

# **Mark Scheme for June 2011**

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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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Question		Expected Answer	Mark	Additional Guidance
1	(a)	<p><b>For the period shown, which quarter showed the greatest rise in GDP?</b> Quarter _____ 1 year _____ 2006</p> <p><b>the greatest fall in real GDP?</b> Quarter _____ 1 year _____ 2009</p>	[2]	<p>Both quarter and year must be correct for one mark each One mark for each correct identification up to a maximum of two identifications</p> <p>No need for a tick, just put a cross (X) for any incorrect answer.</p>
	(b) (i)	<p><b>Explain what is meant by economic growth.</b></p> <p>Two marks for correct explanation such as a rise in the output (or incomes or GDP) (1) of a country over time (1); or percentage rise in GDP(1) which is total value of goods and services provided (1)</p>	[2]	<p>One mark if some understanding shown, eg a reference to output of the country. Annotate with ticks</p>
	(ii)	<p><b>To what extent does Fig. 1 show evidence of economic growth in the UK economy?</b></p> <p>One mark for stating that Fig.1 shows evidence of growth up to early 2008; one mark for stating there is no growth or negative growth rates (not a fall in growth) after this date.</p>	[2]	<p>One mark for each of the main elements of the trend shown ie two distinct periods are identified. Annotate with ticks Note: One mark for recognising there is both positive and negative economic growth (periods ignored) or one mark for there is positive growth overall.</p>
	(c)	<p><b>Explain how both inflation and unemployment could be affected by the trend shown in Fig. 1.</b></p> <p><b>Level 2: 5–6 marks</b> – candidate explains the effects in context.</p> <p><b>Level 1: 1–4 marks</b> – candidate demonstrates understanding of the effects of positive and negative economic growth on inflation and/or unemployment.</p> <p><b>Indicative content:</b> Inflation may rise and unemployment will fall as growth takes place. Growth will lead to increased demand and possibly demand pull inflation. Also the price of factors of production will be pulled up and there could be cost push effects. As output rises, the demand will rise for workers to produce more goods and services, so unemployment falls. The reverse is likely when growth is negative and there is a recession.</p>	[6]	<p>Up to two marks for a simple <b>statement</b>, e.g. inflation will rise and unemployment will fall when there is economic growth (or vice versa in recession).</p> <p>For three/four marks, candidate must <b>explain</b> how the variables are affected. Annotate L1 with ticks Candidates must explain and refer to both inflation and unemployment and refer to both relevant periods of the UK economy in order to reach Level 2. Annotate L2</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
(d)	<p><b>Other than changing interest rates, explain <u>two</u> policies which the UK government could use to achieve both economic growth and more employment. Discuss how effective each policy is likely to be.</b></p> <p><b>Level 4: 7–8 marks</b> – candidate analyses and evaluates the chosen policies to achieve more growth and employment.</p> <p><b>Level 3: 5–6 marks</b> – candidate analyses the chosen policies to achieve growth and employment.</p> <p><b>Level 2: 3–4 marks</b> – candidate names and describes policies to achieve growth/employment.</p> <p><b>Level 1: 1–2 marks</b> – candidate identifies one or two policies to achieve growth/employment. May be in the form of a list.</p> <p><b>Indicative content:</b> Policies could include fiscal policy budget deficit or components of it (tax cuts, increased government spending); supply side policies such as retraining, incentives to new industries/firms, increasing incentives to work, e.g. by making benefits less generous; etc. Accept subsidies as a policy.</p>	[8]	<p>Note that interest rate change is specifically excluded here, as it is examined in Q3. If present in answer then annotate as NAQ.</p> <p>Mark each policy on a 1+2+1 marks basis,</p> <p>One mark for policy Two marks for explanation / analysis One mark for evaluation</p> <p>e.g. reducing taxes (1), this increases disposable incomes (1) and this will lead to more spending and thus output and employment (1) providing the extra income is not saved/spent on imports (EE).</p> <p>e.g. a supply side policy is education/training (1) this make workers more skilled (1) so productivity and output rises (1). However, there would be a long time lag before the benefits of the policy are felt (EE).</p> <p>Annotate using ticks, and EE where present.</p> <p>Note: do not accept fiscal policy per se as a policy, but as part of a specified budget deficit, or tax cuts or increased government spending.</p>
	<b>Question Total</b>	<b>[20]</b>	

Question		Expected Answer	Mark	Rationale/Additional Guidance
2	(a)	<p><b>Tick <u>one</u> box in <u>each</u> column to show the original incomes of the poorest and richest households.</b></p> <p>One mark for each correct identification up to a maximum of two identifications</p> <p>Poorest fifth = below £10 000.</p> <p>Richest fifth = over £70 000.</p>	[2]	<p>One mark each.</p> <p>More than 1 tick in a column, then <b>no</b> marks for that column.</p> <p>No need to tick just cross (X) any incorrect answer</p>
	(b)	<p><b>Explain, with an example of each, the difference between a direct tax and an indirect tax.</b></p> <p>One mark for each correct difference explained up to a maximum of two explanations, plus a further one mark for each of two appropriate examples</p> <p>A direct tax is a tax on income (or wealth), eg income tax An indirect tax is a tax on spending/a tax on goods and services, e.g. VAT.</p>	[4]	<p>One mark for each correct explanation, plus one mark for an example of each. Annotate with ticks</p> <p>Note: accept 'a tax on individuals etc as definition of direct tax.</p>
	(c)	<p><b>Explain how the UK tax and benefit system is used to redistribute incomes.</b></p> <p><b>Level 2: 4–6 marks</b> – candidate explains tax and benefit policies to redistribute incomes.</p> <p><b>Level 1: 1–3 marks</b> – candidate demonstrates some understanding of tax and/or benefit measures to redistribute incomes.</p> <p><b>Indicative content:</b> Progressive direct taxes such as income tax will take a larger percentage of income from higher income groups. Some direct taxes will only apply to richer groups, eg inheritance tax. Reward reference to regressive taxes in context. Some benefits are means-tested, ie they are designed to raise the income of the poorest, eg family tax credits. Other benefits (universal) also help to top up low incomes, eg child benefit.</p>	[6]	<p>A Level 1 answer may make a basic correct statement, e.g. for 2 marks: the government will give benefits to poorer people, while taking taxes from the richer groups.</p> <p>A top Level 2 answer will address both taxes and benefits and contain clear explanation of some of the indicative content.</p> <p>Use ticks and annotate level.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
*(d)	<p><b>Should the UK government use taxes and government spending to redistribute incomes? Give reasons for your answer.</b></p> <p><b>Level 4: 7–8 marks</b> – candidate evaluates the impact on the economy of redistribution policies. Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p><b>Level 3: 5–6 marks</b> – candidate analyses the effects of redistribution. Relatively straight forward ideas have been expressed with some clarity and fluency. There may be some errors of spelling, punctuation and grammar, but these are unlikely to be obtrusive or obscure meaning.</p> <p><b>Level 2: 3–4 marks</b> – candidate understands some effects of redistribution in the context. There may be reference to Fig. 2. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, which may be noticeable and obtrusive.</p> <p><b>Level 1: 1–2 marks</b> – candidate shows understanding of the effect of redistribution. May be in the form of a list. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, of which some may be noticeable and obtrusive.</p> <p><b>Indicative content:</b> Redistribution will reduce inequalities of income. The effects are shown in Fig. 2. It can be argued that this is fairer. Poverty is reduced and total spending / AD in the economy could rise. A counter argument is that it is not fair to those who have earned their higher incomes. There could be serious disincentive effects of both benefits and high rate or direct taxation (specific taxes could be discussed). Benefit fraud may occur.</p>	[8]	<p>At Level 1, candidate demonstrates an understanding e.g. that the income gap between rich and poor is reduced.</p> <p>For level 2 taxes and/or benefits can be applied to this redistribution, e.g. income tax will take more from the rich so inequalities are reduced. Also the issue could be applied to UK by using Fig. 2.</p> <p>Level 3 answers should analyse the effects of redistribution, e.g. by analysing that inequalities and/or poverty are reduced, or hard workers are penalised by the tax system</p> <p>Level 4 evaluation required - other effects may be discussed especially the effects on incentives of both higher taxes and higher benefits. Accept opportunity costs of spending on benefits.</p> <p>For Level 4 arguments both for and against should be present and for 8 marks a judgement should be made.</p> <p>Note: when deciding the mark within the level, does that level refer to both taxes and govt spending?</p> <p>Use ticks and EE where present.</p>
<b>Question Total</b>		<b>[20]</b>	

Question		Expected Answer	Mark	Rationale/Additional Guidance
3	(a)	<p>Calculate the change in the Bank Rate of interest between September 2008 and March 2009. Show your working. Up to two marks</p> <p><math>5\% - 0.5\% = 4.5\%</math></p>	[2]	<p>One mark for correct method if answer is incorrect e.g. <math>5\% - 0.5\% = 3.5\%</math>. Two marks for correct answer without working. No need to tick just cross (X) next to any error.</p>
	(b)	<p>Fig. 3 shows the Bank rate of interest in February 2009 was 1% per year, but at this time there were many different rates of interest in the UK economy. For example, high street banks were paying 0.5% per year on some savings accounts while some credit card companies were charging borrowers 18% per year. Explain <u>two</u> reasons why there are different rates of interest at any one time.</p> <p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations</p> <p><b>Indicative content:</b> (two of the following): whether the money is being saved or borrowed; the degree of risk on loans: competition between banks, etc ; instant access v notice accounts; internet/postal/telephone accounts v branch account; current v savings accounts; minimum deposit required; etc.</p>	[4]	<p>E.g. borrowers will pay more than savers receive [1] because the banks have to pay overheads and make profits [1]. E.g. some loans have a lower rate because they are less risky [1] such as mortgages where the house offers security [1]. E.g. there is competition between banks [1] so some raise rates to attract savers [1].</p> <p>Annotate with ticks</p> <p>Note: where candidate supposedly gives two reasons but it is really just one reason in total, mark accordingly.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
(c)	<p><b>Explain how a fall in interest rates can affect total spending in the economy.</b></p> <p><b>Level 2: 5–6 marks</b> – candidate analyses how a fall in interest rates affects total spending in the UK economy.</p> <p><b>Level 1: 1–4 marks</b> – candidate demonstrates understanding of the effects of falling interest rates, including the fact that total demand/spending is likely to rise.</p> <p><b>Indicative content:</b> Saving will be less rewarding for consumers so they may consume more. Borrowing is less expensive for consumers. In the UK, consumers finance a lot of spending by using credit, especially for expensive durable goods such as cars, appliances and so on. As credit becomes less expensive they may spend more. Millions of households have mortgages, and have to pay interest on these loans each month. As the monthly payments fall with a fall in interest rates, their disposable incomes and spending rise. Firms borrow to finance investment expenditure. As this becomes less expensive with lower interest rates, they increase their investment spending. The £ is likely to fall in value which makes exports more competitive and more exports are likely to be sold.</p>	[6]	<p>At Level 1, annotate using ticks for points made and explained up to 4 marks. E.g. as rates fall, the cost of borrowing falls [1], so consumers will borrow more in order to increase their spending/demand [1]. Saving is less rewarding [1] so people will save less and spend more [1].</p> <p>A Level 2 mark will contain some analysis as shown in the indicative content, eg analyses how disposable incomes are affected by a fall in mortgage interest rates; e.g. analyses that firms' spending and employment rises and therefore demand. Annotate level 2.</p> <p>Note that candidates are unlikely to include exchange rate effects and this is <b>not</b> expected. But reward where present.</p>



Question		Expected Answer	Mark	Rationale/Additional Guidance
	(d)	<p><b>To what extent will lower rates of interest benefit the macro-economic objectives of the UK government? Give reasons for your answer.</b></p> <p><b>Level 4: 7-8 marks</b> - candidate evaluates the effects of lower interest rates.</p> <p><b>Level 3: 5-6 marks</b> – candidate analyses the effects of lower interest rates.</p> <p><b>Level 2: 3-4 marks</b> – candidate understands the effects of lower interest rates in the context.</p> <p><b>Level 1: 1-2 marks</b> – candidate shows understanding of macro-economic objectives. May be in the form of a list.</p> <p><b>Indicative content:</b> Lower interest rates will affect total demand which in turn will affect variables including economic growth, employment and inflation. Output will rise leading to more economic growth and more employment/less unemployment. The extra demand could lead to demand pull inflation.</p>	[8]	<p>Reward effects on balance of payments and the exchange rate, although these are <b>not</b> required.</p> <p>At Level 1, candidate recognised macro-economic objectives, e.g. economic growth and employment.</p> <p>At Level 2 lower interest rates should be related to the objectives, e.g. the government aims to have more growth and employment, and lowering interest rates will help to achieve these aims.</p> <p>At level 3 analysis is required, e.g. multiplier effect at work. Max. of 5 marks if inflation or growth / employment are not both considered.</p> <p>At level 4 evaluation required. Candidates could explicitly refer to possible conflicts between objectives (more growth and employment but possibly more inflation), or discuss relative importance of objectives, or extent of change of interest rates.</p> <p>Use ticks and annotate level and EE where present</p>
		<b>Question Total</b>	[20]	
		<b>Total</b>	[60]	

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