GCE

Edexcel GCE

Economics (6356)

Summer 2005

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Mark Scheme (Results)

1.

(a) Examine the significance of the factors which have contributed to increased globalisation in recent years.

LEVEL 5   **28-40 marks**

Factors include:

- Reduction/removal of trade barriers; reference to WTO
- Growth in trading blocs, especially economic unions adopting a single currency
- Improvements in communications
- Growth in use of internet
- Increased significance of multinational companies
- Increased capital mobility
- Collapse of Soviet Union

Evaluation might take the following form:
- *Discussion of relative significance of points made*
- *View that globalisation is not a recent phenomenon*

For a L5 mark (28-31 marks): Discussion of 3 points and at least one evaluation point.
A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points with at least 2 pieces of evaluation.
Max 28 marks if no evaluation.
Award a L4 mark (24-27 marks) if only 2 factors + evaluation
Award a **L2 mark (16-19 marks)** for identification of points only or for narrow response focusing on one point.

(b) Evaluate the likely implications for the world economy of the predicted decline in non-renewable energy resources.

LEVEL 5   **42-60 marks**
Implications include:
- Increased price of energy leading to increased costs of production
- Fall in aggregate supply leading to higher rates of inflation and fall in real output
- Increased unemployment
- Implications for Balance of Payments depend on the degree of dependence on imported energy
- Search for new technology
- Reduction in External Costs

Evaluation points include:
- Price rises might be offset by more efficient use of energy or
- new methods of production requiring less energy or
- greater use of renewable energy resources
- Impact on GDP and employment depend on elasticity of AD curve
- Discussion of short run/long run effects
- Differential effects between countries

NB: If answer focuses solely on the UK economy, then award up to a max of 35 marks.

For a L5 mark (42-47 marks): Discussion of 4 points and two evaluation points (at least one benefit and at least one cost should be included).
A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and at least 3 pieces of evaluation.
Max 42 marks if no evaluation.
Award a L4 mark (36-41 marks) if only 3 factors + evaluation
Award a **L2 mark (24-29 marks)** for identification of points only or for narrow response focusing on one point.

2. **(a) Examine the factors which affect the international competitiveness of the UK's goods and services.**

 LEVEL 5   **28-40 marks**

Factors include:

Price competitiveness influenced by:

- Value of pound against other currencies (trade weighted exchange rate)
- Relative productivity performance – impacting on unit costs
- Relative inflation rates
- Relative wage costs and non-wage costs e.g. Employers' National Insurance contributions
  - **Non-price factors include: e.g.**

Quality
Design
Reliability
Availability
After sales service

Evaluation points might include:

- Relative significance of above factors
- Changing significance of factors over time.

 For a L5 mark (28-31 marks): Discussion of 3 points and at least one evaluation point.

A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points with at least 2 pieces of evaluation and should consider both price and non-price factors.
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 Max 28 marks if no evaluation.

 Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a **L2 mark (16-19 marks)** for identification of points only or for narrow response focusing on one point.

                                               (40 marks)

(b) **Evaluate the likely economic effects of a fall in the UK's competitiveness.**

LEVEL 5   **42-60 marks**

Implications include:

- Unemployment (fall in exports, increase in imports)
- Deterioration in the UK's Balance of Payments
- Subsequent fall in the value of the Pound
- Fall in the rate of economic growth
- Impact on the price level?
- Impact on investment

Evaluation points include:

- Consideration of relative significance of above points
- Difference between short run and long run effects
- Consideration of significance for economic policy
- Consideration on different parts of the current account

For a L5 mark (42-47 marks): Discussion of 4 points and two evaluation points.
A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and at least 3 pieces of evaluation.
Max 42 marks if no evaluation.
Award a L4 mark (36-41 marks) if only 3 factors + evaluation
Award a **L2 mark (24-29 marks)** for identification of points only or for narrow response focusing on one point.

(60 marks)

3. **The average tariff on industrial goods is 4% in the USA, 14% in Brazil and 30% in India.**

    (a) Examine the reasons why a country might wish to restrict imports.

   LEVEL 5   **28-40 marks**

   Reasons include:
   - To protect employment in domestic industries
   - To prevent dumping
   - To raise tax revenue (in the case of tariffs)
   - To correct a Balance of Payments deficit on current account
   - To protect industries of strategic importance
   - To protect infant industries
   - To allow time for geriatric industries to revive.

   Evaluation points might include:
   - *Dumping artificially distorts comparative advantage and is therefore a valid reason that can be used to justify protectionism*
   - *Protectionism unlikely to protect jobs in long run*
   - *Protectionism might harm other domestic industries*

   For a L5 mark (28-31 marks): Discussion of 3 points and at least one evaluation point.

   A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points with at least 2 pieces of evaluation.

   Max 28 marks if no evaluation.

   Award a L4 mark (24-27 marks) if only 2 factors + evaluation

   Award a **L2 mark (16-19 marks)** for identification of points only or for narrow response focusing on one point.

(b) Evaluate the likely economic implications of an increase in protectionism on a country's economy.

LEVEL 5
Allow different question interpretations i.e. EITHER increase in protectionism in world as a whole OR one country increasing protection.
Implications include impact on:
- Output and living standards (analysis based on the law of comparative advantage and empirical evidence of countries following protectionist policies)
- Prices for consumers and welfare (analysis based on tariff diagram)
- Levels of unemployment
- Economies of scale for firms
- Analysis based on AD/AS – e.g. on inflation
- Retaliation by other countries

Evaluation points could include:
- Short run/long run effects
- Extent of dependency on world trade
- Extent of increase in protectionism
- Nature of protection e.g. tariffs, quotes.

For a L5 mark (42-47 marks): Discussion of 4 points and two evaluation points.
A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and at least 3 pieces of evaluation.
Max 42 marks if no evaluation.
Award a L4 mark (36-41 marks) if only 3 factors + evaluation
Award a **L2 mark (24-29 marks)** for identification of points only or for narrow response focusing on one point.

4.(a) **With reference to Figure 1, outline two possible reasons why price differences between euro zone countries have persisted after the adoption of the single currency.**

Reasons include:
- Differences in taxes
- Differences in wage costs
- Differences in degree of competition
- Nature of Market

2 x 2 marks (2 for identification and 2 for application/reference to data.)

(4 marks)

(b)(i) **With reference to Extract 1 and to Figure 2, outline two reasons why the UK's housing market represents a barrier to the UK's membership of the euro.**

Reasons include:
- More mortgages on variable interest rates
- Higher proportion of owner-occupied houses compare to EU
- Level of outstanding debt on mortgages relatively high
- Difficulty of meeting the convergence criteria because of housing market

2 x 3 marks (2 for identification, 2 for data reference and 2 for analysis)

(6 marks)

(b)(ii) **With reference to Figure 3, examine two likely reasons for the difference between unemployment rates in the UK and the euro zone.**

Factors include:
- Higher growth rate in UK than in euro zone
- Greater labour market flexibility
- Higher unemployment benefits in euro zone countries
- UK more successful in attracting FDI (in the recent past)
- Greater Application of supply side policies in UK

Evaluation might take the following forms:
- *Relative significance of factors identified*
- *More part time workers in UK, artificially reducing the unemployment rates*
- *Situation now changing: i.e. UK's labour market becoming less flexible because of increased regulation*

2 marks for identification;
3 marks for explanation and analysis. (max 4/6 if focus is on UK only)
2 marks for any one evaluation point.
1 mark for data reference

(8 marks)

**(b)(iii) To what extent do the data in Figures 3, 4 and 5 suggest that
the UK economy is converging with the euro economies?**
Reference should be made to <u>all</u> <u>three</u> of the following:
- Inflation rates
- Unemployment rates
- Interest rates

Explanation could include the extent to which each variable is converging
with the euro zone economies; also reasons for differences.

Evaluation comments will relate to:
- *the relative significance of the variables for convergence*
- *attempt to draw a conclusion.*

1 for identification
2 marks for data references
3 marks for explanation and analysis
Up to 4 marks for any two valid evaluation comments (3+1; 2+2; 1+3).

(10 marks)

**(c) With reference to the information provided, assess the likely impact on
the UK economy of a decision by the UK government to adopt the euro.**

A variety of responses might be expected e.g.
- Immediate impact: cut in interest rates, stimulating the economy. Could
  be analysed using AD/AS analysis
- Trade: likely to increase trade with euro zone countries
- Investment: FDI might increase
- Housing boom, at least initially
- Unemployment – if no convergence
- Impact on financial services industry.

Evaluation points could include:
- *Distinction between short run and long run effects*
- *Comment on balance of positive and negative effects*
- *Consideration of relative significance of points*

2 marks for identification; 5 marks application and analysis;
5 marks for any two evaluation points (2 + 3 or 3 + 2 marks)
Maximum 10/12 if no reference to context.   **(12 marks)**

(d) With reference to Extract 2, discuss how fiscal policy might be used to manage the economy if the UK joined the euro.

Definition of fiscal policy (1 mark)

Explanation and analysis of how fiscal policy could be used to manage the economy: e.g. could consider reflationary fiscal policy (cutting taxes and raising public expenditure) when the economy is in recession.

Tax cuts would:
- Increase disposable income
- Leading to an increase in consumption
- Increase incentives to work

(5 marks for explanation and analysis)

Evaluation points should relate to the problems of using fiscal policy e.g.
- *Difficulty of determining magnitude of effects*
- *Time lags*
- *Tax cuts might be saved or spent on imports*
- *Disincentive effects of raising direct taxes*
- *Possible inflationary effects of large budget deficits*
- *Need to conform with criteria of growth and stability pact*

4 marks for any two evaluation points (3+1; 2+2; 1+3). **(10 marks)**

5.

(a) Distinguish between a deficit on the trade in goods and services account and a fiscal deficit.

Deficit in trade in goods balance: value of imported goods greater than value of goods exported.

Budget deficit: Public expenditure greater than tax revenues.

(2 for knowledge and 2 for application/reference to data.)

(4 marks)

(b) Outline two factors which might explain the increase in the level of consumer debt, as shown in Figure 1.

Possible factors:
- Falling interest rates
- Falling unemployment
- Rising house prices – equity release
- Increased consumer confidence.

2 x 3 marks (2 for identification, 2 for data reference and 2 for analysis)

Reference to magnitude of increase in debt is required for the 2 data marks.

(6 marks)

(c) Examine two factors which might explain the changing state of public sector finances between 2000-01 and 2003-04, as shown in Figure 2.
Possible factors include:
- Political decision to increase public expenditure on public services e.g. health and education
- Relatively slow rate of economic growth
- Increased pressure on public finances arising from ageing population
- Tax revenues less buoyant than expected because e.g. relatively low company profits

Evaluation comments might focus on identification of the most significant factor e.g. commitment to extra expenditure on NHS or on problem of forecasting tax revenues.
2 marks for identification
1 mark for data reference
3 marks for explanation and analysis.
2 marks for any one evaluation point.

(8 marks)

(d) With reference to Figures 3, 4 and 5, examine factors which might explain the trend in the UK trade in goods and services account.
Possible areas for analysis include:
- The high value of the pound
- The consumer boom
- Relatively low productivity
- Relocation of manufacturing (and service sector jobs) to low wage countries
- Increased imports from low wage countries

Evaluation comments could include:
- *Consideration of the relative significance of the factors identified*
- *Reference to the deterioration of the goods balance and the continued surplus on the services balance*
- *Types of goods in which the deficit is most marked*
- *Geographical areas in which the deficit is most marked*

1 mark for identification, 2 marks for data references; 3 marks for explanation and analysis.
Up to 4 marks for any two valid evaluation comments (3+1; 2+2; 1+3)

(10 marks)

(e) Assess the likely implications of a fall in the sterling exchange rate.

Understanding of 'fall in sterling exchange rate' e.g. £ is now worth less in terms of foreign currencies.

Analysis relating to depreciation in the pound on

- current account e.g. increase in price of imported goods; decrease in foreign currency price of exports; J curve
- rate of inflation
- on level of unemployment
- rate of economic growth

Evaluation points might include:

- *Distinction between short run and long run effects*
- *Reasons why depreciation might not correct B/P deficit e.g. Marshall –Lerner Condition not met*
- *J curve effect*
- *Comment on what is happening to value of currencies of our major trading partners*
- *Extent of fall in value of the pound*

2 marks for knowledge
5 marks for application and analysis;
5 marks for any two evaluation points (2 + 3 or 3 + 2 marks)
Maximum 10/12 marks if no reference to context.   **(12 marks)**

(f) Evaluate the impact of an increase in interest rates on consumers (Extract 1, line 22).

Effects include:

- Increase in marginal propensity to save;
- Reduction in borrowing from banks leading to …
- Fall in consumer expenditure & fall in AD
- Households likely to try to reduce debt – leading to a deflationary impact on the economy
- Increased cost of repaying loans including mortgages; danger of negative equity if house market collapses.

Evaluation points might include:

- *Household debt might rise if people borrow more to service the debt*
- *If interest rise, the value of £ could increase, so making foreign holidays more attractive*
- *Differential effects on consumers e.g. pensioners with savings will benefit*
- *Short run/long*
- *Consideration of how much interest rates have risen.*

1 mark for identification; 5 marks for explanation and analysis.
4 marks for any two evaluation points (3+1; 2+2; 1+3).
          (10 marks)

MARK GRID UNIT 6

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
A					
Qu.1(a)	8	8	12	12	40
Qu.1(b)	12	12	18	18	60
Total	**20**	**20**	**30**	**30**	**100**
Qu.2(a)	8	8	12	12	40
Qu.2(b)	12	12	18	18	60
Total	**20**	**20**	**30**	**30**	**100**
Qu.3(a)	8	8	12	12	40
Qu.3(b)	12	12	18	18	60
Total	**20**	**20**	**30**	**30**	**100**
B					
Qu.4(a)	2	2	0	0	**4**
Qu.4(b)(i)	2	2	2	0	**6**
Qu.4(b)(ii)	2	1	3	2	**8**
Qu.4(b)(iii)	1	2	3	4	**10**
Qu.4(c)	2	2	3	5	**12**
Qu.4(d)	1	1	4	4	**10**
Total	**10**	**10**	**15**	**15**	**50**
Qu.5(a)	2	2	0	0	**4**
Qu.5(b)	2	2	2	0	**6**
Qu.5(c)	2	1	3	2	**8**
Qu.5(d)	1	2	3	4	**10**
Qu.5(e)	2	2	3	5	**12**
Qu.5(f)	1	1	4	4	**10**
Total	**10**	**10**	**15**	**15**	**50**

General Guidelines

What follows is an attempt to identify different levels of responses across different mark bands. The performance criteria are based on the five assessment objectives for the paper as a whole. They are intended to be used in conjunction with the mark scheme and indicative content for each question.

	Mark Band		Performance Criteria
Level 5*	40 32-40	60 48-60	➢ Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues. ➢ Demonstrates skill in interpreting different types of data and an outstanding ability to select and apply economic ideas both to economic problems and to data. ➢ Evaluation is well balanced and critical, leading to valid conclusions. ➢ Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated. ➢ At this level excellence is displayed across all assessment objectives.
Level 5	28-31	42-47	➢ Displays a very good answer based in knowledge of economic principles, concepts and theories together with an analysis of the issues involved. ➢ Demonstrates skill in interpreting data, and an ability to select and apply economic ideas, relating them both to economic problems and to data. ➢ Alternative approaches are evaluated, leading to reasoned conclusions which are presented in a relevant, coherent and integrated way.
Level 4	24-27	36-41	➢ Displays a basic knowledge with a sound understanding of economic principles, concepts and theories as well as some analysis issues. ➢ Can interpret data and select and apply some economic ideas, relating them to economic problems and to data. ➢ Uses different approaches in order to reach conclusions, presenting evidence in a relevant and coherent way.
Level 3	20-23	30-35	➢ Displays some knowledge of economic principles, concepts and theories with a attempt at providing an analysis of alternative views. ➢ Some ability to use data and select and apply economic ideas, relating them to economic problems and to data. ➢ Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence.
Level 2	16-19	24-29	➢ Displays elementary knowledge of well learnt economic facts and a generalised understanding together with limited analysis. ➢ A limited ability to use data and to select and apply different economic ideas in order to provide some relevant opinion. ➢ Evidence is presented which has a basic relevance.
Level 1	0-15	0-23	➢ Displays knowledge presented as facts without any awareness of other viewpoints. ➢ Demonstrates limited understanding with little or on analysis. ➢ Attempts at selecting, applying, evaluating and presenting material are irrelevant and unclear. ➢ None of the assessment objectives are covered satisfactorily.