RECOGNISING ACHIEVEMENT

GCE

Economics

Advanced Subsidiary GCE

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

Mark Scheme for June 2013

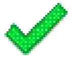
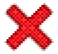
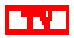
This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Annotations

Annotation	Meaning
	Tick
	Cross
	Unclear
	Benefit of doubt
	Effective evaluation
	Comment
	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)		**Name the three leakages from the circular flow of income.** One mark each for each of the three leakages ie saving, taxation and imports.	3	The taxation mark can be given for a type of tax eg income tax. The imports mark can be given for the idea or an example of income/expenditure going abroad eg current transfers.
	(b)		**Explain whether the change in China's real GDP in 2011 means that injections into the circular flow of income were greater than leakages in that year.** One mark for stating yes or confirming injections are greater than leakages. One mark for recognising this is because real GDP increased/economic growth occurred.	2	The 'yes' mark may be gained even if the reason is invalid. If the answer states no, award zero marks even if the answer mentions real GDP increased.
2	(a)		**Describe three reasons why consumer expenditure in an economy may be relatively low.** One mark for each of three reasons identified eg low wages, high unemployment, high taxation, low wealth, lack of consumer confidence, a high interest rate, uneven distribution of income, high level of personal indebtedness, lack of availability of credit, age, inflation, uncertainty. One mark each for each of three explanations eg: • If income is low, the ability of people to spend will be low. • High rates of taxation (direct and indirect) will lower ability to spend. • Unemployment will reduce people's ability to spend. • If wealth is low, people will not be able to borrow much as they will not be able to use it as security/it will not generate them much income.	6	Note: if identified inflation, to gain the second mark it is not sufficient just to state the purchasing power is lower or people buy less when prices rise. Treat low income and low wages as the same point.

Question			Answer	Marks	Guidance
			• If consumer confidence is low, people may decide to increase their savings. • A high rate of interest will discourage borrowing/encourage saving. • Inflation will reduce purchasing power if prices are rising by more than wages/inflation may cause spending to be cut to maintain the real value of savings/inflation may delay their purchases in the expectation that prices may be lower in the future. • If people are uncertain about future economic prospects they may choose to save rather than spend.		
	(b)		**Using information in the case study, calculate whether average income was higher in China or in Japan in 2011.** One mark for higher in Japan. One mark for supporting evidence ie: Japan = US$5,670bn/126m = US$**45,000.** China = US$6,480bn/1,350m = US$**4,800.**	2	Answers are acceptable without $ sign.

Question			Answer	Marks	Guidance
3	(a)		**Define the term ‘inflation’.** Two marks for a sustained/persistent/constant rise in the price level/prices/average prices/CPI/RPI/cost of living. Two marks for 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 one mark should be given for ‘a change in the price level over time’. No marks should be given for a micro answer eg ‘a rise in the price of a good or service over time’.
	(b)		**Using information from Fig. 1, explain what happened to the price level in China between 2007–11.** One mark for the price level rose over the period. One mark for the price level fell in 2009/deflation occurred in 2009/price level fell at the end of 2008 and some of 2009. One mark for the price level rose most rapidly at the start of the period/start of 2007. One mark for the price level rose between 2007 and 2008. One mark for the price level rose between 2009 and 2011. One mark for the price level rose at a slower rate in 2008 than in 2007. One mark for the rate of increase of the price level slowed between 2010 and 2011 / the price level increased by a higher percentage in 2011 than in 2010. One mark for price level fluctuated.	3	

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td></td><td>(c)</td><td></td><td>Identify and explain the two causes of inflation mentioned in the case study.

A rise in bank lending (one mark) may:
• increase aggregate demand/increase the money supply (one mark) and
• this may cause demand-pull inflation/higher money supply may reduce the value of money (one mark).

A rise in the wage rate (one mark) may:
• increase costs of production (one mark) and
• firms may raise prices to cover the higher costs/ firms may raise prices to maintain profits (one mark) and
• AS will decrease (one mark) and
• This may cause cost-push inflation/cause a wage-price spiral (one mark).
Or:
A rise in the wage rate (one mark) may:
• increase aggregate demand (one mark) and
• this may cause demand-pull inflation (one mark).</td><td>6</td><td>One mark each for each of the two causes identified ie rise in bank lending and rise in wages. Up to two marks each for each of two explanations:

Accept a diagrammatic approach for one mark each for each of two explanations.

If identify higher consumer expenditure as one reason, award a maximum of two marks.

Also accept a rise in the rate of interest but only if linked to lower investment/higher costs of production. In this case:
rate of interest (one mark) may discourage investment/raise costs of production (one mark) and so decrease aggregate supply (one mark) cause cost-push inflation (one mark).

Accept for demand-pull inflation: if the economy is operating close to full capacity this may drive up the price level.

Do not expect but reward reference to the multiplier effect.</td></tr>
<tr><td>4</td><td>(a)</td><td></td><td>Using information in the case study, calculate the level of investment in China in 2011.

Two marks for US$2,592bn/US$2,592,000,000,000/US$2.592tn.
One mark for correct working ie 40/100 x US$6,480bn/answer which contains the figures US$2592.</td><td>2</td><td>Answers are acceptable without $ sign,</td></tr>
</table>

Question			Answer	Marks	Guidance
	(b)		**Comment on whether an increase in the rate of interest would reduce investment.** Up to three marks for analysis, such as: • An increase in the rate of interest will increase the cost of borrowing to firms. • A higher interest rate increases the opportunity cost of investment. • A higher interest rate may encourage firms to place profits in financial institutions rather than invest/increase reward to firms from saving. • Consumer expenditure may fall with a higher interest rate which may reduce firms' profits. • Lower profits may reduce firms' ability and willingness to invest. • Investment involves spending on capital goods. Up to three marks for evaluation, such as: • If firms expect the yield to exceed the rate of interest they will still invest/firms may be optimistic about the future. • Firms may not expect the rise in the rate of interest to last. • Banks may not pass on the rate increase to their customers. • Other factors may be favourable to investment, eg low corporation tax. • In real terms the rate of interest may have fallen. • Depends on the initial rate of interest. • Depends on the size of the increase.	6	**Evaluative marks can only be awarded if there is underlying analysis focused on the question.** One evaluative point well developed may gain three marks eg: Firms may still invest if they are optimistic about the future (1) profits may be increasing (1) as consumer spending may be rising as they themselves are optimistic about the future (1). Note: no marks if the candidate throughout confuses the nature of investment with saving by households. However some candidates may analyse lower investment in terms of the disincentive effect arising from lower consumer spending due to the higher interest rate. This is a valid approach. Note: a candidate may suggest that a rise in the rate of interest may increase investment if it stimulates a rise in loanable funds and investment has previously been discouraged by a lack of such funds. This should be credited dependent on the strength of the analysis and evaluation provided.

Question			Answer	Marks	Guidance
5			**The case study mentions a number of supply-side policy measures. Analyse the effect of one of these on economic growth.** **Increasing the role of the private sector (privatisation)** (one mark) may: • increase competition (one mark). • raise the profit incentive (one mark). • increase investment (one mark). • reduce costs of production (one mark). • raise efficiency/productivity (one mark). • increase aggregate supply/productive capacity (one mark). • raise GDP (output)/long run economic growth/result in sustained economic growth (one mark). • increase quality of output (one mark). Increased **spending on training** (one mark) may: • increase the skills of labour/human capital (one mark) • increase labour productivity/output per worker/efficiency (one mark) • raise occupational mobility (one mark). • lower costs of production (one mark). • increase aggregate supply/productive capacity (one mark). • raise GDP (output)/long run economic growth/result in sustained economic growth (one mark). • Increase quality of output (one mark). A **cut in income tax** (one mark) may: • increase the incentive to work (one mark). • raise the size of the labour force (one mark). • increase aggregate supply/productive capacity (one mark). • raise GDP (output)/long run economic growth/result in sustained economic growth (one mark). • increase quality of output (one mark).	4	One mark for identifying one of the following supply-side policy measures ie increasing the role of the private sector (privatisation), increased spending on training or cut in income tax. Up to three marks for analysing the effect of one of the policy measures on economic growth; Note: a maximum of two marks if just refer to education. Note: credit training may increase the size of the labour force if linked to reducing the numbers of economically inactive.

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>6</td><td></td><td></td><td>Comment on whether a low unemployment rate should be a government's main macroeconomic objective.

Up to three marks for analysis, such as:
• Low unemployment would involve high utilisation of resources/economy would operate close to production possibility curve.
• Low unemployment will lead to high output/income.
• Low unemployment may mean higher living standards.
• Low unemployment may mean low poverty.
• Low unemployment may reduce social problems eg crime.
• Low unemployment may increase tax revenue.
• Low unemployment would reduce government spending on benefits.
• Low unemployment may reduce income inequality.

Up to three marks for evaluation, such as:
• It may conflict with other policy objectives.
• Low unemployment may result in inflation.
• Low unemployment may reduce flexibility.
• Low unemployment may increase a current account deficit.
• It will depend on the scale of unemployment relative to other macroeconomic problems.
• Inflation can cause a range of problems.
• Steady and sustainable economic growth can enable a government to achieve a range of macroeconomic objectives.
• A current account deficit may put unwanted downward pressure on the exchange rate.
• It may be necessary to focus on reducing national debt in order to retain confidence in the economy.
• May be difficult to reduce unemployment.
• It can depend on the type of unemployment.
• The main objective should be full employment rather than low unemployment.</td><td>6</td><td>Evaluative marks can only be awarded if there is underlying analysis focused on the question.

One evaluative point well made may gain three marks.

In evaluation candidates may focus on why aiming for low unemployment may not be desirable and/or why other objectives may be more important.

Some candidates may start by arguing that another objective should be the government's main macroeconomic objective. Accept analysis on the basis of this approach provided it is made clear why it might be more important than unemployment. Evaluation may take the form of assessing the disadvantages of taking this as the main objective.</td></tr>
</table>

Question			Answer	Marks	Guidance	
					Content	Levels of response
7			**Discuss whether a rise in a country's exchange rate will always reduce its inflation rate.** This question requires a discussion of the possible reasons why a rise in the exchange rate may reduce a country's inflation rate and why it might not. Answers may consider the impact on costs of production, competitive pressures and aggregate demand. **L4 For a discussion of whether a higher exchange rate will always reduce a country's inflation rate. (13–18)** Answers should evaluate whether a rise in the exchange rate will always reduce an economy's inflation rate, eg: • The effect of the rise will depend on how demand responds to the price changes. If, for instance, the quality of domestic products increase, demand for the economy's exports and demand for its imports may remain unchanged. • If incomes abroad rise or trade restrictions abroad are reduced, the economy may continue to enjoy a large current account surplus and so aggregate demand may not decrease. • Lower aggregate demand will have more of an impact on an economy's	18	A rise in the exchange rate will increase export prices and lower import prices. Lower import prices will directly lower the price of some products purchased. They will also reduce the cost of imported raw materials and put pressure on domestic producers to keep the price low. If net exports fall, aggregate demand may decline which may reduce demand-pull inflation.	Note: a maximum of 4 marks for an answer discussing the effects of a fall in the exchange rate. Note: Evaluation must be supported by relevant analysis. For 16–18 marks, the discussion must: • come to a supported judgement/s eg if the economy is initially operating at full capacity, the rise is more likely to reduce inflation than if it is operating with spare capacity, inflation is more likely to fall if the economy's exports and imports are high relative to GDP. • be based on strong analysis. For 13–15 marks, the discussion: • may mention that the effect will depend on what is happening to incomes abroad, whether there are trade restrictions and the initial state of the economy • must be based on the preceding analysis. The analysis must focus on the actual question set.

Question			Answer	Marks	Guidance	
					Content	Levels of response
			• inflation rate if the economy is initially operating close to full capacity. • Producers may not pass on lower imported raw material costs to consumers. • If domestic firms do not have substitutes in the form of imports they may continue to raise their prices. • A higher exchange rate may discourage FDI as it will make exports from the country more expensive/encourage domestic firms to move abroad. This could reduce AS and lead to a higher inflation rate. • The impact on the economy's inflation rate may be greater, the more open the economy is. • The effect on aggregate demand will be influenced by what is happening to the other components of AD. • The effects may be offset by a rise in productivity or higher inflation abroad. For 16–18 marks, there must be a supported judgement based on the preceding analysis and it should reflect the strength of the analysis and evaluation. For 13–15 marks, there must be a discussion of the influencing factors and it must be based on the preceding analysis. Complex ideas have been expressed clearly and fluently, using a style of			Note: just stating it depends on the size of the rise as a larger rise will have a bigger impact is not sufficient for evaluation.

Question			Answer	Marks	Guidance	
					Content	**Levels of response**
			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. **L3 For an analysis of how an increase in its exchange rate may reduce a country's inflation rate. (9–12)** Answers should analyse how an increase in its exchange rate may reduce an economy's inflation rate eg: • Higher export prices and lower import prices may reduce net exports and so lower aggregate demand which may lower demand-pull inflation. This may be combined with an explained AD/AS diagram. • Lower imported raw material prices may reduce costs of production and so slow down price rises and increase AS/reduce cost-push inflation. • Lower import prices may put competitive pressure on domestic firms to keep their costs/prices low. • A fall in import prices will directly reduce the prices of some of the products included in the basket of goods and services used to calculate the consumer prices index.			For 11–12 marks, there should be analysis of the impact on both demand-pull **and** cost-push factors. For 9–10 marks, there should be analysis in terms of either demand-pull **or** cost-push factors. The multiplier effect of lower net exports may be analysed – not required but should be rewarded.

Question			Answer	Marks	Guidance	
					Content	Levels of response
			For 11–12 marks, there are likely to be a number of underdeveloped analytical points or a couple of analytical points which are well developed. For 9–10 marks, there are likely to be only one/two undeveloped analytical points or one analytical point which is somewhat developed. Relatively straightforward ideas have been expressed with clarity and fluency. Analysis is generally relevant, although some of it may stray from the point. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning. **L2 For an application of knowledge and understanding of how an increase in the exchange rate may affect inflation via changes in export/import prices or volumes. (5–8)** Answers should recognise how a rise in the exchange rate will affect inflation by identifying how export and import prices and volumes may change. Examples of possible L2 answers: • A rise in the exchange rate raises export prices/reduce price competitiveness of domestic producers.			8 marks for identifying the effects on prices **and** quantities of **both** exports and imports or providing a hint of explanation of the effect on aggregate demand or costs of production.

Question			Answer	Marks	Guidance	
					Content	Levels of response
			• A rise in the exchange rate reduces import prices. • A rise in the exchange rate may reduce exports/export revenue. • A rise in the exchange rate may increase imports/import expenditure. • An accurate AD/AS diagram showing a shift to the right of the AS curve. • An accurate AD/AS diagram showing a shift to the left of the AD curve. For 7–8 marks, the answer should recognise the effect on **both** prices **and** quantities of products. For 5–6 marks, the answer should recognise the effect on **either** prices **or** quantities. Some simple ideas have been expressed in an appropriate context. There is likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive. **L1 For knowledge and understanding of the exchange rate, a rise in the exchange rate and/or the inflation rate.** **(1–4)** These answers will show some awareness of the terms. Examples of L1 answers: • Inflation rate is the percentage rise in the general price level,			7 marks for identifying the effects on the prices of **both** exports and imports and quantity of **one,** or the quantities of both and price of one. Alternatively there may be a hint of explanation of the effect on the price or quantity of exports and imports. 6 marks for identifying the effects on **either** the prices of exports and imports **or** the quantities of exports and imports. 5 marks for identifying the effect on the price **or** quantity of **either** exports or imports. Up to 2 marks on the exchange rate, up to 2 marks on the rise in the exchange rate and up to 2 marks on inflation. Up to a maximum of 4 marks.

Question			Answer	Marks	Guidance	
					Content	Levels of response
			• The inflation rate is measured by the CPI/RPI. • AD/AS diagram showing inflation. • Diagram showing exchange rate determination. • The exchange rate is the price of a currency in terms of another currency. • The exchange rate is determined by the demand for and supply of a currency. • A rise in the exchange rate means the currency will buy more of another currency. • A rise in the exchange rate means a stronger exchange rate/appreciation. For 3–4 marks, there will be knowledge and understanding of the exchange rate and a rise in the exchange rate or inflation. For 1–2 marks, there will be knowledge and understanding of either the exchange rate or a rise in its value or inflation. Some simple ideas have been expressed. There will be errors of spelling, punctuation, grammar that will be noticeable and intrusive. Writing may lack legibility.			

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning
Telephone: 01223 553998
Facsimile: 01223 552627
Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored