

# GCE 2005

## *January Series*



# Mark Scheme

## Economics

ECN2/1 & ECN2/2  
The National Economy

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Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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**AQA Advanced Subsidiary Economics****January 2005****ECN2/1**

The following list indicates the correct answers used in marking the candidates' responses.

**KEY LIST**

<b>1.</b>	<b>C</b>	<b>9.</b>	<b>B</b>
<b>2.</b>	<b>A</b>	<b>10.</b>	<b>D</b>
<b>3.</b>	<b>B</b>	<b>11.</b>	<b>A</b>
<b>4.</b>	<b>C</b>	<b>12.</b>	<b>C</b>
<b>5.</b>	<b>A</b>	<b>13.</b>	<b>A</b>
<b>6.</b>	<b>A</b>	<b>14.</b>	<b>D</b>
<b>7.</b>	<b>D</b>	<b>15.</b>	<b>B</b>
<b>8.</b>	<b>C</b>		

**Advanced Subsidiary Economics****January 2005****ECN2/2****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 6 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 five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 5. 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 6. 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 may be poor. There is little use of economic terminology.

**0 to 3 marks***Mid-Point: 2 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 may be some attempt to present alternative points of view but any attempt at evaluation is superficial. 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.

**4 to 6 marks***Mid-Point: 5 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. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. There is 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.

**7 to 10 marks***Mid-Point: 9 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.

**11 to 13 marks***Mid-Point: 12 marks***Level 5**

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good 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 clearly expressed. Appropriate use is made of relevant economic terminology.

**14 to 15 marks***Mid-Point: 15 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 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 THE BALANCE OF PAYMENTS****Total for this question: 25 marks**

- 1 (a) Using **Extract A**, describe the main changes in the UK balance of payments on current account for the period 1995 to 2002. *(4 marks)*

**Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data):**

the balance of payments on current account is quite volatile over the period

for most of the period, the current account is in deficit

the best performance on current account is 1998, the worst, at the end of 2000

the current account performance by 2002 is only marginally worse than that at the beginning of the period

1998 sees the most significant change in the current account of all the years shown

any other valid comment

A maximum of **2 marks** may be awarded if there is no use of statistics to support the points made or if candidates simply trawl through the data.

A maximum of **3 marks** may be awarded where there is evidence of an overview being taken even though parts of the answer give the impression of a trawl through the data.

**MAXIMUM FOR PART (a) 4 MARKS**

1 (b) i) From the data provided in **Extract B**, calculate the balance of trade in services for 2001 **and** the balance on current account for 2002. (2 marks)

The balance of trade in services for 2001 + £11.3bn **1 mark**  
 The balance on current account for 2002 - £8.6bn **1 mark**

If +/- signs are omitted but **both** answers are otherwise correct, award **1 mark**

The absence of a + sign for 2001, but with a - sign included for 2002 and **both** answers correct, award **2 marks**

If the +/- signs are reversed but **both** answers are otherwise correct, award **1 mark**

If £bn is omitted, award **1 mark**

If working shown is correct, but the final answers are incorrect **1 mark**

**MAXIMUM FOR PART (b) i) 2 MARKS**

1 (b) ii) Explain **one** way in which “the over-valuation of the pound” (**Extract C**, line 8) might have contributed to the deficits in the balance of trade in goods shown in **Extract B**. (4 marks)

**For candidates who:**

explain the term “over-valuation”, e.g. a rise in value against other currencies which is generally regarded as excessive **1 mark**

explain the term “balance of trade in goods” **1 mark**

refer without development to the impact on export prices **and** import prices **2 marks**

explain the likely impact of an over-valued pound on export prices and hence competitiveness, perhaps with a numerical example **up to 4 marks**

explain the likely impact of an over-valued pound on import prices and hence the flow of imports, perhaps with a numerical example **up to 4 marks**

explain the potential significance of elasticity conditions to the above (NB This is an A2 topic and so it may be unlikely for candidates to include it.) **up to 4 marks**

While reference to the data should be given due credit, candidates who do not go beyond simply copying from Extract C should be awarded a maximum of **1 mark**

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

**MAXIMUM FOR PART (b) IN TOTAL 6 MARKS**



- 1 (c) Evaluate the possible effects on the UK balance of payments on current account of a “slowdown in the global economy” (**Extract C**, line 2). (15 marks)

The data offer some guidance on what could be discussed and it is expected that candidates will be able to develop these points, with some evaluative comments, to arrive at an appropriate conclusion.

### Evaluation

Candidates will need to demonstrate that they are able to evaluate issues and arguments if they are to be awarded **more than 7 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *In the context of this question they might, for example, comment that the effects may depend on the severity of the slowdown, its duration, where in the world it is most evident, whether it is hitting different parts of the world at different times. Elasticity conditions affecting exports and imports may be commented upon, as might the significance of exporters’ responses to the tougher market conditions (e.g. lowering prices, strengthening non-price competition) and to the degree of reliance on trade. Some comparison of the effects on the trade in goods and trade in services may also be made.*

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward the more implicit evaluation; i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented.

### Issues and areas for discussion:

- the composition of the current account
- the nature of an economic slowdown
- recent global developments
- the potential impact on the UK economy generally
- the potential impact on UK exports
- the consequent effect on the value of the pound ( Extract C, lines 12-13) and therefore perhaps on competitiveness, possibly offering opportunities in export markets even in a slowdown
- overseas suppliers, more desperate to sell as domestic markets falter, lower prices and imports to UK become more attractive, even given the impact of any depreciation in the pound’s value
- the impact of the slowdown and exporting difficulties on the UK economy (GDP, jobs, income, spending power etc) and hence the demand for imports
- the weakening export-led multiplier, perhaps causing inflation to fall, allowing improved competitiveness
- the impact on the trade in services (e.g. the effect on the overseas demand for UK financial services, on tourism) and hence this part of the current account not being able to make its significant contribution to balancing the weakness of the trade in goods
- the potential for the dumping of goods on the UK market – increased imports
- the possibility of a scenario in which the UK is not part of the global slowdown, the pound remaining strong, helping to “boost household spending power” (Extract C) causing imports to rise

- the 'Income' component of the current account: a fall in remittances from UK citizens working overseas as unemployment causes them to return home; the investment income component of the current account may be adversely affected by the global slowdown
- the impact of the slowdown on UK inflation and hence on competitiveness and the current account

**Also give credit for:**

- use of AD/AS diagrams, e.g. to illustrate changes in AD as export and import flows change, or to represent the impact on the global economy of a slowdown
- references to the data and/or the UK economy
- an overview of the issues raised; a final judgement

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

**USE THE LEVELS MARK SCHEME ON PAGES 5 & 6**

**MAXIMUM FOR PART (c) 15 MARKS**

**TOTAL FOR THIS QUESTION: 25 MARKS**

**OR**

**2 UK ECONOMIC PERFORMANCE**

**Total for this question: 25 marks**

- 2 (a) Using **Extract D**, compare the trends in productivity in the countries shown relative to the UK during the period 1991 to 2000. *(4 marks)*

**Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data):**

the USA shows the greatest absolute difference with the UK

France shows the greatest contrast with the UK

only Japan compares less favourably to the UK (and then only for part of the period i.e. 1998 to 2000)

the productivity gap between the UK and France/Japan has narrowed

the productivity gap between the UK and Germany /USA has remained relatively stable

any other valid point of comparison with the UK

A maximum of **1 mark** may be awarded if there is no comparison and a maximum of **2 marks** if there is no use of statistics to support the points made or if there is no understanding that these are relative values.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data, but **1 mark** if the trawl does not include any attempt at comparison with the UK.

A maximum of **3 marks** may be awarded where there is evidence of an overview being taken even though parts of the answer give the impression of a trawl through the data.

**MAXIMUM FOR PART (a) 4 MARKS**

- 2 (b) Using the data in **Extracts E and F** and your economic knowledge, explain **two** determinants of productivity in an economy. *(6 marks)*

**Up to 4 marks may be awarded for each explanation.**

Determinants of productivity include:

- increased competition encouraging innovation in methods of production
- increased investment
- new technology
- improved work practices and labour training
- a more highly skilled and/or more motivated workforce
- attitudes of labour to changes in the work place
- economic incentives
- greater mobility of resources from less productive to more productive uses
- stability in the macroeconomy (as long as the relevance of this to productivity is explained, e.g. greater confidence of business to invest in new technology)
- increased efficiency in such areas of the public sector as health and education
- encouragement to enterprise
- increased R&D spending

*Candidates could quite legitimately present a mirror reflection of these points to explain poor or declining productivity*

Where more than two determinants are explained, award marks to the best two explanations.

While reference to the data should be given due credit, candidates who do not go beyond simply copying from the extracts should be awarded a maximum of **1 mark**.

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

- 2 (c) Evaluate the contribution that “productivity growth” (**Extract F**, line 1) may make to the long term performance of the UK economy. (15 marks)

The data offer some guidance on what could be discussed both in terms of productivity and other determinants of long term economic performance, to allow an appropriate conclusion to be arrived at.

### Evaluation

Candidates will need to demonstrate that they are able to evaluate issues and arguments if they are to be awarded **more than 7 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *In the context of this question, they might, for example, argue that it is unlikely that any one factor such as productivity will be responsible for a significant improvement in long term performance. It might also be argued that the degree of improvement in productivity is important to consider; how we compare to our trading partners whatever improvement is witnessed in the UK; the significance of the rate of growth of demand when assessing the benefits of productivity growth; whether the growth can be/has been sustained or proves to be a one-off gain; the contribution of other factors to economic performance.*

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint, there is scope to reward the more implicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented.

### Issues and areas for discussion:

- explanation of productivity
- explanation of the phrase “long term performance of the UK economy” and what criteria might be adopted to measure it
- the benefits of rising productivity in terms of competitiveness and hence GDP growth and the balance of payments performance
- the possibility of the rate of growth of demand lagging behind the rate of growth of productivity and implications of this
- productivity and trend growth
- the impact of increased investment
- the multiplier process
- the impact of more abundant skilled labour
- the impact of new technology
- the impact of a more efficient public sector and the implications of better resource utilisation
- the significance of macroeconomic stability to long term performance
- the potential impact of higher productivity on inflation and the benefits to the economy of low inflation
- trends in consumer spending power in real terms – impact on AD and living standards
- productivity gains acting as an incentive to seek further gains
- impact on earnings
- assessment of gains when viewed against productivity trends in other countries
- assessment when viewed against other possible determinants of long term performance of the UK economy

**Also give credit for:**

- reference to the data and/or the UK economy
- use of AS/AD diagrams, e.g. showing the impact of increased productive potential and higher AD, arising, for example, from a more successful economy and a higher rate of growth of job creation and income
- an overview of the issues raised; a final judgement

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

Answers which do not make use of AS/AD analysis should not be awarded **more than 12 marks** (mid-Level 4).

**USE THE LEVELS MARK SCHEME ON PAGES 5 & 6**

**MAXIMUM FOR PART (c) 15 MARKS**

**TOTAL FOR THIS QUESTION: 25 MARKS**