Mark Scheme (Standardisation)

Summer 2009

GCE

GCE Economics (6353/01)

Edexcel Limited. Registered in England and Wales No. 4496750
Registered Office: One90 High Holborn, London WC1V 7BH

A PEARSON COMPANY

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)(i)	ILO definition (**1 mark**). Might include: • involves a telephone/paper questionnaire • survey • of a sample • asking whether respondents have been out of work in the last four weeks and/or ready to start in the next two weeks Claimant count definition (**1 mark**) is a register of those who claim and/or receive (not just eligible) JSA or 'dole' Up to **(3 marks)** for differences. Might include: • ILO more inclusive • ILO 16-65, CC 18-60/65 • Quarterly/monthly • Survey /raw data • ILO might be better for international comparison **(1 mark)** for reference to data.	**(3)**

Question Number	Answer	Mark
1(a)(ii)	Allow any **one** valid reason for divergence **(1 mark** for identification **1 mark** for explanation of the different directions**)** Reasons might include: • Changes in rules of claiming JSA e.g. savings threshold • Changes in savings ratio might make some people ineligible (JSA falls) but people might be saving more as confidence falls • Ease of claiming incapacity benefits – may involve discussion of real values of JSA • Stigma issues when people become unemployed (e.g. no stigma for ILO but high stigma for JSA) • Increases in frictional employment would increase ILO but may show no change in JSA e.g. in an economic boom • State of the economic cycle. More vacancies in a boom so it is harder to claim JSA.	**(2)**

Question Number	Answer	Mark
1(b)(i)	Sterling price change: 5*100/38 = 13.2% **(2 marks)** Allow 13% Correct base: identified but incorrect arithmetic **(1 mark)** Incorrect base: no reward.	**(2)**

Question Number	Answer	Mark
1(b) (ii)	The dollar has weakened against the pound **(2 marks).** Allow the pound has strengthened **(2 marks).** General reference to currency changes **(1 mark)**	**(2)**

Question Number	Answer	Mark
1(b)(iii)	AS analysis, up to **(3 marks)**: Aggregate supply will decrease **(1 mark)** with increased costs of production **(1 mark)** with further explanation e.g. all firms use gas and oil to some extent, or demand is inelastic **(1 mark)** Aggregate demand analysis, up to **(3 marks)**: AD changes (must be via (X-M)) because the UK is a net oil/gas importer or net exporter Diagram showing an appropriate AS shift **(1 mark)** with changes in price level and equilibrium real output **(1 mark)** Data reference (use of Figure 2) **(1 mark)** Reserve (**1 mark)** for reference to AD shift (must be via (X-M)) and this will fall when prices rise as we are net importers of both OR data reference Evaluation **(2 marks) (1 x 2 marks** or **2 x 1 mark) –** points might include: • Gas prices have risen far more than oil prices (50%) • Other comment on the magnitude of the shifts • Context of previous price rises • Depends on time lag • Other things are not equal • AD shift might outweigh AS shift or similar (but the AD shift must be correct)	**(8)**

Question Number	Answer	Mark
1(c)(i)	A supply side policy is any attempt by governments or other policy decision-makers to increase the productive capacity, or cut costs for all firms in the economy, or increase incentives or to improve productivity **(2 marks)** Allow simple AS curve, shifting to the right, as part of explanation, or outward shifting PPF. Diagram must have a macro feel. **(1 mark)**	**(2)**

Question Number	Answer	Mark
1(c)(ii)	For each policy: Identification of policy **(1 mark)**; Explaining the policy or for use of data in the passage or from own knowledge of the UK economy **(1 mark)**; reserve one mark for impact on **employment or unemployment (1 mark).** Policies might include: • Labour market reform • Investment • Using tax system to increase incentives e.g. lowering corporation tax or income tax • Deregulation/privatisation e.g. Royal Mail • Increasing productivity, e.g. by cutting the red tape • Trade union reform • Changes in National Minimum Wage *Do not include reference to health or education spending* *Do not allow answers related to subsidies unless there is the clear macroeconomic implication that AS will shift, rather than one firm benefiting at the expense of others*	**(6)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1(d)</td><td>
Concept of increasing government spending as an element of fiscal policy and/or supply side policy (this might be implicit) (1 mark)
Diagram (or equivalent analysis) showing both an AD shift rightwards or upwards (1 mark) and an AS shift rightwards or downwards (1 mark) Allow both short run and long run diagrams.
Analysis (6 marks) either (3 x 2 marks) or (2 x 3 marks) of the spending might include:

Short run AD effects of increased spending e.g.

Analysis of multiplier effects
Increased employment in the short run as schools and hospitals are being built

Long run AS effects as supply side improves e.g.

Education spending can increase employability and flexibility
Healthcare spending can reduce the amount of days lost through illness
Healthcare can increase the working population as more work beyond retirement age

Cap at 6/9 if either short run or long run ignored.
Evaluation (6 marks) either (3 x 2) marks or (2 x 3 marks) might include

Depends on the elasticity of AD or AS
Time lags/implementation lags
Other things might not be equal e.g. depends on immigration of skilled workers
Negative effects of paying for the spending, e.g. increasing tax to finance the extra spending
Size of the multiplier
Shifts in AD and AS might cancel out price effect/magnify output effect, or similar

</td><td>(15)</td></tr>
</table>

Question Number	Answer	Mark
2(a)(i)	A permitted range for the increase in the price levels, measured by changes in the CPI **OR** range of +/-1% **OR** aim to keep prices stable**(1 mark)** 2% **(1 mark).** Allow RPIX 2.5% or ECB 2% ceiling **(1 mark)** Target is a government-determined goal set for the MPC **(1 mark)** Reference to data (e.g. 'the rate of inflation has been above its target since June 2007' Ext.1 Line 8) **(1 mark)** (1 mark for stating, 1 mark for context or brief explanation) Role of MPC by setting interest rates **(1 mark)**	**(2)**

Question Number	Answer	Mark
2(a)(ii)	Weights are based on proportion of spending. Award Expenditure and Food Survey or similar. **(1 mark)** Reserve 1 mark for an explanation about food: food is a major expenditure, and prices of food rose by 1.5% in a month **(1 mark)**	**(2)**

Question Number	Answer	Mark
2(a)(iii)	Factors (**2 marks – 1 x 2 marks or 2 x 1 mark)** might include: • Negative wealth effect or reduced mortgage equity withdrawal • Falls in confidence • Credit problems • Consumers may defer current spending Role of MPC – it is likely to reduce interest rates or not raise them**(1 mark)**to **reflate** or bring **general or average price level** rises back to target not just house prices (**1 mark**)	**(4)**

Question Number	Answer	Mark
2(b)(i)	Imports or components are cheaper **(1 mark)** reducing inflationary pressure **(1 mark)** Exports are more expensive **(1 mark)** reducing inflationary pressure **(1 mark)**	**(2)**

Question Number	Answer	Mark
2(b)(ii)	Effect of interest rate cut on exchange rate **(up to 4 marks):** Fall in interest rates should weaken the value of the pound **(1 mark)** with mechanism to explain this **(up to 3 marks)** Other mechanisms **(up to 4 marks):** relating the interest rate to the price or quality of imports and exports **(1 mark)** with mechanism to explain this e.g. level of investment might rise improving quality of exports **(up to 3 marks)** A relevant and contextualised diagram (i.e. must be related to international trade) may earn (**2 marks)** Reserve (**2 marks)** for effect on current account of Balance of Payments e.g. it improves because exports are relatively cheap. If the answer merely states that there will be a surplus then **(1 mark)** may be awarded. **Evaluation (2 marks) (1 x 2 marks or 2 x 1 mark)** • not necessarily true that the currencies will respond • the response to price changes of exports and imports is likely to be inelastic in the short run • the interest change is very small • depends on interest rates in other countries • other things are not equal • not enough information • credit crunch	**(8)**

Question Number	Answer	Mark
2(b)(iii)	Award **(1 mark)** for valid factor, **(2 marks)** for explanation which may include use of data or use of the word 'deficit'. Reasons might include: • quality problems and other loss of competitiveness • high unit labour costs • high incomes • increased prices of goods that the UK tends to import • overspending in the UK • confidence issues • other countries making progress more quickly than the UK • changes in comparative advantage or other opportunity issues **Do not award exchange rate or interest rate changes. Unless linked to X and M, award no marks for government or budget deficit reasons**	**(3)**

Question Number	Answer	Mark
2(c)	Award 2 reasons, **(2 marks)** each: Identification of each factor **(1 mark);** explanation of link to **UK** AD **(1 mark)** Factors might include: • confidence • as US businesses close down this might increase market scope for UK firms? • US produces will cut their prices therefore imports to the UK will increase • credit crunch e.g. decreased inter-bank credit availability • wealth effects through the stock markets • pension funds – loss of confidence • effect on UK exports (fall in aggregate demand) as incomes fall in the US • direct effect on multinationals outlets • fall in investment from USA	**(4)**

Question Number	Answer	Mark
2(d)	Concept of cutting the cost of borrowing money (this might be implicit) **(1 mark)** Diagram (or equivalent analysis) showing both an AD shift rightwards and/or AS shift rightwards **(1 mark)** and correct annotations to show change in price level and output **(1 mark)** **Analysis (6 marks)** either (3 x 2) marks or (2 x 3 marks) of the policies might include: • Increase in C (wealth effects, loans, savings etc) • Increase in I • Falling value of the pound and effect via X-M • AS shift to the right **Evaluation (6 marks)** either (3 x 2) marks or (2 x 3 marks) might include • Depends on the elasticity of AD or AS • Discussion of the size of the rate cut • Time lags/implementation lags • Other things might not be equal • Size of the multiplier • Fiscal or supply side policies might be better • Failure of monetary policy in the current climate **Reserve 2 marks of the evaluation for reference to the contradiction of cutting rates when there is inflation**	**(15)**