

**Published Mark Schemes for  
GCE AS Economics**

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NORTHERN IRELAND GENERAL CERTIFICATE OF SECONDARY EDUCATION (NISE)  
AND NORTHERN IRELAND GENERAL CERTIFICATE OF EDUCATION  
MARK SCHEMES (2010)

Foreword

***Introduction***

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

***The Purpose of Mark Schemes***

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.

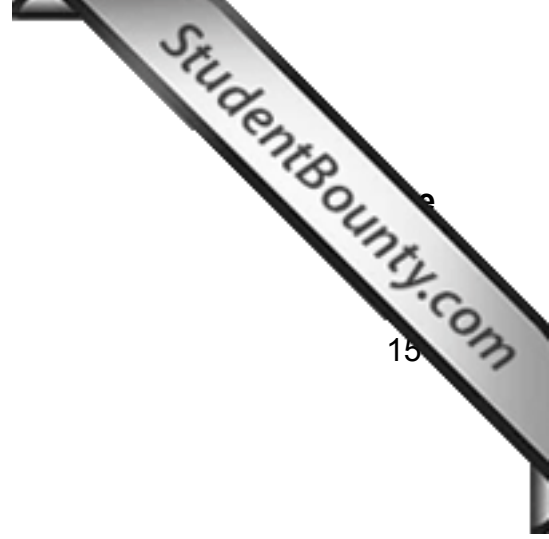


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New  
Specification



*Rewarding Learning*

**ADVANCED SUBSIDIARY (AS)  
General Certificate of Education  
January 2010**

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## **Economics**

**Assessment Unit AS 1**

*assessing*

**Markets and Prices**

**[AE111]**

**WEDNESDAY 13 JANUARY, AFTERNOON**

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# **MARK SCHEME**

## General Marking Instructions

These mark schemes are intended to ensure that the AS/A2 examinations are marked consistently and fairly. The mark schemes provide examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. They also set out the criteria which they should apply in allocating marks to candidates' responses. The mark schemes should be read in conjunction with these general marking instructions which apply to all papers.

### Quality of candidates' responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 17/18-year-olds which is the age at which the majority of candidates sit the AS/A2 examinations.

### Flexibility in marking

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

### Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 17/18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

### Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

### Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

**Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.



**High Performance:** Response which fully satisfies the level description and should be awarded at or near the top of the range.

### Marking calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

### Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

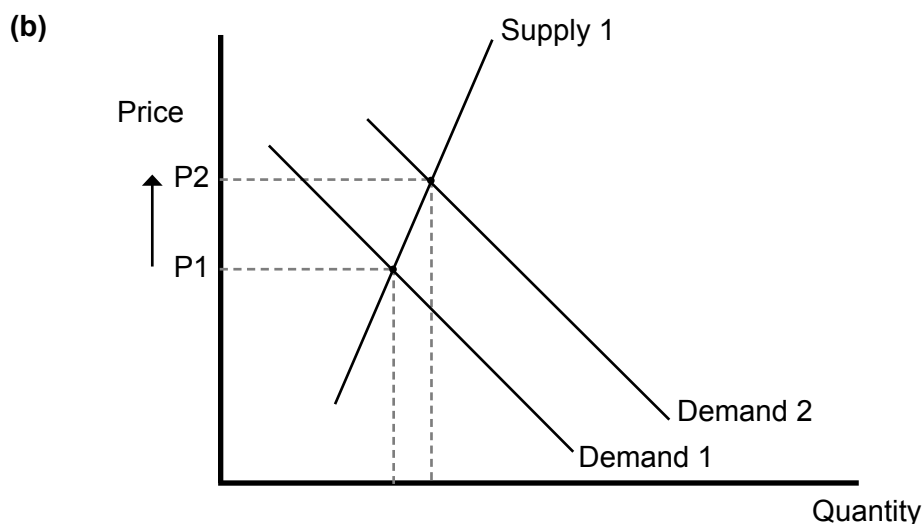
**Level 1 (Limited):** The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

**Level 2 (Satisfactory):** The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

**Level 3 (High Standard):** The candidate successfully reflects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

**Level 4 (Excellent):** The candidate successfully reflects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

- 1 (a) General trend is an increase from approx \$50 per ounce in 1971 to \$1000 in 2008. This represents an increase of 1900%. However, there have been numerous fluctuations around this trend; 1971 to 1980 the price of gold increased from \$50 to \$850 then fell to less than \$400; It stayed between \$300 and \$500 until 04 when it began to increase rapidly to a peak of \$1000 in April 08.  
 [1] for general trend  
 [1] for selecting data  
 [2] for manipulation of data



The surge in gold prices over the last three years is caused by a number of factors which influence both supply and demand. Firstly the world's remaining gold deposits are "microscopic" and the industry has been facing supply constraints. This means the supply curve is relatively inelastic. Secondly there has been an increased demand for jewellery in fast-growing economies such as India and China and from speculators who see gold as a safe investment.

This combination of inelastic supply and increased demand has caused prices to increase rapidly.

**Level 1 ([1]–[2])**

Candidate provides no significant analysis of the reasons for the change in gold prices over the last 3 years. Diagrams are non-existent or seriously flawed and any explanation will be confused or superficial. Quality of written communication is limited.

**Level 2 ([3]–[5])**

Candidate provides some analysis of the reasons for the change in gold prices over the last 3 years. There is a serious attempt at a diagram and a degree of explanation though this may contain minor errors or be incomplete. Quality of written communication is satisfactory.

**Level 3 ([6]–[8])**

Candidate provides a clear and accurate analysis of the reasons for the change in gold prices over the last 3 years. Diagrams are flawless and there is a comprehensive explanation. Quality of written communication is of a high standard.

(c)  $YED = \% \text{ change in } QD / \% \text{ Change in Income}$

$$33.3\% / 7\% = + 4.76$$

[1] for equation

[1] for identification of appropriate data

[2] for calculation

(d) The social cost of production is equal to the private cost of production e.g. labour, raw materials etc plus any external costs e.g. cost of pollution caused by toxic waste.

[2] for clear definition

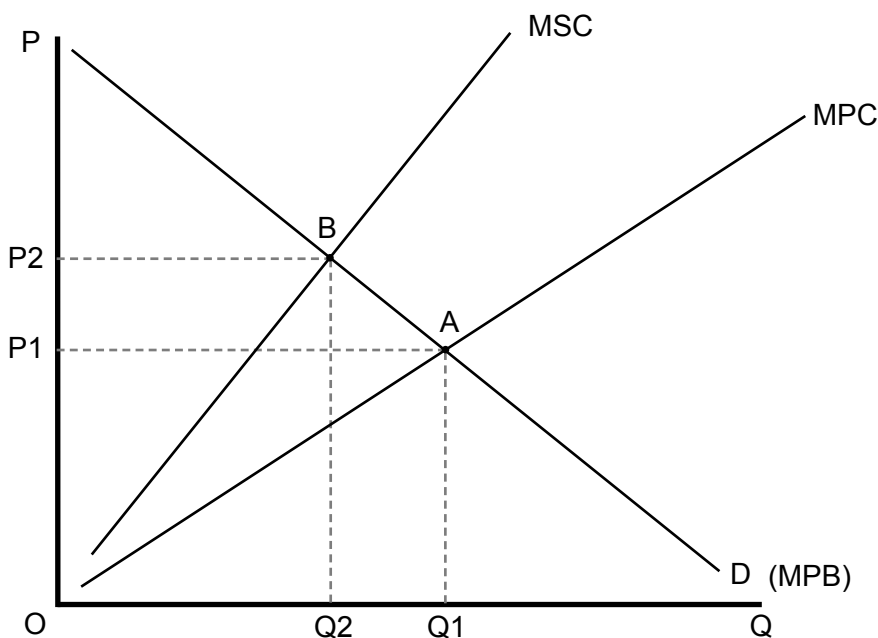
[2] for development

For explanation which equates social cost to external cost Max [2]

(e) Allocative efficiency is achieved when the cost of producing a good is equal to the value consumers place on the good which is reflected in the price they are willing to pay.

The production of one ounce of gold creates up to 30 tons of toxic waste which means that the MSC of production is significantly higher than the marginal private cost (MPC). In a free market firms will produce at the point where MPC is equal to the MPB (demand) as shown on the diagram.

However this level of production represents an inefficient allocation of resources since the price does not equal the marginal social cost of production. The only point at which price equals MSC is point B.



**Level 1 ([1]–[2])**

Candidate shows little understanding of why some economists might consider gold production to represent an inefficient allocation of resources. No attempt is made to represent this in a diagram or if an attempt is made it will contain significant errors. Quality of written communication is limited

**Level 2 ([3]–[5])**

Candidate shows some understanding of why some economists might consider gold production to represent an inefficient allocation of resources. The diagram will support the analysis but may contain minor errors. Quality of written communication is satisfactory

**Level 3 ([6]–[8])**

Candidate shows comprehensive understanding of why some economists might consider gold production to represent an inefficient allocation of resources. This analysis is supported by a clear and accurate diagram. Quality of written communication is of a high standard.

- (f) There are a number of policies that governments could use to reduce the external costs and inefficiency associated with gold production. These include regulation, taxation, the use of tradeable pollution permits and the extension of property rights.

Each of these policies has its strengths and weaknesses - however most economists would argue that the best policy is one which would internalize the externality and make the polluter pay the full social cost of production.

Issues, analysis and areas for discussion include

- Use of environmental taxes
- Appropriate diagrams
- Tax avoidance
- The effectiveness of regulation
- Admin costs of tradeable permits

**Level 1 ([1]–[4])**

Candidate shows very limited understanding of the policies governments could use to reduce the external costs associated with gold production. There is no significant evaluation of the issues and quality of written communication is limited.

**Level 2 ([5]–[8])**

Candidate provides some understanding of the policies governments could use to reduce the external costs associated with gold production. There is a degree of evaluation though this may lack depth and balance and quality of written communication is satisfactory.

**Level 3 ([9]–[12])**

Candidate provides a clear and comprehensive understanding of the policies governments could use to reduce the external costs associated with gold production. There is significant evaluation and judgement and quality of written communication is of a high standard.

## Essay Questions

### 2 Governments face many competing demands

- (a) The basic economic problem can be summed up in the phrase, scarcity and choice.

The problem facing society is how to allocate scarce resources between competing alternatives. Economists say that resources are finite; needs may be finite, but wants are infinite. Therefore scarcity means that there are not enough resources available to satisfy the wants of the population.

Because resources are scarce society must make choices, i.e. they must answer the questions of what, how, and for whom?

Appropriate development

- Explanation of scarce resources
- Reference to scarcity, choice and opportunity cost
- Explanation of basic economic problem
- Factors of production

#### Level 1 ([1]–[3])

Candidate shows little understanding of the basic economic problem. There is no significant development and quality of written communication is limited.

#### Level 2 ([4]–[7])

Candidate shows some understanding of the basic economic problem. There is a degree of development and quality of written communication is satisfactory.

#### Level 3 ([8]–[10])

Candidate shows clear understanding of the basic economic problem. There is significant development and quality of written communication is of a high standard.

- (b) The production possibility frontier shows the maximum combination of two or more goods/services that can be produced using all resources efficiently.

The PPF is a simplified model of what happens in the real world and it allows economists to illustrate on a graph the problem of scarcity and the concept of opportunity cost.

For simplicity sake we assume that:

1. the government can only produce 2 types of services: education and health
2. Its scarce resources are efficiently used in the production of these two services
3. Resources can be used to produce either of these two services.

If this is the case then the government will be producing on some point on the PPF and will be using its scarce resources efficiently. Because resources are scarce if the government wishes to produce more of one service for example education then it will have to sacrifice some of the other service, in this case health, in other words producing more of one service will involve an opportunity cost.

Issues, analysis and areas for discussion include

- Use of appropriate diagram
- Use of appropriate examples
- Explanation and analysis of opportunity cost
- Different measures of efficiency

### **Level 1 ([1]–[5])**

Candidate provides little explanation of how a PPF can be used to analyse the problem of allocating scarce resources between health and education. An attempt may be to represent this in a diagram but it will contain significant errors. There is no significant economic analysis and quality of written communication is limited.

### **Level 2 ([6]–[10])**

Candidate provides some explanation of how a PPF can be used to analyse the problem of allocating scarce resources between health and education. An attempt is made to represent this in a diagram but it may contain some minor errors. There is a degree of economic analysis and quality of written communication is satisfactory.

### **Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of how a PPF can be used to analyse the problem of allocating scarce resources between health and education. A clear and accurate diagram is drawn. There is significant economic analysis and quality of written communication is of a high standard.

- (c) The NHS provides health care free at the point of use. Access to care is based on clinical need and not on the ability to pay.

In recent years, advances in technology and treatments and an ageing population have placed increasing demands on an already overstretched budget. This limited budget has meant that the National Institute for Clinical Excellence (NICE) has had to deny patients' access to some treatments on the basis that they do not represent value for money in terms of quality life years. This has led some commentators to call for the NHS to be reformed and markets given a greater role in the provision of health care.

Issues for analysis and discussion include:

- The cost to taxpayer of NHS (£104bn in 2007)
- Inequality in health provision if provided by the market
- Inefficiency in the NHS
- Health care as a merit good
- Comparison of the quality of health care provision e.g. USA and UK
- Impact of ageing population on NHS budget
- Increased costs associated with obesity and advances in technology

**Level 1 ([1]–[5])**

Candidate displays little understanding of the case for and against the use of free markets to provide health care. There is no significant evaluation of the issues and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some understanding of the case for and against the use of free markets to provide health care. There is a degree of evaluation though this may lack depth and balance and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive understanding of the case for and against the use of free markets to provide health care. There is significant evaluation and judgement and quality of written communication is of a high standard.

**3 House prices fall as market slows**

- (a) Price elasticity of supply measures how responsive quantity supplied is to a change in price.

In other words it tells us how much more of a good will be offered for sale if price rises or vice versa

PES is measured by using the following formula:

$$\frac{\% \text{ change in } Q_s}{\% \text{ change in Price}}$$

If price increased from £20 to £25 (25%) and quantity supplied increased from 100 to 110 (10%) then PES = 10% / 25% = **0.4**.

Unlike price elasticity of demand, the figure for price elasticity of supply will always be positive.

**Level 1 ([1]–[3])**

Candidate shows little or no understanding of price elasticity of supply. There is no significant development and quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate shows some understanding of price elasticity of supply. There is a degree of development and quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate shows clear understanding of price elasticity of supply. There is significant development and quality of written communication is of a high standard.

- (b) The supply of housing in the UK is very inelastic, particularly in the short term as it can take time to increase the quantity of housing for sale in response to an increase in demand. This inelastic supply has been a major factor in the recent volatility in house prices.

The factors which cause supply to be inelastic include:

- Lack of available building land in some areas
- Planning system which artificially limits the supply of land for housing; e.g. Planning Policy Statement 14
- The time taken to get planning permission before building a house
- Time taken to build a house
- Shortage of qualified builders
- Developers who buy up large banks of land thus preventing others from building there

**Level 1 ([1]–[5])**

Candidate provides little explanation or analysis of the factors which influence the PES of housing. There is no significant economic analysis and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation or analysis of the factors which influence the PES of housing. There is a degree of economic analysis and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation or analysis of the factors which influence the PES of housing. There is significant economic analysis and quality of written communication is of a high standard.

- (c) The recent fall in house prices has been caused in part by a significant reduction in the demand for housing from all sections of the market but particularly from first time buyers. If first time buyers do not enter the market then those looking to move further up the chain cannot sell their houses and so the market grinds to a halt.

This has led to some commentators to call for generous subsidies for first time buyers to help them get on the market and therefore stimulate the whole housing market.



Issues for analysis include:

- Impact of subsidy on demand
- Impact on house prices
- Reference to PED and PES
- Home ownership as a merit good
- Possibility of negative equity in absence of subsidy
- Impact on green belt restrictions and planning policy
- Opportunity cost of subsidy
- Administration costs of subsidy
- Discussion of alternative policies
- Relevant diagrams

**Level 1 ([1]–[5])**

Candidate displays little understanding of the case for and against the government giving a subsidy to first time buyers. There is no significant evaluation of the issues and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some understanding of the case for and against the government giving a subsidy to first time buyers. There is a degree of evaluation though this may lack depth and balance and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive understanding of the case for and against the government giving a subsidy to first time buyers. There is significant evaluation and judgement and quality of written communication is of a high standard.

**4 Recent increase in the national minimum wage is not enough to reduce poverty**

- (a) The market equilibrium wage rate is the wage rate that equalises the demand for labour and the supply of labour. At the equilibrium wage rate the number of workers who are willing to take employment is equal to the number of jobs available.

Appropriate development

- Diagrams
- Explanation that demand for labour is derived from the demand for product
- Reference to backward bending supply curve
- Explanation of equilibrium and disequilibrium

**Level 1 ([1]–[3])**

Candidate shows little or no understanding of the market clearing wage rate. There is no significant development and quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate shows some understanding of the market clearing wage rate. There is a degree of development and quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate shows clear understanding of the market clearing wage rate. There is significant development and quality of written communication is of a high standard.

- (b) A substantial increase in the NMW which is **above** the equilibrium wage rate is likely to lead to an expansion in the number of workers who make themselves available for employment. At the same time the increase in wage rates is likely to cause firms to reduce the number of positions available. This is likely to lead to an excess supply of labour and therefore unemployment

Issues for analysis include:

- Use of appropriate diagrams
- Impact on employment/unemployment
- Reference to impact of NMW in certain industries
- Knock on effects on wages in general
- Impact on levels of migration with consequent social effects

**Level 1 ([1]–[5])**

Candidate provides little explanation of the impact on the labour market of a substantial increase in the national minimum wage. An attempt is made to represent this in a diagram but it may contain significant errors. There is no significant economic analysis and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of the impact on the labour market of a substantial increase in the national minimum wage. An attempt is made to represent this in a diagram but it may contain some minor errors. There is a degree of economic analysis and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of the impact on the labour market of a substantial increase in the national minimum wage. A clear and accurate diagram is drawn. There is significant economic analysis and quality of written communication is of a high standard.

- (c) The national minimum wage was introduced in 1998 as one of the central planks of government policy to reduce relative poverty in the UK. However there are a range of other policies which the government use to reduce poverty, these include changes to the tax and benefit system to redistribute income from the rich to the poor. Other policies include attempts to reduce unemployment and the provision of merit goods such as education.

Issues for analysis include:

- Explanation of progressive tax
- Disincentive effects of high tax
- Laffer curve
- Benefits in kind and cash
- Means testing
- Provision of merit goods
- Discussion of measures to reduce unemployment

**Level 1 ([1]–[5])**

Candidate displays little understanding of the policies governments can use to reduce poverty. There is no significant evaluation of the issues and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some understanding of the policies governments can use to reduce poverty. There is a degree of evaluation though this may lack depth and balance and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive understanding of the policies governments can use to reduce poverty. There is significant evaluation and judgement and quality of written communication is of a high standard.



New  
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**ADVANCED SUBSIDIARY (AS)**  
**General Certificate of Education**  
**January 2010**

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## **Economics**

**Assessment Unit AS 2**

**The National Economy**

**[AE121]**

**THURSDAY 21 JANUARY, MORNING**

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# **MARK SCHEME**

- 1 (a) Inflation is a sustained and significant rise in the general level of prices. It is usually measured through changes in the cost of living of the 'average' family as reflected in the CPI.

Candidates might also refer to producer price inflation, retail price inflation and perhaps give historical examples of hyper inflation such as the Weimar Republic. The 3 marks can be obtained either by an accurate and complete definition or by a slightly flawed definition and a degree of development. [3]

- (b) Candidates should show how the CPI is compiled and refer to the importance of the different weights which are attached to various categories of expenditure. No marks should be deducted for showing a calculation based upon an arithmetic mean though technically it is a geometric mean.

Each year's figure is compared to that of a base year which is allocated a nominal value of 100 so percentage changes can be seen at a glance. The annual rate of inflation is the year on year change in the CPI.

So if in Year 1 the CPI stood at 112 and in 2002 it is 115, then the rate of inflation is  $\frac{3}{112} \times 100 = 2.7\%$

Maximum 6 marks for explaining how CPI is compiled and a further 4 marks for showing how it is used to measure the rate of inflation. (Constrained maximum of 9)

**Level 1 ([1]–[3])**

Candidate shows little or no understanding of the CPI nor how it may be used to measure the rate of inflation. Quality of written communication is limited.

**Level 2 ([4]–[6])**

Candidate shows some understanding of the CPI and how it may be used to measure the rate of inflation. Alternatively candidates may show a very clear understanding of one aspect of the question but very little understanding of the other. Quality of written communication is satisfactory.

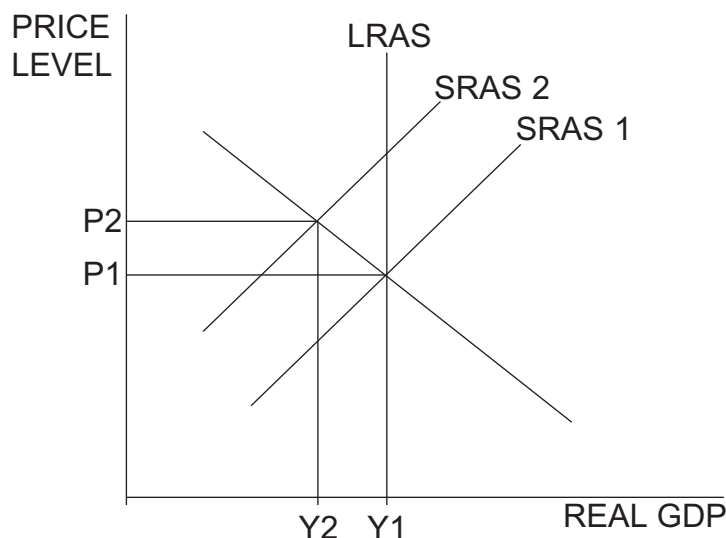
**Level 3 ([7]–[9])**

Candidate shows clear and comprehensive understanding of the CPI and of how it may be used to measure the rate of inflation. There is extensive development and quality of written communication is of high standard. [9]

(c) Oil is a major input into the production and distribution of a wide range of goods. Hence a rise in its price represents an increase in the cost of production and will shift the short run aggregate supply curve to the left. There may be reduction in aggregate demand.

Issues for analysis include:

- Impact on price level in the economy.
- Impact on real GDP.
- Impact on output gap.
- Impact on unemployment.
- Impact on aggregate demand



The rise in the price of oil shifts the short run aggregate supply curve from SRAS 1 to SRAS 2 and the economy's general price level rises from P1 to P2 and real GDP falls from Y1 to Y2. Hence there is an output gap of Y1–Y2.

This is similar to the stagflation of the 1970s though on a much smaller scale.

For analysis based solely on impact on all demand, maximum Level 2.

**Level 1 ([1]–[3])**

Candidate shows little or no understanding of the impact on the UK economy of rising oil prices. There is no significant economic analysis and quality of written communication is limited.

**Level 2 ([4]–[6])**

Candidate shows some understanding of the impact on the UK economy of rising oil prices. There is a degree of economic analysis though this may be superficial or contain errors and quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

Candidate shows a clear and comprehensive understanding of the impact on the UK economy of rising oil prices. There is significant and accurate economic analysis and quality of written communication is of a high standard.

[9]

- (d) Falling house prices influence consumer spending in a variety of ways:
- Householders feel poorer and are less inclined to spend (a negative wealth effect).
  - There will be deterioration in consumer confidence.
  - Stagnant or falling house prices mean that home owners will have less collateral in their house against which they can borrow to finance consumer spending. In extreme cases there may be negative equity.
  - Reduced turnover in the housing market will mean less spending on removals.
  - Impact of decline in construction industry.

**Level 1 ([1]–[3])**

Candidate shows no real understanding of how falling house prices might affect consumer spending. There will typically be vague, anecdotal statements but no significant economic analysis. Quality of written communication is limited.

**Level 2 ([4]–[6])**

Candidate shows some understanding of how falling house prices might affect consumer spending. There will be a degree of economic analysis and quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

Candidate shows a clear and comprehensive understanding of how falling house prices might affect consumer spending. There will be significant economic analysis with reference to key issues such as consumer confidence. Quality of written communication is of a high standard. [9]

- (e) The Monetary Policy Committee of the Bank of England is charged by the government with keeping inflation at or close to 2%. It must set interest rates in order to achieve this target. It has no responsibility for economic growth, full employment or any other of the government's macroeconomic targets, though it may consider these in making its decisions.

Issues for analysis and evaluation include:

- Role of Bank of England.
- Impact of interest rates upon the economy and in particular on inflation.
- Time lags between interest rate changes and changes in prices.
- Evidence from the passage with regard to the state of the economy, e.g.
  - Current level of inflation.
  - Trends in food and oil prices.
  - Possible impact of higher prices on wages (wage price spiral).
  - Deflationary impact of credit crunch.
  - Impact of slowing housing market.
  - Impact of slow down in US economy.



**Level 1 ([1]–[3])**

Candidate fails to provide a report of any substance. Key issues are not addressed or misunderstood and there is no significant evaluation of the policy options. Quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate provides a basic report and some key issues are addressed. There is a degree of evaluation of the policy options though this may lack depth or balance. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate provides a significant report which deals with the key issues. There is a measured evaluation and judgement of the policy options. Quality of written communication is of a high standard.

[10]

40

Answer **one** from **Questions 2, 3 or 4**

- 2 (a) Unemployment in the UK is measured by the ILO Labour Force Survey and by the Claimant Count. As its name would indicate the Claimant Count method only includes unemployed persons who qualify for benefits such as Job Seekers Allowance.

The ILO method includes persons such as those with working partners who may be unemployed but not able to claim benefit. Hence it usually produces a higher figure than the Claimant Count, although it should be noted that some workers with only part-time jobs would be included in the Claimant Count as unemployed but not classified as unemployed on the ILO definition. The ILO figures are supported by the EU and by the OECD and hence are a better basis for international comparisons.

Candidates may extend their development by describing how the unemployment rate is calculated.

**Level 1 ([1]–[3])**

Candidate shows little or no understanding of any significant features of either Claimant Count or Labour Force Survey methods. Quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate shows some understanding of the main features of both the Claimant Count and Labour Force Survey methods. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate shows a clear and comprehensive understanding of the significant features of both the Claimant Count and Labour Force Survey methods. Quality of written communication is of a high standard. [10]

- (b) The causes of unemployment are reflected in the different types of unemployment:
- Cyclical or demand deficient unemployment occurs when there is a recession in the economy and aggregate demand is too low.
  - Classical or real wage unemployment occurs when for some reason the real wage rate is set above the level needed to clear the labour market. This could happen if the National Minimum Wage were set at too high a level.
  - Frictional and job search unemployment exist when workers change jobs.
  - Seasonal unemployment caused by the demand for certain types of labour varying throughout the year. Structural unemployment exists when the demand for labour is less than its supply in individual labour markets. Regional, sectoral and technological unemployment are all examples of structural unemployment.
  - Natural rate unemployment exists even when the economy is at full employment. It is the sum of frictional and structural unemployment.

**Level 1 ([1]–[5])**

Candidate shows little understanding of the causes of unemployment. There is little economic analysis nor use of technical language and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate shows some understanding of the causes of unemployment. There is a degree of economic analysis and use of technical language. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate shows a clear and comprehensive understanding of the causes of unemployment. There is significant economic analysis and use of technical language. Quality of written communication is of a high standard. [15]

- (c) Low levels of economic activity are reflected in high levels of economic inactivity. Economic inactivity consists of those who are without employment but do not fulfil the labour force survey definition of unemployment. This is because they are not actively seeking work and are not available to take up employment. The largest cause of economic inactivity is long-term sickness and the receipt of incapacity benefit. Other causes are family commitments such as bringing up young children, full-time education and discouraged workers. In November 2007 Peter Hain launched a campaign to reduce the numbers on incapacity benefit and introduced stricter medical tests for anyone seeking to claim incapacity benefit. He called this culture of benefit-dependency 'Sick note Britain'.

Issues for analysis and evaluation include:

- The relatively low levels of unemployment in the UK.
- Unemployment is at or near its natural rate and may be difficult to reduce further.
- The ease with which the UK labour market has absorbed thousands of immigrants, indicating that shortage of jobs cannot be a reason for economic inactivity or unemployment.
- The financial costs of economic inactivity, e.g. 2.7 million claimants receive £7.4 billion in incapacity benefit.
- The loss of tax revenue from economic inactivity.
- The wider social costs of sick note Britain, e.g. lower educational achievement, alcohol and drug dependency.
- Problems in reducing economic inactivity.
- Reducing inactivity may involve lower living standards for the poorest members of society.

**Level 1 ([1]–[5])**

Candidate has at best a basic understanding of the distinction between unemployment and low economic activity. There is little analysis of the economic and social costs of both measures and no significant evaluation of the view that low economic activity is the greater evil. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate shows some understanding of the distinction between unemployment and low economic activity rates. There is a degree of analysis of the economic and social costs of both measures and some evaluation of the view that low economic activity rates are a greater evil. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate shows a clear and comprehensive understanding of the distinction between unemployment and low economic activity. There is significant analysis of the economic and social costs of both measures and in-depth evaluation of the view that low economic activity is the greater evil, a balanced conclusion is presented and quality of written communication is of a high standard. [15]

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- 3 (a) A standard textbook definition of fiscal policy is “Policy to affect aggregate demand by altering the balance between government expenditure and taxation” (J Sloman).

**Appropriate development**

- Explanation of aggregate demand.
- Budget deficits, surpluses and balanced budgets.
- Expansionary, contractionary and neutral fiscal policy.
- Appropriate examples.
- Distinction between discretionary and automatic fiscal policy.

**Level 1 ([1]–[3])**

Candidate shows little knowledge or understanding of what is meant by fiscal policy. There is no significant exposition either through technical language, appropriate examples or diagrams. Quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate shows a degree of knowledge and understanding of what is meant by fiscal policy. There is some exposition through technical language, appropriate examples or diagrams. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate shows extensive knowledge and understanding of what is meant by fiscal policy. There is significant exposition through technical language, appropriate examples or diagrams. Quality of written communication is of a high standard. [10]

- (b) Macroeconomic equilibrium is referred to in the 2007 pre-budget report in terms of consistent economic growth, and low levels of inflation and unemployment. Clearly fiscal policy has a role to play in this as it would be possible for inappropriate fiscal policy to destabilise any of these variables.

Issues for analysis include:

- explanation of different types of fiscal policy.
- explanation of the economic cycle.
- reference to balanced budgets and the golden rule.
- link between excessive government spending and inflation.
- use of fiscal policy to deal with exogenous shocks to the economy.
- link between government borrowing and interest rates.
- use of historical and international examples.

**Level 1 ([1]–[5])**

Candidate shows no significant understanding of how fiscal policy might be used to stabilise the economy. There is little economic analysis and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate shows some understanding of how fiscal policy might be used to stabilise the economy and there is a degree of economic analysis. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate shows a clear and comprehensive understanding of how fiscal policy might be used to stabilise the economy and this is developed through accurate and appropriate economic analysis. Quality of written communication is of a high standard. [15]

- (c) The maintenance of macroeconomic stability requires that all aspects of government policy work in the same direction. It would be counter-productive to pursue expansionary fiscal and contractionary monetary policies. In the UK in recent years monetary policy has been based on achieving a 2% inflation target and fiscal policy has been based on achieving the 'golden rule'.

Issues for analysis and evaluation include:

- explanation of monetary policy.
- demonstration of monetary policy in action and how it affects the components of aggregate demand.
- demonstration of how monetary policy and fiscal policy may conflict.
- explanation of how low interest rates may create asset price bubbles especially housing.
- explanation of links between monetary policy and the rate of exchange and how the rate of exchange may affect macroeconomic stability.
- explanation of the significance of other policy options, e.g. supply side policies and fiscal policy.
- recent UK experiences.
- international experiences.
- problem of inaccurate economic data.

**Level 1 ([1]–[5])**

Candidate gives no significant evaluation of relying totally upon monetary policy for maintaining macroeconomic stability. Key issues are ignored or treated in a superficial manner and quality of written communication is limited.

**Level 2 ([6]–[10])**

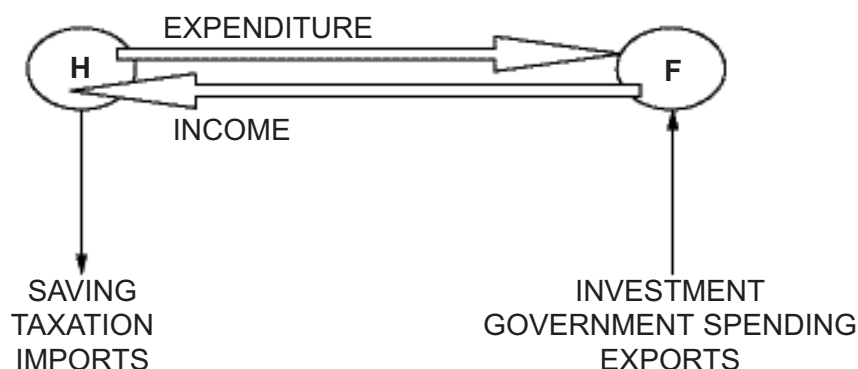
Candidate gives some evaluation of relying totally upon monetary policy for maintaining macroeconomic stability. Most key issues are addressed though not always in great depth and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides significant evaluation and judgement on the issue of relying totally upon monetary policy for maintaining macroeconomic stability. Key issues are treated in-depth and quality of written communication is of a high standard. [15]

- 4 (a) This model of the economy is based on four economic agents:
1. Firstly, the households who are buyers in product markets and sellers in factor markets.
  2. Secondly, firms who are sellers in product markets and buyers in factor markets.
  3. Thirdly, the government which is a purchaser of goods and services and finances this by collecting taxes from firms and households.
  4. Fourthly, the rest of the world which purchases our exports and sells us imports.

It is the interaction between these groups which gives us the circular flow of income and expenditure.



Leakages from the circular flow consist of saving, tax and imports. Injections are investment, government spending and exports.

**Level 1 ([1]–[3])**

Candidate shows little knowledge or understanding of the circular flow of income and expenditure. There is no serious attempt at a diagram and little use of technical language. Quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate shows some knowledge and understanding of the circular flow of income and expenditure. There is a serious attempt at a diagram though this may contain minor errors and some use of technical language. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate shows extensive knowledge and understanding of the circular flow of income and expenditure. There may be a virtually flawless diagram and widespread use of technical language. Quality of written communication is of a high standard.

[10]

(b) GDP can be measured in three ways:

1. The expenditure method measures total spending on UK produced goods and services. It consists of consumption, investment, government spending and net exports.
2. The income method measures the rewards earned by the providers of the factors of production used in delivering GDP. It consists of wages, interest, rent and profit.
3. The output method measures the output of all UK firms and the government. It consists of the value added by the primary, secondary and tertiary sectors of the economy.

Issues for analysis and areas for discussion include:

- market prices and basic prices.
- stock appreciation.
- imputed rent.
- value added.
- circular flow of income and expenditure.
- problems in compilation of the statistics.
- sources of information.

**Level 1 ([1]–[5])**

Candidate provides little explanation of how GDP can be measured. There is little use of technical language and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of how GDP can be measured. There is a degree of use of technical language and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides an extensive explanation of how GDP can be measured. There is widespread use of technical language and quality of written communication is of a high standard.

[15]



(c) There is increasing criticism amongst economists of using GDP as the basis for measuring economic growth. Is it genuine economic growth if we produce more consumer goods but that production is itself the cause of climate change and perhaps extreme weather conditions?

Issues for analysis and evaluation include:

- causes of climate change.
- causes of other forms of pollution.
- problems in valuing environmental damage.
- explanation of alternative measures of welfare such as ISEW.
- economic costs of climate change and the Stern report.

**Level 1 ([1]–[5])**

Candidate provides no meaningful evaluation of using estimates of economic activity other than GDP for measuring growth. There may be a basic awareness of some of the defects in GDP but little or no comparison with other measures. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of using estimates of economic activity other than GDP for measuring growth. There is an awareness of most of the defects in GDP and some comparison with other measures. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides meaningful evaluation and judgement of using estimates of economic activity other than GDP for measuring growth. There is extensive awareness of the defects in GDP and in-depth comparison with other measures. Quality of written communication is of a high standard. [15]

**Total**

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**80**





