



General Certificate of Education

Economics 5141

ECN2 The National Economy

Mark Scheme

2008 examination - January series

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 2008

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.	D	9.	D
2.	A	10.	D
3.	B	11.	B
4.	D	12.	A
5.	A	13.	A
6.	A	14.	D
7.	B	15.	C
8.	D		

Advanced Subsidiary Economics

January 2008

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 5 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 (e) 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 SUMMER OF 2006

Total for this question: 25 marks

1(a) Using Extract A , identify two main features in the consumer sales data for the period April to August 2006. <i>(4 marks)</i>

Award up to 2 marks for each of two valid points made (one mark for identification and one mark for supporting reference(s) to the data). For example:

the range of change, taking the data in their entirety, is to be found in non-food retailing (-0.3 to +2.6)

only non-food retailing showed a negative quarterly change

the best quarterly change for all retailing was that shown for June, the worst in April

while food retailing showed its best growth as shown in the figure for August, for non-food retailing it was June

all three had their worst quarterly change as shown in the figures for April

food retailing shows a rising rate of change throughout the period in contrast to non-food retailing

the quarterly figures shown for August indicate the greatest similarity

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 or if the candidate shows no real understanding of what the data represents.

A maximum of **3 marks** may be awarded if there is some evidence of an overview even though part of the answer is something of a trawl.

Where a candidate has included more than two points, award marks to the best two points.

MAXIMUM FOR PART (a): 4 MARKS

1(b) **Extract B** (lines 10-11) refers to the multiplier process bringing ‘considerable benefits to aggregate demand and to jobs’. Explain how the multiplier process can help to bring about a fall in the rate of unemployment. *(6 marks)*

For candidates who:

define the multiplier and/or AD and/or unemployment

1 mark per definition to a maximum of 2 marks

explain the multiplier process, e.g. government spending is an injection (1 mark) into the circular flow (1 mark), and can be an injection into those sectors such as transport and construction which have strong multiplier effects (1 mark). Jobs and income will be created in those sectors (1 mark). As this income is spent it will benefit other sectors and so give a more general stimulus to employment and help reduce the rate of unemployment (1 mark). **up to 5 marks**

provide a simple numerical illustration of the multiplier process (note: this is not required in the AS specification) **up to 2 marks**

use examples to illustrate the multiplier process, taken from the data or otherwise **up to 2 marks**

use AD/AS diagrams to **support** the written explanation, e.g. a rightward shift in the AD curve to show the potential impact of the multiplier

up to 2 marks per diagram (1 mark for curve/axes labelling, 1 mark for the information shown) to a maximum of 3

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

MAXIMUM FOR PART (b): 6 MARKS

1(c) Using the data and your economic knowledge, evaluate the extent to which the events outlined in **Extract B** might have affected UK macroeconomic performance.
(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, candidates could relate the events and any adverse impact in the short term to the underlying strength of the economy; how enduring the impact of the events is perceived to be and whether or not this judgement proves faulty; the severity of action taken by the authorities; whether or not a particular set of events is succeeded by a new series of events of similar magnitude; the difficulty of knowing whether it was these events or some other occurrence which affected the economy.*

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint, there is scope to award 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 marks or more)** there needs to be more explicit evaluation 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.

To gain **Level 5** there must be reference to at least 3 relevant issues.

Candidates should be awarded a maximum of **12 marks** if there is no explicit reference to the data, e.g. numerical data (Extract A), rising consumer spending (Extract B), inflationary pressures (Extract B).

Issues and areas for discussion:

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.

- a review of events from the data
- macroeconomic performance criteria, e.g. economic growth, employment
- economic growth – actual and trend
- an outline of underlying causes of economic growth
- how the events of the summer of 2006 can be related to these underlying causes
- aggregate demand (AD)
- impact of events on AD
- the impact on prices
- the impact on employment/unemployment
- the impact on the balance of payments on current account
- short run v long run considerations

- business and consumer confidence
- the significance of international events
- the potential role of government on AD and aggregate supply (AS)
- the role of the Monetary Policy Committee (MPC)
- the impact of changes in interest rates
- the events in the context of the underlying strength/weakness of the economy
- the significance of what follows such a series of events
- how important these factors were compared to other occurrences

Also give credit for:

- use of diagrams
- reference(s) to the UK economy or other economies
- an overview of the issues raised; a final judgement

USE THE LEVELS MARK SCHEME ON PAGES 5 AND 6

MAXIMUM FOR PART (c): 15 MARKS

OR

2 AN UNBALANCED WORLD ECONOMY

Total for this question: 25 marks

2(a) Using **Extract C**, identify **two** main features in the balance of payments on current account in the economies shown for the period 2005 to 2007. *(4 marks)*

Award up to 2 marks for each of two valid points made (one mark for identification and one mark for supporting reference(s) to the data). For example:

the range of values of the deficits is 13.1 percentage points which occurred in 2007

the worst deficit is predicted to be experienced by the US economy (7.6% in 2007)

the strongest current account performance is indicated to be Japan (5.5% in 2007)

while the Japanese current account is continuously in surplus, the current accounts of the other economies are continuously in deficit

over the period, the US is the worst performing in terms of its current account

over the period, the euro area shows the lowest deficits

the economies' current account performance becomes more divergent over the period, i.e. the three deficits and one surplus all increase in value

an inverse relationship can be identified between the US and the euro area on the one hand and Japan on the other, i.e. for the US and the euro area, the deficits worsen when comparing 2005 and 2007, while for Japan, the surplus increases

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 or if the candidate shows no real understanding of what the data represents.

A maximum of **3 marks** may be awarded if there is some evidence of an overview even though part of the answer is something of a trawl.

Where a candidate has included more than two points, award marks to the best two points.

MAXIMUM FOR PART (a): 4 MARKS

2(b) **Extract D** (lines 22-24) refers to deflation in the Japanese economy allowing exports to become 'an important driver for economic growth'. Explain how falling prices might help to stimulate the economic growth of a country in this way. **(6 marks)**

For candidates who:

define exports and/or economic growth **1 mark per definition to a maximum of 2 marks**

explain the linkage between deflation, exports and economic growth, e.g. falling prices improve competitiveness (1 mark); exports may therefore be easier to sell in world markets (1 mark); exports are a component of AD/GDP (1 mark), and so, together with a multiplier process (1 mark), will achieve higher economic growth (1 mark). **up to 5 marks**

draw a contrast between deflation and inflation, explaining briefly how a country's rate of inflation can damage growth if the rate of inflation is greater than in major trading partners **up to 2 marks**

use AD/AS diagrams to **support** the written explanation. A number of AD/AS diagrams are possible to support an explanation, eg one which shows a leftward shift in AD and hence a falling price level; one which shows a rightward shift in AD as exports (a component of AD) begin to increase. **up to 2 marks per diagram (1 mark for curve/axes labelling, 1 mark for the information shown) to a maximum of 3**

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

MAXIMUM FOR PART (b): 6 MARKS

2(c) Using the data and your economic knowledge, evaluate the possible consequences for UK macroeconomic performance if the euro area and the US seek to reduce their balance of payments deficits on current account. (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, candidates could consider that the impact may depend on the severity of the euro area and US deficits which may determine the severity of the corrective measures; the ability/inability of the UK economy to absorb, what could be regarded as, an external economic shock; to what extent other UK markets are compensating for developments in the US/euro area economies; the benefits of cheaper imports for the UK economy; the duration of the policies introduced by the US/euro area, especially those affecting AD and the exchange rate; whether or not the efforts to reduce deficits in the euro area and the US are simultaneous.*

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint, there is scope to award 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 marks or more)** there needs to be more explicit evaluation 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. To gain Level 5 there must be reference to at least 3 relevant issues.

Candidates should be awarded a maximum of **12 marks** if there is no explicit reference to the data e.g. numerical data (Extract C), changes to exchange rates (Extract D), deflation in Japan (Extract D).

Issues and areas for discussion:

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.

- macroeconomic performance criteria
- explanation of 'deficit' in the context of the balance of payments on current account
- the economic significance of the US and the euro area to the UK and the rest of the world
- how the impact of euro area/US actions, by affecting other economies, could also indirectly affect the UK
- use of demand-management policies to reduce deficits
- use of exchange rate policy
- use of supply-side policies
- impact on UK economic growth
- impact on UK employment/unemployment

- impact on UK prices
- impact on the UK balance of payments
- impact on the exchange rate of the £
- the possible supply-side and/or the demand-side UK response to the greater competitiveness of euro area/US goods and services
- the severity of the US/Euro area current account problems
- the degree of effectiveness of remedial measures
- the underlying strength/weakness of the UK economy
- the extent to which, if at all, other UK markets compensate for any downturn in UK trade with the euro area and the US
- the benefits to the UK economy of cheaper goods, services, raw materials, components from the euro area/US
- the duration of the policies pursued by the US and euro area authorities

Also give credit for:

- use of diagrams
- reference(s) to the UK economy or other economies
- an overview of the issues raised; a final judgement

USE THE LEVELS MARK SCHEME ON PAGES 5 AND 6

MAXIMUM FOR PART (c): 15 MARKS

TOTAL FOR THIS QUESTION: 25 MARKS