

**Published Mark Schemes for
GCE AS Economics**

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NORTHERN IRELAND GENERAL CERTIFICATE OF SECONDARY EDUCATION (GCSE)
AND NORTHERN IRELAND GENERAL CERTIFICATE OF EDUCATION
MARK SCHEMES (2009)

Foreword

Introduction

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

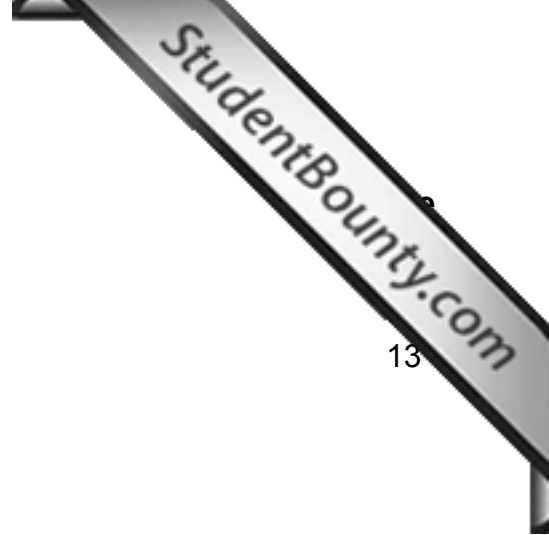
The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.

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Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2009**

Economics

Assessment Unit AS 1

assessing

Markets and Prices

[AE111]

FRIDAY 5 JUNE, AFTERNOON

MARK SCHEME

- 1 (a)
- Wheat prices started from a base of 100 in January 2007 and rose to approximately 180 in April 2008. This is a rise of 80 per cent. [2]
 - The rise in wheat prices was not continuous as prices peaked at almost 250 in March 2008 and fell rapidly during April. [1]
 - Maize prices started from a base of 100 in January 2007 and rose to 150 in April 2008. This is a rise of 50 per cent. [2]
 - The rise in maize prices was fairly continuous with no significant peaks or troughs. [1]
 - Rice prices started from a base of 100 in January 2007 and rose to approximately 280 in April 2008. This is a rise of 180 per cent. [2]
 - Most of the rise in rice prices took place between January and April 2008. [2]
 - Rice has had the greatest proportionate price rise of the 3 crops in the data. [1]
 - For recognising that the data is in index number format. [1]

If candidates fail to deal with all three grains, maximum [4]

(Constrained maximum of [6])

Level 1 ([1]–[2])

Candidate provides little information about the prices of wheat, rice and maize from January 2007 till April 2008. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some information about the prices of wheat, rice and maize from January 2008 till April 2008. Quality of written Communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides detailed information about the prices of wheat, rice and maize from January 2007 till April 2008. Quality of written communication is of a high standard. [6]

- (b) (i) A subsidy is a government payment to producers to encourage them to produce more. This should move the supply curve for biofuels to the right, leading to a lower price and increased output.

[2] for explanation and [3] for accurate diagram [5]

- (ii) The regulation requiring all petrol and diesel to contain 2.5 per cent biofuel will increase the demand for biofuels. The demand curve will shift to the right, causing a higher price and an increase in output.

[2] for explanation and [3] for accurate diagram [5]

- (c) Government promotion of biofuels has caused farmers to grow grain crops to be used for biofuels rather than for food. This has reduced the supply of food and pushed up the price.

[3] for explaining the diversion of resources from food production to ethanol production

[3] for explaining the impact of this upon price

Level 1 ([1]–[2])

Candidate shows little understanding of how government support for biofuel has affected the supply of food and hence its price. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate shows some understanding of how government support for biofuel has affected the supply of food and hence its price. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate shows a clear and extensive understanding of how government support for biofuel has affected the supply of food and hence its price. Quality of written communication is of a high standard.

[6]

- (d) There are a number of ways in which biofuel production has negative environmental impacts:

- Demand for grain for biofuel production has pushed up grain prices and made farming more profitable. This has led to deforestation in order to acquire more agricultural land.
- The growing of this extra grain requires extensive use of fertilisers which are produced from fossil fuels.
- The conversion of the grain to ethanol requires extensive use of fossil fuels.

[3] for each point explained and fully developed. Constrained maximum of [6]

Level 1 ([1]–[2])

Candidate shows little understanding of how the production and use of biofuels might cause an increase in greenhouse gas emissions. There may be vague references to some of the points in the passage but no explanation and quality of written communication is limited.

Level 2 ([3]–[4])

Candidate shows some understanding of how the production and use of biofuels might cause an increase in greenhouse gas emissions. There will be an explanation of some of the points in the passage though this may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate shows a clear and comprehensive understanding of how the production and use of biofuels might cause an increase in greenhouse gas emissions. There will be detailed explanation of at least two of the points in the passage and quality of written communication is of a high standard. [6]

- (e) Candidates should give a balanced appraisal of what markets and governments do well and also why they may on occasions fail to deliver welfare maximising outcomes. Good candidates will give a measured judgement.

Issues for analysis and discussion include:

- Analysis based on consumer and producer surplus.
- Analysis based on productive and allocative efficiency.
- Reasons why markets may sometimes fail, e.g. existence of externalities.
- Reasons why government intervention may also fail, e.g. short-term political considerations or lack of information.

Level 1 ([1]–[4])

Candidate gives at best a superficial evaluation of the view that free markets should be free to allocate resources without any form of government intervention. There will tend to be a number of unsupported assertions and little economic analysis. Quality of written communication is limited.

Level 2 ([5]–[8])

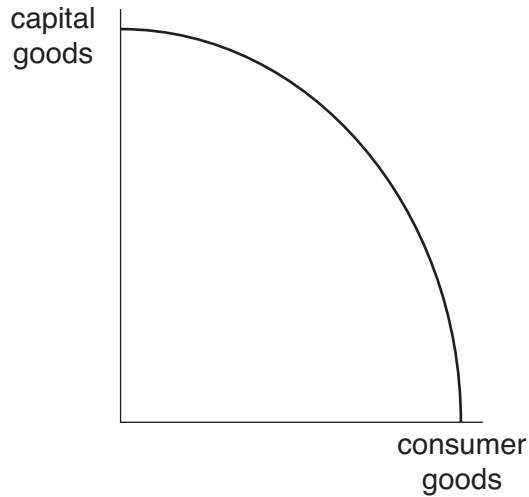
Candidate gives some evaluation of the view that free markets should be free to allocate resources without any form of government intervention. However, this evaluation may lack depth or be one-sided. This may be supported by economic analysis. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

Candidate gives an in-depth evaluation of the view that free markets should be free to allocate resources without any form of government intervention. This will be supported by economic analysis and there will be a balanced judgement. Quality of written communication is of a high standard. [12]

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- 2 (a) The production possibility curve (PPC) is a graph showing the combinations of two items which can be produced by the same quantity of resources. The PPC usually shows the alternatives available to an entire economy but may be applied to smaller economic units.



All the combinations on and inside the curve are feasible options but those inside the curve are inefficient as they represent unused or under-used resources. Combination outside the curve cannot be produced with the resources available.

Level 1 ([1]–[3])

Candidate shows no significant understanding of what a production possibility curve is designed to show. There is little explanation, either textual or diagrammatic, and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of what a production possibility curve is designed to show. There is a degree of explanation, either textual or diagrammatic, though this may contain minor errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear understanding of what a production possibility curve is designed to show. There is an extensive and virtually flawless explanation, either textual or diagrammatic, and quality of written communication is of a high standard.

[10]

- (b) The production possibility curve slopes downwards from left to right. This shows that as more of one of the items is produced then less of the alternative can be produced. However, the opportunity cost of one good in terms of the other is not a constant. If it were, the PPC would be a straight line.

As more of an item is produced then the opportunity cost of any further increase becomes greater and the slope of the PPC rises. This is because of the law of diminishing returns and the non-homogenous nature of resources. The least productive resources with the lowest opportunity cost will be the first to be transferred.

Issues for analysis and discussion include:

- Explanation of opportunity cost.
- Explanation how opportunity cost is reflected in the slope of the PPC.
- Explanation of how law of diminishing returns affects opportunity cost.
- Explanation of how the non-homogenous nature of resources affects opportunity cost.

Level 1 ([1]–[5])

Candidate gives at best a very limited explanation of how opportunity cost is reflected in a PPC. There will typically be some knowledge of both opportunity cost and the PPC but little analysis of how they are connected. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate gives some limited explanation of how opportunity cost is reflected in a PPC. Typically candidate is able to show the opportunity cost involved in moving between two points on the curve but fails to go on to explain that the opportunity cost is not a constant. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate gives a clear and detailed explanation of how opportunity cost is reflected in a PPC. There is a clear analysis of why opportunity cost is not a constant, and quality of written communication is of a high standard. [15]

- (c) The scarcity which existed when the founding fathers of modern economics were writing is thankfully a thing of the past in the British Isles. Homelessness and malnutrition are relatively rare. Our problems of diet are more the result of over-consumption rather than deprivation.

However, this does not mean that scarcity no longer exists. We want better health care and access to better schools for our children. Many people also have unfulfilled social needs with a desire for acceptance and recognition. Some studies suggest that there is a scarcity of "happiness".

Issues for analysis and evaluation include:

- Explanation of scarcity.
- Difference between poverty and scarcity.
- Distinction between absolute and relative poverty.
- Importance of non-material needs.
- Contextual nature of scarcity and poverty.
- Historical and international examples.

Level 1 ([1]–[5])

Candidate displays at best a superficial understanding of the nature of scarcity. There is little attempt at comparing the scarcity of less developed countries with that of the developed world nor any reference to non material scarcity. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate displays some understanding of the nature of scarcity. There is a serious attempt at evaluating the existence of scarcity in the UK, but this may lack depth or be one-sided. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate displays a clear understanding of the nature of scarcity. There will be in-depth evaluation of the view that it no longer exists in the UK and this will include a balanced conclusion. Quality of written communication is of a high standard. [15]

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- 3 (a) Price elasticity of demand is a measure of the responsiveness of quantity demanded to changes in market price.

Appropriate development:

- Method of calculation.
- Numerical example.
- Relationship to slope of demand curve.

Level 1 ([1]–[3])

Candidate provides at best a seriously flawed definition of price elasticity of demand and there is no significant development. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides an adequate definition of price elasticity of demand and there is a degree of development. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides an accurate definition of price elasticity of demand and there is significant development. Quality of written communication is of a high standard.

[10]

- (b) The management of an airline will be very aware of the need to set prices at a level which maximises profits. In the case of the airline industry where the marginal cost of carrying an extra passenger is zero, profits are maximised when revenue is maximised. Hence a knowledge of the price elasticity of demand is crucial in setting the revenue maximising price.

It will also be interested in cross price elasticities in order to identify the complementary products such as car hire which might be sold. An awareness of substitutes is also important.

Income elasticity estimates will assist in selecting a marketing strategy.

Level 1 ([1]–[5])

Candidate shows little understanding of how an awareness of any of the demand elasticities could benefit the management of an airline. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of how an awareness of the demand elasticities could benefit the management of an airline. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear and extensive understanding of how an awareness of the demand elasticities could benefit the management of an airline. Quality of written communication is of a high standard.

[15]

- (c) Most economic analysis of consumer behaviour assumes that, *ceteris paribus*, when the price of a product rises its demand will fall. It also assumes that when relative prices change consumers switch to those products which have become relatively cheaper. However, this might not always be the case for a variety of reasons.

Issues for analysis and evaluation include:

- Irrational behaviour due to addiction.
- Influence of advertising.
- Altruistic consumers may choose to pay a higher price if they believe it to be socially desirable.
- Consumers may lack the information needed to make informed decisions.
- Problems of obtaining accurate estimates for elasticities.
- Explanation that even a flawed analysis of consumer behaviour is better than no analysis at all.

Level 1 ([1]–[5])

Candidate shows little understanding of the view that the unpredictable nature of consumer behaviour renders obsolete most estimates of elasticity. There is no meaningful evaluation, and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of the view that the unpredictable nature of consumer behaviour renders obsolete most estimates of elasticity. There is a degree of evaluation, although this may lack depth or be one-sided. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear understanding of the view that the unpredictable nature of consumer behaviour renders obsolete most estimates of elasticity. There is significant evaluation, including a judgement, and quality of written communication is of a high standard.

[15]

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- 4 (a) Economic rent is a concept first devised by David Ricardo in the early 19th century. It shows how a factor of production could earn rewards far greater than the amount needed to recruit and retain it. So if a worker could be hired for £6 per hour but actually receives £10 per hour then he or she is receiving £4 of economic rent. The remaining £6 is known as transfer earnings and is determined by what he or she could earn in his or her next most desired occupation.

Appropriate development:

- Numerical example.
- Appropriate diagram.
- Examples relating to highly paid workers and groups of workers.

Level 1 ([1]–[3])

Candidate shows little knowledge or understanding of economic rent. There is little or no development in terms of appropriate examples, diagrams or technical language. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some knowledge and understanding of economic rent. There is a degree of development in terms of appropriate examples, diagrams or technical language. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows an in-depth knowledge and understanding of economic rent. There is extensive development in terms of appropriate examples, diagrams or technical language. Quality of written communication is of a high standard.

[10]

- (b) The division of a person's income between economic rent and transfer earnings depends upon the wage elasticity of supply for that type of labour.

The more inelastic the supply curve the greater the proportion of economic rent and the more elastic the supply curve the greater the proportion of transfer earnings. So relatively unskilled jobs can be done by most people and therefore the supply of this type of labour is very elastic. However, highly skilled jobs can only be done by a small number of people and the supply here is inelastic.

Issues for analysis and discussion include:

- Explanation of economic rent and transfer earnings.
- Explanation of the supply curve of labour.
- Explanation of the factors determining the elasticity of supply for labour.
- Appropriate diagram.
- Relevant examples.

Level 1 ([1]–[5])

Candidate shows little understanding of why the balance between economic rent and transfer earnings differs between occupations. The significance of the elasticity of supply of labour is not addressed, and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of why the balance between economic rent and transfer earnings differs between occupations. The significance of the elasticity of supply of labour is addressed, though not in great depth, and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear understanding of why the balance between economic rent and transfer earnings differs between occupations. The significance of the elasticity of supply of labour is addressed in detail, and quality of written communication is of a high standard.

[15]

(c) Unregulated free markets will inevitably generate extremes of inequality in income and wealth. This is undesirable on social, political and economic grounds. However, any attempt by government to create absolute equality would be costly, wasteful and impossible to achieve. The key issues are how much redistribution should take place and what policies should governments employ to achieve it.

Issues for analysis and evaluation include:

- The social, economic and political costs of extreme inequality and poverty.
- Administrative costs of redistribution.
- The disincentive effects of high welfare payments and taxation.
- Negative impact of redistribution upon economic growth through factors such as migration of capital, etc.
- Historical and international examples.

Level 1 ([1]–[5])

Candidate shows little understanding of the causes of inequality in a free market economy nor of how government might attempt to reduce this. There is little meaningful evaluation, and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of the causes of inequality in a free market economy and of how government might attempt to reduce this. There is a degree of evaluation, but this may lack depth or be one-sided. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear and detailed understanding of the causes of inequality in a free market economy and of how government might attempt to reduce this. There is significant evaluation, including a judgement, and quality of written communication is of a high standard.

[15]

40

Total

80

New
Specification



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2009**

StudentBounty.com

Economics

Assessment Unit AS 2

The National Economy

[AE121]

FRIDAY 12 JUNE, MORNING

MARK SCHEME

1 (a) There are two major defects in the standard definition of recession:

- The economy could be experiencing a severe contraction over 3 or perhaps 4 quarters without fulfilling the standard criteria. This is illustrated by the example in paragraph two of the passage.
- Very low but positive growth figures might not be accurate. So the economy could in fact be contracting without this being reflected in the official data.

[4] for each point explained and developed
 Constrained Maximum of [6]

Level 1 ([1]–[2])

Candidate provides no significant explanation of why the standard definition of a recession is described as “rather silly”. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some explanation of why the standard definition of a recession is described as “rather silly”. However this will be incomplete or contain minor errors. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and comprehensive explanation of why the standard definition of a recession is described as “rather silly”. Quality of written communication is of a high standard. [6]

(b) The net export component of aggregate demand consists of exports minus imports. A fall in the value of the dollar makes US exports cheaper for foreigners to buy. It also makes foreign imports more expensive for American citizens to purchase. Hence exports should rise and imports should fall and there will be an increase in net exports.

- For explaining net exports [2]
- For explaining impact of lower dollar upon US exports [3]
- For explaining impact of lower dollar upon US imports [3]
- For numerical example showing overall impact on net exports [2]

Constrained maximum of [8]

Level 1 ([1]–[2])

Candidate provides no significant explanation of why a fall in the value of the dollar is likely to increase the USA’s net exports. Quality of written communication is limited.

Level 2 ([3]–[5])

Candidate provides some explanation of why a fall in the value of the dollar is likely to increase the USA’s net exports. However this will be incomplete or contain minor errors. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate provides a clear and comprehensive explanation of why a fall in the value of the dollar is likely to increase the USA's net exports. Quality of written communication is of a high standard. [8]

(c) There are **two** reasons why economic growth is required just to maintain the existing level of unemployment.

- An increasing population means that more jobs have to be created in order to absorb new entrants to the work force.
- Increasing productivity means that the same amount of output can be produced with fewer workers. Hence output must rise in order to prevent lay offs due to increased efficiency and productivity.

[4] for each point explained

Level 1 ([1]–[2])

Candidate provides no significant explanation of why unemployment in the USA will increase in the absence of economic growth of at least 2.5 per cent. Quality of written communication is limited.

Level 2 ([3]–[5])

Candidate provides some explanation of why the standard definition of why unemployment in the USA will increase in the absence of economic growth of at least 2.5 per cent. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate provides a clear and comprehensive explanation of why unemployment in the USA will increase in the absence of economic growth of at least 2.5 per cent. Quality of written communication is of a high standard. [8]

(d) Consumers have become much more pessimistic both about their personal financial situation and about the state of the economy as a whole.

1. In April 2007 56% per cent of consumers were positive and 44% were negative about their personal financial prospects for the year ahead. By April 2008 the optimists and the pessimists were evenly divided.
2. In April 2007 59 per cent of consumers were pessimistic and 41 per cent optimistic about the overall prospects for the economy. By April 2008 69 per cent were pessimistic and only 31 per cent optimistic.

[2] for each point explained

- (e) • Rachel Joy points out that the media is full of stories about the gloomy state of the UK and world economy. Hence it is likely that the mood of consumers will reflect this.
- Unemployment has not yet started to rise significantly so most consumers remain reasonably confident about their personal financial situation. Unemployment is a lagging indicator and will rise after other indicators of an economic downturn.
 - Consumers can control personal situation but not general

[2] for each point explained
Maximum [4]

[4]

- (f) In periods of recession governments and central banks can stimulate consumer spending by means of expansionary fiscal and monetary policies. Both of these options have advantages and disadvantages and it is likely that the most effective method of stimulating consumer spending is a combination of both.

Issues for analysis and evaluation include:

- Explanation of fiscal and monetary policies.
- Tax cuts tend to benefit the rich.
- Higher income earners have higher propensities to save and import.
- Higher welfare payments create disincentives.
- Lower interest rates may create asset price bubbles.
- Both policies may be inflationary.
- Problem of time lags.
- Some supply-side policies such as direct tax cuts or funding of infrastructure may also increase consumer spending
- Depreciation of the exchange rate will stimulate consumer spending

Level 1 ([1]–[3])

Candidate shows little understanding of policies which might be used to stimulate consumer spending. There is no significant evaluation of their relative merits and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of policies which might be used to stimulate consumer spending. There is a degree of evaluation but this may lack depth or be one-sided. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear understanding of policies which might be used to stimulate consumer spending. There is significant evaluation and judgement. Quality of written communication is of a high standard.

[10]

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- 2 (a) Inflation is a sustained and significant increase in the general level of prices. The rate of inflation is the annual percentage rise in the general level of prices, usually measured by the CPI or the RPI.

Appropriate development:

- Numerical example.
- Historical examples of high rates of inflation.
- Explanation of CPI or RPI.

Level 1 ([1]–[3])

Candidate shows at best a basic knowledge of inflation but gives no significant explanation of the rate of inflation. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some knowledge of both inflation and the rate of inflation, or extensive knowledge of inflation alone. However the explanation will be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear and detailed knowledge of both inflation and the rate of inflation. Quality of written communication is of a high standard.

[10]

- (b) There are three basic explanations of the inflationary process:

1. Demand-pull.
2. Cost-push.
3. Excessive monetary expansion.

Issues for analysis and discussion include:

- Why aggregate demand might increase to cause demand-pull inflation.
- Why production costs might rise to create cost-push inflation.
- AD and AS analysis.
- Monetarist explanation.
- Phillips curve.
- Historical examples of different types of inflationary spiral.

Level 1 ([1]–[5])

Candidate provides no significant analysis of the causes of inflation. There may be a superficial awareness of some of the causes but no meaningful economic analysis. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the causes of inflation. This may involve an in-depth analysis of one cause or a more limited analysis of two. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth analysis of at least two causes of inflation. Quality of written communication is of a high standard. [15]

- (c) The Bank of England has a responsibility for keeping inflation within a range of 1 per cent either side of 2 per cent as measured by the CPI. Its main instrument for achieving this is control of the repo rate at which it lends to the banking sector. If the Bank of England's Monetary Policy Committee (MPC) identifies inflationary pressures in the economy then it will raise rates and if the economy is slowing down it will cut them.

At present (May 2008) the economy shows clear signs of slowing with growth rates falling significantly. However, inflation is also significantly above its target which would normally trigger a rise in rates. However, in these circumstances this would be likely to increase the recessionary pressures in the economy. So the Bank of England faces a policy dilemma.

Issues for analysis and evaluation:

- Explanation of role of Bank of England in the economy.
- Explanation of impact of higher interest rates upon the economy.
- Evaluation of desirability of 2 per cent inflation.
- Evaluation of the accuracy of inflation measures.
- Economic and social costs of a recession.
- Historical and international experiences.

Level 1 ([1]–[5])

Candidate shows little understanding of the policy dilemma facing the Bank of England. There is no significant evaluation. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of the policy dilemma facing the Bank of England. There is a degree of evaluation but this may be one-sided or lack depth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear understanding of the policy dilemma facing the Bank of England. There is a significant evaluation and judgement. Quality of written communication is of a high standard. [15]

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- 3 (a) The labour force survey classifies the economically active as those either in employment or unemployed but actively seeking work. The total of those in employment plus those who are unemployed is called the workforce.

The economic activity rate is the percentage of the working age population who are economically active.

$$\text{economic activity rate} = \frac{\text{the employed} + \text{the unemployed}}{\text{working age population}} \times 100$$

Level 1 ([1]–[3])

Candidate shows little understanding of the economic activity rate. There is at best a flawed definition and no significant development. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of the economic activity rate. There is reasonable definition and a degree of development. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear and extensive understanding of the economic activity rate. There is an accurate definition and significant development. Quality of written communication is of a high standard.

[10]

- (b) There are a number of factors which affect an economy's rate of economic activity:

- Single parents with young children are not required to seek employment in order to qualify for welfare benefits.
- The numbers on long-term incapacity benefit.
- Those who have family responsibilities for sick or elderly relatives.
- Those who have taken early retirement.
- Those in full-time education who do not have any form of employment.

Level 1 ([1]–[5])

Candidate provides little analysis of the factors which influence an economy's rate of economic activity. Key issues are missed or treated in a superficial manner and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the factors which influence an economy's rate of economic activity. Most key issues are addressed though this may contain some errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth analysis of the factors which influence an economy's rate of economic activity. Most key issues are addressed accurately and quality of written communication is of a high standard.

[15]

- (c) UK unemployment recently has been at a level where it seemed to be no longer a matter of great concern to the government. However, what does seem to concern it is the very large number of people who are economically inactive. A number of ways of dealing with this problem and of increasing economic activity were proposed in the Freud report published in March 2007.

Issues for analysis and evaluation include:

- Reducing income tax and national insurance payments for the low paid to increase work incentives. This may prove costly to the treasury but should be simple to administer.
- Enforce tighter medical conditions on those claiming incapacity benefit. May be difficult to persuade GPs to take such a hard line with patients. Would also face considerable political opposition from left wing MPs who would see it as an attack on the sick.
- Target single parents. These are one of the largest groups of the economically inactive and in the UK they are able to claim benefit without seeking work until youngest child is 16. This differs from most EU countries, some of which require single parents to seek work when youngest child reaches 3. The 16 exemption could be significantly reduced. This might encourage some single parents to have more children or try to switch to incapacity benefit.
- Counselling and retraining. Costly and not guaranteed to be successful.

Level 1 ([1]–[5])

Candidate shows little understanding of policies which a government might adopt in order to increase the economy's rate of economic activity. There is no significant explanation nor evaluation and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of policies which a government might adopt in order to increase the economy's rate of economic activity. There is a degree of explanation evaluation though this may lack depth or be one-sided. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear understanding of policies which a government might adopt in order to increase the economy's rate of economic activity. There is extensive explanation, evaluation, and judgement. Quality of written communication is of a high standard. [15]

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- 4 (a) The aggregate supply curve shows the quantity of goods and services that firms are willing to supply at each price level. In the short run it is assumed that the prices of factors of production remain unchanged so that an increase in the price of the finished product should increase profitability and cause firms to increase output.

Appropriate Development:

- a. Diagram
- b. Explanation of short run
- c. Explanation of slope of curve
- d. Explanation of marginal product and marginal cost.

Level 1 ([1]–[3])

Candidate shows little understanding of what is shown by the short run aggregate supply curve. Any definition is flawed or incomplete and there is no significant development. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of what is shown by the short run aggregate supply curve. There is a reasonable definition though this may contain minor errors and a degree of development. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear understanding of what is shown by the short run aggregate supply curve. There is an accurate definition and significant development. Quality of written communication is of a high standard. [10]

- (b) The long run aggregate supply curve (LRAS) shows the relationship between the level of real GDP and the price level when the economy is at its full potential level of output. At this point all resources are fully employed and increased prices cannot induce firms to produce more.

If the economy is to increase production then more resources or better use of existing resources is required. This will be reflected in a rightward shift in the LRAS.

Issues for analysis and discussion include:

- Explanation of LRAS.
- Explanation of impact of increase in workforce, perhaps due to immigration.
- Explanation of impact of investment in physical capital.
- Explanation of impact of government investment in infrastructure.
- Explanation of impact of investment in human capital.
- Explanation of impact of new technology.
- Explanation of supply side policies.

Level 1 ([1]–[5])

Candidate provides little analysis of the factors which might cause a rightward shift in the long run aggregate supply curve. Key issues are missed or treated in a superficial manner and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the factors which might cause a rightward shift in the long run aggregate supply curve. Most key issues are addressed though this may contain minor errors and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth analysis of the factors which might cause a rightward shift in the long run aggregate supply curve. Key issues are thoroughly addressed and quality of written communication is of a high standard. [15]

(c) Supply side policies are those which aim to increase an economy's rate of economic growth through changes in costs and productivity. One aspect of these policies is to increase work and enterprise incentives by reducing tax rates. This tends to benefit higher income groups whereas other supply side policies such as welfare reform tends to penalise low income groups. Hence it is sometimes argued that supply side policies may generate economic rewards but at the expense of greater inequality and social divisions. The miners strike in the 1980s has left memories and bitterness which still affect people's attitudes.

In assessing the overall impact of supply side policies it is important to balance their economic benefits against issues like inequality and social exclusion.

Issues for analysis and evaluation include:

- Explanation of supply side policies.
- Evaluation of impact of supply side policies upon high income groups.
- Evaluation of impact of supply side policies upon low income groups.
- Evaluation of impact of supply side policies upon inequality and social cohesion.
- Analysis of economic impact of supply side policies.
- Use of relevant diagram

Level 1 ([1]–[5])

Candidate provides little evaluation of the impact of strong supply side policies upon the economy and society. Key issues are missed or treated in a superficial manner and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some evaluation of the impact of strong supply side policies upon the economy and society. However, this may lack depth or be one-sided. Most key issues are addressed though this may contain minor errors and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth evaluation, and judgement, of the impact of strong supply side policies upon the economy and society. Key issues are thoroughly addressed and quality of written communication is of a high standard.

[15]

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Total

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