OXFORD CAMBRIDGE AND RSA EXAMINATIONS
Advanced Subsidiary GCE

ECONOMICS   **2883**
THE NATIONAL AND INTERNATIONAL ECONOMY

Revised Specimen Mark Scheme

General Instructions

1 The paper is to be marked to AS standard.

2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.

3 Where this marking approach is employed, candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels of response, but it is usually expected that higher level answers will clearly build on some of the key supporting elements of lower levels.

4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.

5 The mark scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

6 The quality of written communication will be assessed in the answer to part (d).

7 As a level of response mark scheme is used here, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more content-specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be a few, if any errors of spelling, punctuation and grammar.

(3 marks representing the appropriate level of written communication are embedded in this level of response.)

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

(2 marks representing the appropriate level of written communication are embedded in these levels of response).

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

(1 mark representing the above level of written communication is embedded in this level of response.)

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate questions, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only.

No additional QWC marks can be awarded if the initial mark is zero.

(a)   What is meant by the following economic terms as they appear in the text:

    (i)   investment (line 10);   **[2]**

        1 mark for spending on capital goods
        1 mark for spending by businesses or governments linked to capital goods
        1 mark for a relevant example of a capital good
        1 mark for link to productive capacity/increase in supply
        1 mark for component of AD/injection into circular flow.
        2 marks maximum.

    (ii)   aggregate supply (line 10);   **[2]**

        1 mark for total supply/total output
        1 mark for supply by domestic firms/supply in the economy
        1 mark for ability and willingness of firms to supply
        1 mark for at a given price level/in the context of AS
        1 mark for reference to the period in the context of AS.
        2 marks maximum.

    (iii)   real GDP (line 12);   **[2]**

        1 mark for real is GDP adjusted for inflation/GDP at constant prices
        1 mark for correct formula for adjusting from nominal to real
        1 mark for GDP is total output/income/expenditure in an economy
        1 mark for distinguishing between GDP and GNP.

    (iv)   the claimant count (line 14);   **[2]**

        2 marks for link to claiming unemployment benefit/job seekers allowance
        1 mark for reference to the unemployment rate
        1 mark for a measure of those out of work and willing and able to work
        1 mark for reference to any relevant group of people who are actively seeking work which is excluded from the measure/eligible.
        2 marks maximum.

(b)   (i)   Explain how changes in an economy's real GDP would usually be expected to affect its rate of unemployment.   **[4]**

        1 mark for recognising an inverse relationship
        1 mark for rise in real GDP is likely to increase demand for goods & services
        1 mark for higher demand will increase demand for labour
        1 mark for other influences
        1 mark for reference to multiplier as a point of development
        1 mark for a fall in unemployment will move an economy closer to its PPF

1 mark for reference to effects of changes in the rate of economic growth/unemployment rate may affect confidence
1 mark for possibility of time lag
1 mark for any other relevant point e.g. output could rise with no change in employment if productivity rises.

4 marks maximum.

(ii) **To what extent does the data relating to the UK economy (see Table 1) support this relationship?** **[6]**

1 mark for noting that the data does support the relationship
1 mark for noting that output rises throughout the period shown
1 mark for supporting evidence based on the data
1 mark for noting that unemployment falls throughout the period
1 mark for supporting evidence based on the data
up to 2 marks for noting that unemployment continues to fall despite changes in the rate of economic growth/noting that relationship is not strictly proportionate
up to 2 marks for a time lag may complicate the relationship
1 mark for noting that 'another influence' may complicate the relationship.

6 marks maximum.

(c) **In 2001, the US Federal Reserve cut interest rates on various occasions, reaching a forty year low in October (see lines 3-5).**

(i) **What evidence is there in the passage to suggest why these interest rate cuts were made?** **[2]**

1 mark for number of people out of work increased
1 mark for real GDP actually declined during 2001/negative change in real GDP
1 mark for downturn in economic performance.

(ii) **Apart from a cut in interest rates, explain two other measures that the US government could have used to stimulate aggregate demand.** **[6]**

1 mark for each of two measures identified e.g. reduction in tax rates, increase in government spending, incentives for exporters, devaluation, increase in investment, protection, money supply
Up to 2 further marks for an explanation of how each of the two measures would stimulate aggregate demand.

6 marks maximum.

(iii) **Using an aggregate demand and aggregate supply diagram, analyse the effect of a fall in aggregate demand on an economy.** **[7]**
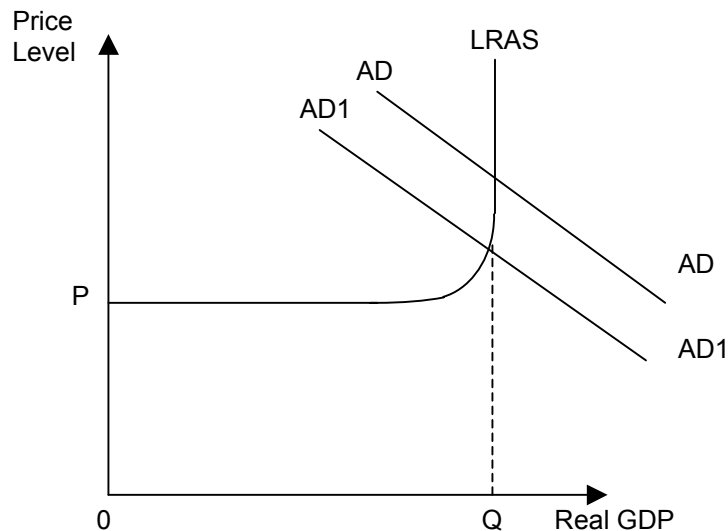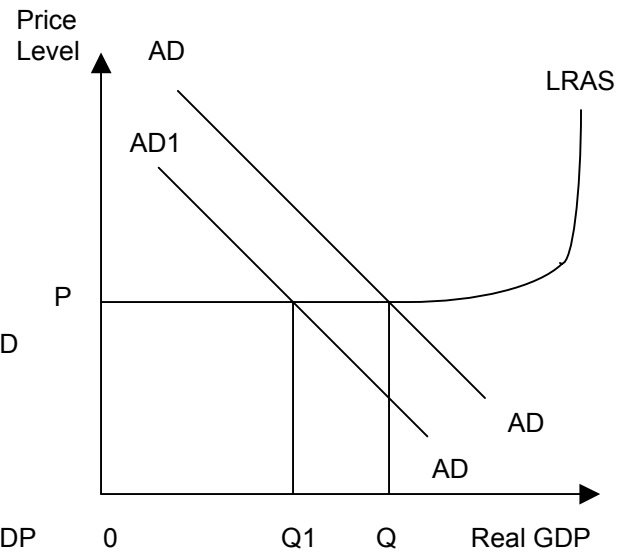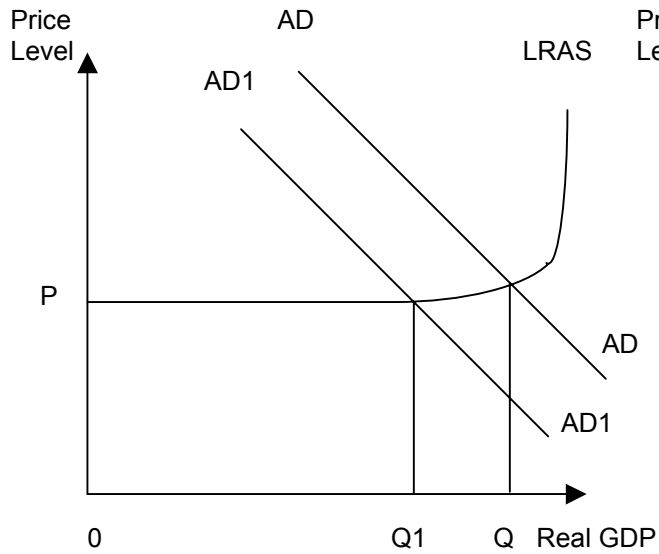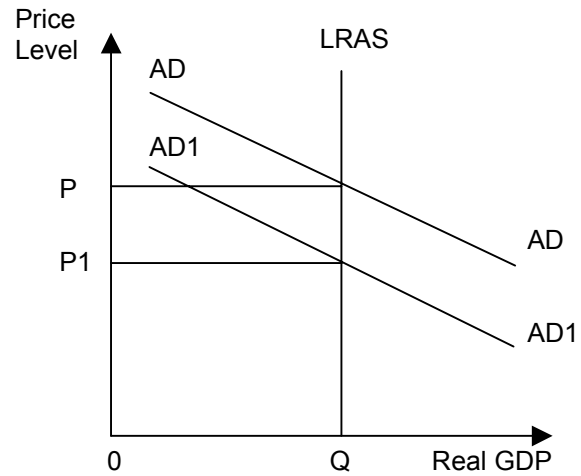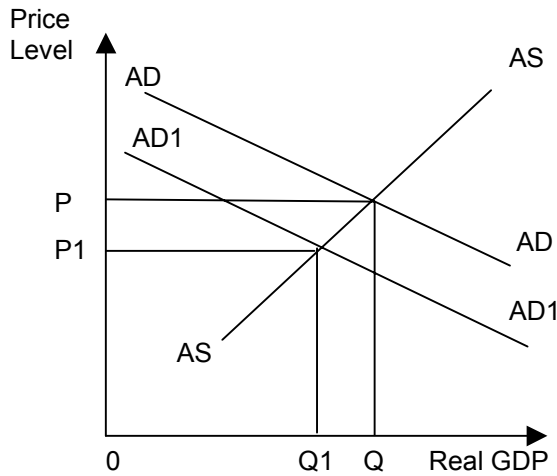
Accurate diagram = up to a maximum of 4 marks
1 mark for axes correctly labelled
1 mark for AD and AS curves correctly labelled
1 mark for shift of AD curve to the left
1 mark for original equilibrium position
1 mark for new equilibrium position.

Accurate explanation with a diagram = up to a maximum of 3 marks and with no diagram = up to a maximum of 2 marks.

1 mark for noting that the AD curve will shift to the left
1 mark for effect on output
1 mark for effect on price level
1 mark for effect on employment
Up to 2 marks for explanation that effects on the price level and output will depend on initial position.

7 marks maximum.

(d)* **Discuss the alternative policies a government may use to improve a deficit in the balance of payments.** **[12]**

A discussion of relevant policies, e.g. import controls, deflation, devaluation and supply-side policies. These policies should be explained and how they may influence a balance of payments deficit analysed. Evaluative comments may include reference to the time they will take, their impact on the country's international competitiveness, their influence on other government objectives, limitations on a government's ability to implement them and how policy choice is influenced by the cause, size and duration of a balance of payments deficit.

L4   For a discussion of how policy measures can affect a balance of payments deficit with some appropriate evaluation.   (9-12)

L3   For an analysis of how policy measures can affect a balance of payments deficit.
                                                                                          (7-8)

L2   For an understanding of how policy measures can be applied to a balance of payments deficit.   (3-6)

L1   For a knowledge of possible policy measures.   (1-2)

* Quality of written communication assessed.

Target	(a) (i),(ii),(iii),(iv)	b(i)	(b)(ii)	(c)(i)	(c)(ii)	(c)(iii)	(d)*	Total
AO1 14	4	4			2	2	2	**14**
AO2 13	4		1	2	2		4	**13**
AO3 9					2	5	2	**9**
AO4 9			5				4	**9**
Subject Content	5.3.1	5.3.2	5.3.2	5.3.3	5.3.3	5.3.2	5.3.4	**45**

*Quality of Written Communication assessed.