

Mark Scheme (Standardisation) Winter 2009

GCE

GCE Economics (6353/01)

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	Increase in the value of output goods and services (1 mark) produced after inflation has been discounted (1 mark) growth (1 mark) average per year (1 mark) data reference (1 mark)	(3)

Question Number	Answer	Mark
1(b)(i)	GDP per head growing faster in Japan than in USA - data reference (1 mark) because population in US is growing (1 mark) but falling in Japan (1 mark) or that the US population is larger than Japan's. Also allow reasons such as productivity differences, technology, hours worked, innovation up to a maximum of two marks if no reference to population changes.	(3)

Question Number	Answer	Mark
1(b)(ii)	Allow two reasons up to 3 marks each, or three reasons up to 2 marks each. Reasons include: <ul style="list-style-type: none"> • Differences in distribution of income • Living standards relate not just to income but to quality of life • Differences in hours of work/holidays • Differences in state provided goods and services • Exchange rates might not accurately reflect differences in purchasing power of currencies • Hidden economy • Informal/unpaid economy • Externalities Evaluation could include: <ul style="list-style-type: none"> • GDP per head is best measure available • GDP per head gives indication of average incomes - a key determinant of living standards • internationally recognised • Living standards cannot be measured - questioning the question! Do not allow answers relating to inflation or cost of living arguments.	(8)

Question Number	Answer	Mark
1(c)(i)	<p>Meaning of investment: expenditure on capital goods (1 mark) Data reference (1 mark)</p> <p>AD: Investment as an injection into circular flow (1 mark). Multiplier (1 mark)</p> <p>AS: Significance of investment for productive capacity (up to 2 marks)</p> <p>Diagram up to 3 marks or equivalent verbal analysis: showing AD shift to the right (1 mark) and/or AS shift to the right (1 mark) and changes in equilibrium points (1 mark).</p>	(7)

Question Number	Answer	Mark
1(c)(ii)	<p>Allow any two factors. Factors might include:</p> <ul style="list-style-type: none"> • Immigration of skilled workers • Strength of sterling • Competitiveness of exports • Government spending • Age of the population • Availability of other factors of production • Innovation • Government Policy e.g. corporation tax; regulations • Expectations • Rate of interest • Profits • New technology <p>2 marks for identification and 2 for application or analysis</p> <p><i>Do not accept answers relating to investment, e.g. a difference caused by differing interest rates. Answers relating to inflation or population should not be awarded unless a convincing argument is developed.</i></p>	(4)

Question Number	Answer	Mark
1(d)	<p>Explicit/implicit understanding of economic growth (1 mark)</p> <p>AD/AS diagram showing rightward shift in AD and/or AS curve or equivalent verbal analysis of how price level and real output are affected (2 marks) or PPF diagram showing rightward shift in PPF and/or a movement towards the PPF (up to 2 marks)</p> <p>Potential benefits:</p> <ul style="list-style-type: none"> • Increased tax revenues for the government which may be used to improve public services or redistribute incomes • Higher profits for companies which may be used to improve quality of products or to produce new products • Consumers can afford to buy more goods and services and/or have more leisure time • More employment opportunities/lower unemployment • If there is export-led growth, then the current account of the Balance of Payments would improve <p>2 x 3 marks or 3 x 2 marks</p> <p>Evaluative comments could include:</p> <ul style="list-style-type: none"> • Growth might involve depletion of natural resources • External costs of growth/external costs • Greater inequality • Unsustainability • Technological unemployment • Short run/long run effects • Growth could cause a deterioration in the Balance of Payments since Britain has a high marginal propensity to import <p>2 x 3 marks or 3 x 2 marks</p>	(15)

Question Number	Answer	Mark
2(a)(i)	<p>A sense of spending survey on a basket of goods e.g. 650 goods selected (1 mark); Weighting (1 mark) Price survey (1 mark)</p> <p>Maximum 2 marks without reference to Figure 1 (either RPI or CPI)</p>	(3)

Question Number	Answer	Mark
2(a)(ii)	<p>Disadvantages include:</p> <ul style="list-style-type: none"> • Loss of international competitiveness • Redistribution of income • Falling real incomes - if wages rise less quickly • Increase in menu costs • Increase in shoe leather costs • Uncertainty resulting in lower investment • Wage-price spiral <p>2 x 2 marks 2 marks for identification and 2 for explanation/application to UK economy</p>	(4)

Question Number	Answer	Mark
2(b)(i)	<p>Rising energy prices (1 mark); reward reasons for this, such as increased demand from emerging economies; foreign currency changes, biofuel and other renewable energy demands, stockpiling and other effects of global uncertainties, speculation. data reference from Figure 2 or from extract (1 mark)</p>	

Question Number	Answer	Mark
2(b)(ii)	<p>Cheap imports from China and other lower wage countries; recession leading to lower spending owing to unemployment or credit problems; increased globalisation e.g. quota removal (1 mark); data reference (1 mark)</p>	(4)

Question Number	Answer	Mark
2(c)	<p>AS analysis up to 3 marks: significance of oil and energy in production and transport.</p> <p>AD analysis award up to 3 marks: UK net importer of oil. Therefore, fall in AD. Multiplier 1 mark. If argued that UK is net exporter then accept increase in AD.</p> <p>Diagram up to 3 marks or equivalent verbal analysis: showing AD shift to the left (1 mark) and/or AS shift upwards or left (1 mark) and changes in equilibrium points (1 mark).</p> <p><i>Do not award argument that consumption falls because prices rise.</i></p> <p>Evaluation points could include:</p> <ul style="list-style-type: none"> • Short run/long run effects • Effects depend on gradient of AD curve • Whether price rises are temporary or permanent • 'Oil intensity' is declining so effects may not be significant • Other things are not equal, for example the government delay fuel tax rises, or other fiscal changes. • Size of multiplier effects <p>2 marks for any evaluative comment</p>	(8)

Question Number	Answer	Mark
2(d)	<p>Effects: price of exports fall (1 mark); price of imports rise (1 mark) Demand for exports likely to rise; demand for imports likely to fall (1 mark) Therefore AD likely to increase (1 mark).</p> <p>Further analysis, e.g. cost push analysis, elasticities, effects on unemployment up to 2 marks. AD/AS diagram showing rightward shift in AD curve (2 marks)</p>	(6)

Question Number	Answer	Mark
2(e)	<p>Meaning of injection: addition to the circular flow (1 mark)</p> <p>AD/AS diagram showing rightward shift in AD or equivalent verbal analysis of how price level and real output are affected (2 marks)</p> <p>Transmission mechanisms and analysis of effects (award 2 x 3 or 3 x 2 marks):</p> <ul style="list-style-type: none"> • Increase in tax free allowances leads to increase in disposable income; • Increase in disposable income should result in increase in consumption and, therefore, in AD; • Higher AD leading to an increase in real output and inflation • Higher real output should result in an increase in employment • Increased disposable income leading to an increase in imports and a deterioration in the Balance of Payments on current account. <p><i>If the data is taken as an increase in government spending then allow up to 4 out of the 6 available marks for transmission mechanisms.</i></p> <p>Evaluation:</p> <ul style="list-style-type: none"> • Depends on the shape of the AS curve - the effects might cause inflation or growth • Tax cuts may be saved not spent - VAT cut might be more effective. • Injection might be too large or not large enough - an example of government failure? • Impact may be small if value of the multiplier is small, that is high leakages • Short run/long run effects • Given the state of economy (falling house prices etc) the impact may be insignificant • Other factors may not be equal <p>2 x 3 marks or 3 x 2 marks</p>	(15)