

Mark Scheme (Standardisation)

June 2009

GCE

GCE Economics (6EC02/1)

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)(i)	<p>Definition of growth (2 marks) of which: Increase (1 mark) in actual or real (1 mark) GDP or income or output (1 mark). Allow potential (1 mark) output. Allow negative economic growth.</p> <p>Further valid explanation in the context of change in GDP e.g. outward shift in PPF, goods and services, components of AD, the three methods of calculation, shift in AD/AS (2 marks)</p> <p>Use of data (up to 2 marks) e.g. France 2.0%, Germany 2%, Spain 2.7%, or UK 2.3%</p> <p>Do not award benefits, causes or consequences.</p>	(4)

Question Number	Answer	Mark
1(a)(ii)	<p>Award reference to:</p> <ul style="list-style-type: none"> • Basket of goods (1 mark) • price survey (1 mark) • food and expenditure survey (or equivalent) (1 mark) • weightings (1 mark for stating, 1 mark for explanation) 2 marks • index (1 mark for stating, 1 mark for explanation) (2 marks) • base year (1 mark) • excluding housing costs (1 mark) • 650 items (allow in range 600 to 700) (1 mark) • 7000 households (1 mark) 	(4)

Question Number	Answer	Mark
1(a)(iii)	<p>KAA 8 marks (2 x 4 marks)</p> <p>Award 2 factors only, up to 4 marks each: For identification of each factor (2 marks) (1 mark for stating, 1 mark for explanation) and development of the factor. Factors might include:</p> <ul style="list-style-type: none"> • Ignores distribution of income • Population changes (per capita discussion) • Quality vs. quantity • Under-recorded economy e.g. factors that GDP ignores such as self produced goods • Informal economy • Hidden economy • Composition of output e.g. military goods • Discussion of health and education • Increased employment • Externalities • For discussion of real vs. nominal allow limited marks (growth figures usually given as real) <p>Evaluation (4 marks). Award (2 x 2 marks or 1 x 4 marks)</p> <ul style="list-style-type: none"> • GDP is very useful in the wider context of a composite indicator • Discussion of changes over time. Increased growth can lead to increased living standards in the future • changes vs. levels • Living standards are not quantifiable • Prioritisation of measures of living standards, with justification • If growth is based on borrowing then standards of living may fall in the future • Best method we have? • Local multiplier not national • Employment may not increase in times of economic growth 	(12)

Question Number	Answer	Mark
1(b)(i)	<p>Withdrawal - explanation, eg money is flowing out, something that reduced aggregate demand or the flow of income, has the same effect as savings or imports (2 marks)</p> <p>Use of data -10.2% of GDP to support this - (1 mark) for figure and (1 mark) for sign (2 marks)</p> <p>Definition of current account deficit, e.g. that value of inflows is less than value of outflows (2 marks) If just $X < M$ then (1 mark) for definition</p> <p>Do not award answers relating to G&T or government deficit</p>	(4)

Question Number	Answer	Mark
1(b)(ii)	<p>Accept two plausible reasons (maximum 3 marks for each reason).</p> <p>Identification (2 marks) of which (1 mark for stating) and explanation of point (this may be data use) (1 mark). Link to the deficit (up to 2 marks)</p> <p>Factors might include:</p> <p>High level of growth, sucking in imports High level of inflation, reducing competitiveness High level of exports from Germany, which has higher relative competitiveness</p> <p>Accept answers not related to data, e.g. level of confidence, low level of unemployment. High value of currency Non-price competitive factors Changes in investment income or current transfers</p> <p>Do not award answers relating to G&T or government deficit unless this is linked to international trade</p>	(6)

Question Number	Answer	Mark
1(c)(i)	<p>Definition: A broad measure of economic development, or standards of living or quality of life, or an indication of health and education rather than just incomes (2 marks)</p> <p>Components: which includes life expectancy, education and GDP at PPPs and/or per capita and/or real incomes (3 correct components 2 marks; 2 components, 1 mark; 1 components, no reward)</p> <p>Use of data (2 marks) 1 mark for identification and 1 marks for explaining what it means. E.g. an index or rank</p>	(4)

Question Number	Answer	Mark
1(c)(ii)	<p>KAA (12 marks): Identification of 3 advantages and explanation (3 x 4 marks) or 2 advantages (2 x 6 marks)</p> <p>Factors (stating 1 mark and explanation 1 mark; up to 4 marks for why it is an advantage). Factors might include:</p> <ul style="list-style-type: none"> • HDI is an improvement on mere GDP figures (may involve discussion of per capita, real values etc.) • An international measure (by UN) therefore better for comparison • Other comparative issues between countries e.g. exchange problems are reduced compared to using GDP or the inflation rate or current account • Measures chosen are easy and cheap to collect • Measures chosen are fairly reliable • Indicates GDP has been used to increase social welfare • Use of education and health is a sign of successful government policies • A sign of increased potential without increases in costs, so HDI rank is a sign of welfare in the future <p><i>Discussion of the strengths of three components individually can count as three factors</i></p> <p>Evaluation (4 marks) Award (2 x 2 marks or 1 x 4 marks). Factors might include:</p> <ul style="list-style-type: none"> • Data collection issues • An indication of deprivation or poverty would increase the usefulness of HDI • PPP values change very quickly and are likely to be inaccurate or misleading • Still very little sense of income distribution in this measure • Still very little sense of quality of life in this measure, e.g. wars, political oppression • Relative significance of measure - e.g. in spite of its problems it is one of the better measures • Other measures, such as access to the internet, might be more useful • Better to use a combination of measures • GDP rank minus HDI rank as a useful measure or health and education • Changes over time or 'other things are not equal' make the measures less useful • Environmental issues • Size of hidden or informal economy • Gender, social, ethnic, cultural, urban/rural issues • Magnitude of factor <p>QWC marks to be awarded as implicit.</p>	(16)

Question Number	Answer	Mark
1(d)	<p>Knowledge, application and analysis (18 marks), of which:</p> <p>Definition of supply side policies (2 marks) accept increase aggregate supply, policies that aim to promote efficiency and increase potential capacity. May be implicit.</p> <p>Diagram (4 marks) showing the effects of relevant government policies on the price level and output, showing an increase to the right of AS, or equivalent verbal analysis (4 marks) of which 2 marks for downwards/rightwards shift of AS curve, 2 marks for movement along correctly labels, or equivalent verbal analysis. PPF plus written explanation (2+2 marks)</p> <p>Analysis (12 marks) of the effect of chosen policies - award three factors (4 marks each) or two factors (6 marks each). Factors might include:</p> <p>Supply side policies</p> <ul style="list-style-type: none"> • Privatisation • Education and training • Deregulation • Cutting bureaucracy • Promotion of competition • Control of power of monopolies • Reduction in planning restrictions • Improvement in human capital increases the value of workers' output, meaning that firms can produce more for the same price • Improved mobility of labour • Changing tax system e.g. lower corporation tax • Reform of benefits • Lower interest rates or other monetary policy can feed through to higher investment or stopping businesses from failing • Abolishing or adjustments to minimum wage • Policies to increase immigration • Reform of the trade unions • Support for R&D <p>Do not allow reference to subsidies unless there is the clear macroeconomic implication that AS will shift, rather than one firm benefitting at the expense of others</p> <p>To achieve 12/12 marks there must be a reference to economic growth. If not cap at 8/12.</p>	

	<p>Evaluation (12 marks) - award three points up to 4 marks each or two well-developed points up to 6 marks each. Points might include</p> <ul style="list-style-type: none"> • Time lag for the education to have a result on workforce • Other time lags, e.g. supply side policies can lag for decades • Education might not be effective (e.g. Madonna studies, Surf Science) • Expansionary fiscal implications of supply side policies • Other policies might be more effective, e.g. cutting interest rates or fiscal expansion • Scope for further supply side policies is limited. • Maybe substantial adverse impact upon workforce, e.g. job security and work/life balance, loss of confidence of consumers • Ineffective if insufficient AD in economy • Supply side policy conflicts <ul style="list-style-type: none"> - Increased government spending and tax can cause disincentives - Supply side policy might have positive impact on the fiscal side in the long run -externalities issues <p>Accept any reasonable evaluation based on the answers given.</p> <p>QWC marks to be awarded as implicit.</p>	(30)
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Question Number	Answer	Mark
2(a)(i)	<p>A permitted range for the increase in the price levels, measured by changes in the CPI (2 marks)</p> <p>2% (1 mark)(+ or - 1%) (1 mark). Allow RPIX 2.5% or ECB 2% ceiling.</p> <p>Target is a government-determined goal set for the MPC (2 marks)</p> <p>Reference to data (2.1%) (2 marks) (1 mark for stating, 1 mark for context or brief explanation)</p> <p>Role of MPC by setting interest rates (2 marks)</p>	(4)

Question Number	Answer	Mark
2(a)(ii)	<p>For each point (allow two points only for up to 4 marks each):</p> <p>Identification of evidence (2 marks) 1 mark for stating and 1 mark for explaining; why this factor is used (2 marks);</p> <p>Evidence might include</p> <ul style="list-style-type: none"> • Prospects for output growth have worsened • Disruption to global financial markets • Tight credit • Consumer spending growth has eased • Output growth has moderated • From Figure 1, rates had just been cut and this may be part of a rate cutting policy • MPC might want to encourage the pound to fall <p>Reserve 2 marks for making link to price level or inflation. This might be indirect or using 'these developments might lead to CPI inflation falling below target in the long run' Ext. 1 line 8. Allow 'reflate'.</p>	(10)

Question Number	Answer	Mark
2(a)(iii)	<p>KAA 4 marks</p> <p>Distribution of income more even or equal (if justified) (2 marks):</p> <p>Why this happens: identification of groups (i.e. winners and losers) affected by cut in interest rates, e.g. savers are worse off, borrowers are better off, mortgage holders have more money left over to spend, pensioners living on saving lose out, hire-purchasers might find monthly payments fall (2 marks). Other ways to earn these marks: AD rises might mean more employment for the unemployed. This must be linked to certain types of groups who are affected. Also, savers are likely to be the higher-income groups and their returns will fall, monthly mortgage interest payments will reduce affecting lower-income groups more as a proportion of their income, link between interest rates and house prices.</p> <p>Only up to 1 mark if just one group identified.</p> <p>Alternatively, allow full KAA 4 marks for a correctly reasoned argument that distribution becomes less equal..</p> <p>Evaluation (4 marks). Award (2 x 2 marks or 1 x 4).</p> <p>Points might include</p> <ul style="list-style-type: none"> • It depends on the size of the cut • Interest rate cuts are not necessarily carried through • Banks cut savings rates more than rates on borrowing and other asymmetry • Higher impact in UK than other countries - more owner-occupiers and many are on fixed rate mortgages • A tax change/supply side policy might have different effects • higher-income groups are not necessarily higher savers; • higher-income groups might have larger mortgage interest payments as a proportion of their income; • time implications for impact of interest rate changes e.g. rate changes do not always come through immediately • Other time issues. 	(8)

Question Number	Answer	Mark
2(b)(i)	<p>This is where the government spends more than it receives in taxation revenue (2 marks).</p> <p>Or Sense of overspending by government without any reference to tax receipts (1 mark)</p> <p>Reference to data of either £39.4 billion, or 2.8% GDP. 1 mark for figure and 1 mark for context, i.e. a deficit or a minus a figure, or spending exceeds revenue (2 marks)</p> <p>Consequences, e.g. government is going to borrow, taxes might need to rise, government spending might need to fall, interest rates might need to rise (2 marks)</p>	(4)

Question Number	Answer	Mark
2(b)(ii)	<p>Identification of multiplier (2 marks) 1 mark for stating and 1 mark for explaining/defining/implicit understanding.</p> <p>Diagram showing rightward shift in AD (or leftward in the case of a negative multiplier) (4 marks).</p> <p>Analysis of multiplier (1 x 4 marks or 2 x 2 marks). Points might include</p> <ul style="list-style-type: none"> • Spending becomes other peoples' incomes • Explanation of reasons for size of leakages • Process continues until all extra income is leaked away • Relevance to government spending, e.g. on hospitals • Knock-on effects can be shown with the multiplier formula, although this is not required. <p>Evaluation (4 marks) Award 2 x 2 marks or 1 x 4 marks. Factors might include:</p> <ul style="list-style-type: none"> • Discussion of the size of the multiplier • Time lag effects e.g. some of the positive effects might take time • AS shift to the right e.g. through health care and education • The impact will depends on the shape or position of the AS curve • Other things might not be equal, e.g. the pound might change in value • Multiplier is very hard to measure and isolate from other influences • Future changes in taxes or changes in spending might cancel out these effects • Confidence in the government might affect variables such as C and I <p>QWC marks to be awarded as implicit.</p>	(14)

Question Number	Answer	Mark
2(c)	<p>Data (2 marks) e.g. unemployment is rising, or level of 1.8m</p> <p>Award two costs:</p> <p>Identification of costs (2 marks for each cost clearly identified) (1 mark for stating and 1 mark for explanation). 2 marks for why this is a cost, linked to the economy for the second mark. Costs might include:</p> <ul style="list-style-type: none"> • Loss of income; credit problems; e.g. house repossession, welfare problems for dependants, poverty issues. • Loss of skills and other human capital: hard to get back into labour market. • Government revenue falls so spending likely to fall; other fiscal issues e.g. increase in JSA payments • Social costs: large numbers of idle workers can have negative effect on society, e.g. crime, morale, social disintegration • Opportunity costs: resources could be used elsewhere • Loss of output; lower living standards 	(10)

Question Number	Answer	Mark
2(d)	<p>Knowledge, application and analysis (18 marks), of which:</p> <p>Definition (2 marks): demand side policies refer to monetary and fiscal policy, 1 mark for each</p> <p>Diagram (or equivalent verbal analysis) (4 marks) showing a shift in AD in context of candidate's analysis</p> <p>Analysis (12 marks) of the effect of conflicts in macroeconomic objectives - award three factors (3 x 4 marks each); or two factors (2 x 6 marks each).</p> <p>Factors might include</p> <ul style="list-style-type: none"> • Phillips curve short run trade off • Expansionary policy causes growth but inflationary pressures occur • Expansionary policies might increase employment but worsen the impact on the environment • Rises in interest rates can control inflation but worsen the distribution of income • Cuts in interest rates can encourage growth but there is likely to be a worsening of the current account. • Tight monetary policy can cause the value of the currency to rise increasing living standards but there is a worsening effect on the current account of the balance of payments. <p>Conflicts might include:</p> <ul style="list-style-type: none"> • Inflation and growth • Inflation and employment • Inflation and balance of payments issues • Growth and environment • Growth and income redistribution • Growth and balance of payments issues <p>Or any other combination</p> <p>To achieve (12/12 marks) there must be a reference to the demand side policy being used. If not cap at (8/12 marks).</p> <p>Evaluation (12 marks) - award three points up to 4 marks each or two well-developed points up to 6 marks each. Points might include</p> <ul style="list-style-type: none"> • Depends on elasticities, e.g. LRAS when AD shifts • Short run vs. long run arguments, e.g. unemployment is a lagging indication • Prioritisation of objectives with justification 	

	<ul style="list-style-type: none"> • Other things are not equal - confidence, availability of credit or inter-bank lending rates might be a more important influence on consumer spending than the repo rate • Policies themselves might conflict • Unreliable or missing information <p>QWC marks to be awarded as implicit.</p>	(30)
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	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
ai	2	2			4
aii		2	2		4
aiii	2	2	6	4	12
bi	2	2			4
bii	2	2	2		6
ci	2	2			4
cii	6	2	4	4	12
d	6	6	6	12	30
Total	20	20	20	20	
Question 2					
ai	2	2			4
aii	4	4	2		10
aiii		2	2	4	8
bi	2	2			4
bii	2	2	6	4	14
biii	4	2	4	4	8
c	6	6	6	12	30
Total	20	20	20	20	