

GCE AS
Economics
Summer 2009

Mark Schemes

Issued: October 2009

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
(Data Response)**

assessing

**Module 1: The Market Mechanism, Market Failure
and the Government Response**

[ASE11]

FRIDAY 5 JUNE, AFTERNOON

MARK SCHEME

General Marking Instructions

Mark schemes are intended to ensure that the AS examination is marked consistently and fairly. The mark scheme provides markers with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidate responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of Candidates' Responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17-year-old which is the age at which the majority of candidates sit their AS examinations.

Unanticipated Responses

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers and to refer for guidance to the general marking criteria that follow. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive Marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for an 18-year-old A2 candidate. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

Types of Mark Schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Marking Calculations

In marking answers involving calculations, examiners should apply the "own figure rule" so that candidates are not penalised more than once for a computational error.

Quality of Written Communication

Quality of written communication is taken into account in assessing candidates' responses to questions that require them to respond in extended written form. These questions are marked on the basis of three levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates' economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2.

Levels of Response

General descriptions of levels of response in terms of each assessment objective and the quality of written communication are given in the following table. These descriptions are intended to assist examiners in judging candidates' performance when they produce answers unanticipated by the detailed mark scheme for each question and to provide guidelines for examiners in assessing the appropriate level of response in respect of the quality of written communication.

The detailed mark schemes for each question relate these levels of response to the content of the relevant question. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

Threshold performance: Response which just merits inclusion in this level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

General Marking Criteria

<p>Assessment Objective Level of Performance</p>	<p>AO1 Knowledge and Understanding</p>	<p>AO2 Application</p>	<p>AO3 Analysis</p>	<p>AO4 Evaluation and judgement</p>
<p>Level 1</p>	<p>There may be limitations in the candidate's grasp of theoretical principles, resulting in an excessively narrow focus on the issues involved in the question.</p>	<p>The candidate tends to make unsubstantiated generalisations, and superficial assumptions, lacking any real awareness of contemporary events.</p>	<p>The candidate is likely to confuse hypotheses with facts and does not successfully account for divergences between theoretically predicted and actual outcomes of events or decisions in a real economy.</p>	<p>The candidate finds it difficult to pinpoint strengths or limitations of economic models and theories in explaining real world issues and problems, or to compare and contrast alternative strategies or policy instruments.</p>
<p>Level 2</p>	<p>The candidate shows sufficient knowledge of economic theory for the main issues involved in the question to be satisfactorily identified.</p>	<p>The candidate makes valid connections between theoretical principles and real-world events.</p>	<p>The candidate shows ability to identify causes of economic problems and is able to relate these insights to real economies.</p>	<p>The candidate shows some awareness of the strengths and limitations of different economic models, theories, decisions and policies, and attempts to support observation with appropriate references.</p>
<p>Level 3</p>	<p>The candidate has a detailed knowledge of economic theory and shows a clear understanding of its significance in the specific contexts of the question.</p>	<p>The candidate relates concepts to situations and problems in real economies with some skill and can explain contemporary events while supporting conclusions with evidence.</p>	<p>The candidate is aware of the implications of hypotheses and distinguishes between association and causation in contemporary economic problems, offering valid suggestions as to how these may be addressed.</p>	<p>The candidate is able to critically examine alternative economic models, theories, arguments and policies in the analysis of economic problems and demonstrates the ability to evaluate the outcomes of economic decisions, supporting this with accurate reference or relevant examples.</p>
<p>Quality of Written Communication: The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence with little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.</p> <p>Quality of Written Communication: The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams. Relevant material is organised with some clarity and coherence and some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.</p> <p>Quality of Written Communication: The candidate successfully selects and uses an appropriate form and style of writing, supported with the use of diagrams where appropriate. Relevant material is organised with a high degree of clarity, coherence and widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning absolutely clear.</p>				

- 1 Using the information in **Fig 1** compare the trend in the price of heroin with that of cocaine between 1990 and 2006.

The price of heroin has fallen quite consistently over the period from £35,000 per Kg to £14,000 per Kg representing a 60% reduction.

While the price of cocaine has also fallen over the period there are significant fluctuations. From 1990 to 1995 the price of cocaine actually increased from £39,000 per Kg to £46,000 per Kg an increase of 17.9%. It then fell to a low of £18,000 by 2002 before increasing again to £26,000 by 2006

In both cases:

- [1] for identification of trend
- [1] for use of data
- [1] for manipulation of data

Level 1 ([1]–[2])

Candidate provides no significant comparison between the trends of the price of heroine and cocaine. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some comparison between the trends of the price of heroine and cocaine but it may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

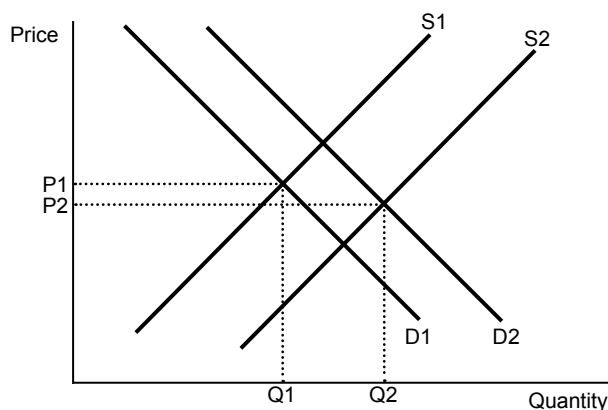
Candidate provides an extensive comparison between the trends of the price of heroine and cocaine. Quality of written communication is of a high standard.

[6]

6

- 2 Paragraph 3 states that the price of drugs such as cocaine has fallen at a time when demand has been increasing. With the aid of an appropriate diagram, explain why this might be the case.

If prices have fallen at a time when demand is increasing this means that supply must also have been increasing, with the downward pressure on price as a result of increased supply more than compensating for any upward pressure on prices as a result of increased demand.



[3] for a clearly labelled diagram showing both increased demand and supply and a lower price. ([1] for increase in demand, [1] for increase in supply and [1] for new equilibrium which is lower than original)

Up to [3] for an explanation which clearly explains that the downward pressure on price as a result of increased supply more than compensates for any upward pressure on prices as a result of increased demand. [6]

Level 1 ([1]–[2])

Candidate provides no significant explanation of why the price of drugs has fallen at a time when demand is increasing. If a diagram is drawn it may contain significant errors. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some explanation of why the price of drugs has fallen at a time when demand is increasing. A diagram is drawn but may contain some errors. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a comprehensive explanation of why the price of drugs has fallen at a time when demand is increasing. The answer is supported by a clear and accurate diagram. Quality of written communication is of a high standard.

- 3 Explain why it might be difficult to accurately estimate the demand curve for drugs such as cocaine or heroin.

Estimating any demand curve is difficult; however, trying to estimate the demand curve for illegal drugs is especially difficult since the market data on prices and sales that may be available for legal products will not be available for products such as drugs.

The data used to estimate the demand for drugs is often collected from surveys which can be very inaccurate since individuals may be reluctant to admit to drug use, or is taken from police figures on drugs detected, which may not reflect actual sales.

[2] for explanation that actual sales data is not available

[2] for explanation that alternative sources are likely to be inaccurate

[2] for general problems in estimating any demand curve but not related to drugs

Constrained maximum of [4] [4] 4

- 4 Paragraph 4 refers to the external costs of drug use. Using an example from the passage, explain what is meant by the term external cost.

An external cost occurs whenever the activity of one economic agent has a negative effect on the wellbeing of a third party. Examples include additional health care costs associated with treating drug users and higher crime rates as a result of drug users attempting to fund their habit through crime. The passage estimates this to be £16.4bn per year.

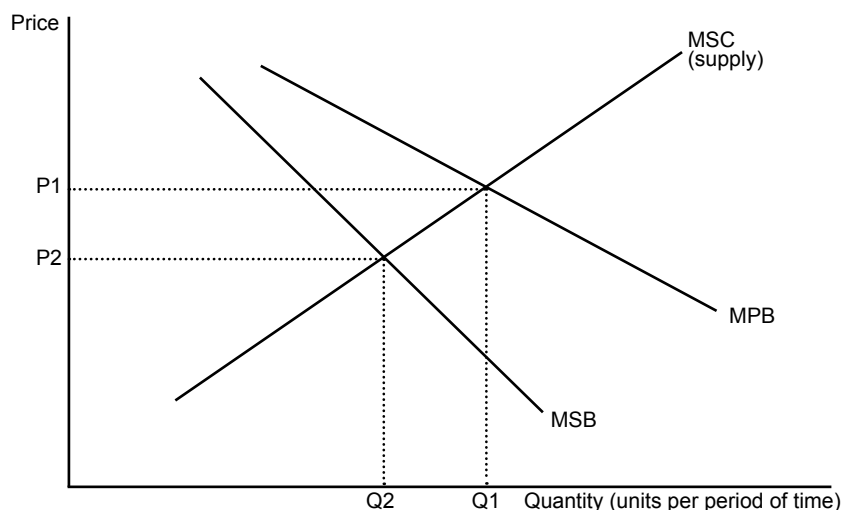
[2] for clear definition

[2] for development in terms of health and crime costs [4] 4

- 5 With the aid of an appropriate diagram, explain why free markets often lead to the over consumption of demerit goods such as drugs.

Demerit goods are goods which in a paternalistic sense the government believe we should not consume.

Demerit goods are often overconsumed because the benefit received by the consumer exceeds the social benefit. For example in the case of drugs the demand curve based solely on the marginal private benefit (MPB) is higher than that which encompasses the disutility suffered by others as a consequence of drug use (MSB). Hence drugs are overvalued and overconsumed in a free market.



The free market price is P1 and consumption is Q1. When allowance is made for the disutility suffered by others then the socially optimum level of consumption is Q2.

Note: Alternative analyses such as that presented by tutor2u are equally valid

Level 1 ([1]–[2])

Candidate shows little understanding of why free markets often lead to the overconsumption of products such as drugs. No attempt is made to represent this in a diagram or if an attempt is made it will contain significant errors. Quality of written communication is limited.

Level 2 ([3]–[5])

Candidate shows some understanding of why free markets often lead to the overconsumption of products such as drugs. The diagram will support the analysis but may contain some minor errors. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate shows comprehensive understanding of why free markets often lead to the overconsumption of products such as drugs. This analysis is supported by a clear and accurate diagram. Quality of written communication is of a high standard.

[8]

8

6 Evaluate the view expressed in the last paragraph that “prohibition is the only effective method of dealing with drug misuse”.

The case for prohibition:

- Drugs harm the individuals that use them and because of their addictive nature individuals are not necessarily the best judges of their own interests therefore the government has a duty to protect people, even from themselves
- The external cost of drug use is estimated at £16.4bn per year. Therefore prohibition is necessary to reduce use and reduce these external costs
- Prohibition sends a signal to potential users that drugs should be avoided
- Prohibition should lead to higher prices which should in turn reduce consumption even among those who are likely to ignore the law and use drugs

The case against prohibition:

- “Over himself, the individual is sovereign”. Governments have no right to tell people what they can and can’t do, if the act does not harm anyone else
- Banning drugs has not worked. In the last 10 years drug use in the UK has increased and the price of drugs has come down
- Prohibition gives control of drugs to the criminals, who often use violence to control their market
- Enforcing drug laws is very expensive. This money would be better spent on educating about the dangers of drug use
- Legalisation and taxing drugs would raise revenue for the Government
- Legalisation could lead to a reduction in drug-related crime as addicts would not be forced into crime to feed their habit
- Are illegal drugs any more dangerous than the legal drugs?
- Some professionals would argue that the relaxation of drug laws in Europe (e.g. Netherlands) seems to have been successful

Level 1 ([1]–[4])

Candidate shows very limited understanding of the issues surrounding the prohibition of drugs. There is no significant evaluation of the issues, and quality of written communication is limited.

Level 2 ([5]–[8])

Candidate provides some understanding of the issues surrounding the prohibition of drugs. There is a degree of evaluation and quality of written communication is satisfactory.

Level 3 ([9]–[12])

Candidate provides a clear and comprehensive understanding of the issues surrounding the prohibition of drugs. There is significant evaluation including a balanced conclusion and quality of written communication is of a high standard.

[12]

12

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Rewarding Learning

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

Economics

**Assessment Unit AS 2
(Essay)**

assessing

**Module 1: The Market Mechanism, Market Failure
and the Government Response**

[ASE21]

FRIDAY 5 JUNE, AFTERNOON

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Levels of Response

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General Marking Criteria

Assessment Objective		AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation and judgement
Level 1 Performance	Level 1	There may be limitations in the candidate's grasp of theoretical principles, resulting in an excessively narrow focus on the issues involved in the question.	The candidate tends to make unsubstantiated generalisations, and superficial assumptions, lacking any real awareness of contemporary events.	The candidate is likely to confuse hypotheses with facts and does not successfully account for divergences between theoretically predicted and actual outcomes of events or decisions in a real economy.	The candidate finds it difficult to pinpoint strengths or limitations of economic models and theories in explaining real world issues and problems, or to compare and contrast alternative strategies or policy instruments.
	Level 2	The candidate shows sufficient knowledge of economic theory for the main issues involved in the question to be satisfactorily identified.	The candidate makes valid connections between theoretical principles and real-world events.	The candidate shows ability to identify causes of economic problems and is able to relate these insights to real economies.	The candidate shows some awareness of the strengths and limitations of different economic models, theories, decisions and policies, and attempts to support observation with appropriate references.
	Level 3	The candidate has a detailed knowledge of economic theory and shows a clear understanding of its significance in the specific contexts of the question.	The candidate relates concepts to situations and problems in real economies with some skill and can explain contemporary events while supporting conclusions with evidence.	The candidate is aware of the implications of hypotheses and distinguishes between association and causation in contemporary economic problems, offering valid suggestions as to how these may be addressed.	The candidate is able to critically examine alternative economic models, theories, arguments and policies in the analysis of economic problems and demonstrates the ability to evaluate the outcomes of economic decisions, supporting this with accurate reference or relevant examples.

1 (a) Explain what is meant by the basic economic problem

The basic economic problem can be summed up in two words, scarcity and choice.

The problem facing society is how to allocate scarce resources between competing alternatives.

Because resources are scarce society must make choices, i.e. they must answer the questions of What? How? and For whom?

All societies must answer these questions and allocate resources accordingly. Different countries with different economic systems will answer these questions differently.

Appropriate development:

- Explanation of scarce resources
- Scarcity, choice and opportunity cost
- Production possibility curve
- Mobility of resources

Level 1 ([1]–[2])

Candidate shows little or no understanding of the basic economic problem. There is no significant development, and quality of written communication is limited.

Level 2 ([3]–[5])

Candidate shows some understanding of the basic economic problem. There is a degree of development, and quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate shows clear understanding of the basic economic problem. There is significant development, and quality of written communication is of a high standard.

(b) Analyse how the basic economic problem would be addressed by a free market economy.

[16]

A free market economy is one which is not subject to government regulation and control. Consumers are free to choose which goods and services to consume and in what quantity and producers are free to decide which goods to produce and the level of output.

In a free market economy the basic economic problem is resolved mainly through the market/price mechanism. The signalling, rationing and distribution functions of the price mechanism answer the questions of what, how and for whom.

Issues, analysis and areas for discussion include:

- Features of a free market
- Impact of changes in demand and supply on price and output
- Analysis of factor and product markets
- Analysis of the role of price and profit
- Analysis of utility maximisation by consumers and profit maximisation by firms
- Appropriate diagrams and examples

Level 1 ([1]–[5])

Candidate provides little explanation of how the free market deals with the basic economic problem. There is no significant economic analysis, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some explanation of how the free market deals with the basic economic problem. There is a degree of economic analysis, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides a clear and comprehensive explanation of how the free market deals with the basic economic problem. There is significant economic analysis, and quality of written communication is of a high standard.

- (c) Evaluate the view that free markets always lead to the most efficient allocation of resources. [16]

The case for free markets is based on the view that they are likely to successfully and efficiently deliver a wide variety of goods and services in the right quantity and at a price that consumers are willing to pay. Hence a free market is assumed to lead to both allocative and productive efficiency.

However, this analysis assumes that the market price truly reflects society's costs and benefits. In reality this may not be the case if, for example, significant externalities are present either in production or consumption, or if there are significant barriers to entry into a particular market.

Issues, analysis and areas for discussion include:

- Discussion of allocative and productive efficiency
- Discussion of consumer and producer surplus
- Reference to types and causes of market failure, e.g. information failure
- Use of appropriate diagrams
- Use of appropriate examples

Level 1 ([1]–[5])

Candidate displays little understanding of the case for and against the view that free markets lead to the most efficient allocation of resources. There is no significant evaluation of the issues, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some understanding of the case for and against the view that free markets lead to the most efficient allocation of resources. There is a degree of evaluation, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides a clear and comprehensive understanding of the case for and against the view that free markets lead to the most efficient allocation of resources. There is significant evaluation including a balanced conclusion, and quality of written communication is of a high standard.

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- 2 (a) Explain what is meant by the term price elasticity of demand. [8]

Price elasticity of demand measures how responsive quantity demanded is to a change in price.

Appropriate development:

- Calculation
- Relevance of numerical values
- Diagrams
- Examples of elastic and inelastic products

Level 1 ([1]–[2])

Candidate shows little or no understanding of the term price elasticity of demand. There is no significant development, and quality of written communication is limited.

Level 2 ([3]–[5])

Candidate shows some understanding of the term price elasticity of demand. There is a degree of development, and quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate shows clear understanding of the term price elasticity of demand. There is significant development, and quality of written communication is of a high standard.

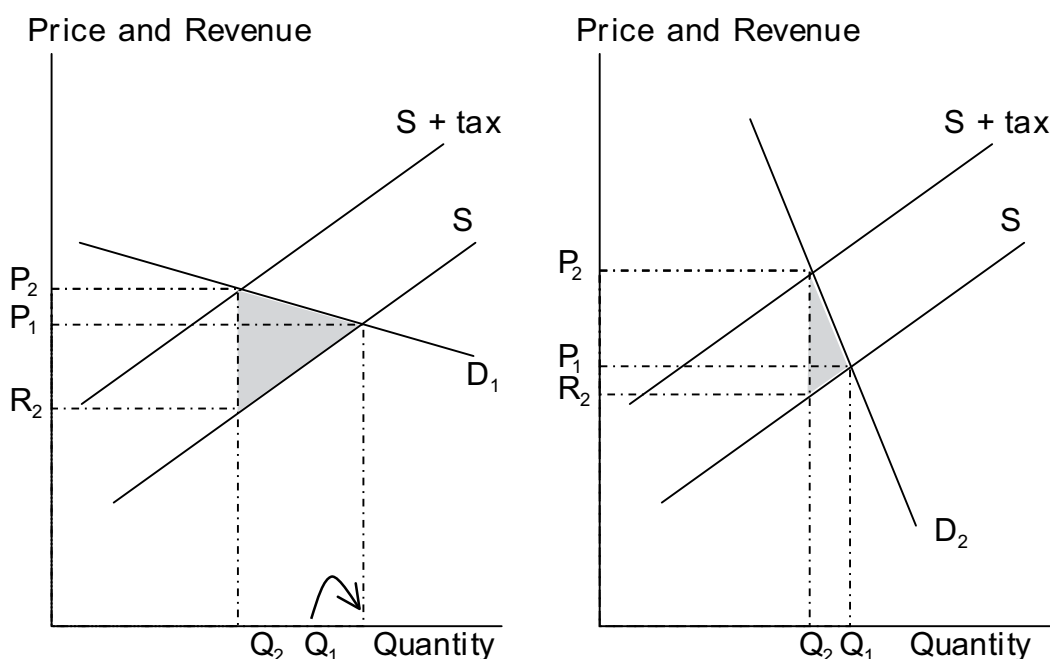
- (b) Analyse how, all other things being equal, the price elasticity of demand influences how the burden of an indirect tax is divided between the consumer and the producer. [16]

An indirect tax is a tax which is levied on a good or service and as such it will cause the supply curve to shift to the left.

The impact of this leftward shift of the supply curve on the price of the good will depend on the price elasticity of demand (and indeed the price elasticity of supply).

Where demand is relatively inelastic the producer will be able to pass most of the tax on to the consumer in the form of a price rise. Shown on the second diagram below

However, if the demand for the good is relatively price elastic the producer will find that he may have to absorb a significant proportion of the tax as an increase in costs. Shown on the first diagram below.



Issues, analysis and areas for discussion include:

- Use of appropriate diagrams
- Specific and ad valorem taxes
- Impact on consumer and producer welfare
- Calculation of incidence using elasticity values

Level 1 ([1]–[5])

Candidate provides little explanation of how price elasticity of demand impacts on the incidence of an indirect tax. An attempt is made to represent this in a diagram but it may contain significant errors. There is no significant economic analysis or diagrams, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some explanation of how price elasticity of demand impacts on the incidence of an indirect tax. An attempt is made to represent

this in diagram form but it may contain some minor errors. There is a degree of economic analysis, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides a clear and comprehensive explanation of how price elasticity of demand impacts on the incidence of an indirect tax. At least one clear and accurate diagram is drawn. There is significant economic analysis, and quality of written communication is of a high standard.

- (c) In response to concerns over congestion and pollution, environmentalists have argued for the use of subsidies to promote cycling.

Evaluate the view that subsidies are an ineffective way of encouraging cycling. [16]

The argument in favour of subsidising cycling is that it will change the behaviour of individuals since it will alter the balance of costs and benefits involved in the different modes of transport. Subsidising cycling through schemes such as grants or tax relief on purchases and tax rebates for distance travelled will provide an incentive for individuals to cycle rather than drive and will therefore help reduce congestion and pollution.

Others argue that subsidies are unlikely to be successful in changing behaviour as the demand for cycling is relatively inelastic. The financial cost to the individual of cycling is already quite low when compared to other forms of transport, subsidising this further is unlikely to alter the behaviour of those who currently drive at peak times.

Issues for discussion and evaluation include:

- Price elasticity of demand for cycling
- Cross (-price) elasticity of demand between cycling and other modes of transport
- Impact of issues such as climate, road safety, etc. on decision making
- Opportunity cost of subsidy
- Problem involved in ensuring that those who apply for the subsidy actually cycle rather than drive

Level 1 ([1]–[5])

Candidate displays little understanding of the case for and against the view that subsidies are an ineffective way of encouraging cycling. There is no significant evaluation of the issues, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate demonstrates some understanding of the case for and against the view that subsidies are an ineffective way of encouraging cycling. There is a degree of evaluation, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate demonstrates a clear and comprehensive understanding of the case for and against the view that subsidies are an ineffective way of encouraging cycling. There is significant evaluation including a balanced conclusion, and quality of written communication is of a high standard.

- 3 (a) Explain what an economist means by social costs and social benefits. [8]

Social costs are the sum of private costs and external costs, whereas social benefits are the sum of private benefits and external benefits.

If we consider the case of an individual smoking a cigar the social cost of smoking the cigar includes the private costs to the individual of purchasing the cigar and any increased health risk plus the external cost inflicted on those who breathe the second hand smoke. Whereas the social benefit includes any enjoyment the smoker gains from smoking plus the external benefit gained by those who enjoy the smell of cigar smoke.

Level 1 ([1]–[2])

Candidate shows little or no understanding of the terms social cost and social benefits. There is no significant development, and quality of written communication is limited.

Level 2 ([3]–[5])

Candidate shows some understanding of the terms social cost and social benefits. There is a degree of development, and quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate shows clear understanding of the terms social cost and social benefits. There is significant development, and quality of written communication is of a high standard.

- (b) Explain how an economist might use cost benefit analysis (CBA) to assist in making decisions about building a new national sports stadium. [16]

CBA is a technique which is often used by government when they are assessing whether or not to support an investment project: e.g. the building of a new sports stadium.

In CBA the government weigh up **all** the costs and benefits of a project (internal and external costs and benefits).

Economists often say that CBA is taking the “wide view” and the “long view”.

The **wide view** means the government consider all of the external costs and benefits of the project.

When considering the building of a new stadium the government must put a value on the level of pollution created through building the stadium or the impact the sports stadium might have on attitudes to sport and health.

The **long view** means that the government consider the effects of the project on individuals many years into the future. To do this a **net present value** is calculated for costs and benefits in the future.

If, at the end of this process, the benefits outweigh the costs then the economist is likely to recommend that the project go ahead.

Level 1 ([1]–[5])

Candidate provides little explanation of how CBA might assist in the debate about the need for a national sports stadium. There is no significant economic analysis, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some explanation of how CBA might assist in the debate about the need for a national sports stadium. There is a degree of economic analysis, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides a clear and comprehensive explanation how CBA might assist in the debate about the need for a national sports stadium. There is significant economic analysis, and quality of written communication is of a high standard.

- (c) Recent estimates suggest that the total cost to the UK economy of hosting the 2012 Olympic Games to be £9.3bn almost four times the original estimate.

Evaluate the view expressed by some commentators that this is a waste of public money. [16]

The London Development Agency says the 2012 Olympics will confer huge benefits on the UK economy since it will leave behind great sporting facilities, more housing, permanent jobs, skills and better transport connections for local people in East London.

However, critics argue that the rising cost of the games could have a detrimental impact on grassroots sports as well as arts and culture and that London could be left with an underused and decaying stadium and a massive debt.

Issues for discussion and evaluation include:

- The benefits to the London and the wider UK economy of hosting the games
- The improvements in infrastructure and the regeneration of East London
- The external benefits associated with increased participation in sport
- Impact on tourism
- Opportunity cost of funding the games
- Concerns over rising costs and efficiency
- Cost of maintaining facilities after the games

Level 1 ([1]–[5])

Candidate shows very limited understanding of the issues surrounding the funding of the 2012 Olympic Games. There is no significant evaluation of the issues, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some understanding of the issues surrounding the funding of the 2012 Olympic Games. There is a degree of evaluation, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides a clear and comprehensive understanding of the issues surrounding the funding of the 2012 Olympic Games. There is significant evaluation including a balanced conclusion, and quality of written communication is of a high standard.

	4
Total	40



Rewarding Learning

ADVANCED SUBSIDIARY (AS)

General Certificate of Education

2009

Economics

Assessment Unit AS 3

assessing

Module 2: The National Economy

[ASE31]

FRIDAY 12 JUNE, MORNING

MARK SCHEME

General Marking Instructions

Mark schemes are intended to ensure that the AS examination is marked consistently and fairly. The mark scheme provides markers with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidate responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of Candidates' Responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17-year-old which is the age at which the majority of candidates sit their AS examinations.

Unanticipated Responses

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers and to refer for guidance to the general descriptions of levels of response given in the general marking criteria that follow. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive Marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for a 17-year-old AS candidate. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Types of Mark Schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Marking Calculations

In marking answers involving calculations, examiners should apply the "own figure rule" so that candidates are not penalised more than once for a computational error.

Quality of Written Communication

Quality of written communication is taken into account in assessing candidates' responses to questions that require them to respond in extended written form. These questions are marked on the basis of three levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates' economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2.

Levels of Response

General descriptions of levels of response in terms of each assessment objective and the quality of written communication are given in the following table. These descriptions are intended to assist examiners in judging candidates' performance when they produce answers unanticipated by the detailed mark scheme for each question and to provide guidelines for examiners in assessing the appropriate level of response in respect of the quality of written communication.

The detailed mark schemes for each question relate these levels of response to the content of the relevant question. In deciding on the appropriate level of response for a candidate's answer, examiners should look for the "best fit". The level awarded will depend in practice upon the extent to which the candidate has met the relevant assessment objectives overall. Shortcomings in some areas may be balanced by better performance in others. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

Threshold performance: Response which just merits inclusion in this level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

General Marking Criteria

<p>Assessment Objective Level of Performance</p>	<p>AO1 Knowledge and Understanding</p>	<p>AO2 Application</p>	<p>AO3 Analysis</p>	<p>AO4 Evaluation and judgement</p>
<p>Level 1</p>	<p>There may be limitations in the candidate's grasp of theoretical principles, resulting in an excessively narrow focus on the issues involved in the question.</p>	<p>The candidate tends to make unsubstantiated generalisations, and superficial assumptions, lacking any real awareness of contemporary events.</p>	<p>The candidate is likely to confuse hypotheses with facts and does not successfully account for divergences between theoretically predicted and actual outcomes of events or decisions in a real economy.</p>	<p>The candidate finds it difficult to pinpoint strengths or limitations of economic models and theories in explaining real world issues and problems, or to compare and contrast alternative strategies or policy instruments.</p>
<p>Level 2</p>	<p>The candidate shows sufficient knowledge of economic theory for the main issues involved in the question to be satisfactorily identified.</p>	<p>The candidate makes valid connections between theoretical principles and real-world events.</p>	<p>The candidate shows ability to identify causes of economic problems and is able to relate these to real economies.</p>	<p>The candidate shows some awareness of the strengths and limitations of different economic models, theories, decisions and policies, and attempts to support observation with appropriate references.</p>
<p>Level 3</p>	<p>The candidate has a detailed knowledge of economic theory and shows a clear understanding of its significance in the specific contexts of the question.</p>	<p>The candidate relates concepts to situations and problems in real economies with some skill and can explain contemporary events while supporting conclusions with evidence.</p>	<p>The candidate is aware of the implications of hypotheses and distinguishes between association and causation in contemporary economic problems, offering valid suggestions as to how these may be addressed.</p>	<p>The candidate is able to critically examine alternative economic models, theories, arguments and policies in the analysis of economic problems and demonstrates the ability to evaluate the outcomes of economic decisions, supporting this with accurate reference or relevant examples.</p>
<p>Quality of Written Communication: The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence with little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.</p> <p>Quality of Written Communication: The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams. Relevant material is organised with some clarity and coherence and some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.</p> <p>Quality of Written Communication: The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence and there is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning absolutely clear.</p>				

- 1 (a) Inflation is a sustained rise in the general level of prices. (A. Anderton).
[1] for rising prices, [1] for general level of prices, [1] for sustained. [3]
- (b) Rising prices simply means that prices are higher this year than last.
Inflation is the rate at which prices are rising.
From the passage we can see that from June 2007 to June 2008 prices rose by 3.8%. However, from July 2007 to July 2008 prices rose by 4.4%. Hence prices in July were rising at an annual rate of 4.4% and inflation has risen by 0.6% on the previous month.
[2] for explaining rising prices, [4] for explaining rising inflation.
Maximum [4] for theoretical explanation but no use of data. [6]
- (c) Issues for analysis include:
- The most important item driving the rate of inflation is food prices
 - The average food bill for a typical family of four is up by 25%
 - Low income families spend a much higher proportion of their income on food than more affluent socio-economic groups
 - Low income families are unlikely to benefit from lower prices for luxury electronic goods
 - Rises in the National Minimum Wage are unlikely to match food price inflation
- Level 1 ([1]–[2])**
Candidate shows little understanding of why an inflationary process based mostly on food and fuel would have a disproportionate impact on lower income groups. Quality of written communication is limited.
- Level 2 ([3]–[4])**
Candidate shows some understanding of why an inflationary process based mostly on food and fuel would have a disproportionate impact on lower income groups. This may be illustrated by a suitable example, and quality of written communication is satisfactory.
- Level 3 ([5]–[6])**
Candidate shows a clear understanding of why an inflationary process based mostly on food and fuel would have a disproportionate impact on lower income groups. There will be appropriate examples and perhaps a calculation. Quality of written communication is of a high standard. [6]
- (d) • The real rate of interest is the nominal rate after adjustment for inflation. For example, if the nominal rate is 6% and inflation is 4% then the real rate is 2%
- The real rate will be negative if the rate of inflation exceeds the nominal rate. For example, if the nominal rate is 6% and inflation is 8% then the real rate is minus 2%
- [2] for explaining the real rate of interest.
[2] for explaining why it could be negative. [4]

- (e) Issues for analysis include:
- Negative real interest rates discourage saving as the real value of the money saved declines
 - A shortage of saving will reduce the funds available for investment
 - A fall in investment may reduce productivity and economic growth
 - Investors will tend to buy fixed assets and consumer durables now as they will be more expensive in the future
 - Investors will seek out inflation hedges such as gold
 - Negative rates encourage spending and borrowing

Level 1 ([1]–[2])

Candidate provides little analysis of the impact of negative real interest rates upon the economy. Key effects are missed, and quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some analysis of the impact of negative real interest rates upon the economy. However, this is likely to be incomplete or contain minor errors. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and comprehensive analysis of the impact of negative real interest rates upon the economy. Key effects are explained in detail and quality of written communication is of a high standard. [6]

- (f) Issues for analysis include:
- Analysis of impact of rising interest rates on the UK economy
 - Explanation of the origins of rising food prices (paragraph 3)
 - Possible knock-on effects of rising food prices
 - Analysis of the impact of rising interest rates on these knock-on effects
 - Explanation that higher interest rates may affect some but not all of the causes of inflation

Level 1 ([1]–[2])

Candidate provides little explanation as to why an increase in UK interest rates would have little impact on inflation. The influence of external factors is largely ignored, and quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some explanation as to why an increase in UK interest rates would have little impact on inflation. The influence of external factors is explained, though this will lack depth, and quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and detailed explanation as to why an increase in UK interest rates would have little impact on inflation. The influence of external factors is explained in depth, and quality of written communication is of a high standard. [6]

- (g) This is a controversial issue with many low paid workers asking why they should experience a cut in their standard of living as a consequence of rising world food prices. However, the government will wish to prevent the development of an inflationary wage/price spiral and is therefore offering public sector workers below inflation pay awards.

Issues for analysis and evaluation include:

- Explanation of impact of below inflation pay awards on real wages
- Explanation of impact of high wage settlements on public finances
- Explanation of wage price spiral
- Impact of high public sector wages on aggregate demand
- Reaction of Bank of England to inflationary wage settlements

Level 1 ([1]–[3])

Candidate displays little understanding of the issues involved in above inflation increases in public sector pay. There is no significant analysis of the effects of this and little evaluation. Quality of written communication is limited.

Level 2 ([4]–[6])

Candidate displays some understanding of the issues involved in above inflation increases in public sector pay. There is a degree of analysis and evaluation though this may lack precision and depth. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

Candidate displays a clear understanding of the issues involved in above inflation increases in public sector pay. There is accurate analysis and in-depth evaluation, including a balanced conclusion, of the proposition. Quality of written communication is of a high standard.

[9]

40

(Answer **one** question)

- 2 (a) GDP measures the value of total output produced in an economy in a one year period. (J Sloman)

Appropriate development:

- Explanation of gross
- Explanation of money value
- Explanation of domestic
- Basic prices and market prices
- Real and nominal GDP
- Explanation of ownership of resources

Level 1 ([1]–[2])

Candidate shows at best a superficial knowledge and understanding of GDP. Quality of written communication is limited and there is little use of technical language.

Level 2 ([3]–[5])

Candidate shows some knowledge and understanding of GDP. Quality of written communication is satisfactory and there is some use of technical language.

Level 3 ([6]–[8])

Candidate shows extensive knowledge and understanding of GDP. Quality of written communication is of a high standard and there is widespread use of technical language. [8]

- (b) GDP can be measured in three ways:

(i) The **expenditure** method measures total spending on UK produced goods and services. It consists of consumption, investment, government spending and net exports.

(ii) The **income** method measures the rewards earned by the providers of the factors of production used in delivering GDP. It consists of wages, interest, rent and profit.

(iii) The **output** method measures the output of all UK firms and the government. It consists of the value added by the primary, secondary and tertiary sectors of the economy.

Issues, analysis and areas for discussion include:

- Market prices and basic prices
- Stock appreciation
- Imputed rent
- Value added
- Circular flow of income and expenditure
- Problems in compilation of the statistics
- Sources of information

Level 1 ([1]–[5])

Candidate provides little explanation of how GDP can be measured. There is no significant use of technical language, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some explanation of how GDP can be measured. There is a degree of use of technical language, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides an extensive explanation of how GDP can be measured. There is widespread use of technical language, and quality of written communication is of a high standard. [16]

- (c) The most widely used measure of economic welfare is real GDP per person. This tells us how much the economy has produced in one year after allowance is made for inflation and the size of the population. GDP makes no allowance for the depreciation of fixed capital assets and perhaps more significantly ignores the environmental damage which economic activity might have caused.

When estimates of this damage are deducted then our welfare improvements rates become much less impressive. This is particularly true of China which has enjoyed spectacular rates of growth for many years but at the expense of significant pollution levels.

Issues for analysis and evaluation include:

- Explanation of how welfare is measured using real GDP per person
- Explanation of environmental damage as a consequence of economic activity
- Problems of valuing this damage
- Items which contribute to GDP but not directly to economic welfare, e.g. defence
- Explanation of other measures of welfare such as the ISEW
- Evaluation of the relative merits of these measures and real GDP per capita

Level 1 ([1]–[5])

Candidate displays little understanding of the weaknesses of GDP as a measure of welfare. There is no significant evaluation of the view that it is fundamentally flawed, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate displays some understanding of the weaknesses of GDP as a measure of welfare. There is a degree of evaluation of the view that it is fundamentally flawed, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate displays a clear understanding of the weaknesses of GDP as a measure of welfare. There is in-depth evaluation, including a balanced conclusion, of the view that it is fundamentally flawed, and quality of written communication is of a high standard. [16]

- 3 (a) Aggregate demand has four basic components:
- Consumption (C): Spending by households on goods and services
 - Investment (I): Spending by firms on investment goods
 - Government spending (G): This includes current spending such as wages and office supplies. It also includes spending by the government on investment goods such as new schools and hospitals
 - Exports minus imports (X–M) : This is foreign spending on UK produced goods and services (X) less UK spending on foreign produced goods and services (M)

[1] for each component identified and [1] for explanation.

Allow up to [2] for definition of aggregate demand.

Constrained maximum of [8]

[8]

- (b) The credit crunch is the term generally used to describe the crisis in world banking which emerged in August 2007. Quite simply, banks both here and in the USA made large amounts of injudicious loans to high risk borrowers. When these high risk or sub-prime borrowers defaulted the banks were forced to cut back on new lending and to attach very strict conditions to such loans. This led to great difficulty in obtaining mortgage finance and there was a collapse in the housing market on both sides of the Atlantic. A major fall in aggregate demand and a recession seems the likely outcome of these events.

Issues for analysis and discussion include:

- Explanation of the credit crunch
- Impact on the housing market
- Impact on the construction industry
- Knock-on effects from falling house prices and decline in house building
- Impact on consumer confidence
- Impact on investment
- Overall impact on aggregate demand

Level 1 ([1]–[5])

Candidate provides little analysis of the impact of the credit crunch upon aggregate demand in the UK. There is no significant use of technical language nor economic models, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some analysis of the impact of the credit crunch upon aggregate demand in the UK. However this is likely to be incomplete or contain minor errors. There is a degree of use of technical language or economic models, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides an accurate and complete analysis of the impact of the credit crunch upon aggregate demand in the UK. There is significant use of technical language or economic models, and quality of written communication is of a high standard.

[16]

- (c) There are a number of policy options open to government in dealing with a significant fall in aggregate demand. However, all of these have significant economic and political disadvantages.

Issues for analysis and evaluation include:

- Explanation of expansionary fiscal policy
- Negative impact of expansionary fiscal policy upon government finances
- Possible negative impact of expansionary fiscal policy on value of pound
- Possible negative impact of expansionary fiscal policy on inflation
- Relaxing the inflation target for Bank of England to allow it to cut interest rates
- Possible inflationary consequences of lower interest rates
- Possible negative impact of lower interest rates on value of pound
- Providing financial assistance to banks in danger of going bankrupt
- Impact of this on government finances
- Ethical issue in rescuing banks from the consequences of their own decisions

Level 1 ([1]–[5])

Candidate displays little understanding and no evaluation of the policy options open to government in dealing with the credit crunch. Quality of written communication is limited.

Level 2 ([6]–[11])

Candidate displays some understanding and provides a degree of evaluation of the policy options open to government in dealing with the credit crunch. Quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate displays a clear understanding of the policy options open to government in dealing with the credit crunch. There is in-depth evaluation including a balanced conclusion. Quality of written communication is of a high standard. [16]

40

- 4 (a) Unemployment in the UK is measured by the ILO Labour Force Survey and by the Claimant Count. As its name would indicate the Claimant Count method only includes unemployed persons who qualify for benefits such as Job Seekers Allowance.
- The ILO method includes persons such as those with working partners who may be unemployed but not able to claim benefit. Hence it usually produces a higher figure than the Claimant Count, although it should be noted that some workers with only part-time jobs would be included in the Claimant Count as unemployed but not classified as unemployed on the ILO definition. The ILO figures are supported by the EU and by the OECD and hence are a better basis for international comparisons.
- Candidates may extend their development by describing how the unemployment rate is calculated.

Level 1 ([1]–[2])

Candidate shows little understanding of any significant features of either the Claimant Count or Labour Force Survey methods. Quality of written communication is limited.

Level 2 ([3]–[5])

Candidate shows some understanding of the main features of both the Claimant Count and Labour Force Survey methods. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate shows a clear understanding of the significant features of both the Claimant Count and Labour Force Survey methods. Quality of written communication is of a high standard. [8]

(b) The causes of unemployment are reflected in the different types of unemployment:

- Cyclical or demand deficient unemployment occurs when there is a recession in the economy and aggregate demand is too low
- Classical or real wage unemployment occurs when for some reason the real wage rate is set above the level needed to clear the labour market. This could happen if the National Minimum Wage were set at too high a level
- Frictional and job search unemployment exist when workers change jobs
- Seasonal unemployment caused by the demand for certain types of labour varying throughout the year
- Structural unemployment exists when the demand for labour is less than its supply in individual labour markets, regional, sectoral and technological unemployment are all examples of structural unemployment
- Natural rate unemployment exists even when the economy is at full employment. It is the sum of frictional and structural unemployment

Level 1 ([1]–[5])

Candidate provides little explanation of the causes of unemployment. There is no significant economic analysis, and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some explanation of the causes of unemployment. There is significant economic analysis, and quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate provides a clear and detailed explanation of the causes of unemployment. There is precise economic analysis, and quality of written communication is of a high standard. [16]

(c) Policies which increase aggregate demand such as expansionary fiscal and monetary policies are likely to have inflationary consequences in the long run. However, such policies could generate an increase in GDP and a fall in unemployment without significant inflation in the short run if the economy were significantly below its full employment potential output. However, it is likely that maintaining low levels of unemployment in the long run without escalating inflation can only be achieved by the type of increased productivity which supply side policies can create.

Issues for analysis and evaluation include:

- Explanation of inflation and its causes
- Explanation of supply side policies
- Explanation of alternative policies such as fiscal and monetary
- Distinction between long- and short-term impacts
- Use of AD and AS analysis
- Explanation of Phillips curve

Level 1 ([1]–[5])

Candidate shows little understanding of the policy options available to governments in trying to reduce unemployment. There is no significant analysis of their operation nor any evaluation of their relative merits in terms of possible inflationary impacts. Quality of written communication is limited.

Level 2 ([6]–[11])

Candidate shows some understanding of the policy options available to governments in trying to reduce unemployment. There is a degree of analysis of their operation and some evaluation of their relative merits in terms of possible inflationary impacts. There may be a brief reference to the difference between long and short run impacts. Quality of written communication is satisfactory.

Level 3 ([12]–[16])

Candidate shows a clear understanding of the policy options available to governments in trying to reduce unemployment. There is extensive analysis of their operation and in-depth evaluation which includes a balanced conclusion of their relative merits in terms of possible inflationary impacts. There may be a significant development of the difference between long and short run impacts. Quality of written communication is of a high standard.

[16]

40

Total

80

