GCE

Economics

Advanced Subsidiary GCE

Unit **F582:** The National and International Economy

Mark Scheme for June 2012

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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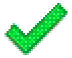
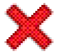
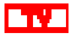
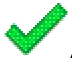
Annotations

Annotation	Meaning
	Tick
	Cross
	Unclear
	Benefit of Doubt
	Effective Evaluation
	Irrelevant
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too Vague
	Repeat

Question			Answer	Marks	Guidance
1	(a)		Two marks for a sustained/persistent/constant rise in the price level/prices/average prices/CPI/RPI/cost of living or a fall in the value of money over time. One mark for idea of rise in the price level/general price level/prices/average prices/CPI/RPI/cost of living or a fall in the value of money. One mark for idea of change occurring over time/ sustained/persistent.	2	The mark for the idea of a change over time should be awarded only if it is linked to the idea of a rise in the price level or version of such. The one exception to this is that 1 mark should be given for 'a change in the price level over time'. No marks should be given for a micro answer e.g. 'a rise in the price of a good or service over time'.
	(b)		One mark for each correct identification up to a maximum of three identifications e.g. loss of international competitiveness/fall in exports/rise in imports, menu costs, shoe leather costs, administrative costs, random redistribution of income, inflationary noise, fiscal drag, uncertainty, unemployment, fall in real GDP, fall in investment, fall in the value of savings, fall in real disposable income (but must state if inflation rate is higher than wage rises), wage price spiral, fall in business confidence.	3	Nothing for rise in prices/fall in the value of money, fall in aggregate demand, fall in the exchange rate, fall in savings, fall in consumer expenditure.
2			Two marks for 18 million. One mark for correct working i.e. 4.5m x 4 or 4.5m x 100/25.	2	No marks for an answer which works towards 18m but then deducts 4.5m to arrive at 13.5m – confused thinking. Note if awarding 2 marks, put 2 ticks on the answer.
3	(a)		One mark for each of two reasons identified i.e. • low interest rates, • low incomes/low wages/unemployment/poverty • weak financial sector. Up to two marks each for each of two analytical developments i.e. low interest rates will make it less rewarding to save (1) and will increase spending/borrowing (1); when people have low incomes they have to spend all or most of their incomes (1) and cannot afford to save (1); if people do not have bank accounts (1) they may not find it easy or safe to save (1).	6	Treat low incomes/low wages/unemployment/poverty as one reason. Note: if a candidate gains e.g. only two marks for low income or poverty as one reason and then gives unemployment as a second reason with a link to income – this can be seen as an extension of the first reason, so gains 3 marks for the first reason.

Question			Answer	Marks	Guidance
	(b)		Up to three marks for analysis: • Recognising that a cut in corporation tax will enable firms to keep more of their profits/raise profits available for firms. • This cut will enable firms to invest more/have more retained profits to invest. • Higher investment involves increased spending on capital goods/technology • A reduction in corporation tax will reduce the costs of production. • Awareness of the reduction may increase business confidence. • Knowing that more profits can be kept will provide an incentive to invest. Up to three marks for evaluation: • The effect on investment will depend on the size of the cut. • Firms may not invest if there is considerable spare capacity. • Firms may not invest, despite the cut, if they are pessimistic about economic prospects. • Corporation tax may still be high/effect on investment will depend on the initial tax rate. • The cut in corporation tax may be offset by another relevant factor which is identified e.g. a rise or the level of interest rates. • Firms may not invest if the cost of capital goods is high/rising.	6	Note: a candidate cannot access the comment (evaluation) marks without any analytical underpinning. Up to three marks for one evaluative point made e.g. if an economy is experiencing a recession, firms may not feel confident to invest as they may expect sales to fall. Award for each analysis mark Award for each evaluation mark

Question			Answer	Marks	Guidance
4	(a)		One mark for each correct identification up to a maximum of two identifications i.e. • trade in services (invisible balance) • income • current transfers.	2	Accept investment income or profit, interest and dividends (all three) for investment. Accept transfers or net transfers for current transfers. No marks for an individual item in a component – too vague.
	(b)		One mark each for each of two advantages identified e.g. access to a larger market, access to cheaper imported raw materials, ability to specialise, opportunity to take advantage of economies of scale, access to new ideas and technology. One mark each for each of two descriptions e.g. selling to a global market may enable firms to reduce costs/increase sales/increase profits/raise finance from abroad; cheaper imported raw materials will reduce costs of production; trading with other countries can help the spread of new technology which can raise the quality of what is produced/reduce costs of production.	4	The focus has to be on advantages to firms, so no marks for e.g. improve the current account position, reduce unemployment or raise real GDP.

Question			Answer	Marks	Guidance
	(c)		Up to three marks for analysis: • A fall in a country's inflation rate could increase the price competitiveness of its products • Lower inflation rate means prices rise more slowly • Exports may increase. • Imports may fall. • Export revenue may increase and import expenditure may fall • Current account deficit may decrease/current account may move to a surplus/surplus may increase. Up to three marks for evaluation: • The inflation rate may fall but the country's products may still be more expensive than those of rival countries. • An increase in price competitiveness may be offset by a fall in quality. • The reduction in the inflation rate may be offset by an increase in the exchange rate. • The reduction in the inflation rate may be offset by a fall in incomes abroad. • The reduction in the inflation rate may be offset by a rise in trade restrictions imposed by foreign governments. • An improvement in the trade in goods and services balances may be offset by deterioration in the income balance or the current transfers balance. • Trade in goods and services are only two of the components of the current account. • The outcome will be influenced by PED.	6	Note: a candidate cannot access the comment (evaluation) marks without any analytical underpinning. Up to three marks for one evaluative point well made e.g. a fall in the inflation rate may make the country's products more desirable but if incomes abroad have fallen, foreigners' ability to buy products will decrease and so their demand for all products including imports, is likely to decline. Reference to the effect on the exchange rate (rise) may be taken as an evaluative point but not an analytical point. So no marks for an answer which just discusses the effects of an exchange rate change. Note an answer which states that exports will rise and imports will fall due to a reduction in the exchange rate gains no marks for these points.  Award for each analysis mark  Award for each evaluation mark

Question			Answer	Marks	Guidance
5	(a)		One mark for the idea of a positive relationship. One mark for consumer expenditure is a component of aggregate demand/shifts AD in the relevant direction. One mark for a change in consumer expenditure will influence how much firms produce.	2	The second mark is dependent of the first mark – i.e. recognising they will move in the same direction. Also allow explanation either way i.e. why a rise in real GDP may increase consumer expenditure e.g. higher income would enable people to spend more.
	(b)		One mark for : • All experienced rising consumer expenditure (C) and rising real GDP/a positive relationship. • C rose more rapidly/changed more in most of the countries. • Countries with the lowest/highest change in consumer expenditure had the lowest /highest change in GDP. • Ghana is an exception. • Largest gap between increases in C and real GDP occurred in Ethiopia • Change is similar in South Africa, Nigeria and Kenya but there is a larger difference in Ethiopia and Uganda. • Change in C and real GDP was closest in South Africa. Note: maximum of three marks.	3	No marks for a pedestrian approach e.g. Ethiopia had a change in C greater than real GDP, Ghana had a smaller change; Uganda had a larger change etc. No mark for confusion with absolute figures e.g.consumer expenditure was higher than real GDP in all the countries except Ghana.

Question			Answer	Marks	Guidance
6	(a)		One mark each for each of two reasons identified, i.e. • To reduce unemployment • To reduce budget deficit • To raise living standards/reduce poverty • To catch up with other African countries • To increase quality/quantity of education • To increase investment • To increase savings Up to two marks each for each of two explanations e.g. a higher economic growth will increase the need for firms to produce more therefore create more jobs; a higher economic growth rate will raise tax revenue and reduce government spending on unemployment related benefits; a higher economic growth rate will increase demand for labour and so raise wages; a better relative economic growth rate may attract FDI which may increase exports etc.	6	

Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		This question requires a discussion of the possible impact on economic growth of an increase in government spending on education and what factors influence the effect. Answers may question the quality of education, how the effect of an increase in AD is influenced by the level of capacity in the economy, how a rise in government spending may be offset by a fall in another component of AD, whether more educated people will stay in the country. L4: For a discussion of whether an increase in government spending on education will always increase a country's economic growth rate. (13–18). Answers should evaluate whether an increase in government spending on education will always increase a country's economic growth rate. Examples of possible L4 answers: • An increase in spending on education does not guarantee an improvement in the quality of education. • Higher government spending may increase inflation and not increase economic growth in the short run if the economy is operating at full capacity. • An increase in government spending may have a significant impact on economic growth in the short run if there is spare capacity and there is a large multiplier effect. • Higher government spending does not guarantee higher AD as other components of		Government spending is a component of AD. Therefore an increase in government spending on education may increase aggregate demand. This may result in a rise in real GDP. If the higher spending increases educational standards, labour productivity may increase. Higher labour productivity may increase aggregate supply and so result in an increase in productive potential.	Note: evaluation marks must be supported by relevant analysis. For 16–18 marks the discussion must: • Come to a supported conclusion e.g. higher spending on education has the potential to generate economic growth both in the short run and the long run, the impact will be influenced by whether the education results in relevant skills being developed. • Must be based on strong analysis. For 13–15 marks the discussion: • May mention that higher spending on education may not be sufficient to raise the economic growth rate (two-sided), for example, that the impact will be influenced by the initial state of the economy. • Must be based on preceding analysis.

Question			Answer	Marks	Guidance	
					Content	Levels of response
			AD may decline. • Productive capacity will not increase if more educated workers emigrate. • Full advantage may not be gained from higher educated workers if investment falls. • By increasing AD and AS, education has the potential to create sustained economic growth. • Another policy measure maybe more effective in promoting economic growth with the reasons why explained. For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing the effectiveness of the policy measure. For 13 – 15 marks, a discussion which does evaluate but which lacks some depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling, punctuation and grammar.			

Question			Answer	Marks	Guidance	
					Content	Levels of response
			L3: For an analysis of whether an increase in government spending on education will always increase a government's economic growth rate (9 – 12) Answers should analyse how an increase in government spending on education may increase economic growth. Examples of possible L3 answers: • Government spending is a component of AD and higher government spending may increase AD. Higher AD may increase real GDP and so lead to economic growth. • Improved education may increase the skills and productivity of workers. Higher productivity can increase productive potential/AS and so increase potential (long run) economic growth. • Use of AD/AS diagram shifting AD and/or AS curve to the right with relevant explanation of why AD and/or AS may shift and the impact on economic growth. For 11+ marks there should be some depth of analysis covering links to economic growth through both AD and AS. For 9–10 marks there may be some lack of depth, i.e. covering links only to economic growth through AD or AS. Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point			The analysis must focus on the actual question set bringing out how higher government spending on education may increase influence the economic growth rate. For 11–12 marks there should be good analysis of how an increase in government spending on education may increase the economic growth rate both through influencing AD and AS. For 9–10 marks, there should be analysis in terms of an examination of the impact on economic growth either through an increase in AD or an increase in AS.

Question			Answer	Marks	Guidance	
					Content	Levels of response
			of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning. L2: For an application of knowledge and understanding of how an increase in government spending may increase a country's economic growth rate. (5–8) Answers should recognise that an increase in government spending may increase AD and/or raise the skills of workers. Examples of possible L2 answers: • More government spending will increase AD/total demand. • Higher demand will encourage firms to increase employment. • More government spending on education may increase the skills of workers. • More skilled workers can produce more products. For 7–8 marks, the answer should recognise three or four links between government spending on education and economic growth. For 5–6 marks, the answer should recognise two links/one link between government spending on education and economic growth. Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.			To gain 8 marks a candidate needs to identify four links or at least two links with a hint of explanation on at least one of these. To gain 7 marks a candidate needs to identify three links or at least one link with a hint of explanation on this. To gain 6 marks a candidate needs to identify two links. To gain 5 marks a candidate needs to identify one link.

Question			Answer	Marks	Guidance	
					Content	Levels of response
			Examples of possible L1 answers: • Government spending is expenditure by central and local government. • The economic growth rate is a measure of changes in the country's output. • The economic growth rate is measured by changes in real GDP. • Real GDP has been adjusted for inflation. • GDP is the total output produced in a country. • Education improves qualifications. For 3–4 marks there will be both knowledge and understanding of both government spending and the economic growth rate. For 1–2 marks there will be knowledge and understanding of either economic growth in very general terms or government spending or education. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack clarity.			L1: For knowledge and understanding of government spending and economic growth rate. (1–4) These answers will show some awareness of the terms.

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