

Mark Scheme (Post-Standardisation) Summer 2009

GCE

GCE Economics (6356/01)

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)	<p>Possible effects include:</p> <ul style="list-style-type: none"> • Fall in consumption - negative wealth effect <p><i>But... correlation between house prices and consumer spending may not be high</i></p> <ul style="list-style-type: none"> • Rising unemployment as aggregate demand falls, especially in those sectors related to housing <p><i>But other components may increase so offsetting the fall in consumption</i></p> <ul style="list-style-type: none"> • Impact on related industries including rented accommodation. • Impact of public finances • Impact on banks and building societies has been very significant e.g. resulting in part-nationalisation of several banks. <p><i>If no reference to other major developed economies, award a maximum of 23 marks - top of level 3.</i></p> <p>For a L5 mark (28-31): Consideration of 3 factors together with 1 evaluative point. A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 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 focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
1(b)	<ul style="list-style-type: none"> • Understanding of the meaning of supply side policies: definition and diagram. Understanding of recession: 2 successive quarters of negative economic growth <p>Examples of specific supply side policies:</p> <ul style="list-style-type: none"> • Reduction in trade union power <i>But...if earnings are held down then the chances of recession might increase</i> • Cuts in income tax rates to increase incentives to work <i>This could have beneficial demand-side effects by increasing disposable income, although the tax cuts might just be saved. Also, danger of increased inflationary pressures.</i> • Cuts in rates of corporation tax - Ireland only 12.5% compared with UK of 28% <i>Might help to increase investment and FDI but unlikely if fear of recession is great. Also danger that the increased injection could exacerbate inflation.</i> • Further reductions in unemployment benefits and/or limiting benefits to those who demonstrate willingness to take a job <i>But...this would reduce the incomes of those on low incomes so further reducing consumption and making recession more likely.</i> • Reduction in red tape - EU regulations have increased admin burden on most firms - e.g. health and safety. <i>But...no guarantee that this would prevent recession although such measures would reduce costs.</i> • Reduce employment protection and employment rights; abolish maximum working time directive • Improvements in infrastructure <i>But...take considerable time to implement.</i> <p>Also: for evaluation - supply side policies are only likely to have an impact in the long run. Therefore, they are unlikely to alleviate an imminent recession. And: Supply side policies would be ineffective in preventing a recession if AD is very low (this may be illustrated with a diagram)</p> <p>For a L5 mark: Discussion of 4 points and 2</p>	

	<p>evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	<p>(60)</p>
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Question Number	Answer	Mark
2(a)	<p>Possible factors include:</p> <ul style="list-style-type: none"> • Fall in UK interest rates relative to rates in eurozone and expectations of further cuts • UK has a significant balance payments deficit on current account <p><i>But...UK has attracted significant sums into its financial account as a result of FDI</i></p> <ul style="list-style-type: none"> • UK's greater exposure to the credit crunch given its greater dependency on housing - and Northern Rock <p><i>But..other factors may be more significant</i></p> <ul style="list-style-type: none"> • UK economy slowing down more rapidly than eurozone economies <p><i>But.. this is short term evidence only</i></p> <ul style="list-style-type: none"> • Pound had been overvalued in recent years <p><i>This may be significant given the PPP calculations</i></p> <ul style="list-style-type: none"> • Relative inflation rates: The UK has experienced a higher rate of inflation than many eurozone countries. <p><i>But...rate of inflation was expected to fall rapidly.</i></p> <ul style="list-style-type: none"> • Speculation <p>If reference is not made to both recession and inflation</p> <p>For a L5 mark (28-31): Consideration of 3 factors together with 1 evaluative point.</p> <p>A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation</p> <p>Max 28 marks if no evaluation.</p> <p>Award a L4 mark (24-27 marks) if only 2 factors + evaluation</p> <p>Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
2(b)	<p>Possible effects include:</p> <ul style="list-style-type: none"> • Reduction in cost-push inflationary pressures (increase in AS) • Higher aggregate demand - given that UK is now a net oil importer • Possibility of higher rate of economic growth • Improvement in the balance of trade in goods • Danger of increase in external costs e.g. increase in use of fuel inefficient cars. • Impact on real income and consumption - increase in AD. • Impact on profits and investment - increase in AD. <p>Evaluation could include:</p> <ul style="list-style-type: none"> • Businesses might increase profit margins and so inflation may be less likely • Fall in oil prices reflects world recession so few benefits to the UK economy. • Short run/long run effects. • Consideration of whether or not fall in price is temporary. <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
3(a)	<p>Implications on public finances could include:</p> <ul style="list-style-type: none"> • Increased expenditure on e.g. healthcare; pensions; • Increased expenditure on pensions and tax credits for elderly <i>But...more targeted benefits might not result in significant rise or retirement age could be increased.</i> • Increased dependency ratio; higher tax burden on those working <i>But...could be offset by increased immigrants of working age</i> • Danger that structural fiscal deficit will increase and rising national debt <i>But country may be able to afford extra burden if economic growth continues</i> <p>Implication for the UK's competitiveness include:</p> <ul style="list-style-type: none"> • Older people less geographically and occupationally mobile leading to a slower growth rate <i>But...many elderly people have become IT literate</i> • Low levels of productivity <i>But...older workers have more experience and be more productive</i> • Less dynamic/efficient economy • Higher inflation if ageing population causes increased public expenditure <p>For a L5 mark (28-31): Consideration of 3 factors together with 1 evaluative point. At least one factor must relate to public finances and one to competitiveness.</p> <p>A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation Max 28 marks if no evaluation.</p> <p>Award a L4 mark (24-27 marks) if only 2 factors + evaluation</p> <p>Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.</p> <p>If focus is on either public finances or competitiveness, then maximum mark is 27.</p>	(40)

Question Number	Answer	Mark
3(b)	<p>Effects could include:</p> <ul style="list-style-type: none"> • Increase in working population and in aggregate supply <i>But...may only be temporary</i> • Source of increased aggregate demand when they spend their earnings in UK economy <i>But... money may be repatriated to families in home country</i> • Increased burden on public services e.g. health and education leading to higher public expenditure in these areas <i>But...immigrants also source of tax revenue for government</i> • Implications for housing market - both for rent and purchase • Wage costs may be held down so helping to increase competitiveness of UK goods - improvement in the current account of balance of payments <i>But.. firms might simply raise profit margins and increase dividends</i> • Income transferred abroad • Increased unemployment among UK workers. <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
4(a)	<p>Identification of trends: Savings ratio: falling since 1992 from nearly 14% to 3.5% Debt ratio: doubled from just over 80% to 160%</p> <p>Explanations could include:</p> <ul style="list-style-type: none"> • Reduction in interest rates (until 2004) • High consumer confidence - based on long period of continuous economic growth & job security • Rising house prices leading to increase in mortgage equity withdrawal • Ease of obtaining credit and mortgages (until mid-2007) <p>2 marks for identification of factors; 2 for application and 2 for analysis (1 mark for reference to savings ratio falling + 1 mark for reference to household debt rising)</p>	(6)

Question Number	Answer	Mark
4(b)	<ul style="list-style-type: none"> • Lower savings rate and/or increased debt implies increased consumer expenditure which implies increased imports • UK has a high marginal propensity to import • Continuous economic growth; rising real incomes leading to higher imports <p>Other explanations include:</p> <ul style="list-style-type: none"> • Value of pound has been high until 2007 • Industrialisation of China and cheap imports from this low wage economy • UK has relatively low productivity. Therefore, its goods are not so price competitive • Foreign goods more competitive in non-price terms <p>2 marks for identification; 2 for application (1 data ref. to B/P; 1 for relationship) and 3 for analysis and 3 for any evaluative comment (or 2+1).</p> <p>Candidates may take either viewpoint, i.e. their answers might be based on factors other than declining saving ratio and increasing debt as the main reasons for the rising current account deficit. As long as this is evaluated, then this approach is acceptable.</p>	

	<p>Evaluative comments could include:</p> <ul style="list-style-type: none"> • Identification of most significant factor, with justification. • Consideration of the 'other explanations' listed above. 	(10)
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Question Number	Answer	Mark
4(c)	<p>A wide range of responses may be expected but candidates could consider:</p> <ul style="list-style-type: none"> • Implications for employment - which has been increasing steadily until 2008 <i>But much employment part-time</i> • Implications for inflation - with lower savings and higher debts a consumer boom could cause inflationary pressures <i>But downward price pressures because of Chindia effect; slow growth of wages associated with net migration</i> • Asset price bubbles - possibly leading to financial crisis <i>certainly true for the housing market eg. buy-to-let but less so for share prices</i> • Shortage of funds for investment <i>But not a problem because of FDI and access to global credit markets</i> • Improvement in public finances <p>2 marks for identification; 1 for application (UK context); 4 for analysis and 3 for any evaluative comment ((or 2+1).</p>	(10)

Question Number	Answer	Mark
4(d)	<p>Possible effects include:</p> <ul style="list-style-type: none"> • Fall in exports to US, leading to worsening of current account <i>Significant because about 17% of UK's exports go to US; but UK may be able to increase exports to emerging economies which are still growing strongly.</i> • Rising unemployment • Slowdown in economic growth or recession <i>Again, this may not happen if growth in emerging markets continues to be rapid</i> • Credit crunch has not only affected US but also UK housing market (Northern Rock; LIBOR). Less availability of loans implies less spending. <i>But consumers could use savings to maintain current living standards</i> • Fall in retail sales; lower profits made by firms <p>Evaluation may also include:</p> <ul style="list-style-type: none"> • Length of slowdown in the US • Magnitude of slowdown/recession in US <p>2 marks for identification of factors (must be related to context) 1 mark for reference to US being a major trading partner of UK. 3 for analysis and 4 for any 2 evaluative comments (2+2; 3+1).</p>	(10)

Question Number	Answer	Mark
4(e)(i)	When public expenditure is greater than tax revenue.	(2)

Question Number	Answer	Mark
4(e)(ii)	<p>Definition or implicit understanding of fiscal stimulus: e.g. tax rebates, higher government expenditure (1 mark)</p> <p>Case for:</p> <ul style="list-style-type: none"> • Ineffectiveness of monetary policy in current financial crisis • Provides a means of helping consumers to increase spending • Use of passage with regard to US: 'employment is falling, consumers spending is growing very slowly and credit conditions are tightening' • To avoid danger of deep recession • Use of AD/AS analysis and multiplier to demonstrate impact <p>Case against: (evaluation)</p> <ul style="list-style-type: none"> • Danger of inflation • Increased government borrowing • Crowding out • Fine tuning has failed in past - led to stagflation • Automatic stabilisers are already in place in many countries so not necessary • Tax rebates may simple be used to repay debts or saved. <p>1 mark for identification; 6 for application and analysis and 5 for any 2 or 3 evaluative comments (3+2; 2+2+1). Maximum 10/12 if not related to UK or US</p>	(12)

Question Number	Answer	Mark
5(a)	Fixed exchange rate: one which has a set value against another currency.	(2)

Question Number	Answer	Mark
5(b)	<p>Meaning of devaluation/depreciation Analysis: impact on export prices and import prices Effect on demand for imports and exports Effect on balance of payments</p> <p><i>Evaluation:</i></p> <ul style="list-style-type: none"> • Time lags: J curve effect; reference to extract for application marks • Significance of PEDs: Marshall-Lerner condition • Significance of PES of exports. <p>2 marks for definition; 2 for application (i.e. reference to devaluation of £ from \$2.80 to \$2.40 OR effect on current account) and 3 for analysis and 3 for any evaluative comment (or 2+1).</p>	(10)

Question Number	Answer	Mark
5(c)	<p>Effects include:</p> <ul style="list-style-type: none"> • Inflation: increased cost of imported raw materials and manufactured goods • Higher investment resulting from increased domestic demand and exports, or increased uncertainty could cause a fall in investment. • Higher employment resulting from increased aggregate demand • Positive impact on tourism <p>2 marks for identification; 4 for application and analysis. If no specific reference to UK then maximum 5/6</p>	(6)

Question Number	Answer	Mark
5(d)(i)	<p>Factors could include:</p> <ul style="list-style-type: none"> • high value of pound • rising real incomes • Cheap air flights/more package deals to exotic destinations • Ageing population - baby boomer cruisers • Cost of holiday accommodation in UK/fashion <p><i>Evaluation:</i></p> <ul style="list-style-type: none"> • Short run/long term trend? • Significance of rising real incomes - income elastic demand • Prioritisation <p>2 marks for identification; 2 for application (1 mark for noting general trend; 2 marks if figures are used) and 2 for analysis and 4 for any 2 evaluative comments (2+2 or 3+1).</p>	(10)

Question Number	Answer	Mark
5(d)(ii)	<p>Factors include:</p> <ul style="list-style-type: none"> • 2012 Olympics <i>But...Olympics might actually deter some potential visitors to London in 2012</i> • Promotion of UK as tourist destination <i>But...costs involved might be considerable - how will this be financed?</i> • Improvements in hotel accommodation <i>But...hotels have reputation for being relatively expensive compared with e.g. France</i> • Fall in value of pound <i>But...this could raise costs e.g. food.</i> • Increased cost of air travel <i>But...budget airlines are still likely to offer attractive prices</i> • Recession in UK <i>But...evidence that people are unwilling to cut back on holidays - they are more likely to reduce expenditure on consumer durables</i> <p>2 marks for identification; 4 for application and analysis but only 3/4 if not related to UK. and 4 for any 2 evaluative comments (2+2; 3+1). 2 marks for identification of factors (but must be related to context)</p>	(10)

Question Number	Answer	Mark
5(e)	<p>Cause for concern:</p> <ul style="list-style-type: none"> • Could reflect serious overvaluation of currency • Might indicate fall in competitiveness of UK goods • Could cause a rise in unemployment • May lead to fall in foreign currency reserves • Could lead to fall in value of currency <p>Not a cause for concern:</p> <ul style="list-style-type: none"> • If financed by inflows into financial account • Adjustment easy under a system of floating exchange rates • If imbalance caused by imports of capital goods • If imbalance is temporary in nature <p>1 mark for definition or implicit understanding of current account deficit; 6 for application and analysis and 5 for any 2 or 3 evaluative comments (3+2). (or 2+2+1) For maximum marks at least 2 issues should be discussed and evaluated.</p> <p>Candidates may take either viewpoint i.e. they could argue that it is or is not a cause for concern. As long as the approach is evaluated, full marks could be obtained.</p>	(12)

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
	40	60	
Level 5*	32-40	48-60	<ul style="list-style-type: none"> ➤ 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 economics 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	<ul style="list-style-type: none"> ➤ 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 economics 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	<ul style="list-style-type: none"> ➤ 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. ➤ Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence.
Level 3	20-23	30-35	<ul style="list-style-type: none"> ➤ Displays some knowledge of economic principles, concepts and theories with an 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 data. ➤ Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence.
Level 2	16-19	24-29	<ul style="list-style-type: none"> ➤ 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 economics ideas in order to provide some relevant opinion. ➤ Evidence is presented which has a basic relevance.
Level 1	0-15	0-23	<ul style="list-style-type: none"> ➤ Displays knowledge presented as facts without any awareness of other viewpoints. ➤ Demonstrates limited understanding with little or no analysis. ➤ Attempts at selecting, applying, evaluating and presenting material are irrelevant and unclear. ➤ None of the assessment objectives are covered satisfactorily.

