

**Economics**

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

**Mark Schemes for the Units**

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**June 2009**

**HX61/MS/R/09**

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**Advanced Subsidiary GCE Economics (H061)**

### **MARK SCHEMES FOR THE UNITS**

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# F581 Markets in Action

## Subject-specific Instructions

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, ie a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 4 The Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 5 The quality of written communication will be assessed in the answer to the final part question.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

### Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

### Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

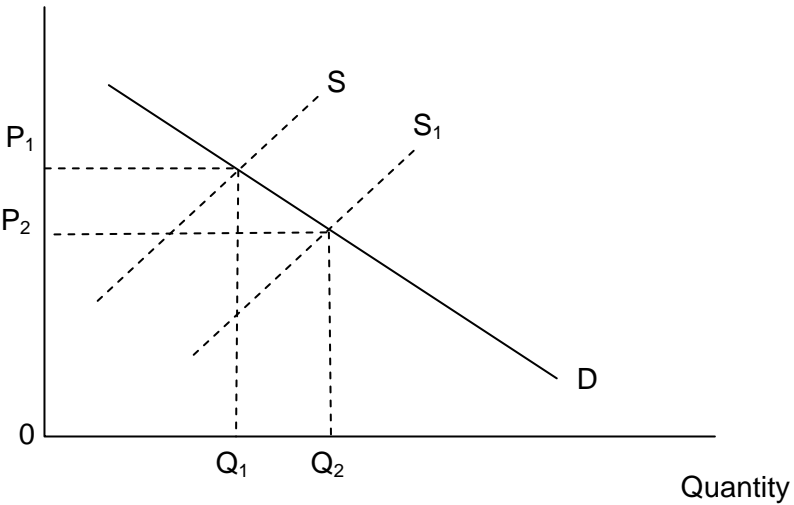
### Level 1

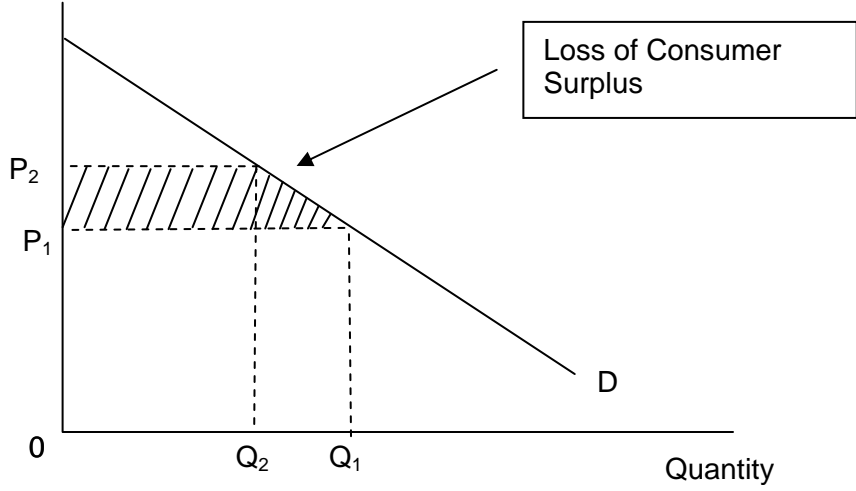
Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question.

| Question | Expected Answer  | Mark | Rationale  |
|----------|--|------|--|
| 1        | <p><b>Using an example in each case, state <u>two</u> factors of production that are required to provide air transport services.</b></p> <p>Various possible answers, including</p> <p>Land - airport sites, essential material inputs for aeroplanes, fuel oil for aircraft.<br/> Labour - pilots, ground staff, cabin crew<br/> Capital - aeroplanes, airport infrastructure<br/> Enterprise - risk-taking qualities of entrepreneurs such as O'Leary, Branson, Hadji</p> <p>Award 1 mark for correct identification and a further 1 mark for an appropriate example for the provision of air transport services (x2).</p> | [4]  | <p><i>Labour and capital are most likely. Be generous on interpretation of application but it must be examples of air transport services e.g. Do not accept actual space, machines or employees as examples unless applied to air transport provision.</i></p> |

| Question            | Expected Answer  | Mark       | Rationale  |
|---------------------|--|------------|--|
| <p>2</p> <p>(a)</p> | <p><b>State and explain <u>two</u> determinants of demand for air travel for leisure purposes.</b></p> <p>This question requires candidates to draw upon their knowledge of the recognised determinants of demand. The information provided refers to two of these:</p> <p>Price of air transport - cheap fares attract passengers, high fares deter passengers or tax imposed (eg APD)</p> <p>Taste &amp; Fashion - new routes are available through low cost carrier expansion, particularly for leisure purposes. Weather and advertising should be accepted as examples of a Change in Taste; consumer confidence is an example of taste.</p> <p>Other possibilities could be:</p> <p>Incomes - changing real incomes mean that more/less disposable income is available for leisure purposes</p> <p>Price and availability of substitutes - other leisure opportunities are likely to have increased in price relative to the price of air transport</p> <p>The price and availability of complements – e.g. exchange rates, package deals etc</p> <p>Population – Size or change in population or demographic composition.</p> <p>Award 1 mark for each determinant plus up to 2 further marks for a relevant explanation as to why demand has increased. The second of these development marks should only be awarded where change in demand is clearly stated.</p> | <p>[6]</p> | <p><i>Answers must be in terms of the recognised determinants of demand as shown alongside.</i></p> <p><i>(0 + 1 or 2) is an acceptable allocation if determinant not stated but only applied.</i></p> <p><i>DO NOT accept “cost of travel”.</i></p> |

| Question                           | Expected Answer   | Mark       | Rationale  |
|------------------------------------|---|------------|--|
| <p>(b)</p> <p>Price of tickets</p> | <p><b>Using a demand and supply diagram, explain how the growing number of low cost flights has affected the market for air travel in Europe.</b></p>  <p>Up to 3 marks for a diagram: – shift of S (1)<br/>old equilibrium (1)<br/>new equilibrium (1)</p> <p>Up to 3 marks for an explanation: – the growing number of low cost airlines affects the market equilibrium through a shift to the right of S (1); the outcome is an increase in quantity (1) and a decrease in price (1); the extent of change will depend on the price elasticity of demand (1) and the extent of the shift of S (1)</p> <p>Award 3 + 3 marks</p> | <p>[6]</p> | <p><i>Award no marks for diagram if axes are wrongly labelled or S and D are the wrong way round.</i></p> <p><i>The increase in supply MUST say SHIFT or movement to the RIGHT. This could be with reference to the diagram.</i></p> <p><i>Must be clear that quantity demanded has increased.</i></p> |

| Question                           | Expected Answer  | Mark | Rationale  |
|------------------------------------|--|------|--|
| 3 (a)                              | <p><b>Define the term ‘consumer surplus.’</b></p> <p>For a clear definition such as ‘the difference between what a consumer values the goods or services purchased and the price that is actually required to make a purchase’. (2 marks)</p> <p>Award 1 mark for a general but less than precise understanding.</p> <p>A diagram is not acceptable since the question directive word says ‘define’.</p> | [2]  | <p><i>Accept rising marginal utility as an alternative approach.</i></p>   |
| <p>(b)</p> <p>Price of tickets</p> | <p><b>Using a diagram, comment on how the increase in ticket prices in February 2007 might have affected the consumer surplus of EU air passengers.</b></p>   | [8]  | <p>Axis and D must be labelled to access marks. So if:</p> <ul style="list-style-type: none"> <li>- no labels on axes</li> <li>- wrong labels on axes</li> <li>- no label for D</li> </ul> <p>No marks for diagram.</p> <p>An alternative diagram is one where a shift to the left of S is indicated as a consequence of the increase in APD in February 2007.</p> |



| Question | Expected Answer   | Mark | Rationale   |
|----------|---|------|---|
|          | <p>Award up to 4 marks for a clear diagram which shows an increase in price and a reduction in consumer surplus.</p> <p>Where diagram is wrong award<br/>           1 mark for area of original CS<br/>           1 mark for original P and Q<br/>           1 mark for increase P &amp; falling Q<br/>           1 mark for area of new CS (could be identified in text)</p> <p>Award up to a further 4 marks for relevant comments such as:</p> <ul style="list-style-type: none"> <li>- Consumer surplus will be reduced = 1 mark only</li> <li>- Business travel may be even less affected</li> <li>- Travel outside the EU is more affected</li> <li>- APD is likely to be relatively high in relation to the total price paid for 'binge flights' - net effect on amount of consumer surplus is uncertain.</li> <li>- The amount of consumer burden of increased taxation is determined by the PED value</li> </ul> <p>One extensive or two brief comments can get 4 marks.</p> |      | <p><i>Diagram which shows a supply line shift to the left is equally acceptable.</i></p> <p><i>Answers that do not refer to Fig 1 are unlikely to score more than 2 marks in the comment section.</i></p> <p><i>Accept that another change in determinants of demand may offset the change in APD e.g. rise income, producer reducing price etc</i></p> |

| Question | Expected Answer   | Mark | Rationale  |
|----------|---|------|--|
| 4 (a)    | <p><b>Fig.2 shows that a 28% increase in ticket prices leads to a 40% decrease in the quantity demanded. Calculate the price elasticity of demand.</b></p> <p>Answer (-) 1.42857 or 1.43, Accept 1.4</p> <p>Award 1 mark from correct transposition but wrong arithmetic</p>  | [2]  | <p><i>These are the only correct answers</i></p> <p><i>No marks for formula</i></p> <p><i>1.42 is not correct.</i></p>               |
|          | <p><b>(b) Explain the meaning of the price elasticity of demand figure you have calculated.</b></p> <p>Award 1 mark for each of:</p> <ul style="list-style-type: none"> <li>- elastic</li> <li>- relative change in Q is greater than relative change in P</li> <li>- responsive to a change in price</li> <li>- a fall in price will lead to an increase in revenue</li> <li>- a rise in price will lead to a fall in revenue</li> <li>- likely to indicate substitutes</li> </ul> <p style="text-align: right;">Maximum 2 marks</p> | [2]  | <p><i>No marks awarded for numerical elaboration.</i></p> <p><i>Apply OFR if calculation in part (a) is wrong, say inelastic</i></p> |

| Question | Expected Answer   | Mark | Rationale   |
|----------|---|------|---|
| (c)      | <p><b>Suppose the government aims to reduce demand from ‘binge flyers.’ Comment on how it might use the information in Fig 2 to achieve this objective.</b></p> <p>Award up to 4 marks for: If it wanted to cut back on ‘binge flying’ then the obvious thing to do would be to increase APD to £35 as this would produce the biggest fall in demand. An increase to £15 would still only have a modest negative impact so would appear to be not sufficient to really curtail demand.</p> <p>Understanding of PED estimates plus up to 2 marks for their interpretation.</p> <p>Award up to 2 marks for comment such as values are estimates, other information required, information may become outdated, other factors may shift the demand curve cancelling the QD affect. Alternatively the candidate might comment on how very useful the data is to them in setting the correct tax.</p> | [6]  | <p><i>Fig 2 can be used to produce the following estimates of price elasticity of demand:</i></p> <p><i>Increase from £5 to £10      -0.70</i><br/> <i>“ “ “ “ £15                      -1.07</i><br/> <i>“ “ “ “ £25                      -1.43</i><br/> <i>“ “ “ “ £35                      -1.57</i></p> <p>Candidates can be awarded up to 2 marks for further calculations such as those above</p> <p><i>Answers that do not use data in Fig 2-2 max</i></p> |

| Question | Expected Answer  | Mark       | Rationale   |
|----------|--|------------|---|
| 5 (a)    | <p><b>Define the term 'negative externalities.'</b></p> <p>A negative externality arises where the actions of one group result in a negative side effect or impact upon a third party (2). Where social costs of an activity are greater than the private costs.(2)</p> <p>Award 1 mark for a more general understanding. i.e negative effect not clear</p>  | <b>[2]</b> | <i>No marks for an example</i>  |
| (b)      | <p><b>Explain why negative externalities arising from an increase in air transport are an example of market failure.</b></p> <p>This is evidenced in the information provided through CO<sub>2</sub> emissions, excessive noise disturbance and congestion around major airports (1).</p> <p>Plus 3 points possibly from:<br/> Market failure arises when the price paid is not equal to the full cost of a particular action.<br/> With negative externalities, the market fails for example in the case where there is noise disturbance since the full costs are not paid for by the airline or its passengers.<br/> Residents on the flight path have to suffer from the noise and could be forced into spending money to block out aircraft noise.<br/> Over consumption occurring maybe explained in terms of allocative inefficiency.</p> | <b>[4]</b> | <p><i>A fully labelled diagram could be used to explain why the market failure has arisen in air transport for 3 marks.</i></p> <p><i>Answer must develop the idea of market failure not just restate part a.</i></p> <p><i>Accept other examples of costs incurred by local residents (house values fall) or to the NHS &amp; the tax payer.</i></p> |

| Question | Expected Answer  | Mark | Rationale   |
|----------|--|------|---|
| 6        | <p><b>Discuss whether taxation is the most effective solution to the market failures arising from negative externalities.</b></p> <p>This question requires a discussion of the merits of taxation as a means of dealing with the market failures that arise when there are negative externalities. The use of 'most effective' in the question implies that other means are available and should be discussed. No specific context is given in the question, although clearly some application to air transport is relevant.</p> <p><i>Indirect taxation is a very appropriate way of dealing with this type of market failure. It aims to 'get the price right' and is consistent with the polluter pays principle. The effect of an indirect tax is that the supply curve shifts to the left, increasing price and reducing output. Ideally the producer should bear the full cost of the tax. There are various practical problems of implementation, eg determining the amount of tax; some goods may have inelastic demand, producers may not always pay the full tax. The effectiveness of these alternatives is relevant, as would be a discussion of how a range of methods could be used.</i></p> <p><b>L4 For a discussion of whether taxation is the most effective solution to the market failures arising from negative externalities. [13-18]</b></p> <p>A balanced answer that looks at the case for and against taxation, particularly indirect taxation.</p> <p>For 16-18 marks, the answer should <b>discuss</b> the relative advantages of taxation compared to other means of dealing with negative externalities. Where the answer only considers indirect taxation or an alternative, then a maximum of 15 marks should be awarded.</p> <p>All answers at this level must be underpinned with appropriate theoretical concepts.</p> | [18] | <p><i>Alternative approaches include</i></p> <ul style="list-style-type: none"> <li>• <i>payment of subsidies,</i></li> <li>• <i>regulations, standards</i></li> <li>• <i>legal controls</i></li> <li>• <i>and the use of tradable permits as in the European ETS.</i></li> </ul> |

| Question | Expected Answer   | Mark | Rationale  |
|----------|---|------|--|
|          | <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p><b>L3 For an analysis of the use of taxation as a means of solving the market failures arising from negative externalities. [9 – 12]</b></p> <p>Such answers must have relevant analytical underpinning of how taxation can address this problem of market failure.</p> <p>For 11-12 marks it is likely but not essential that the answer will contain a correct diagram, as well as depth of analysis.</p> <p>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p><b>L2 For an application of knowledge of how taxation is used to solve market failures arising from negative externalities. [5 – 8]</b></p> <p>Answers at the top of this level are likely to be largely framed around a series of examples and how various types of taxation can be used to solve market failure. For 5-6 marks typically the effects of introducing a tax in terms of an increase in price and a fall in quantity produced should be applied in principle. Vague application of stimulus is worth 5-6 marks.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> |      | <p><i>A diagram without explanation is L2.</i></p> <p><i>Examples are likely to enhance the quality of the answer. This could include a <b>list</b> of alternative approaches to taxation.</i></p> <p><i>Watch out for statements which might appear as L4 but lack correct analytical underpinning and hence are L2 – Critical Understanding.</i></p> |

| Question | Expected Answer  | Mark | Rationale |
|----------|--|------|-----------|
|          | <p data-bbox="300 274 1330 338"><b>L1 For a knowledge and understanding of taxation and market failures arising from negative externalities. [1 – 4]</b></p> <p data-bbox="300 376 1330 472">Such answers will be shallow both in terms of knowledge of taxation and its use in this context. For 3-4 marks it will be necessary to understand both taxation AND market failure</p> <p data-bbox="300 510 1330 606">Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.</p> |      |           |

# F582 The National and International Economy

## Subject-specific Instructions

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### Level 4

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### Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

### Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.



| Question   | Expected Answer  | Marks                                    | Rationale   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
|--|--|--|---|--|-------------------|------------|--------|--|-----|-----|------------------------------|-----|-----|-----------------------|-----|-----|----------------------|-----|-----|--|------|------|-----|--|
| 1  | <p><b>Using information from the case study (lines 3-5) calculate Russia's GDP per head in 2007.</b></p> <p>2 marks for US \$8,000.<br/>1 mark for idea of GDP/population.</p>   | (2)                                      | If no idea of the formula is present but a variation of \$8000 is given e.g. \$8, \$80, \$80,000 give 1 mark maximum as candidate must have sought to divide GDP by population. |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
| 2  | <p><b>(a) Define the term 'unemployment'.</b></p> <p>1 mark for identifying a situation where workers are without jobs<br/>1 mark for a further relevant elaboration, eg people willing and able to work, people actively seeking employment, receiving unemployment benefits (Job seeker's allowance), excess supply of labour.</p>   | (2)                                      | No marks for people who are not economically active.  |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
|  | <p><b>(b) Using Fig. 1, describe how Russia's unemployment differed from the UK's unemployment in 2006.</b></p> <table border="1" data-bbox="338 815 1189 1289"> <thead> <tr> <th colspan="3">Fig. 1 Russian and UK unemployment, 2006</th> </tr> <tr> <th>Unemployment rate</th> <th>Russia (%)</th> <th>UK (%)</th> </tr> </thead> <tbody> <tr> <td>Lower measure (claimant count or equivalent)</td> <td>2.0</td> <td>3.0</td> </tr> <tr> <td>Higher measure (ILO measure)</td> <td>5.8</td> <td>5.5</td> </tr> <tr> <td>Highest regional rate</td> <td>8.2</td> <td>4.4</td> </tr> <tr> <td>Lowest regional rate</td> <td>1.5</td> <td>1.8</td> </tr> <tr> <td>Percentage of unemployed who have been out of work for more than a year.</td> <td>18.6</td> <td>21.2</td> </tr> </tbody> </table> | Fig. 1 Russian and UK unemployment, 2006 |   |  | Unemployment rate | Russia (%) | UK (%) | Lower measure (claimant count or equivalent) | 2.0 | 3.0 | Higher measure (ILO measure) | 5.8 | 5.5 | Highest regional rate | 8.2 | 4.4 | Lowest regional rate | 1.5 | 1.8 | Percentage of unemployed who have been out of work for more than a year. | 18.6 | 21.2 | (4) | <p>No marks for just quoting figures eg Russia's higher rate was 5.8% and the UK's was 5.5%.</p> <p>Nothing for Russia overall has a lower unemployment rate.</p> <p>If a candidate compares UK with Russia – this is perfectly acceptable.</p> <p>Be mindful of the need to reward RATES not LEVELS e.g. Russia has a lower rate on the lower measure, but not a lower number of people unemployed.</p> |
| Fig. 1 Russian and UK unemployment, 2006                                 |  |  |   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
| Unemployment rate  | Russia (%)   | UK (%)                                   |   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
| Lower measure (claimant count or equivalent)                             | 2.0  | 3.0                                      |   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
| Higher measure (ILO measure)   | 5.8  | 5.5                                      |   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
| Highest regional rate  | 8.2  | 4.4                                      |   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
| Lowest regional rate   | 1.5  | 1.8                                      |   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
| Percentage of unemployed who have been out of work for more than a year. | 18.6   | 21.2                                     |   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |
|  |  |  | [Maximum 4 marks]   |  |                   |            |        |  |     |     |                              |     |     |                       |     |     |                      |     |     |  |      |      |     |  |

| Question | Expected Answer   | Marks | Rationale |
|----------|---|-------|-----------|
|          | <p>1 mark for Russia's unemployment rate is lower on the lower measure/claimant count.</p> <p>1 mark for Russia's unemployment rate is higher on the higher measure/ILO.</p> <p>1 mark for Russia's long term unemployment rate is lower.</p> <p>1 mark for Russia's highest regional rate is higher than the UK's.</p> <p>1 mark for Russia's lowest regional rate is lower than the UK's.</p> <p>1 mark for Russia's unemployment rate varies more between the regions.</p> |       |           |

| Question | Expected Answer  | Marks | Rationale  |
|----------|--|-------|--|
| 3 (a)    | <p><b>Define the term 'inflation rate' (line 5).</b></p> <p>3 marks for a sustained rise in the price level measured in percentage terms.<br/>           2 marks for a sustained rise in the price level/prices/price index.<br/>           2 marks for a sustained fall in the value or purchasing power of money.<br/>           2 marks for a rise in the price level measured in percentage terms.<br/>           1 mark for reference to a sustained rise or over time.<br/>           1 mark for reference to an increase in the price level.<br/>           1 mark for a fall in the value or purchasing power of money.<br/>           1 mark for a percentage change or percentage example.</p> | (3)   | <p><b>Nothing for rate.</b><br/> <b>Nothing for change in the price level.</b><br/> <b>Money loses value = 1 mark.</b><br/> <b>Percentage loss in the value of money over a period of time = 3 marks.</b></p>  |
| (b)      | <p><b>State and explain <u>two</u> costs of inflation.</b></p> <p>1 mark each for each of two costs identified, e.g. menu costs, shoe leather costs, administrative costs, reduction in international competitiveness, random redistribution of income, fiscal drag, inflationary noise, discouragement of investment.<br/>           1 mark each for each of two basic descriptions, eg inflation can make it difficult for consumers and firms to judge relative prices.<br/>           1 mark each for each of two further elaborations, eg inflationary noise can lead to consumers and firms making inefficient choices.</p>  | (6)   | <p><b>Nothing for causes of a rise in price level.</b><br/> <b>If a candidate identifies a fall in real income, only give the full three marks if their answer recognises that for this to occur, the price level would have to rise by more than income.</b><br/> <b>Increase in the cost of living = 1 mark, unless fully developed.</b><br/> <b>Increases unemployment = 1 mark only unless explained.</b><br/> <b>Be generous on the interpretation of shoe leather costs.</b><br/> <b>Two costs identified in any one sub-part should be awarded where there is no other relevant cost in the other sub-part.</b></p> |

| Question   | Expected Answer   | Marks  | Rationale |       |      |        |     |       |     |    |      |     |      |     |   |
|--|---|--|-----------|-------|------|--------|-----|-------|-----|----|------|-----|------|-----|---|
| 4 (a)  | <p data-bbox="324 272 1178 336">Using Fig. 2, describe how Russia's current account position differed from that of the other countries shown.</p> <table border="1" data-bbox="349 539 972 783"> <thead> <tr> <th colspan="2" data-bbox="349 539 972 603">Current account balance of selected countries , 2007</th> </tr> </thead> <tbody> <tr> <td data-bbox="349 603 658 643">China</td> <td data-bbox="665 603 972 643">10.9</td> </tr> <tr> <td data-bbox="349 643 658 683">Russia</td> <td data-bbox="665 643 972 683">5.6</td> </tr> <tr> <td data-bbox="349 683 658 722">Japan</td> <td data-bbox="665 683 972 722">4.7</td> </tr> <tr> <td data-bbox="349 722 658 762">UK</td> <td data-bbox="665 722 972 762">-3.3</td> </tr> <tr> <td data-bbox="349 762 658 783">USA</td> <td data-bbox="665 762 972 783">-5.5</td> </tr> </tbody> </table> <p data-bbox="324 884 1178 1018">1 mark for Russia had a current account surplus, whereas the UK and/or US had a deficit.<br/>1 mark for Russia had a smaller percentage surplus than China.<br/>1 mark for Russia had a larger percentage surplus than Japan.</p> | Current account balance of selected countries , 2007 |           | China | 10.9 | Russia | 5.6 | Japan | 4.7 | UK | -3.3 | USA | -5.5 | (3) | <p data-bbox="1388 272 2072 440">Nothing for higher or lower, negative or positive, minuses or pluses.<br/>But allow e.g. Russia exported more than it imported, whereas UK imported more than it exported.</p> |
| Current account balance of selected countries , 2007 |   |  |           |       |      |        |     |       |     |    |      |     |      |     |   |
| China  | 10.9  |  |           |       |      |        |     |       |     |    |      |     |      |     |   |
| Russia   | 5.6   |  |           |       |      |        |     |       |     |    |      |     |      |     |   |
| Japan  | 4.7   |  |           |       |      |        |     |       |     |    |      |     |      |     |   |
| UK   | -3.3  |  |           |       |      |        |     |       |     |    |      |     |      |     |   |
| USA  | -5.5  |  |           |       |      |        |     |       |     |    |      |     |      |     |   |

| Question | Expected Answer   | Marks | Rationale  |
|----------|---|-------|--|
| (b)      | <p><b>Comment on the effectiveness of <u>one</u> supply side policy in improving a country's current account position.</b></p> <p>1 mark for identifying a measure eg government spending on education, privatisation, a cut in income tax, subsidies.<br/>Up to 3 marks for explaining how a supply side measure could improve a country's current account position:</p> <ul style="list-style-type: none"> <li>• improved education should improve labour productivity</li> <li>• higher labour productivity may cut costs and make exports more price competitive</li> <li>• increase in export revenue would reduce the gap between export revenue and import expenditure.</li> <li>• import expenditure may be reduced due to improved productivity</li> </ul> <p>Up to 3 marks for evaluation of the likely effectiveness of how one supply side measure could improve a country's current account position:<br/>Evaluative comments may include:</p> <ul style="list-style-type: none"> <li>• the existence of a time lag</li> <li>• more spending on education will not necessarily improve educational performance</li> <li>• costs of production will not fall if wages rise by more than productivity</li> <li>• lower export prices may not raise export revenue if incomes abroad are falling</li> <li>• increased output may boost import spending – this is a deterioration</li> </ul> | (7)   | <p><b>Do not reward import restrictions.</b><br/><b>If a candidate identifies a factor that would increase aggregate supply, e.g. R &amp; D, investment or technology without specifically identifying a policy measure they can still gain up to a maximum of 6 marks.</b><br/><b>If identified interest rate as the policy then they must relate to stimulating investment to gain any marks.</b><br/><b>In deciding whether or not it is a supply side policy, the test is will it shift the AS curve to the right?</b><br/><b>Nothing for the assumption that higher output equals an improved current account position.</b><br/><b>Up to 3 marks, 1 for identification and up to 2 for explanation, if the candidate does not relate to the current account.</b><br/><b>To access evaluation marks, the candidate must be analysing the effect on the current account position.</b></p> |

| Question | Expected Answer  | Marks | Rationale   |
|----------|--|-------|---|
| 5 (a)    | <p><b>Consumer expenditure is one of the components of aggregate demand.</b><br/> <b>Identify <u>three</u> of the other components.</b></p> <p>1 mark each for investment, government spending, exports and imports.</p>   | (3)   | <p><b>Net exports/trade balance without reference to both imports and exports = 1 mark.</b></p> |
| (b)      | <p><b>Comment on the effectiveness of cutting income tax to increase consumer expenditure.</b></p> <p>Up to 2 marks for explaining how a cut in income tax may increase consumer expenditure.<br/> 1 mark for explaining it will raise disposable income.<br/> 1 mark for explaining disposable income is income after the deduction of income tax (plus state benefits).<br/> 1 mark for explaining that higher disposable income will enable people to spend more.</p> <p>Up to 4 marks for evaluating whether consumer expenditure will rise:<br/> eg,</p> <ul style="list-style-type: none"> <li>• it will be influenced by how much income tax is cut.</li> <li>• consumers may not spend more if pessimistic about the future.</li> <li>• spending on imports may rise.</li> <li>• it may be offset by other factors, e.g. a rise in the interest rate.</li> </ul> | (6)   | <p><b>Up to 3 marks for one evaluative point well explained.</b></p>                            |

| Question | Expected Answer   | Marks | Rationale  |
|----------|---|-------|--|
| (c)      | <p><b>State and explain <u>two</u> other causes of an increase in consumer expenditure.</b></p> <p>1 mark for each of each two causes identified, eg fall in the rate of interest, increase in consumer confidence, rise in wealth, general increase in income.</p> <p>Up to 2 marks for each of two explanations of a relevant cause identified, eg a fall in the interest rate will encourage borrowing, discourage saving and increase discretionary income.</p> | (6)   | <p><b>Need the idea of change – if not then a maximum of 2 for each cause. (Note ‘consumer confidence’ implies positive change.)</b></p> <p><b>Be generous if the candidate mentions a fall in the exchange rate - up to 2 marks.</b></p> <p><b>Two causes identified in any one sub-part should be awarded where there is no other relevant cause in the other sub-part.</b></p> <p><b>Nothing for an answer on the causes of a decrease in consumer expenditure.</b></p> |

| Question | Expected Answer  | Marks | Rationale  |
|----------|--|-------|--|
| 6        | <p><b>Discuss the extent to which an increase in aggregate demand may affect output, unemployment and inflation.</b></p> <p>This question requires a discussion of the possible impact of an increase in aggregate demand on output, unemployment and the price level/inflation.</p> <p><i>An increase in aggregate demand would be expected to encourage firms to increase their output. To produce a higher output, firms may take on more workers which may reduce unemployment. Higher AD may lead to a rise in the price level. Answers should recognise that the impact of higher AD will depend on a number of factors. For example, higher AD may not raise output or affect the price level if there is considerable spare capacity.</i></p> <p><b>L4 For a discussion of how an increase in AD may affect output, unemployment and inflation (13-18)</b></p> <p>Answers should evaluate the possible impacts of an increase in AD on output, unemployment and inflation.</p> <p>Examples of possible L4 answers:</p> <ul style="list-style-type: none"> <li>• The effect that an increase in AD has on output (real GDP), unemployment and inflation will depend on the size of the change. A larger increase is likely to have more of an impact than a small increase.</li> <li>• The final effect of an increase in AD may be greater than the initial increase due to the multiplier effect.</li> <li>• The impact will depend on the degree of spare capacity in the economy. If an economy is initially operating with considerable unemployment, an increase in AD may raise output and reduce unemployment but have no effect on the price level. In contrast, if the economy is operating close to full employment, the impact may just be on the price level.</li> <li>• An increase in AD may also increase AS if it results from, e.g. an increase in investment or an increase in government spending on</li> </ul> | (18)  | Evaluation must be underpinned with relevant analysis. |



| Question | Expected Answer   | Marks | Rationale   |
|----------|---|-------|---|
|          | <p>education and training. In this case, an economy can experience both actual and potential economic growth.</p>   |       |   |
|          | <ul style="list-style-type: none"> <li>• Higher AD may be met by workers working overtime, an increase in labour saving investment and so unemployment may not fall.</li> <li>• If AD does not rise in line with an increase in potential output (AS), unemployment may rise.</li> </ul> <p>For 16 - 18 marks, the discussion must have some depth to the factors influencing the effect, changes in AD and their relative importance. For 13-15 marks, a discussion that does evaluate but which lacks some depth or is relatively narrowly focused.</p> <p>Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling punctuation and grammar.</p> <p><b>L3 For an analysis of how an increase in AD may affect output, unemployment and inflation. (9 – 12)</b></p> <p>Answers should analyse the links between AD and output, unemployment and inflation.</p> <p>Examples of possible L3 answers:</p> <ul style="list-style-type: none"> <li>• the inclusion of an AD/AS diagram showing how a shift to the right may affect output and the price level with some supporting statements.</li> <li>• an increase in AD will mean more spending in an economy. Higher spending may encourage firms to increase their output. Higher output (real GDP) may encourage firms to take on more workers.</li> <li>• higher AD may result in demand-pull inflation with excess demand, pulling up prices.</li> </ul> <p>For 11+, there should be some depth of analysis covering output,</p> |       | <p><b>For 18 marks, a candidate must have two good evaluative arguments, or three reasonable evaluative arguments, or one good evaluative argument, one reasonable evaluative argument and one brief evaluative argument.</b></p> <p><b>For 16 marks, a candidate must have one good evaluative argument, plus one brief evaluative argument, or two reasonable evaluative arguments.</b></p> <p><b>12 marks for a reasonably accurate macro diagram plus at least two changes analysed.</b></p> <p><b>11 marks for a reasonably accurate macro diagram plus one change analysed.</b></p> <p><b>10 marks for a reasonably accurate macro diagram plus identification of at least two changes.</b></p> <p><b>9 marks for a reasonably accurate macro diagram. NB. If diagram provided is entirely micro, do not give credit.</b></p> |

| Question | Expected Answer   | Marks | Rationale   |
|----------|---|-------|---|
|          | <p>unemployment and inflation.</p> <p>For 9-10 marks there may be some lack of depth, for instance, the impact on only one or two of the variables may be considered.</p>   |       | <p><b><u>Without a diagram</u></b></p> <p><b>12 marks for good analysis of impact on at least two of the variables.</b></p> <p><b>11 marks for good analysis of impact on one of the variables and identification of the impact on one of the other variables.</b></p> <p><b>10 marks for basic analysis of the impact on one variable, plus identification of the impact on at least one other variable.</b></p> <p><b>9 marks for basic analysis of the impact on one of the variables.</b></p> |
|          | <p>Relatively straightforward ideas have been expressed with clarity and fluency.<br/>Arguments are generally relevant, though may stray from the point of the question.<br/>There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.</p> <p><b>L2 For an application of knowledge and understanding of how an increase in AD may affect output, unemployment and inflation. (5 - 8)</b></p> <p>Answers should recognise how an increase in AD may be expected to affect output, unemployment and inflation.</p> <p>Examples of possible L2 answers:</p> |       | <p><b>8 marks for recognising the effect on the three variables, plus limited application to one, e.g. higher output can create jobs.</b></p>   |

| Question | Expected Answer  | Marks | Rationale   |
|----------|--|-------|---|
|          | <ul style="list-style-type: none"> <li>• an increase in AD may cause an increase in the output of the economy (real GDP).</li> <li>• an increase in AD may reduce unemployment.</li> <li>• an increase in AD may cause a rise in the price level/inflation.</li> </ul> <p>For 7-8 marks, the answer should recognise the effect(s) of higher AD on output, unemployment and inflation.</p> <p>For 5-6 marks, answers may recognise the effect(s) of higher AD on one or two of the variables.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar of which may be noticeable and intrusive.</p> <p><b>L1 For knowledge and understanding of aggregate demand. (1 – 4)</b></p> <p>These answers will show some awareness of the terms.</p> <p>Examples of L1 answers:</p> <ul style="list-style-type: none"> <li>• AD is the total demand for products produced in the economy.</li> <li>• AD consists of <math>C + I + G + (X - M)</math>.</li> <li>• an increase in AD may be caused by a rise in any of the components of AD</li> </ul> <p>For 3-4 marks there will be both knowledge and understanding of AD and one of the variables only.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.</p> |       | <p><b>7 marks for recognising the effect on the three variables.</b></p> <p><b>6 marks for recognising the effect on two variables.</b></p> <p><b>5 marks for recognising the effect on one variable.</b></p> |

# Grade Thresholds

Advanced GCE Economics (H061 H461)  
June 2009 Examination Series

## Unit Threshold Marks

| Unit |     | Maximum Mark | A  | B  | C  | D  | E  | U |
|------|-----|--------------|----|----|----|----|----|---|
| F581 | Raw | 60           | 45 | 40 | 35 | 30 | 26 | 0 |
|      | UMS | 100          | 80 | 70 | 60 | 50 | 40 | 0 |
| F582 | Raw | 60           | 49 | 44 | 39 | 35 | 31 | 0 |
|      | UMS | 100          | 80 | 70 | 60 | 50 | 40 | 0 |

## Specification Aggregation Results

Overall threshold marks in UMS (i.e. after conversion of raw marks to uniform marks)

|      | Maximum Mark | A   | B   | C   | D   | E  | U |
|------|--------------|-----|-----|-----|-----|----|---|
| H061 | 200          | 160 | 140 | 120 | 100 | 80 | 0 |

The cumulative percentage of candidates awarded each grade was as follows:

|      | A     | B     | C     | D     | E     | U   | Total Number of Candidates |
|------|-------|-------|-------|-------|-------|-----|----------------------------|
| F581 | 22.89 | 41.38 | 58.06 | 71.36 | 80.52 | 100 | 6708                       |
| F582 | 19.76 | 37.98 | 57.70 | 71.34 | 81.75 | 100 | 9922                       |

**6443 candidates aggregated this series**

For a description of how UMS marks are calculated see:  
[http://www.ocr.org.uk/learners/ums\\_results.html](http://www.ocr.org.uk/learners/ums_results.html)

Statistics are correct at the time of publication.

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