GCSE

Economics

Unit **A592**: How the Economy Works

General Certificate of Secondary Education

Mark Scheme for June 2015

Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
✔	Tick
✘	Cross
?	Unclear
BOD	Benefit of doubt Put this with the tick if you are giving BOD and awarding a mark.
BP	Blank Page
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
OFR	Own figure rule
SEEN	Noted but no credit given
TV	Too vague
∧	Omission

Highlighting is also available to highlight any particular points on the script.

'BP' to be inserted on every blank page and 'SEEN' in every question space where NR is the mark.

Subject-specific Marking Instructions

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (d) of each question.

Level 4:
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

Level 3:
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 to be obtrusive or obscure marking.

Level 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.

Level 1:
Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, of which some may be noticeable and obtrusive.

Question			Answer/Indicative content	Mark	Guidance
1	(a)		Indicative content: • 2012 quarter 3 • 2008 quarter 4 • 2010 quarter 3	3	One mark for each correct identification up to a maximum of three identifications. No mark for quarter without year or year without quarter. Use ticks. Number of ticks will be the same as the mark awarded.
	(b)		Indicative content: • Recognition of recession / negative growth (1) • The first 2008 – 2009 (1) • The second 2011 – 2012 (1)	3	One mark for some understanding that there was recession in this period, plus up to a further two marks for identifying the relevant periods of recession. Answers may specify Q2 2008 – Q2 2009 and Q4 2011 – Q2 2012 but this is **not** required for the marks. Use ticks. Number of ticks will be the same as the mark awarded.
	(c)		Indicative content: Costs of growth can include: • environmental costs/pollution • congestion • loss of non-renewable resources • inequalities of income may widen • demand-pull inflation Exemplar response: E.g. Pollution (1) is caused by factories producing more goods (1), which leads to more smoke in the air (1)/noise in the community (1). Indicative content: Benefits of growth can include: • a rise in material living standards	6	One mark for the correct identification of a cost of growth, plus up to a further two marks for an explanation. NB, Candidates may identify negative externalities as the cost of growth and explain what these are, in which case award up to three marks. One mark for the correct identification of a benefit of growth, plus up to a further two marks for an explanation. Use ticks. Number of ticks will be the same as the mark awarded.

Question	Answer/Indicative content	Mark	Guidance
	• reduction in poverty • more government welfare services • a rise in employment/fall in unemployment Exemplar response: E.g. Higher living standards (1) as more output means that there are more goods and services (1) which will increase the quality of life for consumers (1).		

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
1	(d)		Indicative content: • education and policies to promote training • reducing direct taxes on workers • reducing direct taxes on firms • offering other incentives to firms (not subsidies) • reducing state benefits • encouraging new technology and innovation • improving infrastructure • reducing monopoly power/encouraging competition/deregulation • reducing trade union power. Exemplar response: If income tax was reduced (L1) it would mean that workers would have more incentives (L2) which may mean they will work more (harder/longer) / move into work (L3). This is effective because workers respond to incentives (L4) OR it is not effective as people may work	8	For **each** policy: One mark for identification of a policy, plus up to two marks for its explanation/analysis, and one further mark for an evaluative comment. Thus, each policy is marked out of four marks. At Level 4 an evaluative comment/a judgement must be made, which must be regard to the effectiveness of the policy in achieving growth. This may be for a comment that aggregate demand also needs to rise to match the increased capacity to produce. Other possible judgements are shown in the exemplar responses. At Level 3 a clear analysis of how the supply side policy works to achieve economic growth is present. At Level 2 application of knowledge of policy to achieving growth is present.	For **each** policy: **L4 - 4** marks – candidate evaluates the effectiveness of the policy **L3 - 3** marks – candidate analyses the effects of the policy **L2 - 2** marks – applies knowledge of the policy **L1 - 1** marks – candidate identifies an appropriate supply-side policy **Quality of Written Communication** is assessed in this question. Please see page 5 for guidance.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
			less to get the same take home pay (L4). Better education and training (L1) means the quality of the workers improves (L2) and they can produce more output (L3). However, this can take a long time to take effect (L4) OR this is effective as both quantity and quality of output rise (L4). If benefits are reduced (L1) people need a larger income (L2) and so are more likely to look for a job which increases output (L3). However, there may still not be jobs available (L4) OR it could cause hardship for poorer families who then spend less, reducing demand.(L4).		At Level 1 knowledge of a policy to achieve growth is present. NB accept reducing direct taxes as a policy for 1 mark, but do not accept a demand-side explanation. NB accept raising NMW if in the context of increasing incentives. NB Do not accept subsidies. Use ticks. Number of ticks will be the same as the mark awarded. In addition for **each** policy annotate the highest level reached.	

Question			Answer/Indicative content	Mark	Guidance
2	(a)		Indicative content: 		Tick
---	---
Job seeker's allowance	✓
Interest on savings	
National insurance	
State pension	✓		2	One mark for each correct identification up to a maximum of two identifications. Where more than two boxes are ticked, mark the first two only, i.e. there will be one mark. Use ticks. Number of ticks will be the same as the mark awarded.
	(b)		Indicative content: Recognition of an uneven distribution Some have only £5000 or less Others have £60 000 or more. However, over half have between £10 001 and £25 000 Exemplar response: There are (significant) inequalities (1). Some households have under £5000 (1), whereas others have over £60 000 (1). They have 8 times more than the poorest households (1). On the other hand, over half of all households have between £10 001 and £25 000 income (1).	4	One mark for recognition of uneven distribution and for each correct point of explanation up to a maximum of four marks. Allow development and exemplar points. Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
2	(c)		Indicative content: • There are different rates of pay for occupations (for supply and demand reasons). Some workers receive the NMW, while others receive thousands of £s • Some people are unemployed and rely totally on benefits • Some people are pensioners with only a state pension • Some people have assets which provide an income, such as interest on savings, profits from shares, rent from land and housing. • Some households have more income earners than others. • Regional reasons, e.g. higher incomes in London Exemplar responses: Some people are paid more than others (L1). Some may be in skilled jobs which pay more. (L2) People earn more than those without skills when there is a high demand for their services (L3). Some people are paid more than others (L1). Some may be on minimum wage, while others earn a lot, e.g. Premiership footballers (L2). Some people may be unemployed and only have benefits or may be pensioners. Some may have company shares/profits which increase their incomes (L3).	6	At Level 3, a clear analysis of why there are income inequalities is present. At Level 2 application of knowledge of income inequalities is present. At Level 1 knowledge of income inequalities is present. Some answers may consider only the reasons for differences in wages. They are able to reach Level 3 for this providing that they analyse why some workers are paid more than others, with reference to demand and/or supply of labour (first exemplar response). Alternatively, the answer may take account of other incomes, (as shown in the second exemplar response). Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	**L3 5-6** marks – candidate analyses the reason for the causes of household income inequalities. **L2 3-4** marks – applies knowledge of reason for differences in household incomes. **L1 1-2** marks – identifies reasons for differences in household incomes.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
	(d)		Indicative content: • increases in direct taxes will reduce inequalities. This is because income tax takes more from higher income groups • more specifically, it is a progressive tax. It takes a greater % from higher incomes • UK income tax has three tax bands with a higher rate as incomes rise, so it will succeed in reducing inequalities • Some direct taxes are only paid by higher income groups or firms, e.g. corporation tax, capital gains tax, inheritance tax; so will also help to reduce inequalities • the dangers with rises in direct taxes are the possible disincentive effects. Some people may decide to work less or not seek promotion. Some may move abroad (tax exiles). Some people may think it is not worth working at all and prefer to live on benefits. Firms may be less likely to invest. There may also be more tax avoidance and evasion. Exemplar response: Direct taxes help reduce inequalities because they take more from a higher income and less from a lower income (L1). The revenue can then be used to give benefits to lower income people to further close the gap (L2). Income tax is progressive which means it takes a larger percentage from a greater income so it is very good at reducing inequalities (L3).	8	At Level 4 an evaluative comment/a judgement is present, e.g. a discussion that higher direct taxes will adversely affect incentives to work/save/invest. At Level 3 there will be analysis. A clear consideration of the progressive nature of income tax is analytical, e.g. direct taxes such as income tax are progressive. This means they take a greater percentage from a higher income/lower percentage from a lower income. At Level 2 knowledge is applied, e.g. consideration that the tax revenue is used for benefits for the less well off. At Level 1 knowledge is present, e.g. may state that a direct tax takes more from a higher income. Award definition mark for direct tax at L1. NB Award marks in the appropriate level for a consideration of why rises in indirect taxes would **not** be appropriate. NB Where an answer offers alternative methods of redistributing incomes, the full range of marks is available. To gain Level 4 such an answer would justify why an alternative is preferable to raising direct taxes.	**L4: 7-8 marks** – candidate evaluates the effects of direct taxes. **L3: 5-6 marks** – candidate analyses the effects of direct taxes. **L2: 3-4 marks** – candidate understands some effects of direct taxes in the context. There may be reference to Fig.1. **L1: 1-2 marks** – candidate shows understanding of the effects of direct taxes. Award definition marks at L1. **Quality of Written Communication** is assessed in this question. Please see page 5 for guidance

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
			However, it may be bad for the economy if high income earning people avoid the tax by moving abroad and the UK loses all their taxes and experiences a 'brain drain' effect (L4).		Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	

Question			Answer/Indicative content	Mark	Guidance
3	(a)		Indicative content: Inflation is a rise in the general price level (1) over a period of time (1).	2	Two marks for an accurate definition. One mark where some understanding is shown, e.g. when prices rise/the cost of living rises/the value of money falls. No mark for the rise in the price of **a** good or service. Use ticks. Number of ticks will be the same as the mark awarded.
	(b)	(i)	Indicative content: Consumer Prices Index	1	For one mark all three words **must** be correct, although Consumer and Price could be singular or plural for the mark. Use ticks. Number of ticks will be the same as the mark awarded.
		(ii)	Indicative content: 2011	1	For one mark Use ticks. Number of ticks will be the same as the mark awarded.
		(iii)	Indicative content: No marks for successful/unsuccessful in itself, but award for comment such as below: Exemplar response: The first two years inflation was below target (1) but since then inflation has been above target each year (1). OR	2	Up to two marks. Also award for other relevant comment such as a reference to years when inflation was a long way over target. Award marks for references to the + or – 1% target range. Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
			It was within the +/- 1% range for seven out of the ten years (2).		

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
	(c)		Indicative content: **Menu costs** occur because firms have to adjust their prices more often as the price level continues to rise. This means firms incur extra costs to make adjustments. It could also affect capital costs, e.g. adjusting vending machines. Exemplar response: Firms have to put their prices up more often (L1) as inflation continues to rise (L2). Inflation is, therefore, putting extra costs on the businesses; these are called menu costs (L3).	3	One mark for some knowledge plus up to two further marks for an explanation. Use ticks. In addition annotate the highest level reached.	**L3 3** marks – candidate analyses why inflation leads to menu costs. **L2 2** marks – candidate applies knowledge of why inflation leads to menu costs. **L1 1** mark – candidate demonstrates some knowledge of menu costs.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
			Indicative content: **Hyperinflation** is a very high rate of inflation. There is a real danger of money becoming worthless. As prices rise, wages rise further, putting up costs of production. This is a wage-price spiral. This, in turn, leads to a further rise in the price level and the process accelerates in a vicious circle. Exemplar response: Hyperinflation is a very high rate of inflation (L1). As prices rise, wages rise to keep up (L2) which puts costs and prices up even more, leading to hyperinflation (L3).		One mark for some knowledge plus up to two further marks for an explanation. Accept a monetary explanation for hyperinflation. Use ticks. In addition annotate the highest level reached. Total number of ticks for both menu costs and hyperinflation will be the same as the total mark awarded.	**L3 3** marks – candidate analyses why inflation leads to hyperinflation. **L2 2** marks – candidate applies knowledge of why inflation leads to hyperinflation. **L1 1** mark – candidate demonstrates some knowledge of hyperinflation.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
	(d)		Indicative content: • fiscal policy – budget surplus • monetary policy – raising interest rates • supply-side policies to raise output Exemplar responses: If income tax was increased (L1) this would mean people have less take-home pay (L2) which means that they will have less money to spend, thus reducing demand-pull inflation (L3). This is effective if the cause of	8	For each policy: One mark for the identification of policy, plus up to two further marks for its analysis, and one mark for an evaluative comment. Thus each policy is marked out of four marks. At Level 4 an evaluative comment, a judgement will be made. This must be about the effectiveness of the policy in reducing inflation. Examples are shown in the exemplar responses. Do not accept long time lags for fiscal & interest rate policies unless there is a	For each policy: **L4 4** marks – candidate evaluates the effectiveness of the policy and makes a judgement. **L3 3** marks – candidate analyses the effects of the policy.

Question			Answer/Indicative Content	Marks	Guidance		
					Content		**Levels of response**
			inflation is excess demand (L4) OR is not effective if people cut back on saving and do spend (L4). If interest rates are increased (L1) it is more expensive to borrow (L2)/more rewarding to save (L2) so consumers spend less, reducing AD/demand–pull inflation (L3). This is quicker to affect the economy than fiscal policy so it is quite effective (L4) OR people may not save more just because the MPC interest rates rise is so small that it is not effective (L4). Supply–side policies (L1) such as better education and training (L2) mean that the quality of the workers improves and they can produce more output (L3). However, this can take a long time to take effect (L4) OR this is very effective in the long run as the economy's capacity to produce is raised (L4).		justifiable explanation. At Level 3 a clear analysis of how the policy works to reduce inflation is present. At Level 2 application of knowledge of the policy to reduce inflation is present. At Level 1 knowledge of a policy to reduce inflation is present. Where answers treat components of a budget deficit as separate policies, this is acceptable, e.g. raising income tax, cutting government spending. Where answers treat aspects of supply-side as separate policies this is acceptable, providing they are sufficiently different. Use ticks. Number of ticks will be the same as the mark awarded. In addition for **each** policy annotate the highest level reached.		**L2 2** marks – applies knowledge of the effects of the policy. **L1 1** mark – demonstrates some knowledge of the effects of the policy. **Quality of Written Communication** is assessed in this question. Please see page 5 for guidance

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

PART OF THE
CAMBRIDGE ASSESSMENT
GROUP

UKAS
MANAGEMENT
SYSTEMS
001