# Mark scheme
# June 2002

# GCE

# Economics

# Unit ECN2

**AQA Advanced Subsidiary Economics**

**June 2002**                                                                 **ECN2/1**

This component is an objective test for which the following list indicates the correct answers used in marking the candidates' responses.

## KEY LIST

| | | | |
|---|---|---|---|
| 1. | C | 14. | A |
| 2. | B | 15. | A |
| 3. | D | 16. | C |
| 4. | C | 17. | B |
| 5. | A | 18. | B |
| 6. | D | 19. | D |
| 7. | B | 20. | D |
| 8. | C | 21. | A |
| 9. | A | 22. | B |
| 10. | B | 23. | C |
| 11. | C | 24. | A |
| 12. | D | 25. | C |
| 13. | D | | |

**June 2002**                                                            **ECN2/2**

## Advanced Subsidiary Economics

## Mark Scheme

**General Instructions**

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

(i)     **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 18 of this mark scheme.

(ii)     **A 'levels' approach.** This approach is used for marking part (c) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the four Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 17. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 18. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

## APPLYING THE 'LEVELS' MARK SCHEME

### Levels of Response Mark Band Descriptors

In part (c) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can 'evaluate economic arguments and evidence, and make informed judgements'. It is not necessary that the candidate identifies a wide range of issues. As indicated below the quality of written communication used should be taken into account when awarding the marks.

**Level 1**
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar are likely to be poor. There is little use of economic terminology.                                    **0 to 5 marks**

**Level 2**
One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused. There will be some attempt to present alternative points of view. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.                                    **6 to 10 marks**

**Level 3**
Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. The candidate will present alternative points of view and there will be some attempt to evaluate the issues, arguments and/or data. Some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.
                                    **11 to 15 marks**

**Level 4**
Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.                                    **16 to 20 marks**

## THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

**D**      Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

**I**      Where a relevant **ISSUE** is raised by the candidate.

**K**      Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question.   This should also be used where the candidate quotes relevant examples.

**Ap**      Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

**A**      Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

**E**      Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

## QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose.   When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i)      use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii)      use of specialist vocabulary, where appropriate;
(iii)      legibility of handwriting;
(iv)      accuracy of spelling, punctuation and grammar.

**EITHER**

**1**                                                                    **Total for this question:** *35 marks*

> 1 (a) What is meant by the phrase "a permanent increase in the underlying trend rate of growth"
> (**Extract A**,line 10)?                                                                 *(5 marks)*

**For candidates who:**

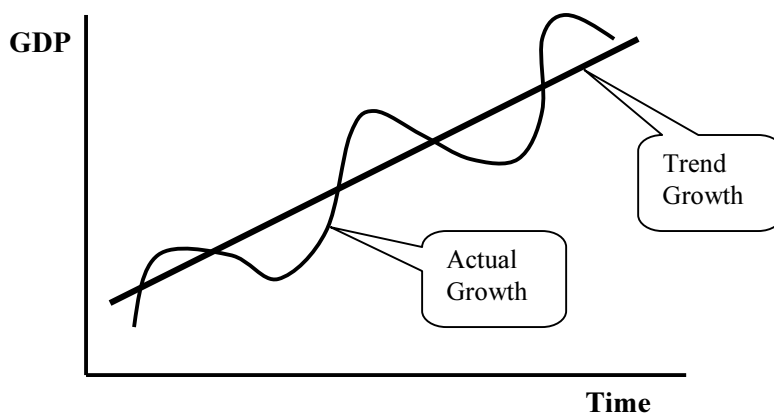| | |
|---|---|
| explain that growth is the annual percentage increase in productive capacity (or output) | **Up to 2 marks** |
| state (or illustrate) that growth can be represented by a rightward shift in the PPC or the LRAS curve | **1 mark** |
| state that growth is normally measured using GDP (or GNP, NNP or National Income) | **1 mark** |
| state that growth is measured using **REAL** GDP | **1 mark** |
| explain that the 'underlying trend' refers to the annual average rate of growth taken over a period of years (i.e. in the long run) | **Up to 2 marks** |
| draw a diagram to illustrate what is meant by the 'underlying trend rate of growth' | **Up to 2 marks** |



| | |
|---|---|
| explain that to measure the underlying trend rate of growth it is necessary to compensate for changes in unemployment (or capacity utilisation) | **Up to 2 marks** |
| explain that the phrase implies that the long run average rate of growth of productive capacity is now higher than it was a few years ago | **Up to 2 marks** |

**Candidates should be awarded full marks if it is clear from their explanation that they fully understand the difference between the annual rate of growth and the trend rate of growth.**

**MAXIMUM FOR PART (a)   5 MARKS**

1 (b) (i)   To what extent do the data in **Table 1** support the view that there has been a permanent increase in
            the underlying trend rate of growth of the United Kingdom economy?          *(4 marks)*

**For candidates who:**

state that the annual average rate of growth over the period 1996 to 2000 (quarter 2)
is above the trend rate quoted in the passage (i.e. 2% to 2.5%)                              **1 mark**

state that over this period the annual average rate of growth was approximately 2.8%         **1 mark**

recognise that this may not be a long enough period of time to obtain an
accurate measure of the trend growth rate                                                    **1 mark**

explain that some of the increase in output may have been due to the
reduction in unemployment that has occurred and that this could indicate
that actual growth (as indicated by the % increase in GDP) is higher than
the underlying trend rate of growth                                                    **Up to 3 marks**

explain that the higher rate of growth of output has been achieved without
generating excessive inflation.  This may indicate that capacity has been
increasing sufficiently to cope with the higher growth of aggregate demand,
supporting the view that there might have been an increase in the underlying
trend rate of growth.                                                                  **Up to 3 marks**

draw a reasonable conclusion from their discussion                                     **Up to 2 marks**


**MAXIMUM FOR PART (b) (i)   4 MARKS**

AQA

> 1 (b)(ii) Explain **two** factors that might have caused an increase in the underlying trend rate of growth of the United Kingdom economy. *(6 marks)*

**For candidates who:**

explain how an increase in investment in capital equipment might increase
the trend rate of growth                                                                    **Up to 4 marks**

explain how a more rapid improvement in technology (e.g. ICT) might
increase the trend rate of growth                                                           **Up to 4 marks**

explain how an increase in education and training might increase the
trend rate of growth                                                                        **Up to 4 marks**

explain how an increase in the size of the working population might
increase the trend rate of growth (**or** a fall in the equilibrium/long run
rate of unemployment)                                                                       **Up to 4 marks**

explain how the discovery and exploitation of new resources (e.g. North
Sea Oil) might increase the trend rate of growth                                            **Up to 4 marks**

Other factors such as better management, inward investment from overseas etc. might also be mentioned by some candidates and should be rewarded. Candidates can also be rewarded for discussing the impact of supply side polices on growth (e.g. privatisation, reductions in taxation to increase incentives).

If a candidate mentions **improvements in productivity** as a separate factor that affects the trend rate of growth then they should be rewarded, provided it does not involve repetition.

**Candidates should be awarded 1 mark for identifying a factor that influences the trend rate of growth and up to a further 3 marks for explaining why it affects the trend growth rate. A list, without any explanation or analysis, should be awarded a maximum of 2 marks.**

If a candidate mentions and/or explains **more than two factors** then the best two explanations should be awarded marks and the other factors ignored.

Candidates who discuss factors such as **increasing aggregate demand and falling unemployment**, which affect the annual rate of growth rather than the underlying rate of growth, can be awarded **up to 2 marks.**

**MAXIMUM FOR PART (b) (ii)   6 MARKS**

> 1 (c) Assess the possible consequences of **both** "the slowdown in the United States economy" **and** "the continued increase in oil prices" (**Extract A**, lines 5-6) for the United Kingdom economy.  *(20 marks)*

Candidates will need to consider **both** the effect of the slowdown in the United States economy **and** higher oil prices. The question requires that they "*assess the possible consequences*" and so they should be making judgements relating to the significance of these events and the various ways in which they might affect the economy. The best candidates are likely to assess the combined effect of the two events. Candidates who do not include any evaluation must not be awarded more than 13 marks.

**Issues and areas for discussion:**

The slowdown in the United States economy:

- the United States as the world's largest economy
- the United States as a market for United Kingdom exports
- exports as a component of aggregate demand
- possible multiplier effects
- the impact on output and employment
- consequences for manufacturing
- impact on investment and growth
- the effect on inflation
- consequences for the balance of payments and the exchange rate
- possible government policy response

The increase in oil prices:

- oil as a factor of production
- rising oil prices raise firms' costs, e.g. transport, plastics, power generation etc.
- rising oil prices may lead to cost based inflationary pressure
- analysis of the cost push inflationary process
- diagrammatic analysis of cost push inflation
- oil and energy costs represent a relatively small percentage of firms' total costs compared to labour costs
- higher petrol prices may lead to higher wage demands
- rising oil prices take demand away from other products (possibly a withdrawal from the circular flow of income as spending on imports rises)
- impact on confidence
- micro-economic effects of rising oil prices on different sectors of the economy
- United Kingdom as an oil producer
- firms may invest in other sources of energy
- impact on the balance of payments
- impact on the exchange rate

**If candidates only consider the possible effect of higher oil prices *or* the slowdown in the United States economy they can be awarded up to a maximum of 12 marks**

**USE  THE  LEVELS  MARK  SCHEME  ON  PAGES  17 AND 18**

**MAXIMUM FOR PART (c)    20 marks**

**OR**

**2**                                                    **Total for this question:** *35 marks*

> 2 (a) Explain what is meant by the term 'investment', illustrating your answer with examples from **both** the manufacturing **and** service sectors of the economy.                    *(5 marks)*

**For candidates who:**

state that investment is an injection into the circular flow of income                    **1 mark**

explain that investment expenditure involves the purchase of capital goods
(e.g. plant, machinery, buildings, vehicles)                                              **Up to 2 marks**

explain that capital is a factor of production and that capital goods are purchased
to help produce other goods and services                                                 **Up to 2 marks**

distinguish between gross and net investment                                             **1 mark**

explain that (net) investment represents the addition to the capital stock
and that it increases productive capacity (or productivity)                              **Up to 2 marks**

explain that investment could be in human capital and explain the
phrase *investment in human capital*                                                     **Up to 2 marks**

provide a reasonable example of investment in the manufacturing sector
(e.g. new piece of machinery, extension to a factory)                                    **1 mark**

provide a reasonable example of investment in the service sector
(e.g. new computer, refurbish premises, new delivery vehicle)                            **1 mark**

**Note:**     Accept the introduction of new technology as an example of investment.

**Award a maximum of 3 marks if examples are not provided.**

If a candidate shows clear understanding of what is meant by 'investment' **and** includes **two** suitable examples, one from the manufacturing sector and another from the service sector, they should be awarded **5 marks**.

**MAXIMUM FOR PART (a)     5 MARKS**

2 (b) (i)   To what extent do the data support the view that investment as a proportion of national income is increasing in the United Kingdom?    *(4 marks)*

**For candidates who:**

state that the general trend was for investment to increase as a
percentage of GDP/National Income    **1 mark**

support the above statement by quoting figures from the table
(e.g. 16.8% to 19.0%)    **1 mark**

state that investment has not increased in relation to GDP throughout
the whole period (i.e. between 1991 and 1994/5 investment fell as a
percentage of GDP) **AND/OR** state that in 2000 there was a small fall in
investment as a percentage of GDP (19.1% to 19.0%)    **1 mark**

point out that the extract from the article by Geoff Tiley shows the rate
of increase in investment slowing from 10.1% to 2.6%    **1 mark**

compare and contrast the trends for investment in the service and
manufacturing sectors of the economy    **Up to 2 marks**

recognise that investment spending is fairly volatile and is very
dependent on the state of the economy and expectations of the future    **Up to 2 marks**

conclude that the data does lend some support to the view that
investment has increased as a percentage of national income
but it is far from conclusive    **Up to 2 marks**

**Candidates who do not refer to the data in Table 2 should be restricted to a maximum of 2 marks.**

**MAXIMUM FOR PART (b) (i)    4 MARKS**

AQA

2 (b)(ii)   Explain **two** factors that are likely to affect the level of aggregate investment.        *(6 marks)*

There is a variety of factors that candidates might identify and explain, some of which are mentioned in the data.

**For candidates who identify and explain the influence of:**

- interest rates and/or the cost of capital
- expected rate of return (or the marginal efficiency of capital)
- company profits
- expectations and producer confidence
- degree of spare capacity
- changes in national income (or aggregate demand) – (some may mention the accelerator)
- availability of finance
- changes in technology
- the extent of government support (e.g. subsidies, tax relief, levels of corporation tax etc.)
- multi-national companies' views of the state of the United Kingdom economy and its prospects
- the exchange rate, provided the explanation is sound (e.g. linked clearly to overseas investment).

**Candidates should be awarded 1 mark for identifying a factor that influences firms' investment decisions and up to a further 3 marks for explaining why the factor affects investment. A list, without any explanation or analysis, should be awarded a maximum of 2 marks.**

If a candidate mentions and/or explains **more than two factors** then the best two explanations should be awarded marks and the other factors ignored.

Credit should only be given if the factor identified affects AGGREGATE investment (e.g. the amount of competition is not a relevant influence).

**MAXIMUM FOR PART (b) (ii)    6 marks**

> 2 (c) Assess the possible effects of the changes in investment expenditure, shown in **Table 2**, for the performance of the United Kingdom economy. *(20 marks)*

Candidates will need to refer to the data when constructing their answers to this part of the question. For example, they should consider the possible consequences of the fall in investment (as a percentage of GDP) in the early part of the 1990s and the rise in investment after 1995. They might discuss how this contributed to fluctuations in aggregate demand, output and employment. The best candidates are likely to consider the effects of changes in investment on both aggregate demand and productive capacity.

Candidates are likely to conclude that the fall in investment (as a percentage of GDP) in the early 1990s, was likely to have been damaging for the performance of the economy in both the short run and the long run. Whereas the increase in investment post 1995 is likely to have improved the performance of the economy.

The use of AD/AS analysis should be rewarded.

Candidates who do not include any evaluation must not be awarded more than 13 marks.

**Issues and areas for discussion:**

- investment as a component of aggregate demand
- the multiplier effect
- aggregate demand, output, employment and unemployment
- the volatility of investment spending and the significance of this for the performance of the economy
- investment and the supply side performance of the economy
- investment as a factor that affects productive capacity and contributes to economic growth
- investment, productivity and efficiency
- the importance of investment for the development and production of new products
- the importance of investment for competitiveness
- investment as a possible cause of structural unemployment in the short run
- the importance of investment for creating and preserving jobs in the long run
- investment and inflation (short run and long run)
- investment and the balance of payments
- investment in human capital and its effects on the economy
- differences between the service and manufacturing sectors (they might pick up on the data provided in the texts)
- overseas investment – advantages and disadvantages (picking up on the textual material)
- the opportunity cost of investment
- the environmental impact of increases in investment

**If a candidate discusses the CAUSES of investment rather than the effects, a maximum of 3 marks can be awarded (Level 1).**

**USE THE LEVELS MARK SCHEME ON PAGES 17 AND 18**

**MAXIMUM FOR PART (c)   20 MARKS**

AQA