assessment of the relative importance of supply-side improvements in the economy • an assessment of the relative importance of other measures that may be required • linking the above to the current state of the UK economy and the problems that it is facing • the use of data from the extracts to support the arguments presented.

Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some of the pros and cons of an increase in exports, e.g. an increase in exports should help to reduce unemployment but might be inflationary. Low-level evaluation and good analysis would allow the answer to achieve Level 4. Stronger evaluation might assess the importance of an increase in exports compared to other requirements for an improvement in the performance of the economy and/or candidates might use their knowledge of the current state of the UK economy to assess the importance of an increase in exports.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 5 AND 6
FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 04: 25 MARKS

OR

Context 2

INFLATION

05	Define the term 'supply-side policies' (**Extract F**, line 2).	*(5 marks)*

For an acceptable definition, eg:	
• measures taken by the government (government policies) that are designed to increase the productive capacity/potential output/underlying rate of growth of the economy • policies designed to shift the LRAS curve to the right	**5 marks**
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'supply-side policies', even if the definition is not exactly the same as the acceptable examples quoted above.	

If the definition is incomplete (or inaccurate), marks can be broken down, for example as follows:

Policies that are designed to increase aggregate supply/total output	**3 marks**
Policies that are designed to reduce market imperfections and mark markets work better	**3 marks**
Government policies that are designed to increase incentives to effort and enterprise	**3 marks**
An accurately labelled diagram showing a rightward shift in an LRAS curve **OR** production possibility boundary	**2 marks**
One or more accurate examples of supply-side policies, eg cuts in income tax or corporation tax, reductions in out-of-work welfare benefits, privatisation, trade union reforms, increased spending on education and training, government grants for research and development Do not allow 'subsidies' but examples such as 'subsidies for training', 'subsidise investment, 'subsidise R&D' are acceptable.	**1 mark per example, up to a maximum of 2 marks**

Maximum of 4 marks if the definition is incomplete or inaccurate

MAXIMUM FOR PART 05: 5 MARKS

06 Using **Extract D**, identify **two** significant points of comparison between the CPI and RPI measures of inflation over the period shown. *(8 marks)*

Identifies a significant point of comparison. Makes accurate use of the data to support the point of comparison. Unit of measurement given accurately.	**4 marks**
Identifies a significant point of comparison. Makes use of the data to support the point of comparison. However, only one piece of data is given when two are needed to make a valid comparison **and/or** no unit of measurement is given **and/or** the unit of measurement is used/applied inaccurately.	**3 marks**
Identifies a significant point of comparison. No use of correct data to support the comparison identified.	**2 marks**
Identifies a significant feature of the data but no comparison is made Makes use of the data to support the feature identified Unit of measurement given accurately	**1 mark**

If a candidate identifies more than two significant points of comparison, reward the best two ('significant' such as highs, lows or major changes/trends over a period of time).

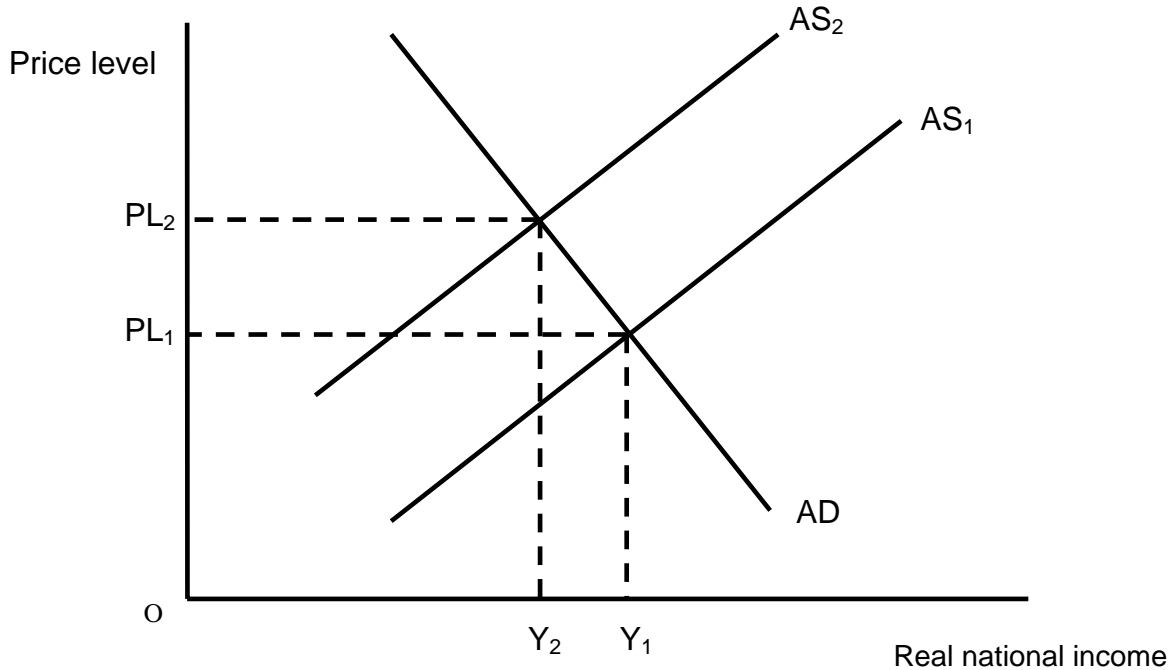**The significant points of comparisons include:**

- both CPI and RPI inflation were higher at the start of the period (2.4% and 4.0% respectively) than at the end of the period (2.1% and 0.6% respectively)

- between 2008 Q1 and 2008 Q3 CPI inflation was lower than RPI inflation (eg in 2008 Q2 CPI inflation = 3.4% and RPI inflation = 4.4%)

- between 2008 Q4 and 2009 Q4 CPI inflation was higher than RPI inflation (eg in 2008 Q4 CPI inflation = 3.9% and RPI inflation = 2.7%)

- both CPI and RPI inflation peaked in 2008 Q3 (4.8% and 5.0% respectively)

- CPI and RPI inflation reached their lowest rates in 2009 Q3 (1.5% and -1.4% respectively)

- CPI inflation is less volatile than RPI inflation (CPI inflation varies between 1.5% and 4.8% whereas RPI inflation varies between -1.4% and 5.0%)

- CPI inflation was positive throughout the period whereas RPI inflation was negative (deflation) between 2009 Q1 and 2009 Q3 (e.g. 2009 Q2 CPI inflation = 2.1% and RPI inflation = -1.3%).

MAXIMUM FOR PART 06: 8 MARKS

07	**Extract E** (line 6) states that the 'average price of imports has risen by around 15% in the past 18 months'. Using an AD/AS diagram to help you, explain the effect that a rise in the price of imports is likely to have on the rate of inflation in the UK. *(12 marks)*

The anticipated response for the diagram:

Breakdown of the marks for the diagram:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but **not** Quantity or Q). Original AD and AS curves labelled correctly. Dotted lines and the associated labelling showing the original equilibrium (PL_1 Y_1).	**1 mark**
Leftward shift in the AS/SRAS curve but **not** LRAS	**2 marks**
Dotted lines and the associated labelling showing the new equilibrium (PL_2 Y_2)	**1 mark**

(i) **Also allow a rightward shift in the AD curve PROVIDED the accompanying written analysis is plausible, eg the candidate might argue that a rise in the price of imports will make UK produced goods more competitive in both the home and export markets leading to an increase in aggregate demand. See page 17 of this mark scheme for a candidate who adopts this approach.**

(ii) **Do NOT allow a diagram that suggests that inflation might fall, eg a leftward shift in the AD curve.**

(iii) **To earn the first mark in the grid for the diagram, all the three listed tasks must have been attempted and been completed.**

(iv) **Candidates who draw a diagram which is incorrect, or is inconsistent with their written explanation, should be awarded 1 marks if the axis, curves and initial equilibrium point are labelled correctly.**
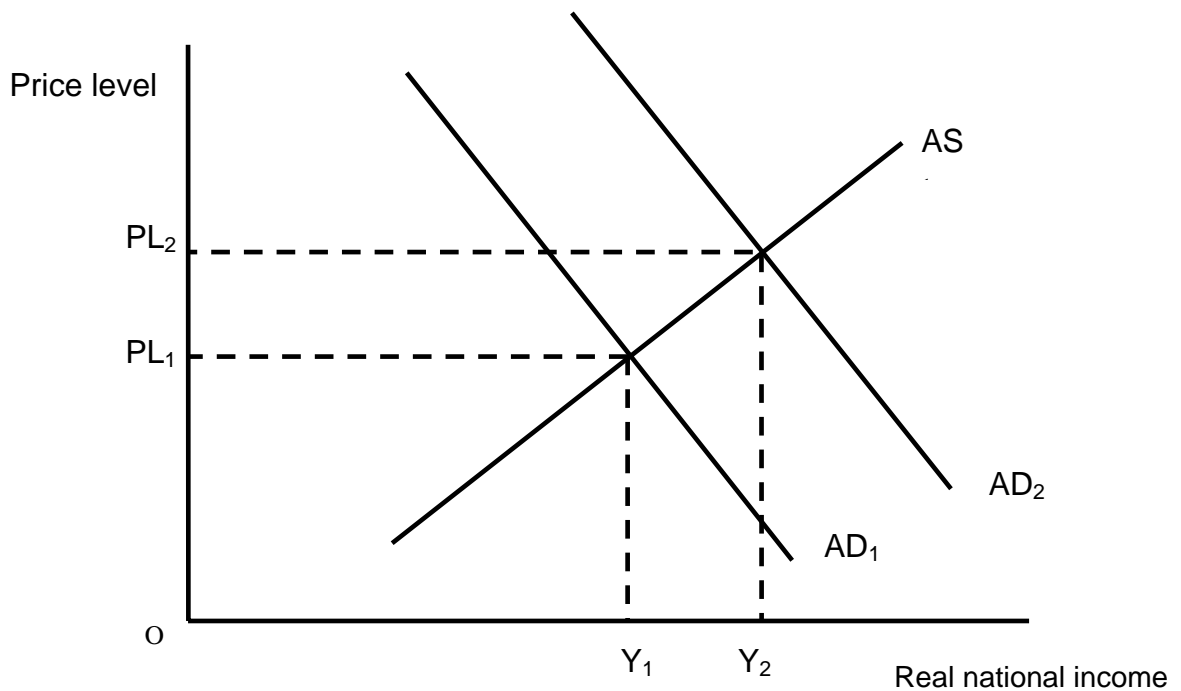
The anticipated written response:

Note: Do **not** award additional marks for a written explanation of the diagram that just describes what the diagram shows.

For a candidate who provides a relevant definition, eg inflation, imports. Do **not** credit a definition of supply-side policies.	**1 mark per definition To a max of 2 marks**

2 marks should be awarded for each logical link in the argument. An example to illustrate is as follows:	
Many companies import raw materials and/or components from abroad **(2 marks)** if import prices rise, these firms will experience an increase in their costs **(2 marks)** if costs rise, firms are likely to raise prices to maintain profit margins **(2 marks)** if this increase in prices is widespread, the general rate of inflation will rise **(2 marks)** this is an example of cost-push inflation **(2 marks)**.	**Up to 8 marks**
The impact of a rise in the price of imports of finished goods on RPI/CPI, perhaps taking into account that around a third of the goods we buy are imported.	**Up to 8 marks**
The impact of this initial increase in costs and prices on wage demands leading to a wage-price spiral and the development of inflationary expectations.	**Up to 8 marks**
The impact of a significant increase in the price of imported oil and gas via its effect on energy, production and transport costs.	**Up to 8 marks**
For candidates who question the significance of the rise in the price of imports on inflation for any of the following reasons: (i) because firms may accept lower profit margins (ii) they might restrict wage increases and/or seek to increase productivity to offset the rising cost of raw materials and components (iii) arguing that its effect is likely to be small if the economy is in a serious recession or (iv) that it may lead to a one-off increase in the price level but not a sustained period of inflation unless it is accompanied by an increase in aggregate demand.	**Up to 8 marks**

Up to a maximum of 10 marks for the written response

The anticipated response for the diagram if the candidate shifts the AD curve to the right:

Breakdown of the marks for the diagram:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but **not** Quantity or Q). Original AD and AS curves labelled correctly. Dotted lines and the associated labelling showing the original equilibrium (PL_1 Y_1).	**1 mark**
Rightward shift in the AD curve	**2 marks**
Dotted lines and the associated labelling showing the new equilibrium (PL_2 Y_2)	**1 mark**

(i) **To earn the first mark in the grid for the diagram, all the three listed tasks must have been attempted and been completed.**
(ii) **Candidates who draw a diagram which is inconsistent with their written explanation can only be awarded 1 mark for axes, supply and demand curves and initial equilibrium.**

The anticipated written response if the candidate shifts the AD curve to the right:

Note: Do **not** award additional marks for a written explanation of the diagram that just describes what the diagram shows.

The rise in the price of imports makes UK products more competitive in their home market increasing AD **(2 marks)**. It may also mean that UK exports are more competitive increasing the demand for exports **(2 marks)**. The rise in the demand for UK produced goods allows domestic companies to raise prices **(2 marks)**. This might lead to increased wage demands **(2 marks)** and as a result costs and prices rise **(2 marks)**.	**Up to 8 marks**

Up to a maximum of 10 marks for the written response

MAXIMUM FOR PART 07: 12 MARKS

| **08** | **Extract F** (lines 7-8) states: 'Supply-side policies will also contribute to lower inflation'.

Using the data and your economic knowledge, evaluate the importance of supply-side policies in helping to control inflation in the UK. *(25 marks)* |
| --- | --- |

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

A maximum of **21 marks** may be awarded if there is no explicit use of the data.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	- definitions of inflation and possibly a brief outline of the nature and effects of supply-side policies (given that definitions may have been presented earlier they may not be repeated) - examples of supply-side policies - possible causes of inflation, ie demand-pull and cost-push - diagram(s) to illustrate demand-pull and/or cost-push inflation.
Developing the response to the question	- the way in which supply-side policies increase the capacity level of output and help to satisfy rising demand, hence reducing the likelihood of demand-pull inflationary pressures - ways in which supply-side policies can be used to increase productivity and promote technological change, and hence reduce firms' costs (or reduce the rate of increase in unit labour costs) - the impact of various supply-side policies on the labour market and ways in which they may help to avoid 'wage inflation' - impact of various supply-side policies on product markets, making them more competitive and hence contributing to lower prices - the role of demand-side policies in controlling inflation, especially monetary policy - the way in which monetary policy is used as the main weapon against inflation in the UK - the role of rising energy and commodity prices upon inflation.

Evaluation	• whether supply-side policies on their own are sufficient to control inflation; most candidates are likely to argue that some attempt to control aggregate demand is also required
	• the view that inflation is primarily/solely due to excess AD and hence demand management/use of monetary policy is essential
	• the view that supply-side policies may contribute to lower inflation in the long run but are ineffective in dealing with short-run inflationary pressures
	• the extent to which supply-side policies are able to deal with inflation initiated by rising import prices
	• the use of evidence from the UK economy to support arguments presented
	• the use of data from Extracts B & C to support the arguments presented.

Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some of the pros and cons of using supply-side policies to control inflation. Low-level evaluation and good analysis would allow the answer to achieve Level 4. Stronger evaluation might discuss the importance of monetary policy compared to supply-side policies as a means of controlling inflation.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 5 AND 6
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 08: 25 MARKS

UMS conversion calculator: www.aqa.org.uk/umsconversion