Mark Scheme (Results)

January 2011

GCE Economics (6EC02/01)
Paper 01

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Question Number	Answer	Mark
1(a)(i)	Definition of inflation (**2 marks**): an increase in the cost of living or average/general price level, or a fall in the purchasing power of £1	
	Definition of deflation (**2 marks**): a decrease in the cost of living or average price level, or a rise in the purchasing power of £1.	
	Outlining the difference between CPI and RPI methods of measuring inflation, such as the RPI including mortgage payments (**2 marks**)	
	Explain trend with reference to data (**2 marks**)	
	• Inflation peaked Q3 2008 (**2 marks**)	
	• CPI prices rose faster before Q3 2008 and then rose at a slower rate thereafter (**2 marks**)	
	• RPI prices rose slowly up to Q3 2008 an then rose less quickly after that, eventually falling reference to deflation (**2 marks**).	
	Accept comments on the differences between the CPI and RPI rates in Figure 1 in terms of	
	• the overall level (**2 marks**)	
	• volatility (**2 marks**)	
	Maximum 4 marks with no reference to the data	(6)

Question Number	Answer	Mark
1(a)(ii)	Some criteria that indicates success 2 x 4 marks. Identify each criterion that might indicate success (**2 marks**) and further explanation or reference to data (**2 marks**)	
	• Named target has been clear 2% inflation (+/- 1%)	
	• Transparency and openness maintained (open letters to chancellor in 2007)	
	• MPC remains independent with control of interest rates and free of political interference	
	• These led to reduced inflationary expectations which is self fulfilling to some extent	
	• Looking at Figure 1 generally in tolerance over the decade	
	• Looking at Figure 1 technically no deflation in 2009	
	• Credit for how monetary policy committee use interest rates	
	• Reward discussion of more recent problems	
	Give credit for candidates who say why target was missed	
	Evaluation (1 x 4 marks or 2 x 2 marks). Factors might include:	
	• Fluctuating state of the economy had inevitable effect on inflation	
	• Changed target to CPI which was more stable than RPI possibly because of absence of volatile housing market and mortgage interest payments	
	• Uncertainty of effect of Quantitative Easing	

	• Looking at Figure 1, out of tolerance in 2007 but not out of control • Looking at Figure 1, vicious cycle of deflation seems to have been avoided in 2009	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing criteria with at least one evaluative point
Level 2	5-8	2 convincing criteria with no further analysis or explanation, or 1 convincing criterion with some good analysis but no evaluative point; 1 or 2 less-convincing criterion with some evaluation
Level 1	1-4	Identification of relevant criterion with or without brief evaluative keywords

Question Number	Answer	Mark
1(b)(i)	Up to 2 marks for definition A contraction, decrease, or reduction (accept recession) **(1 mark)** in the volume or after discounting the effect of inflation **(1 mark)** of output or goods and services produced in a country (1 mark). Allow potential output. Up to 2 marks for use of data for example Germany -5.0%, U.K. -4.9%, or US -2.4% in 2009	(4)

Question Number	Answer	Mark
1(b)(ii)	Award two problems only Two problems identified **(1 mark each)** and explained **(1 mark each)** and applied **(2 marks each)** Problems of comparison may include: • Subsistence, barter and the black economy undervaluing the real output • Currency values and effectively calculating an accurate purchasing power parity • Spending on investment may increase future welfare at the expense of current welfare • Size of the public sector which might or might not improve welfare • Quality of life issues such as spending on education or health which is difficult to measure the impact • Population growth in developing countries may account for most growth in GDP Evaluation (1 x 4 marks or 2 x 2 marks). Factors might include: • Prioritisation with justification • Problems of comparison over time • Other measures might be better e.g. HDI, real, per capita (each method is a different point) • GDP per capita may not grow • Benefits of using GDP for comparison – standard measure, well understood	(12)

Question Number	Answer	Mark
1(b)(iii)	2 implications x 4 marks 2 marks for each problem or outcome and explanation of the consequence. Up to 2 marks for policy affected If growth data are inaccurate and real growth lower than data measured, output gap could be larger and unemployment may rise faster than expected **(2 mark)** - this could lead to financial crowding out (a larger budget deficit) and fiscal policy could be tighter in the future **(2 marks)** - supply side policy may also need to be increased to increase retraining of workforce **(2 marks)** If growth data are inaccurate and real growth higher than data measured, the output gap could be smaller and output could be closer to full employment. **(2 marks)** - the government could adopt an excessive expansionary fiscal policy which leads to fiscal policy being tighter in the future **(2 marks)** - supply side policy may also need to be expanded to maintain growth (ie full employment) if capacity has been reached **(2 marks)** - the MPC mighty need to increase interest rates **(2 marks)** Do not award the same point in reverse Additional use of data **(2 marks)**	(8)

Question Number	Answer	Mark
1(c)	Reward identification that income is less equal **(2 marks)**. Maximum marks could be obtained for 2 implications done well or 3 implications less well. For each likely cause (2 x 4 marks or 3 x 2 marks); Identify each possible cause **(2 marks each, or 1 mark if not fully convincing)** and a further 2 marks for the explanation of the connection: - Increased unemployment of low income workers - High income workers are more likely to have higher unearned income from wealth - Change in tax revenue (direct and indirect) - Credit that different groups are affected in different ways - Depends on the top rate of income tax or corporation tax - Depends on size of benefits of pensioners or low income households	(8)

Question Number	Answer	Mark
1(d)	**KAA 18 marks** **Up to 6 marks** for definitions: Definition and outline of the nature of supply side policies • Accept rightward shift of the aggregate supply curve or similar definition **(2 marks)** • a diagram showing rightward shift of AS curve; axes labelled(1), equilibria labelled(1), AD/AS lines labelled(1), correct shift (AS to right)(1). No marks for diagram if shift in wrong direction. Alternatively reward explanation in words demonstrating the impact on the price level and real output **(4 marks)**. Possible definitions include either: • a change in the capital stock to offset depreciation **(2 marks)** • or productivity is the output per worker, machine, operational unit or per unit of inputs **(2 marks)** • or supply-side measures as those aimed at increasing productivity and/or competition in the product market **(2 marks)**. Allow policies aimed at shifting AS to the right **(2 marks)**. Explanation and analysis of at least two policies **(12 marks)**; of which, up to 6 marks each for two policies explained in depth with examples, or up to 4 marks for three policies explained clearly. 2 marks for identifying each policy and up to a further 4 for development Policies might include: • Increase accessibility and flexibility of the education system for adults and those in work to increase and update their skills • Subsidise firms to take on school leavers and graduates to enable them to get work experience and useful skills (New deal, Sure Start, modern apprenticeships) • Provide training and subsidise work placements for potentially long term unemployed • Offer subsidies or tax breaks for investment in long term capital projects • Implement schemes to offer businesses extra credit to cover overdraft payments in the short run • Offer subsidies or tax breaks for investment in research and development • Other recent policy developments e.g. trade union reform, attract skilled immigrants • Reduction in Corporation tax • Privatisation and deregulation Evaluation **(12 marks)**; of which award two very well developed points (6 marks each) or three factors clearly given (up to 4 marks each). Factors comments might include reference to • Significance of elasticities of AD and AS curves • Extent of shifts in AS curves • Time lags • Short run and long run impact	

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing measures with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing measures with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing measures with no evaluative point; 1 or 2 less-convincing measures with some evaluation
Level 1	1-6	Identification of relevant measures with or without brief evaluative keywords

	• Critical consideration of the effectiveness of policies • Other factors might be more significant in promoting productivity e.g. management methods • Cost implications of these policies **Quality of written communications will be assessed in this question based on the candidate's ability:** • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately	

Question Number	Answer	Mark
2(a)(i)	2 marks for definition of deficit, 2 marks for reference to increase • Government spending is more than revenue/taxation **(4 marks)** • Government spending is too high, it has overspent, or government has to borrow **(2 marks)** • Explanation of modest **(2 marks)** Reference to data **(2 marks)** e.g. £178 billion in 2009/10 or he increased planned spending by around £15 billion in total over 2011/12 and 2012/13, while recovering only £9 billion through new tax increases.	(6)

Question Number	Answer	Mark
2(a)(ii)	KAA 12 marks. Up to 8 marks • Appropriate AD/AS diagram showing enlarged shift or second shift of AD **(4 marks)**; axes labelled(1), equilibria labelled(1), correct shift (AD to right)(1), enlarged shift or second shift of AD to the right (1). • Written explanation of effect on price level **(2 marks)** and output **(2 marks)** • Definition of an injection: an addition to the level of I+G+X demand in the circular flow e.g. an increase in government spending **(2 marks)**. • Initial impact on the level of AD without graph **(2 marks)** Up to 4 marks for 2 x 2 marks for the following points; • Definition of the multiplier as the number of times a rise in income exceeds the rise in injections that caused it. It measures the more than proportionate increase in the circular flow of income **(2 marks)**. • Rise in incomes of those affected **(2 marks)**. • These people in turn increase their consumption **(2 marks)** • and the extended repercussions result as the increase in demand goes round the circular flow **(2 marks)** • the process fades due to withdrawals (S,T,M) at each stage **(2 marks)** Evaluation 2 x 2 marks or 1 x 4 marks. Points may include • the magnitude of multiplier effect • changes over time • magnitude of the injection • other things are not equal e.g. confidence might change • fall in one of the other components of AD impact on price level depends on elasticity of AS curve	(16)

Question Number	Answer	Mark
2(b)(i)	Definition up to 2 marks • Identification of exports as an injection and/or imports as a withdrawal **(2 marks)** • Define circular flow of income as the flow of goods and services between households and firms and their corresponding payments in money terms. **(2 marks)** • Accept AD shift to the right or when taken in the context of a other components of AD decreasing, then award a shift to the left that is not as great because of the more positive impact **(2 marks)** Explanation up to 4 marks • Imports have fallen faster than exports **(2 marks)** • Identify it as a reduction in the size of withdrawal or a net injection on previous year **(2 marks)** Use of data up to 2 marks, such as the correct comparison of absolute figures or percentage changes for Exports and Imports, or Export-Imports.	(6)

Question Number	Answer	Mark
2(b)(ii)	For each likely cause (2 x 4 marks); Identify each possible cause (1 mark each) and 3 marks for the explanation or analysis of the cause; • Unemployment and the fall in incomes; or fear of unemployment • Fall in real wages • Fall in expected incomes • Higher savings ratios • Negative wealth effect associated with falling asset prices • Restrictions on the availability of credit after a period of relatively easy credit • Higher tax rates (e.g. VAT) No marks are to be awarded if reference is made to trade or the balance of payments as this indicates a fundamental misunderstanding Up to 2 marks for reference to the data Evaluation (1 x 4 marks or 2 x 2 marks) • Claimant Count Unemployment rose by 50% in the previous 18 months • Restriction on the availability of credit after a period of relatively easy availability (approximately 10 million households had mortgages and the average mortgage was £70,000) • Higher savings ratios as a result of uncertainty about the future from approximately 18 million of the 25 million households who are owner occupiers and whose asset prices have fallen • Short-run/long-run: fall in consumption might only be temporary if economic recovery is maintained. • Prioritisation: eg most significant reason is uncertainty associated with fear of unemployment and fall in income. • Consumption may not have fallen as much in real terms if product price deflation **Quality of written communications will be assessed in this question based on the candidate's ability:** • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately	(14)

Level	Mark	Descriptor
Level 3	9-12	2 convincing reasons with at least one evaluative point
Level 2	5-8	2 convincing reasons with no further analysis or explanation, or 1 convincing reason with some good analysis but no evaluative point; 1 or 2 less-convincing reason with some evaluation
Level 1	1-4	Identification of relevant criterion with or without brief evaluative keywords

Question Number	Answer	Mark
2(c)(i)	The price of one currency expressed in terms of another **(2 marks)** or the amount of one currency that can be bought with a unit of another currency **(2 marks)** Use of data **(2 marks)** eg £1 would have bought 1.41 euros in 2007	**(4)**

Question Number	Answer	Mark
2(c)(ii)	Award 4 marks for the correct answer regardless of whether working shown. ((1.10-1.43)/1.43)x 100 = -23.1% **(4 marks)** Accept figures between -23% and -23.1% For incorrect answers marks can be awarded for the following ((New Year – Old Year)/ Old Year) x 100 **(1 mark)** ((1.10-1.43)/1.43) x 100 = wrong answer **(2 marks)** (1.10-1.43) = -0.33 **(1 mark)** (1.10/1.43) x 100 **(1 mark)** 0.33/1.43 = -0.23077 **(1 mark)** -0.23077 x 100 = - 23.1% **(1 mark)** Both minus sign (or statement that 'the exchange rate fell by…') and percentage are required for this mark	**(4)**

Question Number	Answer	Mark

2(d)	**KAA 18 marks**
	 6 marks for definition and 12 marks for explanation – allow up to 14 for explanation if definition earns only 4.
	
	 Definition of current account of the balance of payments in simple terms of imports and exports **(2 marks)** and then some explanation of components of the balance of payments, such as trade in goods **(2 marks)**, trade in services **(2 marks)** etc.
	
	 Explanation of at least two consequences **(12 marks or 14marks if definition only 4 marks or less)**;
	
	 of which, up to 6 marks each for two consequences explained in depth with examples, or up to 4 marks for three consequences explained clearly.
	
	 Consequences might be the effect on:
	
	 • Effects of falling consumption
	      - on imports
	      - Possible effects on exports
	 • Fall in investment
	      - Fall in productivity and resultant loss of competitiveness
	 • Fall in value of £
	      - improved competitiveness
	      - accept an increase in the value of £ if reference is made to $ exchange rate 2008-9 and reduced competitiveness
	
	 Evaluation **(12 marks)**;
	
	 of which award two very well developed points (6 marks each) or three consequences clearly given (up to 4 marks each). Evaluative comments might include reference to
	
	 • Relative size of each effect.
	 • Different effects on imports of different goods (e.g. elasticity)
	 • Short run effects on investments might be lower than long run
	 • Significance of elasticities (short run/long run)
	 • Relative importance of EU and US.
	
	 Quality of written communications will be assessed in this question based on the candidate's ability:
	 • To present an argument and conclude on the basis of that argument
	 • To organise information clearly and coherently
	 • To use economic vocabulary appropriately
	   To use grammar, spelling and punctuation appropriately
		(30)

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing effects with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks
Level 3	19-24	2 or 3 convincing effects with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing effects with no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-6	Identification of relevant effects with or without brief evaluative keywords

	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
ai	4	2			6
aii	2	2	4	4	12
bi	2	2			4
bii	2	4	2	4	12
biii	2	2	4		8
c	2	2	4		8
d	6	6	6	12	30
Total	20	20	20	20	80
Question 2					
ai	4	2			6
aii	4	4	4	4	16
bi	2	2	2		6
bii*	2	2	6	4	14
ci	2	2			4
cii		2	2		4
d	6	6	6	12	30
Total	20	20	20	20	80