AS Unit 3 Managing the Economy - 03 June Mark Scheme

Qla . Measure of inflation, or cost of living of average household (1) .
Family expenditure survey (1).
Expenditure by typical households on 650 goods & services (1) .
Proportion of income spent, principle of weighting (1) .
Index numbers (e.g. reference to base year) (1)

Also reward: excluded groups (1) price survey (1) .
distinction between Retail Price Index and & RPIx
Excluding mortgage interest payments (1)

Qlb Changes in technology (1) .
Changes in taste (1).
Why this is necessary to keep the index accurate (1) (otherwise inflation may be over or underestimated)

Q1ci Appropriate reference to the inflation data (2)
Prices of goods rising less quickly (2)
Also reward: observation that there is a fall in the price level towards the end of the series (1)

Q1cii Reference to data - divergence of series (1)
Accept any relevant suggestion: (3)
reduction in costs of goods as opposed to services (technological change)?
greater competition from abroad in goods (higher exchange rate)?
Income elasticity of demand higher for services than for goods?
Lower import costs for manufactures

Qld For each of 2 points, identification (1), explanation (1).
Consequences might include:
Greater economic confidence among consumers and thus more spending
Greater economic confidence among firms and thus more investment
Possibility of lower interest rates
Downward pressure on firms' costs, eg lower wage demands, lower input costs
Improvement in international price competitiveness .
Unexpectedly high real wages/less erosion of fixed incomes
Longer-term risk of deflation
Phillips curve based argument

Qle High or rising exchange rate (1) affects relative export/import prices with a resulting impact on both X (1) and M(I). Anyone point for evaluation 2 marks eg
UK very open economy so exchange rate particularly

significant
However, inflation may be at a low rate for other reasons eg Reduction in AD due to recession in the EU, (less exports).
Supply side improvements e.g. IT. Success of the MPC in achieving its anti-inflation target.

QIf Award 9 marks for analysis, 6 marks for evaluation
Recognition that government spending is a component of AD, or definition of public sector borrowing (1) .
Appropriate diagram showing shift in AD (2).
Written explanation of effect on price level and real output (2).
Analysis of multiplier effects or supply side shifts e.g. healthier and therefore more productive workforce (4)
Award any 2 evaluative points up to 3 marks each, e.g.
Possibility of the need for higher taxes/ lower government spending in other areas in the future.
Likelihood of higher interest rates resulting in lower consumption or investment in the future (crowding out).
The elasticity of the AS curve will influence the respective changes in price and output.
Likelihood that the main effect in the short run will be on AD, with the full impact on AS only occurring in the longer term.
Consideration of the relative size of the increase in spending compared to future implications for spending and tax.
Evaluation must be related to the question rather than just listing 'lags, elasticities, other things being equal'. At least one of the two evaluative points must focus on the consequences of the rise in public sector borrowing, otherwise a maximum of 3 marks for evaluation.

AS Unit 3 Managing the Economy - 03 June Mark Scheme

Q2a Output of goods and services (1);
adjusted for inflation, or reference to 'volume' (1).

Q2b Relating the change in investment to changes in AD (1).
Appropriate diagram showing the fall in AD and effect on out put (2).
Written explanation of effect on real output (1).
Award a further mark for further developments e.g. reference to multiplier, AS effects, etc. (1)
If a candidate has only considered shifts in AS, then award a maximum of 3 marks.

Q2ci Claimant count refers to those claiming benefits, or the JSA, or registered at Job centres (1).
The ILO conducts a survey of those people who are available for work (1).

Q2cii Description of data (1).
Anyone reason for the gap in the measures (1) e.g. claimant count excludes housewives, 16-18 year olds etc.
Some people may not want to sign on at job centres.
Explanation of the widening gap (1) eg because of an increase in the number of excluded categories in the claimant count over time, or cyclical influences.

Q2d Definition of injections e.g. money into the economy (1).
Definition of withdrawals (1) money out of the economy.
Related to the circular flow of income (1)
Identifying an example from the table (2) e.g. the current account deficit (withdrawal).
The fiscal surplus (withdrawal).
Or identifying G and T, or X and M from the table.
Deduction that an increase in retail sales may be due to a fall in savings or taxes.
If the candidate's answer simply states that injections are I+G+X and withdrawals are S+T+M then award 2 marks.

Q2e Reference to trade in goods and services, or value of imports and exports, or transactions with other countries (2).
Identifying (1) and explaining (1) two factors explaining the deficit eg:
High exchange rate
Lack of price competitiveness
Poor quality of exports
Rising incomes leading to higher levels of imports
Change in tastes towards foreign goods
Fall in UK manufacturing output
Recession in the rest of the world

UK firms moving abroad

Q2fi Award anyone evaluative point 2 marks, e.g.:
elaboration of the significance of the data in figure 1.
Consideration of the marginal propensity to import or price elasticities of demand for imports
Prioritising the relative importance of the two factors discussed

Q2f Award 9 marks for analysis, 6 for evaluation
Define fiscal policy (1) candidates may then consider either contractionary or expansionary fiscal policy: If the candidate considers both directions of policy, they can score the following marks in either direction:
Appropriate policy in terms of changing G (1) and T (1) .
Appropriately labelled diagram (2)
Written explanation of effect on GDP (2)
Further analysis of multiplier or AS effects (2)
For evaluation, award any 2 points up to 3 marks each e.g.
Difficulties of forecasting, imperfect information about the current state of the economy.
Time lags: delays in policy decisions, implementation and effects
Flexibility of fiscal policy compared to monetary policy .
Comparison of effectiveness of alternative policies e.g. monetary policy or supply side policy
Consequences for interest rates (crowding out issues)
Consideration of the role of automatic stabilisers
The potential adverse consequences for inflation or other macroeconomic targets
Evaluation must be related to the question rather than just listing.
Throughout the scheme, examiners may award candidates who have produced more than the required number of points, up to the full marks available.