

GENERAL  
CERTIFICATE OF  
EDUCATION

**Economics**  
**6841**

Advanced Extension Award

Specimen Paper and  
Mark Scheme

Qualification Available: Summer 2002

**Special Features**

- Designed to extend and stimulate the study of Advanced level Economics.
- Free standing: does not require candidates to be entered for a particular Advanced level.
- Designed to be independent of individual Advanced level specifications.

# ECONOMICS

## Advanced Extension

### Specimen Paper

**Time allowed:** 3 hours

#### Instructions

- Use blue or black ink or ball point pen.
- Answer **all parts** of Question 1 from Section A and **one** question from Section B and **one** question from Section C.

#### Information

- The maximum mark for this paper is 160 marks.
- Mark allocations are shown in brackets.
- Section A carries 50% of the total marks for the paper. The questions in Section B and C carry 25% of the total marks for the paper.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

#### Advice

- You may detach page 5.

## Section A Interpreting Economic Data

Study the data and then answer **all** parts of the question which follow on page 5.

**Total marks for Section A: 80 marks**

1.

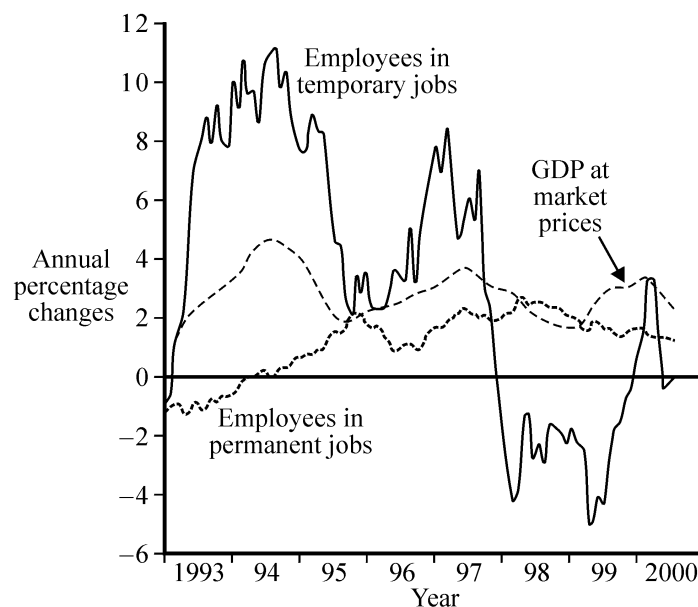
### The Labour Market, Earnings Growth and the Rate of Inflation.

Inflationary pressures in the labour market remain relatively muted despite high levels of labour utilisation. The unemployment rate is the lowest it has been for 25 years and skill shortages continue to be widely reported. Nevertheless, average earnings growth has edged up only slightly since the last Inflation Report, and rising productivity continues to contain unit wage cost growth.

Following several years of rapid growth, employment appears to have levelled off at a high rate in recent months. Indeed, the Labour Force Survey measure of employment fell by 25,000 in the three months to November 2000, the first decline on a comparable three month basis since 1993. Within the total, there was a rise in employment in jobs which workers viewed as permanent. But that was more than offset by declines in other components of employment, such as temporary employees and the self-employed.

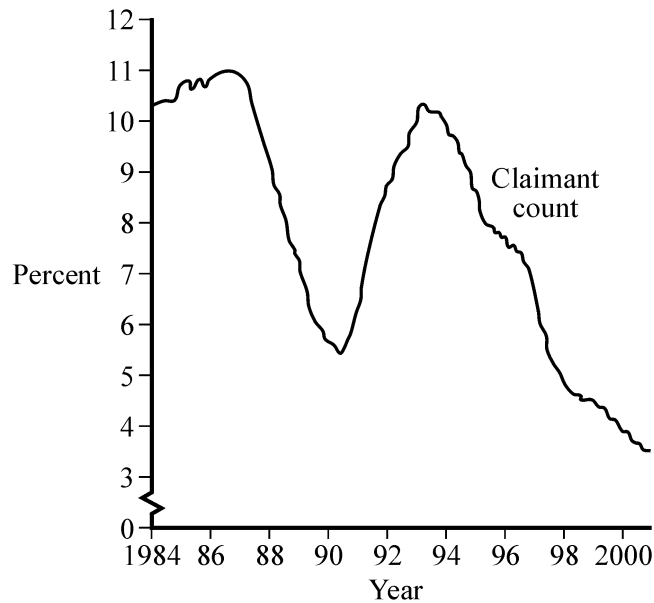
Falls in labour usage mirror the recent slowdown in GDP growth. Temporary employment accounts for a relatively small proportion of total employment but may be particularly sensitive to changes in GDP growth. When demand is rising but prospects are uncertain, employers may initially prefer to take on more temporary workers than permanent staff. Similarly, when demand is easing, firms may recruit fewer new temporary employees or release existing temporary workers. In addition, on the employee side, the decision to search for temporary work may be particularly responsive to economic prospects. However, structural factors, such as rising labour market participation by female workers, have played an important role in the long-run growth in employment of temporary employees. Chart 1 shows how employment has varied with real GDP growth since 1993.

**Chart 1 Employees and GDP Growth**



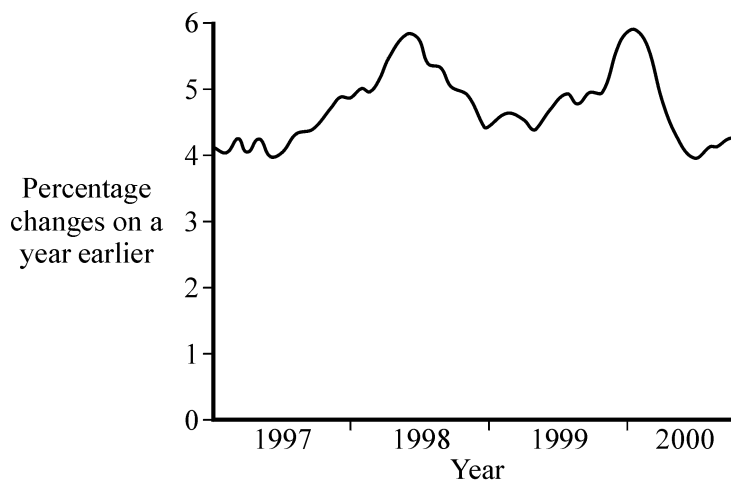
Unemployment is an important indicator of the balance of labour demand relative to its effective supply. Unemployment has declined markedly since 1993. In recent months, claimant count unemployment has fallen less rapidly than earlier in 2000, mainly due to a decline in the number of people leaving the claimant count, rather than an increase in the number of people joining it. The claimant count unemployment at 3.6% is the lowest it has been since 1975.

**Chart 2 Unemployment Rate**



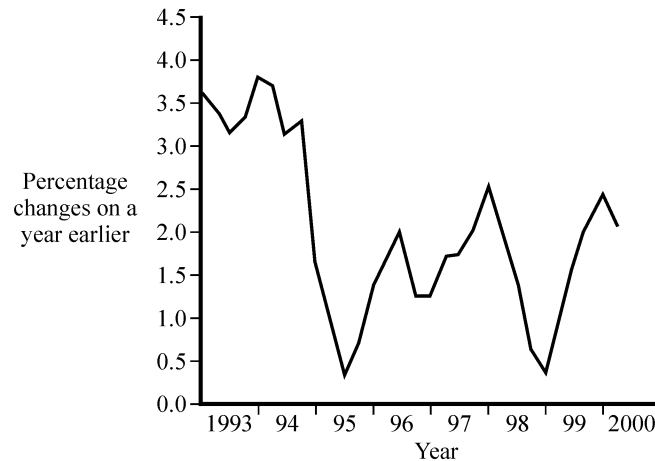
Consistent with the evidence from unemployment on the balance of labour demand and supply, skill shortages continue to be widely reported. For example, the latest CBI quarterly Industrial Trends Survey recorded the highest percentage of manufacturing firms citing labour shortages as a constraint on output since 1989. Other surveys also indicate that recruitment difficulties and skill shortages remain high in the service sector.

**Chart 3 Growth in Nominal Earnings**

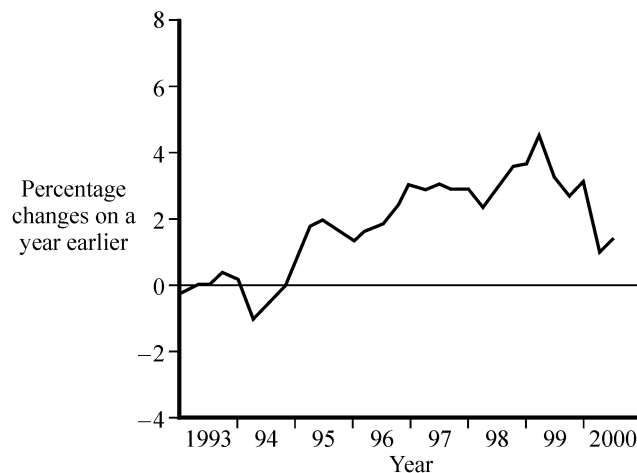


High labour utilisation and widespread skill shortages are likely to exert upward pressure on pay settlements and earnings growth. Wage negotiations may also be affected by current and expected rates of inflation. Employers need to control their labour costs per employee relative to the prices of the goods and services they sell domestically and overseas. Recent surveys suggest that competitive pressures remain an important constraint on firms' pricing behaviour and consequently a downward influence on pay settlements. Employees and trade unions, on the other hand, are concerned with maintaining (or enhancing) the quantity of goods and services that can be purchased with their earnings. So they will be concerned about the growth of nominal wages relative to their expectations of future price inflation.

**Chart 4 Labour Productivity Growth**



**Chart 5 Unit Wage Cost Growth**



The supply capacity of the economy is increased by growth in productivity, as well as growth in the labour force. Charts 4 and 5 above show the annual rates of growth in labour productivity and unit wage costs since 1993.

*Source: Adapted from the Bank of England Inflation Report February 2001*

*This page may be detached*

- (a) Why might there be a relationship between changes in GDP and **both** temporary and permanent employment? Explain what the nature of this relationship might be. *(10 marks)*
- (b) To what extent do the data support the view that there is a relationship between GDP and employment? *(10 marks)*
- (c) Analyse the factors that are likely to influence the rate of growth of nominal earnings. *(20 marks)*
- (d) Evaluate the likely consequences of an increase in the rate of growth of average earnings for the United Kingdom economy. *(20 marks)*
- (e) In the light of the data and any other relevant information, assess the various factors that the Monetary Policy Committee of the Bank of England should take into account when deciding on the level of interest rates. *(20 marks)*

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**Section B      Markets and Market Failure**

*Answer EITHER Question 2 OR Question 3 from this Section.*

**Total marks for Section B: 40 marks**

2. Discuss why some governments are more reluctant than others to implement the policies needed to control global warming?  
*(40 marks)*
  
3. Evaluate the case for the renationalisation of the rail network in the United Kingdom.  
*(40 marks)*

**Section C      The National and International Economy**

*Answer EITHER Question 4 OR Question 5 from this Section.*

**Total marks for Section C: 40 marks**

4. Discuss the view that raising the rate of productivity growth should be a major objective of United Kingdom government policy.  
*(40 marks)*
  
5. “The time is not yet right for the United Kingdom to adopt the single European currency.” Discuss.  
*(40 marks)*

**END OF EXAMINATION**



## Advanced Extension Economics Mark Scheme

### Levels of Response Mark Band Descriptors (Data Response Question)

#### Section A

Questions in this section are marked in different ways. Parts (a) and (b) are marked using a ‘points’ marking scheme. Candidates are rewarded for the relevant points identified and their ability to develop the points they make. Parts (c) and (d) are marked using the ‘Levels of Response Mark Band Descriptors’ shown below.

Parts (c) and (d) of the data response question in Section A of the paper are to be marked using the following levels of response mark band descriptors. Marks should be awarded according to whether the answer demonstrates the skills indicated by the following grids. Marks are to be allocated for:

- Knowledge and Understanding
- Application
- Analysis
- Synthesis and Evaluation

When marking the candidate’s answer, the examiner must indicate where evidence of each of the four skills is demonstrated by using the following key:

<b>K</b>	Knowledge and Understanding
<b>Ap</b>	Application
<b>A</b>	Analysis
<b>E</b>	Synthesis and Evaluation

Each answer will be marked holistically and the level chosen for each skill will be the one which **best fits** the answer provided by the candidate.

The mark scheme for the individual parts of the data response question summarises the information, issues and economic ideas that it is expected that candidates are likely to include in their answers.

<b>Levels of Response Mark Band Descriptors (Data Interpretation)</b>		
<b>Level 3</b>	<p>The candidate demonstrates an in-depth knowledge and understanding of relevant economic concepts and theories throughout and applies them with precision and confidence.</p> <p>The candidate selects and uses a variety of appropriate theories and models to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate effectively synthesises complex information and ideas and constructs coherent arguments to reach well-reasoned, supported judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of more complex economic concepts and theories and an understanding of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated in a highly effective manner making use of the most appropriate form and style.</p>	14 – 20 marks

<b>Level 2</b>	<p>The candidate demonstrates sound knowledge and understanding of most of the economic concepts and theories employed to help answer the question and applies them effectively.</p> <p>The candidate selects and uses appropriate theories to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate synthesises information and ideas and constructs coherent arguments to reach reasoned judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of more economic concepts and theories and an awareness of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated effectively in an appropriate form and style.</p>	10 – 13 marks
<b>Level 1</b>	<p>The candidate makes use of relevant economic concepts and theories but understanding is sometimes confused or incomplete. Some ability to apply economic concepts to the question is demonstrated.</p> <p>The candidate selects appropriate economic theories and shows some ability to use these theories to analyse problems and issues. However the analysis is sometimes confused.</p> <p>The candidate shows some ability to construct a coherent argument to reach judgements and conclusions.</p> <p>Some appreciation of the value and limitations of economic concepts and theories may be demonstrated but little awareness of the tentative nature of economic explanations will be shown.</p> <p>Straightforward information and ideas are expressed clearly with some appreciation of an appropriate form and style.</p>	1 – 9 marks

## Sections B and C

### Levels of Response Mark Band Descriptors (Essay Questions)

The essay questions in Section B and Section C of the paper are to be marked using the following levels of response mark band descriptors. Marks should be awarded according to whether the answer demonstrates the skills indicated by the following grids. Marks are to be allocated for:

- Knowledge and Understanding
- Application
- Analysis
- Synthesis and Evaluation

When marking the candidate's answer, the examiner must indicate where evidence of each of the four skills is demonstrated by using the following key:

<b>K</b>	Knowledge and Understanding
<b>Ap</b>	Application
<b>A</b>	Analysis
<b>E</b>	Synthesis and Evaluation

Each answer will be marked holistically and the level chosen for each skill will be the one which **best fits** the answer provided by the candidate.

The mark scheme for the individual questions summarises the information, issues and economic ideas that it is expected that candidates are likely to include in their answers.

<b>Levels of Response Mark Band Descriptors (Essays)</b>		
<b>Level 3</b>	<p>The candidate demonstrates an in-depth knowledge and understanding of relevant economic concepts and theories throughout and applies them with precision and confidence.</p> <p>The candidate selects and uses a variety of appropriate theories and models to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate effectively synthesises complex information and ideas and constructs coherent arguments to reach well-reasoned, supported judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of more complex economic concepts and theories and an understanding of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated in a highly effective manner making use of the most appropriate form and style.</p>	28 – 40 marks

<b>Level 2</b>	<p>The candidate demonstrates sound knowledge and understanding of most of the economic concepts and theories employed to help answer the question and applies them effectively.</p> <p>The candidate selects and uses appropriate theories to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate synthesises information and ideas and constructs coherent arguments to reach reasoned judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of more economic concepts and theories and an awareness of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated effectively in an appropriate form and style.</p>	20 – 27 marks
<b>Level 1</b>	<p>The candidate makes use of relevant economic concepts and theories but understanding is sometimes confused or incomplete. Some ability to apply economic concepts to the question is demonstrated.</p> <p>The candidate selects appropriate economic theories and shows some ability to use these theories to analyse problems and issues. However the analysis is sometimes confused.</p> <p>The candidate shows some ability to construct a coherent argument to reach judgements and conclusions.</p> <p>Some appreciation of the value and limitations of economic concepts and theories may be demonstrated but little awareness of the tentative nature of economic explanations will be shown.</p> <p>Straightforward information and ideas are expressed clearly with some appreciation of an appropriate form and style.</p>	1 – 19 marks

## Section A Interpreting Economic Data

1.

- (a) Why might there be a relationship between changes in GDP and **both** temporary and permanent employment? Explain what the nature of this relationship might be.

Candidates can gain some marks for providing a general explanation of the relationship between GDP growth and employment. However, if a candidate does not consider **both** the relationship with *temporary and permanent* employment a **maximum of 6 marks** should be awarded.

### The general explanation of the relationship between GDP growth and employment:

#### For candidates who:

explain that the rate of growth of GDP reflects that rate of growth in the output of goods and services produced by the whole economy

*1 mark*

explain that an increase in output usually means that more people are likely to be employed

*1 mark*

analyse the importance of improvements in productivity e.g. if productivity is growing by 2% the output can grow by 2% without any increase in employment

*Up to 2 marks*

### The relationship between GDP growth and temporary employment:

#### For candidates who:

explain why **temporary employment** is likely to be more sensitive to changes in the rate of GDP growth:

**The employer's perspective** - Initially, when GDP starts to grow more rapidly, uncertainty about future demand may mean that employers prefer to take on temporary staff. Similarly when GDP growth slows firms may find it easier and less expensive to lay off temporary workers.

*Up to 3 marks*

**The employee's perspective** – The decision to search for temporary employment may be particularly sensitive to the state of the labour market and employment prospects (candidates might discuss the discouraged worker effect).

*Up to 3 marks*

### The relationship between GDP growth and permanent employment:

#### For candidates who:

explain why the rate of growth of **permanent employment** might be less sensitive to changes in the rate of growth of GDP and why the relationship may be lagged. For example, as the economy slows, firms may be reluctant to reduce permanent employees because of the higher costs involved (redundancy, loss of highly trained skilled workers) and the possibility that the slowdown may be short lived. Similarly, as the economy starts to grow more rapidly, firms may be reluctant to bear the costs and take the risk of employing more permanent staff just in case a period of slow growth returns.

*Up to 4 marks*

suggest that the greater stability in the rate of growth of permanent employment compared to temporary employment is likely to be due to the significantly larger numbers of employees in permanent employment.

*Up to 2 marks*

consider why the relationships may be different in the long run from the short run e.g. if there is a sustained growth in GDP firms' and employees' confidence may increase leading to more permanent employment

*Up to 4 marks*

consider **other reasons** for the changing balance between temporary and permanent employment and GDP growth e.g. as people become more prosperous they may be more willing and able to enter into less stable working relationships

*Up to 4 marks*

**Up to an overall maximum of 10 marks**

- (b) To what extent do the data support the view that there is a relationship between GDP and employment?

The points outlined below provide an indication of where marks are likely to be gained. However, marks may also be awarded for other relevant discussion that attempts to assess the extent to which the data support the view that there is a relationship between temporary and/or permanent employment.

**Temporary employment:**

For candidates who:

state that the data suggests a strong positive correlation between the rate of growth of GDP and the growth in employment in temporary jobs

*1 mark*

support their conclusion by referring to the data e.g. between 1993 and 1994 the rate of growth of GDP increased and was accompanied by a substantial increase in the rate of growth of employees in temporary jobs whereas between mid 1994 and 1995 the rate of growth of GDP slowed and was accompanied by a marked decline in the rate of growth of employees in temporary jobs

*Up to 2 marks*

recognise that between the end of 1997 and middle of 1999 the fall in the rate of growth of GDP is accompanied by a decline in the number of employees in temporary jobs.

*1 mark*

**Permanent employment:**

For candidates who:

state that the data also suggests a positive correlation between the rate of growth of GDP and the growth in employment in permanent jobs

*1 mark*

discuss the possibility of a lagged relationship suggesting that an increase in the rate of growth of GDP generally precedes the growth in the number of employees in permanent jobs

*Up to 2 marks*

make effective use the data to support their conclusions

*Up to 2 marks*

**Additional marks may be awarded to candidates who:**

state that the rate of growth in employees in temporary employment is far more volatile than the rate of growth in employees in permanent employment

*1 mark*

who consider examples where the data seems to contradict their main conclusions

*Up to 4 marks*

discuss the tentative nature of their conclusions and the limitations of the data

*Up to 4 marks*

To be awarded more than **6 marks** the candidate must attempt to consider **the extent to which** the data is consistent with there being a relationship between GDP and employment.

If the candidate only considers permanent **OR** temporary employment they should be **awarded a maximum of 6 marks.**

**Up to an overall maximum of 10 marks**

**(c) Analyse the factors that are likely to influence the rate of growth of nominal earnings.**

Candidates should use both the data and their knowledge to answer the question. Good answers will make use of appropriate economic concepts and models and are likely to show an appreciation of the causes of the growth of nominal earnings in the United Kingdom in recent years.

**Issues, analysis and areas for discussion include:**

- the meaning of the phrase “rate of growth of nominal earnings”
- the difference between basic wage rates and earnings
- the role of the demand and supply of labour in determining the rate at which earnings increase
- factors that are likely to influence the demand and supply of labour
- the concept of derived demand
- the level and rate at which aggregate demand is growing
- the rate of unemployment, the level of job vacancies and the extent of labour shortages
- the flexibility of the labour market and the mobility of labour
- current and expected rates of inflation
- the various competitive pressures on firms that are likely to affect the level of pay settlements e.g. competition in the goods market from both domestic and overseas suppliers, the strength of the pound etc...
- the rate of productivity growth as a factor that influences unit labour costs and hence firms’ ability to give higher pay rises
- the strength and militancy of trade unions
- the Phillips curve
- the equilibrium (or natural) rate of unemployment relative to the current rate of unemployment
- recent behaviour of the United Kingdom labour market perhaps making use of Charts 2 and 3

**Use the levels of response mark band descriptors (Data Interpretation) to award marks for this part of the question****(d) Evaluate the likely consequences of an increase in the rate of growth of average earnings for the United Kingdom economy.**

To answer this part of the question candidates will need to demonstrate that they understand the various ways in which the rate of growth nominal earnings can affect the economy. They may legitimately consider both micro and macro economic consequences. Candidates will also need to evaluate the significance of the various issues raised and may use the data to help support their judgements. There is a wide variety of issues that the candidates might consider and the following list is not intended to include all of the relevant areas for discussion.

**Issues, analysis and areas for discussion include:**

- the importance of the growth labour productivity as a major factor determining the significance of any increase in the rate of growth of nominal earnings
- the impact on firms’ unit costs
- the relationship between the rate of growth of nominal earnings and aggregate demand
- the impact on inflation
- the impact on employment and unemployment
- the impact on profitability
- consequences for investment (including investment in human capital)
- the impact on growth
- the effect on living standards
- the consequences for the housing market and the effect of this on the rest of the economy
- the consequences for international competitiveness and the balance of payments
- possible government policy responses and the effects of these changes on the rest of the economy

**Use the levels of response mark band descriptors (Data Interpretation) to award marks for this part of the question**

- (e) In the light of the data and any other relevant information, assess the various factors that the Monetary Policy Committee of the Bank of England should take into account when deciding on the level of interest rates.

Candidates will need to explain that the Monetary Policy Committee (MPC) is required to use interest rates to try to achieve the inflation target that is set by the government. It should be understood that the MPC will consider a range of factors when deciding whether or not inflation is likely to meet the target. The data relates mainly to the labour market and earnings growth, however, candidates are expected to go beyond the data and consider a much wider range of issues. It is important that the candidate provides an **assessment** of the importance of the various factors discussed.

**Issues, analysis and areas for discussion include:**

- the inflation target (RPIX = 2.5%)
- theories of the causes of inflation (demand based and cost based theories)
- the role of interest rates in affecting inflation i.e. to control aggregate demand so it increases in line with the underlying rate of economic growth plus the inflation target
- reasons why interest rates affect aggregate demand e.g. through the cost of borrowing, the incentive to save, the impact on wealth, the effect on the exchange rate etc...
- the link between the state of the labour market and the rate of growth of wages (candidates may usefully refer to their answers to earlier questions)
- the significance of the rate of increase in earnings for cost based inflationary pressures
- wages as the largest component of most firms' costs
- the importance of the underlying rate of productivity growth – some candidates may explain why the MPC believes that if the rate of growth of average earnings exceeds about 5% it is inconsistent with the 2.5% inflation target
- the rate of growth of earnings and aggregate demand
- employment prospects, consumer confidence and aggregate demand
- the growth of consumer spending, investment spending, the government's fiscal position and net exports (i.e. the various components of aggregate demand)
- the housing market
- financial markets, credit growth and the growth of broad and narrow money
- exchange rates changes
- changes in raw material prices and other factor costs
- changes in the external environment e.g. changes in other countries that might affect inflation, output and inflation in the United Kingdom
- an assessment of the likely significance of the various factors that are likely to be considered by the MPC

**Use the levels of response mark band descriptors (Data Interpretation) to award marks for this part of the question**



## Section B Markets and Market Failure

### 2. Discuss why some governments are more reluctant than others to implement the policies needed to control global warming.

Global warming is a well publicised example of market failure and candidates answering this question will need to demonstrate that they understand why market failure is likely in this area. They will also need to show an appreciation of both ‘market based’ and ‘command and control’ approaches to dealing with such problems. The contribution made by economists to the understanding of the failure of governments to provide optimal solutions to such problems is also likely to be considered by the most able students.

Candidates are likely to identify the various policies that might be adopted to try to control global warming. Policies identified are likely to include:

- the imposition of indirect taxes (e.g. carbon taxes) on polluting activities
- legislation and regulation
- subsidising activities that are likely to reduce pollution (e.g. public transport)
- the introduction of pollution permits
- the extension of property rights

As part of their answer candidates may consider some of the advantages and disadvantages of such policies. Clearly the problems that are created by these policies (and possibly their lack of effectiveness) may help to explain the reluctance of some governments to implement policies to control global warming. They should also discuss why other governments are likely to be in favour of such policies. Relevant issues could include:

- the impact of the policy is likely to have on economic welfare
- the impact on resource allocation (productive and allocative efficiency)
- use of marginalist analysis (including diagrams)
- the likely effectiveness of the policy in reducing the emission of greenhouse gases (e.g. issues such as elasticities of demand and the potential for evading the policy are issues that might be considered)
- the distributional effects of the policy (i.e. gainers and losers)
- the administrative costs of the policy (e.g. implementation and monitoring)
- the impact on government expenditure and/or revenue
- government failure (e.g. setting the tax at the right level, fixing the allowable level of emissions, political concerns etc...)
- practical relevance of the policy to the problem of global warming (e.g. how realistic is the policy of attempting to extend property rights in this context?)
- examples of the effectiveness, benefits and problems of such policies in practice

**Other reasons why some governments might be reluctant to implement policies to control global warming and others might be enthusiastic about such policies include:**

- the difficulties of reaching international agreement regarding the appropriate policies
- differences of opinion regarding the extent, causes and seriousness of the problem
- the perceived impact on growth, employment and prosperity (this may be favourable or unfavourable)
- the various priorities of the governments some of which may conflict with reducing the emission of greenhouse gases
- the differential impact on different countries (e.g. developed versus developing countries, high polluting versus low polluting economies)
- the impact on international competitiveness
- the power of the vested interests in the individual economies e.g. industrialists, multi-national companies, environmental groups etc...
- whether the country is a major polluter or is damaged by cross-border pollution
- the difficulties of policing cross-border policies
- examples of international agreements – their successes and failures (e.g. the Kyoto Agreement)

**Use the levels of response mark band descriptors (Essays) to award marks for this part of the question  
Maximum of 40 marks**

### 3. Evaluate the case for the renationalisation of the rail network in the United Kingdom.

Answers are likely to include some discussion of the background to the privatisation of the rail network and the way in which the system is currently organised. When attempting to evaluate the case for the renationalisation of the rail network they are likely to discuss the advantages and disadvantages of the current system as well as pros and cons of a nationalised rail network. Candidates will be expected to use their knowledge of the way in which markets work, reasons why markets fail and their understanding of the causes of government failure to help answer the question.

#### **Issues, analysis and areas for discussion include:**

- the importance of the rail network as part of an integrated transport system that carries both passengers and freight and which is considered to have significantly lower environmental costs than road transport
- the privatisation of the rail network
- the present structure of the industry and the role of the different parties e.g. Railtrack, the TOCs, the regulatory authorities etc.
- the performance of the rail industry before it was privatised
- the performance of the industry since privatisation (factors such as safety, customer service, journey times, delays, volume of traffic, quality of the infrastructure, investment in new rolling stock, implementation of new technology etc... are likely to be considered)
- the difficulties caused by the greater than expected increase in traffic volumes since privatisation
- with any very large system, such as the rail network, a long period of time is inevitably required before significant progress can be achieved
- the argument that the current system needs reform rather than to be renationalised e.g. fewer TOCs, longer franchises for the TOCs to increase the incentive to invest, a tougher system of regulation, more government subsidies to improve the system, a change in the role of Railtrack etc...
- the view that the system is too fragmented and is incapable of providing the co-ordinated service that passengers require
- the rail network as a natural monopoly that has the potential to exploit consumers and the view that this means it should be publicly owned
- the view that a renationalised system is more likely to operate in the public interest rather than pursuing private profit
- the view that unless the network is in the public sector there is too high a risk that safety will be compromised
- market failure in the transport sector, the case for government intervention and the contribution that investment in the rail network can make to reducing negative externalities
- the view that the rail network is such a vital part of the economy that it should be under government control and subject to national planning
- rail transport as a public service for both the more isolated and less prosperous sections of the community
- the view that large amounts of government funding are essential if the system is to be significantly improved and hence it is right that it should be publicly owned and controlled
- the cost of renationalisation
- the arguments against a nationalised rail network (e.g. forms of government failure such as too much political interference, under-investment, lack of incentive, too much power for the unions etc...)
- an overall assessment of the renationalising the rail network supported by evidence of the successes and failures of the two systems both in the United Kingdom and overseas

**Use the levels of response mark band descriptors (Essays) to award marks for this part of the question**

**Maximum of 40 marks**

## Section C      The National and International Economy

4. Discuss the view that raising the rate of productivity growth should be a major objective of United Kingdom government policy.

Candidates answering this question will need to provide a clear and accurate explanation of the meaning of the term 'productivity'. Most candidates are likely to concentrate on 'labour productivity' but some may consider 'total factor productivity'. It is reasonable to expect that candidates will be aware that productivity in the United Kingdom is lower than in many other developed countries. They may attempt to analyse some of the reasons for differences in productivity levels between the United Kingdom and its main competitors.

Answers are also likely to consider the main objectives of government macro-economic policy (i.e. low unemployment, low inflation, high and stable economic growth and a satisfactory balance of payments). At least part of the answer is likely to focus on the extent to which improving the rate of productivity growth might contribute to achieving one or more of these objectives. Potential conflicts are also likely to be considered.

Candidates might legitimately discuss the policies that could be introduced to try to achieve a more rapid rate of productivity growth and the likely consequences of such policies. They should also show that they appreciate that the importance attached to improving productivity will be affected by value judgements.

**Issues, analysis and areas for discussion include:**

- productivity levels in the United Kingdom compared to other countries
- the relationship between productivity growth and the underlying (potential) rate of growth of output of the economy
- productivity growth and long run improvements in living standards
- does high productivity lead to a high wage economy?
- productivity growth, unit costs and inflation
- productivity and international competitiveness
- high productivity as a means of attracting inward investment and creating new job opportunities
- improvements in productivity and the possibility of structural unemployment
- productivity, competitiveness and the balance of payments
- the difficulties involved in raising productivity growth
- the opportunity cost of implementing policies designed to increase productivity
- policies designed to raise productivity and the quality of life (including possible personal and environmental costs)
- productivity, working hours and leisure time

Candidates should indicate whether or not they agree with the view expressed but it should also be clear that they appreciate the reasons why others may, justifiably, have a different point of view.

**Use the levels of response mark band descriptors (Essays) to award marks for this part of the question**

**Maximum of 40 marks**

5. “The time is not yet right for the United Kingdom to adopt the single European currency”. Discuss.

Candidates answering this question are likely to consider the timing of entry **and** whether or not the time will ever be right for the United Kingdom to adopt the single European currency. They should employ a range of economic concepts and ideas when considering the likely impact of the single currency on the United Kingdom economy. Examples of relevant economic ideas are identified below.

**Issues, analysis and areas for discussion include:**

- explanation the nature of the single European currency (e.g. replaces national currencies, floats against other currencies, managed by the European Central Bank etc..)
- what is meant by ‘convergence’
- the convergence criteria established by the European Union
- the conditions for entry set by the present government
- the need for convergence between countries who adopt the single currency
- the difficulties experienced by the United Kingdom whilst a member of the ERM (and the possible benefits of ERM membership)
- discussion of whether or not the United Kingdom has met the various criteria and whether or not it could/should apply for entry now
- the advantages of adopting a single currency (e.g. reduced transaction costs, eliminates the risks that result from exchange rate changes within Europe, stimulates intra-European trade, extends the benefits of specialisation as illustrated by the principle of comparative advantage, increases competition and the associated benefits, transparency making it difficult for firms to charge different prices in different countries, completes the single European market, supports the position of the City of London as a major financial centre, helps to stimulate further inward investment from outside the EU etc..)
- the disadvantages of adopting a single currency (e.g. conversion costs, single monetary policy, reduced control over fiscal policy, control over economic policy passes to a non-elected European organisation that may not operate in the best interest of the United Kingdom economy, very hard to revert to national currencies if the system does not work well, difficulty of coping with asymmetric shocks, the United Kingdom’s position as an oil producer may mean economic policy in the United Kingdom should be different from that adopted by other European economies, the need for flexible markets to cope with inevitable shocks etc..)
- discussion of the view that the United Kingdom should eventually adopt the single European currency but not yet
- discussion of the view that the United Kingdom shouldn’t ever adopt the single European currency

Some candidates may also discuss non-economic issues, this is acceptable provided they do not dominate the discussion. However, it would be legitimate for a candidate to suggest that the non-economic factors are more important than the economic effects of adopting the single European currency.

Good candidates will appreciate that complete convergence is impossible, and that people will have to take view on whether or not the differences between the United Kingdom and the European economies are too great to make it sensible to contemplate adopting the single European currency at the present time.

They will also recognise that there are strong arguments on both sides of the debate about whether or not the single European currency should ever be adopted and that any decision has risks which are difficult to evaluate with any degree of certainty.

**Use the levels of response mark band descriptors (Essays) to award marks for this part of the question**

**Maximum of 40 marks**