



GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

SUMMER 2015

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2015 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

	Page
EC1	1
EC2	12
EC3	43
EC4	55

EC1

GENERAL MARKING GUIDANCE

Positive Marking

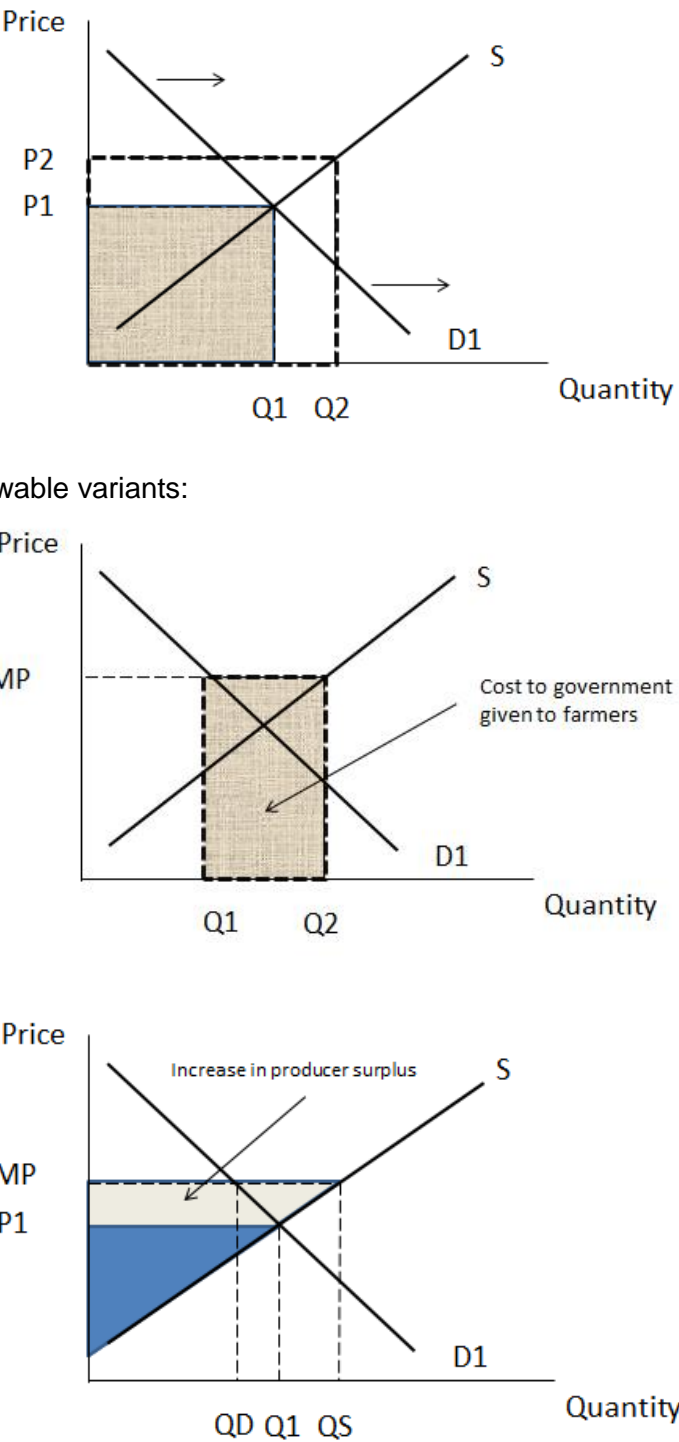
It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

GCE ECONOMICS – EC1

Summer 2015

Question	Answer	Mark allocation	Assessment objective
General	The marks in brackets show the maximum number of marks for a point. Less well developed ideas may not be worth the full credit shown.		
1	<p>Define opportunity cost and use the data to explain what would be the opportunity cost of putting £1000 into a Tesco Instant Access Cash ISA</p> <p>Definition of opportunity cost: Value of the best alternative forgone. Good understanding = (2) Weaker understanding (e.g. not realising it is <i>best</i> alternative = (1)</p> <p>Use of data – Opportunity Cost = 2.5% at Cheshire Building Society, explained as best alternative (2 – 1+1 identification and explanation)) £23 vs £25/0.2% difference (2)</p> <p>Other examples: Not related to the data (e.g. spending the money) (1), One of the lower paying accounts = (1) All of the other accounts indiscriminately – ie they imply that they are all really the opportunity cost (1)</p>	4	AO1 2 AO2 2
2	<p>Using a supply and demand diagram, explain a possible reason for the changes in the data for the UK housing market shown between May 2012 and May 2013.</p> <p>Appropriate diagram:</p> <p>(D shifts to the right or any diagram with higher P and Q at equilibrium), correctly labelled (numbers from the data not required P1, Q1 etc. are fine) (2)</p> <div style="text-align: center;"> </div> <p>Appropriate factor: Economic recovery, continued low interest rates, weak £ leads to foreign buyers moving in, social factors (divorce rate) etc. etc. (2)</p> <p>If they simply assert that demand increases, this is not a factor and therefore if that's all the analysis that is present, they will only get diagram marks.</p> <p>Allow any plausible factor which would have shifted demand to the right.</p>	4	AO1 2 AO2 2

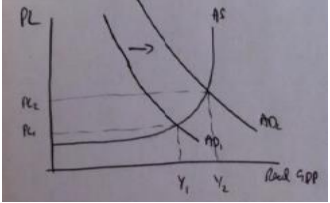
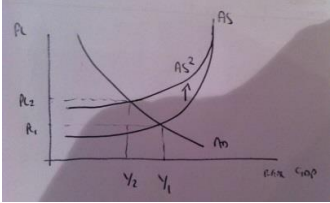
Question	Answer	Mark allocation	Assessment objective									
	<p>If candidate shifts supply, then they will only be able to explain either the increase in P or increase in Q therefore max 2; 1 for the diagram and 1 for a relevant factor.</p> <p>If candidate shifts both S and D, then provided they have reason for this, and provided both P and Q increase, this is fine.</p> <p>For half-correct answers which get either Q or P right, 1 for diagram and one for appropriate factor. 2 max.</p> <p>Geographic/socioeconomic factors need to be well developed for 2</p> <p>Wealth effects based around the data are a little back to front and will probably score (1) unless there is a clear idea that there is a speculative bubble, or that prices were already rising before and this is part of a continuation.</p>											
3	<p>Using economic theory, explain the differences between goods A, B and C.</p> <table border="1" data-bbox="258 891 1142 1464"> <tr> <td data-bbox="258 891 386 1093">Level 1</td> <td data-bbox="386 891 552 1093">1-2 Marks</td> <td data-bbox="552 891 1142 1093">Candidate only defines YED and simply identifies differences between the goods without explanation or one characteristic well-explained e.g. Normal goods identified and explained only = 2.</td> </tr> <tr> <td data-bbox="258 1093 386 1294"></td> <td data-bbox="386 1093 552 1294">3-4 Marks</td> <td data-bbox="552 1093 1142 1294">Candidate correctly explains either Normal/Inferior (B vs. A/C or elastic/inelastic* (A vs. C) Or candidate identifies both key difference without explaining, and defines YED (=3)</td> </tr> <tr> <td data-bbox="258 1294 386 1464">Level 3</td> <td data-bbox="386 1294 552 1464">5-6 Marks</td> <td data-bbox="552 1294 1142 1464">Candidate correctly explains the key differences between the three goods, both Inferior/Normal and elastic/inelastic. If one explained and one identified, then this is probably 5.</td> </tr> </table> <p>*for income elastic/inelastic, allow luxury/necessity as an alternative. Hence: Income elastic/luxury because YED greater than 1. Income inelastic/necessity because YED lower than 1 For Normal/Inferior need to identify the sign and then explain the correlation in one direction.</p>	Level 1	1-2 Marks	Candidate only defines YED and simply identifies differences between the goods without explanation or one characteristic well-explained e.g. Normal goods identified and explained only = 2.		3-4 Marks	Candidate correctly explains either Normal/Inferior (B vs. A/C or elastic/inelastic* (A vs. C) Or candidate identifies both key difference without explaining, and defines YED (=3)	Level 3	5-6 Marks	Candidate correctly explains the key differences between the three goods, both Inferior/Normal and elastic/inelastic. If one explained and one identified, then this is probably 5.	6	AO1 2 AO2 2 AO3 2
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4 (a)	<p>(a) Using a diagram, explain how the guaranteed minimum price scheme was supposed to 'raise the incomes of farmers'.</p> <p>Appropriate diagram (2):</p> <p>Diagram: unused GMP diagram =1, GMP diagram used to show increase in revenue in some way = 2.</p>	4	AO1 1 AO2 2 AO3 1									

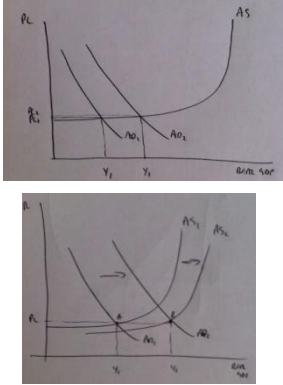
Question	Answer	Mark allocation	Assessment objective
	 <p>The first diagram shows a standard supply and demand model. The vertical axis is labeled 'Price' and the horizontal axis is 'Quantity'. An upward-sloping supply curve 'S' and a downward-sloping demand curve 'D1' intersect at an equilibrium point. A shaded rectangle represents the market area between quantities Q_1 and Q_2 and prices P_1 and P_2. Arrows indicate shifts in both curves to the right.</p> <p>The second diagram, titled 'Allowable variants:', shows the same supply and demand curves. A vertical shaded rectangle between Q_1 and Q_2 is labeled 'Cost to government given to farmers'. A horizontal dashed line at price 'GMP' intersects the supply curve at Q_1 and the demand curve at Q_2.</p> <p>The third diagram shows the supply and demand curves with the equilibrium price P_1 and quantity Q_1. A horizontal dashed line at price 'GMP' is shown above P_1. The area between P_1 and GMP and between Q_1 and Q_5 is shaded light brown and labeled 'Increase in producer surplus'. The area below P_1 and above the supply curve up to Q_1 is shaded blue.</p> <p>Explanation (2) Farmers can sell produce for a higher price than before (30-50% higher than the market price) and can sell as much as they wish to produce.</p> <p>Some explanation of how revenue will rise without reference to data or diagram = 1 Explanation of how revenue will rise with reference to data or diagram = 2.</p>		

Question	Answer	Mark allocation	Assessment objective
4 (b)	<p>Explain why the guaranteed minimum price scheme might be seen as an example of government failure</p> <p>Understanding of government failure (2): A situation in which government intervention causes a more inefficient allocation of goods and resources than would occur without that intervention (2). Government intervention wastes resources (2). Some candidates may refer to welfare loss, but this is not required (2).</p> <p>Other variations on this may well be fine - see marker notes (below) for further guidance.</p> <p>Application to the situation (2): Waste of money – only benefits rice farmers (2) when other groups are equally needy Costs of storing rice, which is then left to rot. (2) Jobs lost in rice processing – Pareto inefficiency? (2) Opportunity cost – money could have been used much more effectively elsewhere (2) Corruption/Public Choice theory (2) Government has had to reduce the minimum price, indicating that the policy was ineffective/counterproductive (2) Credit other relevant points</p> <p>The key is that the application needs to explain why resources have been misallocated.</p> <p>Marker notes:</p> <p>Government failure is the idea that governments as well as markets can cause a misallocation of resources. Governments generally intervene in markets to improve the allocation of resources, but these attempts may fail or be counterproductive. Ineffective policies are an example of government failure, because they use scarce resources to no end, hence using resources without improving the situation the intervention was intended to fix. Counterproductive policies may result in both the waste of resources implicit in a failed policy as well as a creating new problems and distortions which require further intervention. Here costs can be very great – both the resources used in the intervention and the costs of distortions created. Hence, government failure occurs where government intervention leads to a waste or misallocation of resources.</p>	4	AO1 2 AO2 2

Question	Answer	Mark allocation	Assessment objective
5	<p>Explain how the policies suggested by Britain’s doctors might help to correct market failure.</p> <p>Broad guidance:</p> <p>Up to 4 for good explanation of how policies work with some understanding of MF. 2 policies required for 4 (but could be 3+1) – see AO2.</p> <p>Up to 2 more marks for explaining how market failure is corrected, probably with reference to how resources are now not misallocated (but there may be other market failures that are focused on more explicitly and if well explained then 2 can be gained) – see AO3.</p> <p>AO1: Some understanding of market failure and/or an awareness that the policies might reduce obesity. 1-2 Marks.</p> <p>AO2: Candidate analyses how the policies are likely to reduce obesity: Tax will drive up the price, reducing demand. Ban on fast food near schools might encourage healthier eating. Support for weight management programmes should lead to healthier eating. Diagram might well be used. 1-2 Marks</p> <p>Top of AO2, 4 marks explains how obesity is reduced with reference to two policies, but not how market failure will be corrected.</p> <p>AO3: Candidate explains how market failure will be corrected - some sense of a misallocation of resources being corrected:</p> <p>Sugary foods and drinks are over-consumed in a free market because external costs are ignored (therefore price will be too low and equilibrium quantity will be too high). Hence:</p> <ul style="list-style-type: none"> • A tax on drinks/ban on fast food near schools will therefore reduce the equilibrium quantity closer to the optimum level, therefore correcting market failure. • Tax on sugary drinks will internalise the externality, making $PC=SC$, therefore resulting in an increase in price and a fall in equilibrium output to the optimal level. <p>Weight management programmes will tend to be under-consumed due to information gaps and present-bias/retrospective regret. Therefore an increase in the provision of such programmes should increase their uptake, again correcting market failure. 1-2 Marks for showing that misallocation of resources has been corrected.</p> <p>This level of detail isn’t necessary to get 6, but answers worth 5 or 6 marks should definitely refer to the idea that resource allocation is being improved, or that there was a problem that needed to be tackled in economic terms.</p> <p>Max 5 for one policy.</p>	6	AO1 2 AO2 2 AO3 2

Question	Answer	Mark allocation	Assessment objective
6	<p>Discuss whether the data shown on productivity will make it difficult for the UK to reduce its trade deficit.</p> <p>AO1: Candidate understands productivity and that poor productivity can make UK firms uncompetitive by raising costs/ or they understand what productivity is but don't think it really matters. AO2: Candidate makes use of the data (e.g. UK productivity is below that of the US, France, Germany and the Eurozone as a whole) to explain that this will make it hard to improve the trade position (exports likely to be weak, imports will tend to rise).</p> <p>To get 4 marks, answer needs to show a clear understanding of productivity (1), use the data (up to 2 done well) and explain clearly why the trade deficit might not improve because of the impact on costs (up to 2, needs reference to X,M for 2, but must refer to the trade balance.). Therefore up to 5 but 4 max without AO4.</p> <p>Data use = relative comparison</p> <p>AO4:</p> <p>Candidate evaluates, either by:</p> <p>1) using the data to point out that the UK's productivity performance is better than some countries (esp. Japan) and not much worse than the Eurozone as a whole. Or may note that many countries' data is not given – especially China and India, which are likely to be key markets in years to come.</p> <p>Or</p> <p>2) Explaining that other factors are important. This statement alone, however is not worth any credit. A list of 'it depends' factors should not be given any marks unless one of these factors is explained in the context of the question. These may include elasticity of demand, quality, which sectors are more important and so on.</p> <p>3) Might comment on policies which might raise productivity in the LR</p> <p>Answers which treat productivity and production as the same will not get more than 2.</p>	6	AO1 2 AO2 1 AO3 1 AO4 2

Question	Answer	Mark allocation	Assessment objective
7	<p>With reference to the data and using an appropriate diagram, discuss whether the growth forecasts in the chart above are likely to lead to higher inflation in the UK economy.</p>	8	AO1 1 AO2 1 AO3 2 AO4 4
AO1, 2 and 3 - up to 4 marks			
1-2 Marks	<p>Limited analysis</p> <p>Candidate draws a simple AD/AS diagram and asserts that an increase in AD will cause inflation/ commodity price rises will cause cost-push inflation with no explanation as to why prices might be rising.</p> <div style="display: flex; justify-content: space-around;">   </div>		
3-4 Marks	<p>Reasonable analysis (Diagram not necessarily required, although see cap at bottom).</p> <p>Candidate explains how the increased AD will actually cause inflation (increased competition for scarce resources/less competition between firms due to buoyant demand or explains how rising commodity prices can feed through to the prices of final goods);</p> <p>Or</p> <p>Both types of inflation dealt with, with some development. i.e. a good theoretical explanation</p> <p>Or</p> <p>Candidate makes use of the data, explaining:</p> <ul style="list-style-type: none"> • That inflation is already close to top of target and that inflationary expectations may occur. • Global commodity prices are also on the rise • Growth is forecast to rise increasingly quickly and that the output gap will soon be closed. <p>i.e., a good applied explanation</p>		

Question	Answer	Mark allocation	Assessment objective
	<p style="text-align: center;">AO4 – up to 4 marks</p> <p>1-2 Marks</p> <p>Limited evaluation – candidate says ‘it depends on the state of the economy and draws a diagram, without any real reference to the context of the UK economy.</p> <div style="text-align: center;">  </div> <p>Or, candidate says it depends on whether AS increases and draws a diagram, again without any real reference to the UK economy.</p> <p>Or they might say it depends on other factors without really developing the ideas. Or they might assert that the forecasts might be wrong without any development</p> <p>They might do all of these, but it is still only worth 2 marks unless one of them is developed.</p> <p>3-4 Marks</p> <p>Reasonable evaluation: This will be in context (Diagram not necessarily required, although see cap at bottom).</p> <p>Hence, this is not 2 limited evaluation points; reasonable evaluation requires some sort of depth, probably the candidate adopts one of the approaches in limited evaluation, but applies it to the context/develops it fully.</p> <p>In the first case, might talk about the fact that the UK is still recovering from the credit crunch/make reference to the output gap/the fact that u/e is still high.</p> <p>In the second case, they might talk about <i>why</i> AS might be expected to rise – I recovering, SSPs, trend growth arguments.</p> <p>In the third case they might explain in detail about exchange rates, or rising productivity in other countries holding down import prices.</p> <p>The fourth case will be difficult to develop fully, but alongside other developed points, adds to the general quality of the answer.</p> <p>Cap: No diagram = 6 max. Answer is reversible, so the analysis of why inflation would occur becomes the evaluation of why it wouldn't.</p>		

Question	Answer	Mark allocation	Assessment objective						
8	<p>With reference to the data, discuss whether further cuts in interest rates are likely to significantly weaken the Australian dollar.</p> <table border="1" data-bbox="240 315 1150 1126"> <thead> <tr> <th colspan="2" data-bbox="240 315 1150 349">AO1, 2 and 3</th> </tr> </thead> <tbody> <tr> <td data-bbox="240 349 352 589">1-2 Marks</td> <td data-bbox="352 349 1150 589"> <p>Limited analysis</p> <p>Candidate identifies that a fall in interest rates will cause the exchange rate to fall. Might draw a simple diagram, but no real explanation. Might assert that there will be hot money outflows, but does not explain why. Might mix up supply and demand factors.</p> </td> </tr> <tr> <td data-bbox="240 589 352 1126">3-4 Marks</td> <td data-bbox="352 589 1150 1126"> <p>Reasonable analysis.</p> <p>Candidate explains why a cut in interest rates might be expected to cause the Australian dollar to fall further. Candidate explains: Australian banks will now be less attractive to investors, causing D for A\$ to fall. Or Existing holders of A\$ may seek higher returns elsewhere, causing an outflow of short term capital (S A\$ will increase) Speculators may fear further falls in the A\$ especially as government seems determined to weaken it.</p> <p>Candidate may use a well-integrated diagram, but this is not required. 1 factor (D/S without diagram, up to 3)</p> </td> </tr> </tbody> </table> <p>Further guidance: AO1, 2 and 3 well integrated diagram is worth up to 2. Impact on D – up to 2 (needs to be fully explained for 2) Impact on S – up to 2 (needs to be fully explained for 2)</p>	AO1, 2 and 3		1-2 Marks	<p>Limited analysis</p> <p>Candidate identifies that a fall in interest rates will cause the exchange rate to fall. Might draw a simple diagram, but no real explanation. Might assert that there will be hot money outflows, but does not explain why. Might mix up supply and demand factors.</p>	3-4 Marks	<p>Reasonable analysis.</p> <p>Candidate explains why a cut in interest rates might be expected to cause the Australian dollar to fall further. Candidate explains: Australian banks will now be less attractive to investors, causing D for A\$ to fall. Or Existing holders of A\$ may seek higher returns elsewhere, causing an outflow of short term capital (S A\$ will increase) Speculators may fear further falls in the A\$ especially as government seems determined to weaken it.</p> <p>Candidate may use a well-integrated diagram, but this is not required. 1 factor (D/S without diagram, up to 3)</p>	8	AO1 1 AO2 1 AO3 2 AO4 4
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Question	Answer		Mark allocation	Assessment objective
	Evaluation			
	1-2 Marks	<p>Limited evaluation –</p> <p>Throw-away lines like: “It depends on how much interest rates are cut” are worth at most 1 mark and require some development even for that and they are not cumulative – no matter how many under-developed evaluative points they make, they will get at most 2 marks.</p> <p>Other reasonable evaluation might be long run effects. Once the exchange rate has fallen for some time, the trade balance may start to improve or further inward investment might be attracted, pushing the A\$ back up.</p> <p>Limited evaluative points will tend to be assertive rather than explained and will tend not to be in context. E.G. It depends on what happens to interest rates in other countries.</p>		
	3-4 Marks	<p>Reasonable evaluation: This will be in context</p> <p>2 points with at least one point that is well applied to the case, or one fully applied point with excellent development.</p> <p>This is not 2 limited evaluation points; reasonable evaluation requires some sort of depth and will use the context. Possible angles might include:</p> <p>Interest rates have already fallen 7 times, and appear not to be having much impact. Interest rates in the US/UK/Eurozone are still much lower than 2.75% Australia may still be experiencing a commodity boom, meaning that funds will flow in regardless of the interest rate. This will also attract speculators.</p>		

EC2

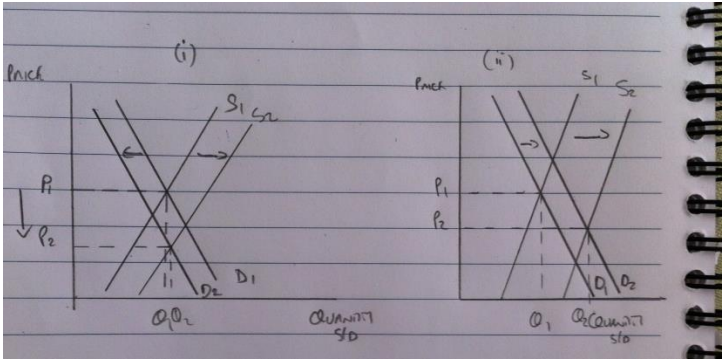
GENERAL MARKING GUIDANCE

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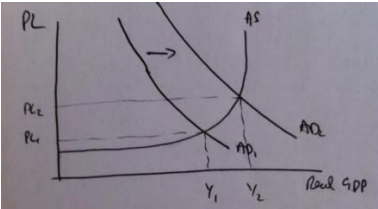
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GCE Economics EC2

Section A			
Question	Answer	Mark	Assessment objective
1 1	<p>Explain how the Brazilian government's policies contributed to increased consumption.</p> <p>Wage increases allow consumers to spend more (1) because more discretionary income/more available for non-necessities/mpc/greater confidence etc. (1) Point plus development.</p> <p>Easy credit makes it easier (and possibly cheaper) for consumers to borrow (1) Therefore they are not constrained by their incomes/easier to buy big ticket items/easier to use credit cards/opportunity cost is lower etc. (1)</p> <p>Allow wealth effects.</p> <p>Savings might fall if easy credit leads to lower interest rates.</p> <p>Point plus development.</p>	4	AO1 2 AO2 2

Question	Answer	Mark	Assessment objective
1 2	<p>Using a supply and demand diagram, explain why commodity prices are expected to fall further in the future (Lines 11-12)</p> <p>Diagram (2)</p> <p>(i) S shifting right and demand shifting left (2) or (ii) D shifts right more slowly (growth is slowing not negative) and supply shifts right by more (2). One shift = (1)</p>  <p>Explanation (4) Of supply and demand (up to 2)</p> <p>Candidate explains clearly why supply will increase, using the data (1)</p> <p>Candidate explains clearly why demand will be affected, using the data (1)</p> <p>Of the change in price (up to 2)</p> <p>Candidate explains why prices will fall</p> <ul style="list-style-type: none"> • Excess supply (or falling production costs), explains in words why prices fall (1-2) • Clear reference back to the diagram (P1 to P2 etc) (1) <p>Max 2 from this sub-section</p>	6	AO1 3 AO2 3

Question	Answer		Mark	Assessment objective
1 3	Explain how rising growth might “reduce the government’s budget deficit.” (Line 7)		6	AO1 2 AO2 2 AO3 2
	Level 1	1-2 Marks	Candidate understands what a budget deficit means and explains very briefly that T rises and/or G falls.	
	Level 2	3-4 Marks	<p>3: Candidate understands that because the economy is growing, T will rise and G should fall. One is explained and the other is asserted.</p> <p>4: Candidate clearly explains one reason that either tax will rise or government spending will rise (with a specific example):</p> <p>Tax: Rising growth will mean greater consumer spending (VAT), Jobs (Income tax) and profit (corporation tax) - only one of these needed</p> <p>Government spending: rising growth will probably mean lower unemployment and fewer people needed to claim from benefits system.</p> <p>Or</p> <p>There is a reasonable explanation of both (EG: Rising AD means that more people are employed so the government gets more tax and pays out less).</p>	
	Level 3	5-6 Marks	<p>5: Answers in this level will have clearly applied their answer to the context of rising in growth</p> <p>Candidate clearly explains with specifics one reason that either tax will rise or government spending will fall and asserts the other one briefly.</p> <p>6: Good explanation using specifics (direct or indirect tax, benefits payments etc.) why T rises and G falls.</p>	
<p>Summary: Up to 4 for one of G or T done well. Up to 5 for one done well, one done to some extent. 6 for both done well.</p>				

Question	Answer	Mark	Assessment objective
1 4	<p>Using an AS/AD diagram, explain how rising consumption might have led to “...high inflation and a loss of competitiveness on world markets”</p> <p>Diagram (Up to 2)</p> <p>Accurate diagram (no more than one labelling error) with some commentary about rising C and AD (2)</p> <p>Accurate diagram only (1)</p>  <p>Explanation (up to 4) comprising:</p> <p>Inflation (up to 2)</p> <p>Either: Use of diagram (AD rising from AD1 to AD2 causes PL to rise from PL1 to PL2) (1) Plus some reference to the factors mentioned below (reduced competition, factor shortages etc) (1)</p> <p>Or:</p> <p>A full explanation of why inflation rises without reference to the diagram (Rising consumption causes shortages of key raw materials as firms expand forcing firms to increase the prices of final products. Or rising consumption reduces competition between firms, making it easier to increase prices and increase profitability) (Up to 2 for either).</p> <p>Competitiveness (also up to 2)</p> <p>Understanding of competitiveness (1) (e.g. rising prices will damage the ability of Brazilian firms to compete on world markets. Therefore damaging export performance (or some similar development) (1)</p>	6	AO1 2 AO2 2 AO3 2

Question	Answer			Mark	Assessment objective
1 5	To what extent will the increase in interest rates be likely to help the Brazilian economy?			8	AO1 1 AO2 1 AO3 2 AO4 4
AO1,2 and 3					
Level 1		1-2 Marks	<p>Limited analysis</p> <p>Candidate explains briefly that an increase in interest rates will reduce AD and therefore also reduce inflation. They may draw a diagram to illustrate this but the understanding of the transmission mechanism is limited.</p>		
Level 2		3-4 Marks	<p>Reasonable analysis of interest rate transmission mechanism (Diagram not necessarily required)</p> <p>Candidate explains how an increase in interest rates actually has an effect – i.e. they understand the theoretical processes: C falls because of increased opportunity cost of saving and increased cost of borrowing (allow mortgage rate/asset price effects effects) I falls because of increased cost of borrowing and reduced growth prospects. Ex rate may rise (Increased capital inflows/reduced capital outflows)</p> <p>Hence AD falls</p> <p>Good one sided answer relating to an economic objective.</p> <p>A 4 mark answer in this band will cover at least 2 of these.</p> <p>Bands are reversible</p>		

Question	Answer			Mark	Assessment objective
	AO4				
	Level 1	1-2 Marks	<p>Limited evaluation –</p> <p>Candidate explains that there are some good and bad factors and that therefore the effect is mixed (allow a simple two sided answer here – if they just analyse the good and bad effects of the rise in interest rates, this could be level 1 evaluation. Their total mark could then be 6: 4 analysis + 2 evaluation)</p> <p>EG: Inflation may be controlled, but there will be negative impacts on growth and jobs, explained.</p> <p>Candidate makes ‘it depends’ points without really explaining them (max 1 if no context). EG, only a 0.5% increase, depends on the state of the global economy and so on. If the points are out of context, it doesn’t matter how many there are, it’s still at most 1 mark)</p>		
	Level 2	3-4 Marks	<p>Reasonable evaluation: This will already have done what is required in level 1 but will now add context. Therefore a theoretical discussion of interest rates can get up to 6, but for 7 or 8 it needs to make good use of the data.</p> <p>This requires some sort of in context judgment about what the data has told them about Brazil:</p> <ul style="list-style-type: none"> • Inflation is a major threat, so bringing it down is the key in the short run, regardless of what happens to growth. • Brazil already has low levels of investment, so pushing up interest rates will be a disaster. • If the <i>Real</i> appreciates (it didn’t, but that’s not the point) then this will further exacerbate Brazil’s competitiveness issues. • Damaging investment/increasing exchange rate will make it harder to move away from commodities <p>Etc. – only one well explained point needed as long as it balances the candidate’s answer.</p>		

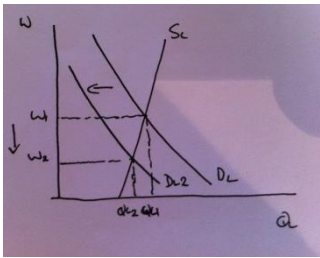
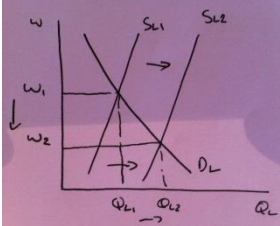
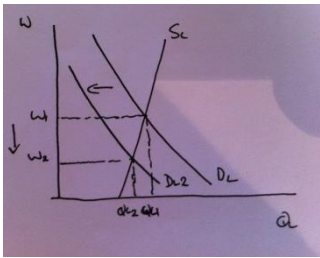
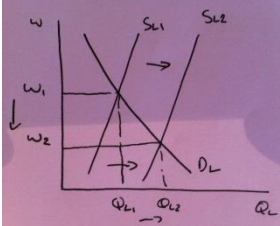
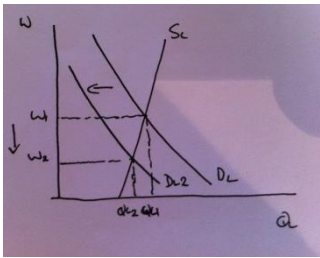
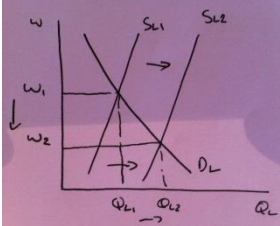
Question	Answer		Mark	Assessment objective
1 6	<p>With reference to the data, evaluate policies that the Brazilian government could use if it wishes to improve the supply side of the Brazilian economy.</p>		10	AO1 2 AO2 2 AO3 2 AO4 4
AO1,2 and 3				
Level 1	1-2 Marks	<p>Limited analysis: Candidate shows an understanding of what SSPs are. Might mean:</p> <ul style="list-style-type: none"> • Definition • Diagram • Examples <p>Or all of the above if undeveloped.</p>		
Level 2	3-4 Marks	<p>Reasonable analysis (Diagram not necessarily required)</p> <p>Candidate identifies and explains policies that might be used to improve the supply side of an economy:</p> <p>Labour market policies: Deregulating labour market, reducing worker power, creating incentives to work, creating training opportunities (examples of how these would work needed) etc.</p> <p>Capital market policies: Policies to boost investment such as cuts in corporation tax, tax breaks, government infrastructure spending etc.</p> <p>Product market policies: Policies to increase competition between firms and hence improve efficiency: Deregulation of product markets, privatisation, tougher competition laws, reduced protectionism.</p>		
Level 3	5-6 marks	<p>Good analysis (= analysis in context)</p> <p>Candidate links to the actual weaknesses identified in the Brazilian economy:</p> <p>Capacity constraints Labour shortages Complex tax rules/regulations Investment rate the lowest in Latin America</p> <p>Level 3 is for policies that look to address some of these weaknesses (or other plausible weaknesses for an economy like Brazil that the candidate suggests).</p> <p>If the answer contains only 1 policy, 4 max</p>		

Question	Answer			Mark	Assessment objective
	A04				
	Level 1	1-2 Marks	<p>Limited evaluation – candidate makes the usual general criticisms of the supply side policies that they raise (but to get 2 marks at least one needs to be developed – point plus development):</p> <ul style="list-style-type: none"> • Costly • Take a long time • Might not be effective • Might be counter-productive • Might increase inequality • Etc. 		
	Level 2	3-4 Marks	<p>Reasonable evaluation: This will be in context</p> <p>Might be positive evaluation: Candidate attempts to identify which policies are likely to be best for Brazil given the problems – these may well be answers that are getting good analysis by linking to the identified weaknesses of the Brazilian economy:</p> <p>“These policies will be particularly appropriate because of the low levels of investment/labour market issues etc.”</p> <p>Or</p> <p>Candidate might explain the criticisms from level 1 and apply them to Brazil:</p> <ul style="list-style-type: none"> • Costly: Problematic given expenditure on world cup/Olympics/growth already slowing • Long time: Inflation high now • Increased inequality: Brazil is a relatively poor country • Might be counter-productive – might cause job losses – bad in the context of higher interest rates • Etc. 		

Question	Answer	Mark	Assessment objective						
Section B									
2 1	<p data-bbox="231 264 1225 302">Price Elasticity of Demand for primary school meals estimated to be -0.9</p> <p data-bbox="231 324 1225 392">Explain the factors that might cause the price elasticity of demand for primary school meals to be at this level.</p> <table border="1" data-bbox="239 414 1217 2011"> <tr> <td data-bbox="239 414 383 869"> <p data-bbox="255 414 367 481">Level 1 1 - 3</p> </td> <td data-bbox="383 414 1217 869"> <p data-bbox="399 414 1201 481">Limited knowledge of relevant economic theory. One or two basic points made.</p> <p data-bbox="399 504 1201 571">Answer may contain a definition, a description of PED and perhaps a list of factors without development.</p> <p data-bbox="399 593 718 627">Relevant factors include:</p> <ul data-bbox="446 649 1201 772" style="list-style-type: none"> • School dinners a necessity • No close substitutes (packed lunch, but not hot food) • Small percentage of income for many families <p data-bbox="399 772 638 806">Definition only = 1</p> <p data-bbox="399 828 798 862">Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="239 869 383 1276"> <p data-bbox="255 869 367 936">Level 2 4 - 6</p> </td> <td data-bbox="383 869 1217 1276"> <p data-bbox="399 869 1201 974">Good understanding of subject matter with some application. 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2 2	<p data-bbox="233 237 1129 259">Discuss whether the price of school meals should be increased.</p> <table border="1" data-bbox="233 297 1206 1765"> <tr> <td data-bbox="233 297 360 566"> <p data-bbox="248 309 344 331">Level 1</p> <p data-bbox="264 371 328 394">1 - 4</p> </td> <td data-bbox="360 297 1206 566"> <p data-bbox="376 309 1158 432">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="376 472 1174 566">Yes: Might raise revenue, No: <i>Increases prices for poor people, might mean children go hungry.</i></p> </td> </tr> <tr> <td data-bbox="233 566 360 1765"> <p data-bbox="248 577 344 600">Level 2</p> <p data-bbox="264 640 328 663">5 - 8</p> </td> <td data-bbox="360 566 1206 1765"> <p data-bbox="376 577 1182 734">Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p data-bbox="376 775 1118 842">Candidate explains and develops points, using economic theory in context.</p> <p data-bbox="376 882 440 904">Yes:</p> <p data-bbox="376 913 1182 969">Demand is inelastic, therefore increase in price causes revenue to rise, because demand falls less than proportionally</p> <ul data-bbox="376 978 1150 1160" style="list-style-type: none"> ▪ Diagram illustrating this ▪ If school meals are contracted out, private operators will make more profits ▪ Schools/councils need to cover costs/reduce subsidies ▪ Schools/councils need funds for new equipment etc. <p data-bbox="376 1200 424 1223">No:</p> <ul data-bbox="376 1232 1158 1417" style="list-style-type: none"> ▪ <i>Could be inflationary</i> ▪ <i>Social impact</i> ▪ <i>Impact may be regressive</i> ▪ <i>May be damaging to health – external benefits of school meals?</i> <p data-bbox="376 1458 783 1491">Credit any other relevant points</p> <p data-bbox="376 1532 1174 1727">Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> </td> </tr> </table>	<p data-bbox="248 309 344 331">Level 1</p> <p data-bbox="264 371 328 394">1 - 4</p>	<p data-bbox="376 309 1158 432">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="376 472 1174 566">Yes: Might raise revenue, No: <i>Increases prices for poor people, might mean children go hungry.</i></p>	<p data-bbox="248 577 344 600">Level 2</p> <p data-bbox="264 640 328 663">5 - 8</p>	<p data-bbox="376 577 1182 734">Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p data-bbox="376 775 1118 842">Candidate explains and develops points, using economic theory in context.</p> <p data-bbox="376 882 440 904">Yes:</p> <p data-bbox="376 913 1182 969">Demand is inelastic, therefore increase in price causes revenue to rise, because demand falls less than proportionally</p> <ul data-bbox="376 978 1150 1160" style="list-style-type: none"> ▪ Diagram illustrating this ▪ If school meals are contracted out, private operators will make more profits ▪ Schools/councils need to cover costs/reduce subsidies ▪ Schools/councils need funds for new equipment etc. <p data-bbox="376 1200 424 1223">No:</p> <ul data-bbox="376 1232 1158 1417" style="list-style-type: none"> ▪ <i>Could be inflationary</i> ▪ <i>Social impact</i> ▪ <i>Impact may be regressive</i> ▪ <i>May be damaging to health – external benefits of school meals?</i> <p data-bbox="376 1458 783 1491">Credit any other relevant points</p> <p data-bbox="376 1532 1174 1727">Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
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Question	Answer	Mark	Assessment objective
	<p>Level 3 9 - 12</p> <p>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</p> <p>Strong two-sided answer with developed arguments on each side.</p> <p>9-10 Answer contains developed evaluation but is not fully convincing. Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument.</p> <p>11-12 In context answer Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not it would be sensible to increase the price of school meals.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Large price increase might mean that D becomes elastic. (ii) Low income groups receive free school meals anyway, so regressive effects will be limited. (iii) Food prices rising rapidly therefore essential to increase. (iv) School meals not always particularly healthy anyway, so external benefits would be limited (v) School meals are contracted out in some areas, so the extra money will simply go to private firms.</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		

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3 1	<p>Average hourly wage in the UK falls to £11.21 in 2013, lower than the level in 2003.</p> <p>Using supply and demand diagrams, explain why average wages may have fallen in the UK in recent years</p> <table border="1" data-bbox="239 403 1220 2004"> <tr> <td data-bbox="239 403 375 1321"> <p>Level 1 1 - 3</p> </td> <td data-bbox="375 403 1220 1321"> <p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Relevant factors include:</p> <p>Demand (shifts to the left):</p> <ul style="list-style-type: none"> • Impact of recession • Improved technology • Global competition/outsourcing  <p>Supply (shifts to the right)</p> <ul style="list-style-type: none"> • Immigration from EU and outside • Increased retirement age • University fees leading to more part-time workers  <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="239 1321 375 2004"> <p>Level 2 4 - 6</p> </td> <td data-bbox="375 1321 1220 2004"> <p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Level 1 points are explained and related back to falling wages. Points may lack some depth of explanation.</p> <p>Some candidates might think about the idea that wages have risen by less than inflation.</p> <p>Top of level 2 for two moderately developed points and an integrated diagram, covering both demand and supply. If only D or S covered, points will need to be well developed.</p> <p>No diagrams: Max top L2</p> <p>D or S only: Max top L2</p> <p>Abstract theory: Max top L2</p> </td> </tr> </table>	<p>Level 1 1 - 3</p>	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Relevant factors include:</p> <p>Demand (shifts to the left):</p> <ul style="list-style-type: none"> • Impact of recession • Improved technology • Global competition/outsourcing  <p>Supply (shifts to the right)</p> <ul style="list-style-type: none"> • Immigration from EU and outside • Increased retirement age • University fees leading to more part-time workers  <p>Credit any other relevant points</p>	<p>Level 2 4 - 6</p>	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Level 1 points are explained and related back to falling wages. Points may lack some depth of explanation.</p> <p>Some candidates might think about the idea that wages have risen by less than inflation.</p> <p>Top of level 2 for two moderately developed points and an integrated diagram, covering both demand and supply. If only D or S covered, points will need to be well developed.</p> <p>No diagrams: Max top L2</p> <p>D or S only: Max top L2</p> <p>Abstract theory: Max top L2</p>	8	AO1 3 AO2 3 AO3 2
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Question	Answer	Mark	Assessment objective				
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7 - 8	<p>Good diagram with at least 2 well explained factors covering both S and D which are relevant to the context – wages falling in the UK in recent years. Candidate is clear about why wages have fallen – good relation back to the question.</p>						

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3 2	<p data-bbox="231 226 1236 293">Discuss whether a reduction in the national minimum wage would reduce unemployment in the UK.</p> <table border="1" data-bbox="231 322 1236 1951"> <tr> <td data-bbox="231 322 359 607"> <p data-bbox="247 329 343 421">Level 1 1 - 4</p> </td> <td data-bbox="359 322 1236 607"> <p data-bbox="375 329 1220 427">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="375 461 1220 528">Will: Simple diagram, not explained. Costs fall – cheaper to employ</p> <p data-bbox="375 562 1220 607">Won't: <i>AD is still very low. Not if minimum wage is below equilibrium</i></p> </td> </tr> <tr> <td data-bbox="231 607 359 1951"> <p data-bbox="247 613 343 680">Level 2 5 - 8</p> </td> <td data-bbox="359 607 1236 1951"> <p data-bbox="375 613 1220 779">Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p data-bbox="375 813 1220 913">Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points:</p> <p data-bbox="375 947 1220 981">Will:</p> <ul data-bbox="375 987 1220 1335" style="list-style-type: none"> • Well used diagram, labelled with new and old unemployment marked. • Demand for labour may increase because costs of employment fall. • D for labour may increase because firms can cut the prices of final products, UK firms more competitive on world markets • D for labour may not fall because firms have less incentive to invest in labour replacing technology. <p data-bbox="375 1368 1220 1402">Won't:</p> <ul data-bbox="375 1408 1220 1648" style="list-style-type: none"> • <i>Labour costs only one factor affecting demand – state of economy – derived D.</i> • <i>Some candidates might reference voluntary unemployment</i> • <i>Most workers earn more than the minimum wage, therefore many firms will be unaffected. Might use diagram here.</i> • <i>Wage stickiness</i> • <i>Falling wages may cut AD</i> <p data-bbox="375 1682 1220 1715">Credit any other relevant points</p> <p data-bbox="375 1749 1220 1951">Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> </td> </tr> </table>	<p data-bbox="247 329 343 421">Level 1 1 - 4</p>	<p data-bbox="375 329 1220 427">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="375 461 1220 528">Will: Simple diagram, not explained. Costs fall – cheaper to employ</p> <p data-bbox="375 562 1220 607">Won't: <i>AD is still very low. 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<p data-bbox="247 329 343 421">Level 1 1 - 4</p>	<p data-bbox="375 329 1220 427">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="375 461 1220 528">Will: Simple diagram, not explained. Costs fall – cheaper to employ</p> <p data-bbox="375 562 1220 607">Won't: <i>AD is still very low. Not if minimum wage is below equilibrium</i></p>						
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Question	Answer	Mark	Assessment objective
	<p>Level 3 9 - 12</p> <p>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</p> <p>Strong two-sided approach with developed arguments on each side</p> <p>9-10 Answer contains developed evaluation but is not fully convincing</p> <p>Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument.</p> <p>11-12 In context answer</p> <p>Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not unemployment will rise.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Labour might not be a big part of firms' costs (ii) UK costs will still be above those of firms in other countries (iii) Voluntary u/e might not increase if benefits system reformed (iv) Depends on elasticity of D/S for labour.</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		

Question	Answer	Mark	Assessment objective				
4 1	<p>UK drivers spend 29 hours per year stuck in traffic. UK has 5th worst congestion in Europe.</p> <p>Explain why road congestion causes economic problems.</p> <table border="1" data-bbox="229 365 1252 1682"> <tr> <td data-bbox="229 365 368 835"> <p>Level 1</p> <p>1 - 3</p> </td> <td data-bbox="368 365 1252 835"> <p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology.</p> <p>Relevant factors include:</p> <ul style="list-style-type: none"> • Congestion wastes firms' time • Congestion wastes people's time • Congestion causes pollution <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="229 835 368 1682"> <p>Level 2</p> <p>4 - 6</p> </td> <td data-bbox="368 835 1252 1682"> <p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Points are developed and relate to the idea of <i>economic</i> problems. Points may lack some depth of explanation.</p> <p>Possible points:</p> <ul style="list-style-type: none"> • Congestion creates external costs in the sense that it slows down other road users. Therefore it causes market failure because resources will be misallocated and there will be a welfare loss. Up to 4 if done well • Congestion similarly contributes to pollution – cars spend more time in standing traffic, therefore meaning that more fuel is burned. This leads to (i) localised pollution which damages health and reduces life expectancy and (ii) Increased CO₂ emissions. Up to 4 if done well • Congestion drives up firms' costs therefore making UK firms less competitive on world markets. Up to 4 if done well • May make UK less attractive for FDI as a consequence. Up to 2 • Congestion drives up firms' costs and therefore feeds into higher prices for consumers. Up to 2 <p>Credit any other relevant points</p> </td> </tr> </table>	<p>Level 1</p> <p>1 - 3</p>	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology.</p> <p>Relevant factors include:</p> <ul style="list-style-type: none"> • Congestion wastes firms' time • Congestion wastes people's time • Congestion causes pollution <p>Credit any other relevant points</p>	<p>Level 2</p> <p>4 - 6</p>	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Points are developed and relate to the idea of <i>economic</i> problems. Points may lack some depth of explanation.</p> <p>Possible points:</p> <ul style="list-style-type: none"> • Congestion creates external costs in the sense that it slows down other road users. Therefore it causes market failure because resources will be misallocated and there will be a welfare loss. Up to 4 if done well • Congestion similarly contributes to pollution – cars spend more time in standing traffic, therefore meaning that more fuel is burned. This leads to (i) localised pollution which damages health and reduces life expectancy and (ii) Increased CO₂ emissions. Up to 4 if done well • Congestion drives up firms' costs therefore making UK firms less competitive on world markets. Up to 4 if done well • May make UK less attractive for FDI as a consequence. Up to 2 • Congestion drives up firms' costs and therefore feeds into higher prices for consumers. Up to 2 <p>Credit any other relevant points</p>	8	<p>AO1 3</p> <p>AO2 3</p> <p>AO3 2</p>
<p>Level 1</p> <p>1 - 3</p>	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology.</p> <p>Relevant factors include:</p> <ul style="list-style-type: none"> • Congestion wastes firms' time • Congestion wastes people's time • Congestion causes pollution <p>Credit any other relevant points</p>						
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Question	Answer	Mark	Assessment objective
	<p data-bbox="229 237 357 338">Level 3 7 - 8</p> <p data-bbox="379 237 1198 371">The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</p> <p data-bbox="379 409 1126 472">Some reference to external costs/market failure/resource misallocation etc. is needed for level 3.</p> <p data-bbox="379 510 1222 645">Candidate applies well to the context of congestion rather than just the idea of lots of cars driving about. Level 3 answers will be likely to have covered both market failure and business implications in reasonable detail.</p> <p data-bbox="379 683 1198 745">A strong market failure answer covering both the first two level points is also likely to be a level 3 answer.</p>		

Question	Answer	Mark	Assessment objective				
4 2	<p>Discuss whether road pricing is a better policy for reducing congestion than subsidies for public transport.</p> <table border="1" data-bbox="236 331 1228 1792"> <tr> <td data-bbox="236 331 375 638"> <p>Level 1 1 - 4</p> </td> <td data-bbox="375 331 1228 638"> <p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Road pricing: Simple diagram, not explained. More expensive, D falls. Subsidies: Simple diagram, not explained. Less expensive, D rises.</p> </td> </tr> <tr> <td data-bbox="236 638 375 1792"> <p>Level 2 5 - 8</p> </td> <td data-bbox="375 638 1228 1792"> <p>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (Up to 3 for a well-developed point):</p> <p>Road pricing:</p> <ul style="list-style-type: none"> • Can be targeted at particular times of day, focusing directly on the problem • Polluter pays – some candidates may discuss internalising the externality, correcting market failure • May raise revenue for the government in some way, shape or form. <p>Subsidies:</p> <ul style="list-style-type: none"> • Encourage car drivers to switch (XED) • Don't increase costs for businesses • Beneficial to low income groups • If targeted in right way, might encourage green transport <p>Max 8 for one policy fully evaluated</p> <p>Credit any other relevant points</p> <p>Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> </td> </tr> </table>	<p>Level 1 1 - 4</p>	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Road pricing: Simple diagram, not explained. More expensive, D falls. Subsidies: Simple diagram, not explained. Less expensive, D rises.</p>	<p>Level 2 5 - 8</p>	<p>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (Up to 3 for a well-developed point):</p> <p>Road pricing:</p> <ul style="list-style-type: none"> • Can be targeted at particular times of day, focusing directly on the problem • Polluter pays – some candidates may discuss internalising the externality, correcting market failure • May raise revenue for the government in some way, shape or form. <p>Subsidies:</p> <ul style="list-style-type: none"> • Encourage car drivers to switch (XED) • Don't increase costs for businesses • Beneficial to low income groups • If targeted in right way, might encourage green transport <p>Max 8 for one policy fully evaluated</p> <p>Credit any other relevant points</p> <p>Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p>	12	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>
<p>Level 1 1 - 4</p>	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Road pricing: Simple diagram, not explained. More expensive, D falls. Subsidies: Simple diagram, not explained. Less expensive, D rises.</p>						
<p>Level 2 5 - 8</p>	<p>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (Up to 3 for a well-developed point):</p> <p>Road pricing:</p> <ul style="list-style-type: none"> • Can be targeted at particular times of day, focusing directly on the problem • Polluter pays – some candidates may discuss internalising the externality, correcting market failure • May raise revenue for the government in some way, shape or form. <p>Subsidies:</p> <ul style="list-style-type: none"> • Encourage car drivers to switch (XED) • Don't increase costs for businesses • Beneficial to low income groups • If targeted in right way, might encourage green transport <p>Max 8 for one policy fully evaluated</p> <p>Credit any other relevant points</p> <p>Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p>						

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	<p>Level 3 9 - 12</p> <p>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</p> <p>Strong two-sided approach with developed arguments on each side.</p> <p>9-10 Answer contains developed evaluation but is not fully convincing.</p> <p>Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument, but at least one of the policies will need to be qualified – answers just explaining the advantages of each will be level 2 only.</p> <p>11-12 In context answer.</p> <p>Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment which is best.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include Road pricing: : (i) Regressive (ii) Inflationary/costs/competitiveness (iii) Elasticity (iv) Hard to get tax right. Subsidies: (i) Expensive (ii) Depends on quality/reliability</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		

Section C

Question	Answer	Mark	Assessment objective				
5 1	<p>Budget 2013: Fiscal policy to be responsible. Monetary policy stimulus to support demand</p> <p>Explain how monetary policy and fiscal policy can be used to increase Aggregate Demand.</p>	8	AO1 3 AO2 3 AO3 2				
	<table border="1" style="width: 100%;"> <tr> <td style="text-align: center; vertical-align: top;"> Level 1 1 - 3 </td> <td> <p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Candidate shows some understanding of fiscal and monetary policy, but lacks depth. A level 1 response will tend to make points like:</p> <ul style="list-style-type: none"> • Monetary policy is to do with the control of interest rates • Fiscal Policy is to do with taxes and government spending <p>Credit any other relevant points</p> </td> </tr> <tr> <td style="text-align: center; vertical-align: top;"> Level 2 4 - 6 </td> <td> <p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Points are developed and show how monetary and fiscal policy work in terms of their impact on AD</p> <p>Monetary Policy (up to 4): Changes in interest rates affect (up to 3 through any channel):</p> <ul style="list-style-type: none"> - C through mortgage payments, incentives to save and borrow, asset prices and impact on income of retired. - I through cost of borrowing and impact on confidence/expectations - X,M through impact on ex rate. <p>QE expands the money supply (Allow any limited understanding here)</p> <p>Fiscal Policy (up to 4): Affects AD through:</p> <ul style="list-style-type: none"> - Direct and Indirect tax (tax up to 2, don't have to do both DT and IT) - Current and Capital spending (G up to do, don't need to name specific categories such as capital/current). <p>4 Max if only FP or MP covered.</p> <p>Credit any other relevant points</p> </td> </tr> </table>	Level 1 1 - 3	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Candidate shows some understanding of fiscal and monetary policy, but lacks depth. A level 1 response will tend to make points like:</p> <ul style="list-style-type: none"> • Monetary policy is to do with the control of interest rates • Fiscal Policy is to do with taxes and government spending <p>Credit any other relevant points</p>	Level 2 4 - 6	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Points are developed and show how monetary and fiscal policy work in terms of their impact on AD</p> <p>Monetary Policy (up to 4): Changes in interest rates affect (up to 3 through any channel):</p> <ul style="list-style-type: none"> - C through mortgage payments, incentives to save and borrow, asset prices and impact on income of retired. - I through cost of borrowing and impact on confidence/expectations - X,M through impact on ex rate. <p>QE expands the money supply (Allow any limited understanding here)</p> <p>Fiscal Policy (up to 4): Affects AD through:</p> <ul style="list-style-type: none"> - Direct and Indirect tax (tax up to 2, don't have to do both DT and IT) - Current and Capital spending (G up to do, don't need to name specific categories such as capital/current). <p>4 Max if only FP or MP covered.</p> <p>Credit any other relevant points</p>		
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Question	Answer	Mark	Assessment objective		
	<table border="1" data-bbox="231 241 1206 752"> <tr> <td data-bbox="231 241 368 752"> <p>Level 3</p> <p>7 - 8</p> </td> <td data-bbox="368 241 1206 752"> <p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</p> <p>All relevant aspects of monetary and fiscal policy are covered:</p> <ul style="list-style-type: none"> • Monetary: Interest rates cover at least two of the three channels of the transmission mechanism. • Fiscal: both taxation and government spending are covered with examples. </td> </tr> </table>	<p>Level 3</p> <p>7 - 8</p>	<p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</p> <p>All relevant aspects of monetary and fiscal policy are covered:</p> <ul style="list-style-type: none"> • Monetary: Interest rates cover at least two of the three channels of the transmission mechanism. • Fiscal: both taxation and government spending are covered with examples. 		
<p>Level 3</p> <p>7 - 8</p>	<p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</p> <p>All relevant aspects of monetary and fiscal policy are covered:</p> <ul style="list-style-type: none"> • Monetary: Interest rates cover at least two of the three channels of the transmission mechanism. • Fiscal: both taxation and government spending are covered with examples. 				

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5 2	<p data-bbox="229 241 1241 309">Is it more important for a government to achieve low inflation or low unemployment?</p> <table border="1" data-bbox="229 340 1228 1796"> <tr> <td data-bbox="229 340 360 609"> <p data-bbox="242 344 347 443">Level 1 1 - 4</p> </td> <td data-bbox="360 340 1228 609"> <p data-bbox="373 344 1216 443">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="373 479 1197 577">Candidate may bullet point some of the reasons for or against achieving one or the other, but there is little or no development – essentially a bullet-point list.</p> </td> </tr> <tr> <td data-bbox="229 609 360 1796"> <p data-bbox="242 613 347 712">Level 2 5 - 8</p> </td> <td data-bbox="360 609 1228 1796"> <p data-bbox="373 613 1184 779">Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p data-bbox="373 815 1187 913">Candidate explains and develops some of the reasons for and against achieving some of the objectives. Points likely to be drawn from:</p> <ul data-bbox="421 918 1216 1182" style="list-style-type: none"> • Unemployment: Pareto inefficient, impact on budget, risk of deskilling, social consequences, inequality, reduced living standards, reduced profits for firms cutting investment. Etc. • Inflation: Competitiveness issues, impact on fixed income groups, fiscal drag, menu costs, policy response, disguised inefficiency, damage to business confidence. Etc. <p data-bbox="373 1191 1203 1321">Top level 2 answers will show a good understanding of why each might matter (two to three points on each, with a small amount of development – remember that this is an AS exam, not A2).</p> <p data-bbox="373 1357 788 1388">Credit any other relevant points</p> <p data-bbox="373 1424 1216 1621">Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p data-bbox="373 1657 1197 1756">Max 8 for answers that purely explain why low u/e and inflation are desirable. Max 8 for one objective fully evaluated.</p> </td> </tr> </table>	<p data-bbox="242 344 347 443">Level 1 1 - 4</p>	<p data-bbox="373 344 1216 443">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="373 479 1197 577">Candidate may bullet point some of the reasons for or against achieving one or the other, but there is little or no development – essentially a bullet-point list.</p>	<p data-bbox="242 613 347 712">Level 2 5 - 8</p>	<p data-bbox="373 613 1184 779">Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p data-bbox="373 815 1187 913">Candidate explains and develops some of the reasons for and against achieving some of the objectives. Points likely to be drawn from:</p> <ul data-bbox="421 918 1216 1182" style="list-style-type: none"> • Unemployment: Pareto inefficient, impact on budget, risk of deskilling, social consequences, inequality, reduced living standards, reduced profits for firms cutting investment. Etc. • Inflation: Competitiveness issues, impact on fixed income groups, fiscal drag, menu costs, policy response, disguised inefficiency, damage to business confidence. Etc. <p data-bbox="373 1191 1203 1321">Top level 2 answers will show a good understanding of why each might matter (two to three points on each, with a small amount of development – remember that this is an AS exam, not A2).</p> <p data-bbox="373 1357 788 1388">Credit any other relevant points</p> <p data-bbox="373 1424 1216 1621">Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p data-bbox="373 1657 1197 1756">Max 8 for answers that purely explain why low u/e and inflation are desirable. Max 8 for one objective fully evaluated.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
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	<p>Level 3 9 - 12 Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</p> <p>Strong two-sided answer with developed arguments on each side</p> <p>9-10 Answer contains developed evaluation but is not fully convincing Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument.</p> <p>11-12 In context answer Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not it would be sensible to increase the price of school meals.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Large price increase might mean that D becomes elastic. (ii) Low income groups receive free school meals anyway, so regressive effects will be limited. (iii) Food prices rising rapidly therefore essential to increase. (iv) School meals not always particularly healthy anyway, so external benefits would be limited (v) School meals are contracted out in some areas, so the extra money will simply go to private firms.</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		

6 1	<p>Corporation tax falls to 20%. May fall further as the Chancellor sticks to his 'open for business model'</p> <p>Explain why increasing investment by businesses is considered to be important for the UK economy.</p> <table border="1" data-bbox="231 392 1228 1691"> <tr> <td data-bbox="231 392 371 817"> Level 1 1 - 3 </td> <td data-bbox="371 392 1228 817"> <p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Candidate shows some understanding of Investment, perhaps using a definition. Points are not developed.</p> <ul style="list-style-type: none"> • I will increase AD because $AD=C+I+G+X-M$ or J/W approach or Keynesian cross diagrams • I will increase AS/PPFs <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="231 817 371 1691"> Level 2 4 - 6 </td> <td data-bbox="371 817 1228 1691"> <p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Points are developed and show how Investment can benefit an economy (up to 4 for each)</p> <p>(1) I increases AD because it often involves construction of fixed capital/factories etc. Therefore there will be multiplier effects as jobs are created in construction and engineering. GDP will rise.</p> <p>(2) I can increase AS because it contributes to potential growth by increasing the quantity and quality of factors of production – better capital allows workers to be more effective and higher capital stock adds directly to capacity. Hence contributes directly to non-inflationary growth.</p> <p>(3) I can help to boost the competitiveness of UK firms by increasing productivity and consequently reducing unit costs.</p> <p>Top level 2 answers will probably cover 2 of these three areas in detail.</p> <p>Credit any other relevant points</p> </td> </tr> </table>	Level 1 1 - 3	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Candidate shows some understanding of Investment, perhaps using a definition. Points are not developed.</p> <ul style="list-style-type: none"> • I will increase AD because $AD=C+I+G+X-M$ or J/W approach or Keynesian cross diagrams • I will increase AS/PPFs <p>Credit any other relevant points</p>	Level 2 4 - 6	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</p> <p>Points are developed and show how Investment can benefit an economy (up to 4 for each)</p> <p>(1) I increases AD because it often involves construction of fixed capital/factories etc. Therefore there will be multiplier effects as jobs are created in construction and engineering. GDP will rise.</p> <p>(2) I can increase AS because it contributes to potential growth by increasing the quantity and quality of factors of production – better capital allows workers to be more effective and higher capital stock adds directly to capacity. Hence contributes directly to non-inflationary growth.</p> <p>(3) I can help to boost the competitiveness of UK firms by increasing productivity and consequently reducing unit costs.</p> <p>Top level 2 answers will probably cover 2 of these three areas in detail.</p> <p>Credit any other relevant points</p>	8	AO1 3 AO2 3 AO3 2
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	<p>Level 3 7 - 8</p> <p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</p> <p>Candidate:</p> <p style="text-align: center;">either:</p> <p>Covers all three areas with at least one done in a good level of detail (hence a theoretically strong answer)</p> <p style="text-align: center;">or</p> <p>Talks about the UK economy – jobs important right now because of slow recovery from Great Recession, UK relatively poor productivity performance, poor record on investment. UK's trend growth rate relatively slow etc. (Hence a well applied answer)</p> <p>Credit any other relevant points</p>		
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Question	Answer	Mark	Assessment objective				
6 2	<p>Should the government increase VAT to 25% to allow for a significant reduction in income tax and corporation tax?</p> <table border="1" data-bbox="233 344 1230 1839"> <tr> <td data-bbox="233 344 360 658">Level 1 1 - 4</td> <td data-bbox="360 344 1230 658"> <p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Candidate understands what the different taxes are. Makes an undeveloped list of possible consequences: Higher VAT might be inflationary Lower Corporation tax might increase investment Lower Income tax might increase AD</p> </td> </tr> <tr> <td data-bbox="233 658 360 1839">Level 2 5 - 8</td> <td data-bbox="360 658 1230 1839"> <p>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops some of the reasons for and against the policy changes suggested (Up to 3 per well developed idea).</p> <p>Higher VAT good: Hard to avoid, big tax, doesn't affect incentives. VAT increases can be targeted. But: Regressive, directly increases inflation (risk of wage-price spiral, worsening industrial disputes)</p> <p>Lower Corp tax good: Encourages I and FDI, might reduce off-shoring, doesn't generate that much revenue anyway. But: Many MNCs avoid it anyway, so no effect. Other factors more important in investment/location decisions.</p> <p>Lower Y tax good: Creates incentives to work (reduced chance of poverty/unemployment traps), offsets the fall in AD from higher VAT. But increases inequality (only those with jobs benefit), no guarantee of increase in AD (confidence). May or may not reduce tax revenue (Laffer curve)</p> <p>Top level 2 answer will deal with all three taxes mentioned in the question.</p> <p>Credit any other relevant points</p> </td> </tr> </table>	Level 1 1 - 4	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Candidate understands what the different taxes are. Makes an undeveloped list of possible consequences: Higher VAT might be inflationary Lower Corporation tax might increase investment Lower Income tax might increase AD</p>	Level 2 5 - 8	<p>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops some of the reasons for and against the policy changes suggested (Up to 3 per well developed idea).</p> <p>Higher VAT good: Hard to avoid, big tax, doesn't affect incentives. VAT increases can be targeted. But: Regressive, directly increases inflation (risk of wage-price spiral, worsening industrial disputes)</p> <p>Lower Corp tax good: Encourages I and FDI, might reduce off-shoring, doesn't generate that much revenue anyway. But: Many MNCs avoid it anyway, so no effect. Other factors more important in investment/location decisions.</p> <p>Lower Y tax good: Creates incentives to work (reduced chance of poverty/unemployment traps), offsets the fall in AD from higher VAT. But increases inequality (only those with jobs benefit), no guarantee of increase in AD (confidence). May or may not reduce tax revenue (Laffer curve)</p> <p>Top level 2 answer will deal with all three taxes mentioned in the question.</p> <p>Credit any other relevant points</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
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	<p>Level 3 9 - 12</p> <p>Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which do evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</p> <p>Strong two-sided approach with developed arguments on each side</p> <p>9-10 Answer contains developed evaluation but is not fully convincing.</p> <p>Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. Or evaluation is present but lacks explanation.</p> <p>Evaluation is present but may simply outline the advantages and disadvantages of going ahead or not going ahead – likely to treat the taxes separately, not coming to a conclusion about the policy as a whole.</p> <p>11-12 In context answer, comes to a conclusion about whether or not the policy taken as a whole is desirable. Answers here will have produced a convincing response to the question.</p> <p>Attempts to judge whether increases in VAT combined with direct taxes will work. Or candidate is effective at qualifying the arguments made on each side.</p> <p>Points might include:</p> <p>AD overall may well remain unchanged (cancelling effects) Likely to create strong incentives to enter the workforce (higher price level, higher reward from work) Likely to sharply increase income inequality Or simply comes to a reasoned conclusion based on their earlier analysis</p> <p>Credit any other relevant points</p>		

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7 1	<p>WTO warns that continued slow growth and high unemployment may lead to rising protectionism and currency wars</p> <p>Explain how a government could use its exchange rate to increase growth and reduce unemployment.</p> <table border="1" data-bbox="233 416 1230 2002"> <tr> <td data-bbox="233 416 363 719"> Level 1 1 - 3 </td> <td data-bbox="363 416 1230 719"> Limited knowledge of relevant economic theory. One or two basic points made. <p>Candidates understand that a decrease in the exchange rate should help to raise actual growth and create jobs. Points not developed and not really explained, probably limited to a fall in the £ causes P_x to fall and P_m to rise meaning more jobs.</p> <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="233 719 363 1328"> Level 2 4 - 6 </td> <td data-bbox="363 719 1230 1328"> Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. <p>Points are developed and show how a fall in the ex rate will bring about both desired outcomes.</p> <p>Weaker £ causes a fall in P_x because UK goods appear cheaper in forex terms. Therefore the demand for exports should rise.</p> <p>Weaker £ causes imported products to cost more in sterling terms, reducing the demand for imports and raising the demand for domestic substitutes.</p> <p>Together these should raise AD which should create higher GDP and more jobs. May draw an AD/AS diagram that isn't really used.</p> <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="233 1328 363 2002"> Level 3 7 - 8 </td> <td data-bbox="363 1328 1230 2002"> The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. <p>Candidate Develops the impact of AD using relevant descriptive theory such as the multiplier, and explains clearly <i>why</i> GDP rises and <i>why</i> jobs are created.</p> <p style="text-align: center;">Or</p> <p>Use a well-integrated AD/AS diagram to illustrate explaining why GDP rises, and using the diagram to explain why jobs will be created (e.g. reduction in negative output gap, or higher GDP requires more workers to make it etc.)</p> <p>Or Has explained <i>how</i> the government can bring about a reduction in the exchange rate in the first place as part of their answer (max 4 for just explaining <i>how</i>)</p> <p>Credit any other relevant points</p> </td> </tr> </table>	Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. <p>Candidates understand that a decrease in the exchange rate should help to raise actual growth and create jobs. Points not developed and not really explained, probably limited to a fall in the £ causes P_x to fall and P_m to rise meaning more jobs.</p> <p>Credit any other relevant points</p>	Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. <p>Points are developed and show how a fall in the ex rate will bring about both desired outcomes.</p> <p>Weaker £ causes a fall in P_x because UK goods appear cheaper in forex terms. Therefore the demand for exports should rise.</p> <p>Weaker £ causes imported products to cost more in sterling terms, reducing the demand for imports and raising the demand for domestic substitutes.</p> <p>Together these should raise AD which should create higher GDP and more jobs. May draw an AD/AS diagram that isn't really used.</p> <p>Credit any other relevant points</p>	Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. <p>Candidate Develops the impact of AD using relevant descriptive theory such as the multiplier, and explains clearly <i>why</i> GDP rises and <i>why</i> jobs are created.</p> <p style="text-align: center;">Or</p> <p>Use a well-integrated AD/AS diagram to illustrate explaining why GDP rises, and using the diagram to explain why jobs will be created (e.g. reduction in negative output gap, or higher GDP requires more workers to make it etc.)</p> <p>Or Has explained <i>how</i> the government can bring about a reduction in the exchange rate in the first place as part of their answer (max 4 for just explaining <i>how</i>)</p> <p>Credit any other relevant points</p>	8	AO1 3 AO2 3 AO3 2
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7 2	<p data-bbox="231 212 1228 280">Discuss whether a country faced with slow growth and high unemployment should introduce higher tariffs on imports.</p> <table border="1" data-bbox="231 302 1228 1915"> <tr> <td data-bbox="231 302 359 571"> <p data-bbox="239 309 351 342">Level 1</p> <p data-bbox="271 369 327 403">1-4</p> </td> <td data-bbox="359 302 1228 571"> <p data-bbox="375 309 1220 414">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="375 436 1220 571">Candidate asserts that tariffs will reduce imports and therefore create jobs. Candidate draws the tariff diagram explaining it – new M, old M or ‘ABCD’ approach, but not linked to the Q.</p> </td> </tr> <tr> <td data-bbox="231 571 359 1915"> <p data-bbox="239 577 351 611">Level 2</p> <p data-bbox="271 638 327 672">5 - 8</p> </td> <td data-bbox="359 571 1228 1915"> <p data-bbox="375 577 1220 750">Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p data-bbox="375 772 1220 884">Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points:</p> <p data-bbox="375 907 534 940">Good idea:</p> <ul data-bbox="422 940 1220 1422" style="list-style-type: none"> • Diagram likely to be used more fully – candidate will show and explain the increase in domestic output, explaining that this may contribute to growth. Candidate may show and explain the fall in imports and explain that as a consequence jobs may be created. Up to 6 for a very well integrated diagram that addresses both jobs and growth. • Candidates may make points about infant and strategic industries needing protection, both protecting jobs and perhaps contributing to growth. • Tariffs may be needed to protect industries from dumping, which may destroy industries (slowing growth and costing jobs) • Tariffs raise revenue for the government which can be invested in SSPs <p data-bbox="375 1444 502 1478">Bad idea</p> <ul data-bbox="422 1478 1220 1814" style="list-style-type: none"> • Tariffs cause job losses in industries depending on imports (car industry, steel etc.) • Tariffs invite retaliation, again causing job losses • If all countries increase tariffs, growth will be slower (loss of comparative advantage, economic research) • Tariffs encourage inefficiency (might show the inefficiency area on the diagram), which may damage potential growth. • Other policies might be more effective – limited credit for this. <p data-bbox="375 1848 790 1881">Credit any other relevant points</p> </td> </tr> </table>	<p data-bbox="239 309 351 342">Level 1</p> <p data-bbox="271 369 327 403">1-4</p>	<p data-bbox="375 309 1220 414">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="375 436 1220 571">Candidate asserts that tariffs will reduce imports and therefore create jobs. Candidate draws the tariff diagram explaining it – new M, old M or ‘ABCD’ approach, but not linked to the Q.</p>	<p data-bbox="239 577 351 611">Level 2</p> <p data-bbox="271 638 327 672">5 - 8</p>	<p data-bbox="375 577 1220 750">Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p data-bbox="375 772 1220 884">Candidate explains and develops Level 1 points, using economic theory in context. 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Up to 6 for a very well integrated diagram that addresses both jobs and growth. • Candidates may make points about infant and strategic industries needing protection, both protecting jobs and perhaps contributing to growth. • Tariffs may be needed to protect industries from dumping, which may destroy industries (slowing growth and costing jobs) • Tariffs raise revenue for the government which can be invested in SSPs <p data-bbox="375 1444 502 1478">Bad idea</p> <ul data-bbox="422 1478 1220 1814" style="list-style-type: none"> • Tariffs cause job losses in industries depending on imports (car industry, steel etc.) • Tariffs invite retaliation, again causing job losses • If all countries increase tariffs, growth will be slower (loss of comparative advantage, economic research) • Tariffs encourage inefficiency (might show the inefficiency area on the diagram), which may damage potential growth. • Other policies might be more effective – limited credit for this. <p data-bbox="375 1848 790 1881">Credit any other relevant points</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
<p data-bbox="239 309 351 342">Level 1</p> <p data-bbox="271 369 327 403">1-4</p>	<p data-bbox="375 309 1220 414">Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p data-bbox="375 436 1220 571">Candidate asserts that tariffs will reduce imports and therefore create jobs. Candidate draws the tariff diagram explaining it – new M, old M or ‘ABCD’ approach, but not linked to the Q.</p>						
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Question	Answer	Mark	Assessment objective
	<p>Level 3 9 - 12 Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed).</p> <p>Answers with no evaluation cannot reach level 3, nor can answers which do not refer to “slow growth and high unemployment”.</p> <p>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</p> <p>Strong two-sided approach with developed arguments on each side</p> <p>9-10 Answer contains developed evaluation but is not fully convincing</p> <p>Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. Or evaluation is present but lacks explanation.</p> <p>Evaluation is present but may be simply of the “tariffs good but” or “tariffs bad but”. I.e. it lacks <i>qualifiers</i>.</p> <p>11-12 In context answer, evaluates both policies.</p> <p>Candidate evaluates both sides of the argument (i.e. <i>qualifies</i> the reasons it will and won’t create growth) and probably makes a judgment about whether or not tariffs will create growth and jobs. Answers here will have produced a convincing response to the question.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Might create growth and jobs in the SR, but unlikely to do so in the LR. (ii) Might depend on <i>which</i> imports are protected against – PEDm may be relevant here. (iii) Might be a good strategy for a few years, but will need to be reversed eventually. (iv) Retaliation might not be inevitable, depends on how powerful you are.</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		

EC3

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

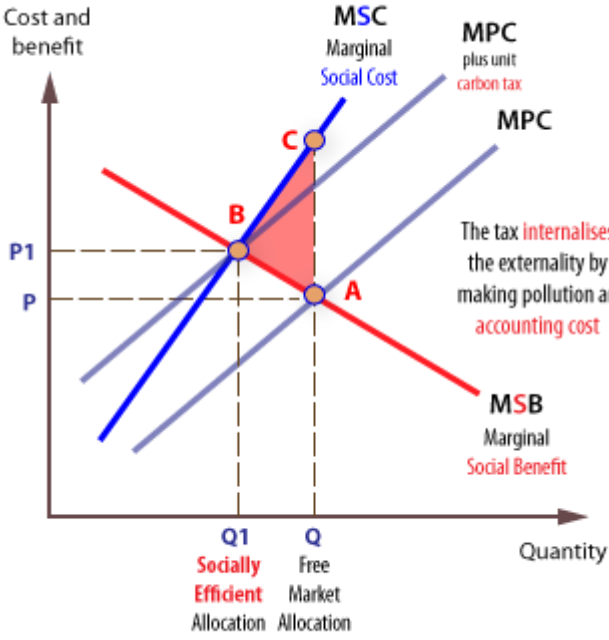
Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS - EC3

Question	Answer	Mark allocation	Assessment objective
1	<p>Mark on the diagram the price and output where a firm will only make only normal profits in the long run. Explain your answer.</p> <p>Price and quantity is marked where AC cuts AR. (1) AR and MR shifted to the left to show normal profit with AR=AC (1)</p> <p>This is the lowest price and highest quantity demanded which the firm can set without making losses/where normal profits are made. (1)</p> <p>TR =TC no abnormal profit (1) TC includes normal profit (1) Understanding of normal profit (1)</p>	2	AO1 1 AO2 1
2(a)	<p>Identify the curve marked (i) in the diagram.</p> <p>Average variable cost curve. (1)</p>	1	AO1 1
2(b)	<p>Explain how and why the marginal cost curve changes as more output is produced by the firm.</p> <p>Explanation of why MC at first falls due to increasing returns to a factor which reduces MC (Max 3)). Explanation of why MC rises at higher levels of output due to diminishing returns to a factor which increases MC (Max 3). Understanding of the meaning of the short run. (1) Understanding of marginal productivity (1) Understanding of marginal cost (1)</p>	4	AO2 2 AO3 2
3	<p>Using the above diagram and an appropriate example explain what is meant by external economies of scale.</p> <p>External economies of scale arise from factors outside the firm (1) and affect all firms in an industry (1) This will shift the LRAC downwards to LRAC2 thus firms at all levels of output will enjoy lower costs. (1) Appropriate example of external economies ie concentration, technological progress etc (1) Max 2 without an example. Max 2 with no reference to the diagram.</p>	3	AO1 2 AO2 1

Question	Answer	Mark allocation	Assessment objective
4	<p>Using an appropriate diagram evaluate the possible effectiveness of this tax in correcting market failure caused by shoppers.</p> <p>Demand and supply diagram showing the imposition of an indirect tax (1).</p> <p>MSB/MSC diagram showing the effect of the tax which will raise price and reduce the quantity demanded. (2)</p> <p>External costs of production or consumption diagrams both accepted</p>  <p>Explanation of the reduction in external costs – less to landfill (not biodegradable), less litter, reduce threat to wildlife, (1) and reduced welfare loss correction of market failure (1)</p> <p>Evaluation: tax may not be high enough (use of diagram) to correct market failure as demand is price inelastic (2) Tax may be absorbed by the retailers (2). Tax may be too high – government failure (2)</p>	6	AO3 4 AO4 2

Question	Answer	Mark allocation	Assessment objective
5	<p>To what extent can IKEA's pricing policy be seen to be an example of price discrimination?</p> <p>IKEA is using price discrimination: different prices for the same product in different countries (1) specific use of data (1) separation of markets (1) different Peds (1) monopoly power (1) Max 4</p> <p>Evaluation: Price differences between countries can be explained by other factors ie VAT rates (1) exchange rates (1) wage costs (1), energy and transportation costs (1) Use of data: some if the differences in price are not significant (1) Max 4</p>	6	AO1 2 AO4 4
6 (a)	<p>Distinguish between the public sector debt and the fiscal (budget) deficit.</p> <p>The public sector debt is the total accumulated debt of the government from the private sector (1) the fiscal deficit is the annual difference between the government spending and income/taxation. (1)</p>	2	AO1 2
6 (b)	<p>Explain TWO possible reasons for the changes in the size of the national debt from 2000 to 2015.</p> <p>Large rises in public spending 2000-2007 as the government increased discretionary spending on health/education/defence (overseas wars). Recession/economic slowdown 2008-2012 which led to reduced tax revenue and higher government spending. Bail-outs of the banks during the financial crisis 2008-2009. Lower than expected tax revenues due to avoidance and evasion (Google/Starbucks etc.).</p> <p>For full marks each reason should be applied to events or policies in the time period stated in the question.</p> <p>2 x 2 marks.</p>	4	AO2 2 AO3 2

Question	Answer	Mark allocation	Assessment objective
7	<p>How far do you agree with the view that demand side policies to reduce the level of unemployment below its natural rate/NAIRU only work in the short term?</p> <p>Use an appropriate diagram in your answer.</p> <p>Attempts to reduce unemployment below the natural rate by raising AD will lead to no permanent fall in unemployment only inflation. Explanation (2) and use of diagram showing Phillips Curve or AD/AS analysis (2).</p> <p>Evaluation: Unemployment will fall below the natural rate temporarily (expectations augmented theory) or not at all (rational expectations theory). (2)</p> <p>Keynesian approach has a different approach to management of the economy and that the LRAS curve is shaped differently and that changes in AD can have a significant effect on GDP/unemployment. (2)</p> <p>Maximum of 6 marks for candidates who produced a well explained explanation of why demand side policies will not reduce the natural rate of unemployment in the long run.</p>	6	AO2 2 AO3 2 AO4 2

Question	Answer	Mark allocation	Assessment objective
8	<p>Discuss the view that governments should attempt to keep their national currency at an overvalued level against other currencies.</p> <p>An overvalued exchange rate keeps inflation lower through lower import prices. (2) It also pressurises firms to keep costs down and improve the quality of products (2). An overvalued exchange rate improves the terms of trade. (2)Cheaper imported technology (2).</p> <p>Evaluation: An overvalued exchange rate makes exports less competitive on price. (2) Need for higher interest rates to keep the exchange rate above market rates (2) Reduction in foreign exchange reserves to keep the currency above the market rate. (2) May have to borrow from the IMF (2).</p> <p>Reward the relevant use of the Venezuela context.</p> <p>Reversible answer</p>	6	AO3 2 AO4 4

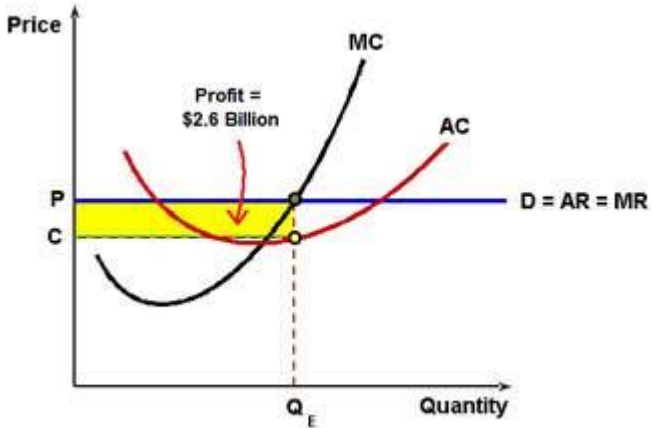
SECTION B

Answer one question

The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

Question	Answer	Mark allocation	Assessment objective
9	<p>To what extent can a perfectly competitive market always said to be efficient?</p> <p>Candidate shows as clear understanding of allocative and productive efficiency.</p> <p>Identification and explanation:</p> <p>Perfect competition is allocatively efficient in the short run and the long run-explanation. Candidates may link the maximisation of the consumer surplus and producer surplus to allocative efficiency.</p> <p>Perfect competition is Pareto efficient.</p> <p>Perfect competition is productively efficient in the long run-explanation.</p> <p>Perfect competition is X- efficient</p> <p>Use of diagrams to support this (short run and long run).</p> <div data-bbox="395 1061 1029 1646" data-label="Figure"> </div> <p>Up to the top of level 3 for a very good explanation of why perfectly competitive markets are efficient.</p> <p>Evaluation: Perfect competition is not productively efficient in the short run (supporting diagram) as output is not at minimum average cost.</p>	20	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
	 <p>Perfect competition is not dynamically efficient as perfect knowledge gives no firm an incentive to engage in R&D.</p> <p>No consideration of external costs in pricing/output thus not socially efficient.</p> <p>Lack of economies of scale and synoptic link to macroeconomic issues such as impact on competitiveness and balance of payments.</p> <p>Candidates may compare monopoly and perfect competition ie the saving in resource costs of monopoly due to economies of scale being higher than the welfare loss ie gains in productive efficiency offset some or all of the allocative inefficiency.</p>		
10	<p>With the aid of examples discuss the view that the private sector has no role to play in the provision of public goods and merit goods.</p> <p>Characteristics of public goods (non-rivalry, non-excludability and non-reject ability).</p> <p>Examples of public goods (flood defences, lighthouses, street lighting etc) – non-excludability means that private sector cannot provide them.</p> <p>Explanation of how complete market failure makes it impossible for private enterprise to exclude non payers (free rider problem).</p> <p>Public goods are provided by the government free at point of consumption and price = marginal cost thus achieving allocative efficiency.</p> <p>Max 7.</p> <p>Evaluation:</p> <p>Quasi-public goods such as roads can be provided by the market via toll roads.</p>	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	<p>Use of contracting out to the private sector eg prisons, probation service, security (G4S) etc.</p> <p>Private sector firms will be more likely to minimise costs/be efficient because of the profit motive.</p> <p>Private firms can provide public goods ie lighthouses funded by shipping companies or commercial radio funded by advertising.</p> <p>Public goods can still be provided free at point of consumption even with private sector involvement.</p> <p>Macroeconomic application size of the fiscal deficit makes taxpayer funded public goods expensive to provide.</p> <p>Merit goods are better provided by the public sector due to positive externalities.</p> <p>Use of examples from education, training and health.</p> <p>Use of externalities diagram – private sector provision would not be at the socially efficient level of output.</p> <div data-bbox="347 1048 837 1473" data-label="Figure"> </div> <p>Private sector provision would mean underproduction and under consumption. Negative impact on skills/productivity/economic growth.</p> <p>Private sector firms “cherry pick” their provision.</p> <p>Max 7.</p> <p>Evaluation:</p> <p>The private sector reduces excess demand when there is free health care.</p> <p>Importance of contracting out and PFI in improving public sector services.</p>		

Question	Answer	Mark allocation	Assessment objective
	<p>Public and private sector can co-operate for society's benefit in education and health (private schools working with state schools, private hospitals being used by NHS patients).</p> <p>With high fiscal deficits governments can no longer provide merit goods free at the point of consumption and thus private sector involvement is inevitable.</p> <p>This answer is reversible in how it can be answered.</p> <p>To reach level 4 there must be some evaluation of both public goods and merit goods being provided by the private/public sector.</p>		
11	<p>“The behaviour of firms in oligopolistic markets will always be dominated by the use of non-price competition.” Using examples discuss the extent to which you agree with this statement?</p> <p>Definitions of oligopoly and non-price competition with examples.</p> <p>Explanation of dominance by a few large firms and extensive product differentiation with the use of examples/recognition of interdependency.</p> <p>Identification and explanation of reasons for non-price competition in oligopoly/increase market share/reduce contestability/dangers of price competition affecting profits/build brand loyalty/application of the kinked demand curve/game theory/dangers of price wars.</p> <p>There is a possibility of cartels, tacit collusion, price leadership</p> <p>Evaluation:</p> <p>Price competition is likely if the product is homogeneous ie gas/electricity.</p> <p>Predatory pricing and limit pricing.</p> <p>Price discrimination.</p> <p>Collusion can be used as a pricing or non-pricing strategy.</p> <p>Application of relevant examples.</p>	20	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
	<p>Maximum Level 3 without evaluation or the use of examples. Two evaluation points required for maximum marks.</p>		

EC4

GENERAL MARKING GUIDANCE

Positive Marking

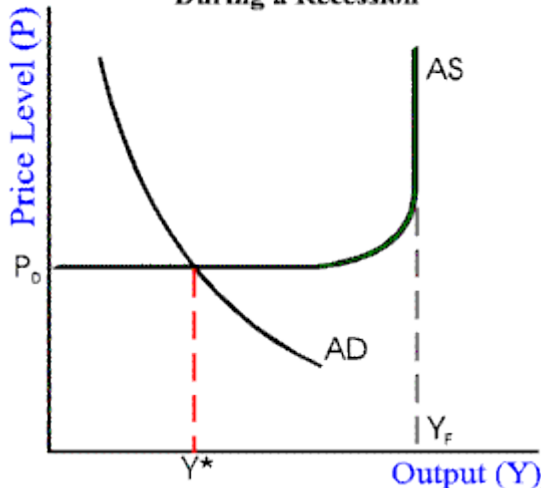
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GCE ECONOMICS - EC4

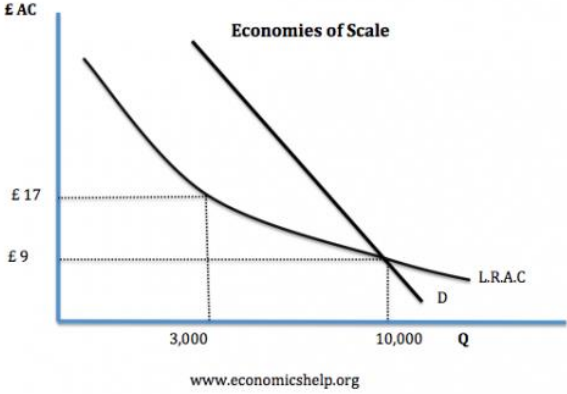
Question	Answer	Mark allocation	Assessment objective
1(a)	<p>With reference to figure 3 explain the costs of high unemployment to countries such as Greece and Spain.</p> <p>Level 1.</p> <p>Identification of at least TWO factors to a maximum of FOUR:</p> <ul style="list-style-type: none"> • Lost output of goods and services/lower GDP/lower long run growth. • Reduced profits of firms thus less investment/innovation/loss of dynamic efficiency. • Waste of scarce economic resources/links to PPF. • Fiscal costs to the government (higher government spending/lower tax revenues). • Deadweight loss of investment in human capital/de-skilling/hysteresis/increase in the natural rate of unemployment. • Links to social and economic deprivation/relative poverty/crime and income inequality. (1-4) <p>Level 2.</p> <p>Up to 4 for each factor to maximum of 4 factors</p> <p>2 marks for a relevant integrated diagram.</p> <p>PPF/link to Pareto inefficiency.</p> <p>Or an AD/AS diagram/</p> <p>Figure 7-7 Macroeconomic Equilibrium During a Recession</p>  <p>Two well explained factors 8 marks (4 marks each)</p>	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
1(b)	<p>Explain why potential Eurozone members have to meet the convergence criteria described in figure 2. Level 1 (1-4)</p> <p>Identification of TWO reasons linked to the criteria below:</p> <ul style="list-style-type: none"> • an inflation rate no more than 1.5 percentage points above the average of the three countries with the lowest inflation rates • nominal long-term interest rates not exceeding by more than 2 percentage points those for the three countries with the lowest inflation rates • no exchange rate realignment for at least two years • a government budget deficit not in excess of 3 percent of each country's GDP • a gross debt to GDP ratio that does not exceed 60 percent of GDP <p>Or</p> <p>A general explanation of convergence linked back to the Eurozone is also worth up to 4.</p> <p>Level 2.</p> <p>Explanation of reasons (5-8)</p> <p>At least one specific criterion must be developed for level 2.</p> <p>Price stability will help ensure that</p> <p>(a) New member states do not suffer from falling competitiveness relative to Germany (b) prevent the euro from being undermined.</p> <p>Also it makes it more likely that the single interest rate will be able to cover a wider range of member states; if inflation rates are wildly divergent, a single interest rate won't work.</p> <p>Sound public finances will also reduce the need for bail-outs, prevent contagion hence preventing increases in borrowing costs for other euro zone states.</p> <p>Long-term interest rates will also help to ensure that there is no shock on joining the zone when yields will converge as a result of the one size fits all policy.</p> <p>Exchange rate stability helps to ensure that countries are joining at an appropriate rate, ensuring that they do not lock into a currency that will be permanently over or under valued, hence preventing (for example) competitiveness issues if joining at an overvalued rate.</p> <p>Up to 4 for each criterion covered in detail (Deficit/debt is one criterion/stability and growth pact.)</p>	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
1(c)	<p>‘Countries such as Greece should leave the euro if they want to boost economic growth and reduce unemployment’. Discuss.</p> <p>Level 1 (1-2). Identification of two factors:</p> <ul style="list-style-type: none"> • Independent monetary and fiscal policy. • Freedom to devalue foreign exchange rate. <p>Level 2 (3-6). Explanation of above factors – up to 3 per factor</p> <ul style="list-style-type: none"> • Relaxed monetary policy, reflationary fiscal policy and a low exchange rate would increase AD boosting growth and employment. • Internal devaluation would take far too long/painful austerity could be abandoned. • Lower exchange rate would boost tourism and FDI. • Greece would still benefit from the single market of the EU. • Lack of competitiveness against Germany when using the same currency. <p>Level 3. Evaluation (7-12):</p> <ul style="list-style-type: none"> • Greece needs to tackle fundamental supply side problems to solve a lack of competitiveness. • Internal economic reform needed. • Costs of creating a new currency. Panic in the banking sector. • A devalued Greek currency would increase the price of imports causing inflation. • Many of the Greek economic problems are not related to the euro ie poor tax collection. (7-12) <p>Two evaluation points required up to 3 per point.</p> <p>Levels 2 and 3 are reversible.</p>	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
1 (d)	<p>The ‘enlargement of the EU benefits both new and existing members’ (line 9). Discuss.</p> <p>Level 1. Identification of at least TWO factors.</p> <ul style="list-style-type: none"> • Access to SEM new members/enlargement of SEM for existing members- trade creation. • Free movement of capital and labour-more efficient allocation of resources. Bigger pool of labour to recruit from. (new/existing) • Access to EU structural funds (new members) • Attracts FDI (new and existing members). • Benefit to individuals is the freedom to travel, live, work, study and retire anywhere in the EU. (new) • Common/higher standards for health/safety/environment. (new) • Deregulation/liberalisation of some markets (air travel/telecoms) • EU provides social protection for workers: working time; temporary work; and parental leave. (new) • New EU members have to join the euro which has significant advantages (transactions costs etc) (1-2) <p>Level 2 (3-6). Explanation of at least two factors. (up to 3 per factor).</p> <p>Level 3. Evaluation (7-12).</p> <ul style="list-style-type: none"> • Structural change for new member economies have to adjust to new trade patterns as many industries in new member states will not be able to compete with lower costs in more advanced EU members. • Migration of labour can have negative effects on both new and existing members. • Existing members have to make bigger EU budget contributions to support new/poorer members. • Cheap imports damage domestic industry. • New members have to comply with EU directives they may not approve of/loss of sovereignty/over-regulation/bureaucracy. • New EU members are committed to Eurozone membership and have to meet tough pre-entry criteria. <p>Trade diversion resulting from the common external tariff. (new) (7-12) A Level 3 answer requires mention of the effects of enlargement on existing and new members. Also answers should not merely become a case for and against becoming a member of the EU. Maximum 8 marks for existing members and 8 marks new members. Maximum 3 marks for each evaluated point explained. Levels 2 and 3 are reversible.</p>	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
2(a)	<p>With reference to the data and figures 1 and 2 explain the changes to the Royal Mail's revenue and profit.</p> <p>Level 1 (1-4):</p> <ul style="list-style-type: none"> • Recognition that overall revenue and profits have risen. • Change in balance between letters and parcels • Both letters and parcels have contributed to the rise in revenue. • For 4 marks in this level the data will have been directly used. (1-4) <p>Level 2 (5-8):</p> <ul style="list-style-type: none"> • Revenue from letters has risen despite the fall in volumes, • Reference to price of stamps rising and price inelastic demand (1-2). • Profits could have risen due to lower costs because of efficiency gains (1-2) • Use of data on automated sorting (1-2). • Growth in parcels revenue/profits due to on line shopping (1-2). (5-8) • MC pricing leads to losses in natural monopoly (e.g. 2011) <p>6 max if only revenue or profits are covered.</p>	8	AO1 4 AO2 4
2(b)	<p>With reference to the data explain why the Royal Mail's letter delivery service can be said to be a 'natural monopoly'?</p> <p>Level 1 (1-4): Understanding of a natural monopoly with reference to economies of scale as a result of high market share. Or Explanation of why Royal Mail is a pure monopoly with letter delivery (rather than a natural monopoly) i.e. barriers to entry etc. (1-4)</p> <p>Level 2 (5-8):</p> <ul style="list-style-type: none"> • Application of figure 3. • USO could not be met without a very high market share (60%) (2). • High fixed costs in distribution • Reference to cherry picking in a competitive market (2). • Data reference to duplication etc. when there is competition (e.g. Multiple post boxes would be inefficient)(2). 	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
	<p>2 marks for a relevant integrated diagram.</p>  <p>www.economicshelp.org</p>		
2 (c)	<p>Evaluate the case for and against the privatisation of the Royal Mail.</p> <p>Level 1 (1-2): Identification of reasons for privatisation, easier for the Royal Mail to raise finance, reduce the fiscal deficit, make postal services more efficient (more pressure to reduce costs), changes in the way people communicate make it unnecessary to operate a state owned monopoly, privatisation is a supply side policy (use of AD/AS analysis).</p> <p>Reduce the power of trade unions. Postal workers given shares (motivational benefits) (1-2)</p> <p>Level 2 (3-6): Explanation of at least two reasons. (up to 3 per point)</p> <p>Level 3 (7-12):</p> <ul style="list-style-type: none"> • Deterioration in quality of service/possible end of USO. • Royal Mail is a profitable business (use of data) so why sell it off? • Rise in stamp prices-the price regulation of stamps has been scrapped to increase the attractiveness of Royal Mail to investors. • The Royal Mail is a strategic industry and should be owned by the state to be run in the national interest. • Job security of postal workers will deteriorate. • Royal Mail was sold too cheaply. <p>Max 3 marks for each evaluated point explained. Level 2 and 3 are reversible.</p>	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
2 (d)	<p>‘Once the Royal Mail is privatised and the UK market for letters and parcels is completely open to competition there will be no need for Ofcom to regulate the market’. Discuss this statement.</p> <p>Max 3 mark for each developed argument on either side of the debate.</p> <p>Level 1 (1-2): Identification of at least two factors which suggest that increased competition will benefit consumers. (1-2)</p> <p>Level 2 (3-6): Explanation of the benefits of increased competition: increased quality and choice, lower costs, more innovation etc. Role of regulator explained and thus its role is diminished ie no price caps. (up to 3 per point) Excessive regulation may depress profits reducing investment. Regulation may be ineffective, danger of regulatory capture.</p> <p>Level 3 (7-12): Evaluation: despite a competitive market there may still be tacit collusion/price leadership, complex pricing, asymmetry of information issues and insufficient contestability. Royal Mail is so large that it will always be dominant, hence regulation needed to ensure that competition does in fact continue. Privatisation doesn’t guarantee competition. Evidence from sectors that are theoretically competitive, but still need regulating (such as rail and energy).</p> <p>Levels 2 and 3 are reversible.</p> <p>Max 3 marks for each evaluated point explained.</p>	12	AO3 6 AO4 6

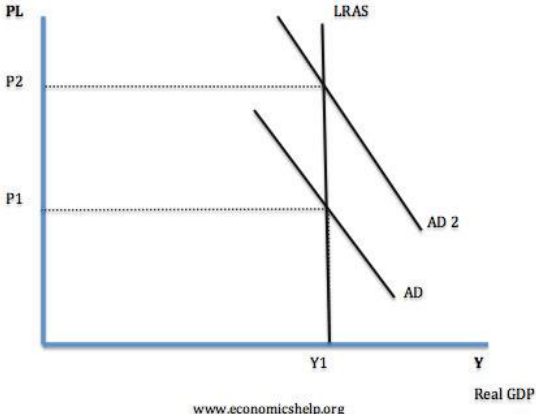
SECTION B

Answer **one** question

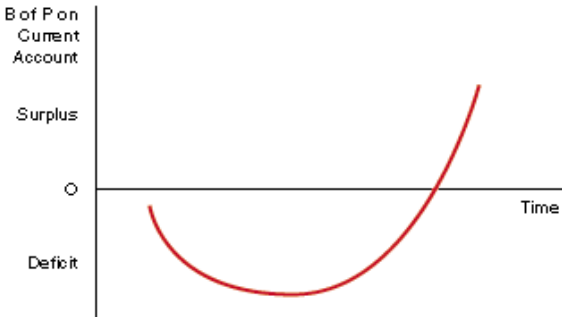
The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

Question	Answer	Mark allocation	Assessment objective
3	<p>How far do you agree with the view that the only cause of inflation is an excessive growth of the money supply?</p> <ul style="list-style-type: none"> • Explanation of the quantity theory of money (MV=PT). • In normal economic circumstances, if the money supply grows faster than real output it will cause inflation. • Inflation is always a monetary phenomenon/cost push and demand pull are symptoms of excessive monetary growth. • Former governor of the Bank of England, Mervyn King said that M4 was an important variable for influencing monetary policy. Negative M4 growth was a key factor in the justification for more quantitative easing, and recent attempts to bolster bank lending. <p>Evaluation:</p> <ul style="list-style-type: none"> • In a depressed economy (liquidity trap) the money supply/inflation correlation breaks down because of a fall in the velocity of circulation. This is why in a depressed economy Central Banks can increase the money supply without causing inflation. This occurred in the US between 2008 and 2011. There was a large increase in money supply but no inflation. • However, when the economy recovers and velocity of circulation rises, increased money supply is likely to cause inflation. • Quantity theory of money is a tautology. QE link to money supply and inflation not proven from evidence. • V and T are not stable thus a rise in M may not directly affect P. • Very weak link between money supply and inflation. The relationship between money supply and inflation has always been weak. Money supply can vary due to changes in the way of managing bank accounts and money. • Difficult to define exactly what is the money supply (M0, M3 M4 etc) 	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	<ul style="list-style-type: none"> Explanation of why inflation can be caused by cost push and demand pull factors: especially cost push in recent years (commodities and government policies such as rises in indirect taxes/tuition fees) <p>Max 14 without evaluation.</p> <p>Max 4 marks for each evaluated point explained.</p> <p>2 marks for a relevant integrated diagram.</p>  <p>Reversible answer.</p> <p>L4 requires an evaluated answer which shows understanding whether of the quantity theory or a robust understanding of the QE process.</p> <p>L2 only (max) if no explanation at all of the links between money and inflation.</p>		
4	<p>‘A current account deficit on the balance of payments should be a major concern to the government.’ Evaluate this statement.</p> <p>Identification and explanation of factors:</p> <ul style="list-style-type: none"> Current account in balance is a macroeconomic objective. A current account a/c deficit leads to a fall in AD causing lower growth and rising unemployment. A deficit is a sign of a lack of competitiveness/linked to low economic growth and high unemployment. Deficit could lead to a depreciation of the currency and cause a rise in import prices and inflation. A large current account deficit usually implies some kind of imbalance in the economy. 	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	<ul style="list-style-type: none"> • Financing a deficit on the current account means a surplus on the financial account and this means that a higher proportion of assets are owned by foreigners. • Higher interest rates needed to attract inflows of 'hot money' to make balance of payments balance. • Country with severe deficits could run out of foreign exchange reserves and need IMF help. <p>Evaluation.</p> <ul style="list-style-type: none"> • Deficit on the current account can be financed a surplus on the capital/financial account. This depends on the nature of the financial/capital account surplus. <ul style="list-style-type: none"> (a) Central Bank purchases. (b) Short term inflows - cash, bond purchases, share purchases, property purchases, each of which may have different effects. (c) Long term inflows of FDI which may be far more favourable. • In a floating exchange rate system the current account is self-correcting but this depends on the price elasticity of demand for exports and imports. (Marshall –Lerner condition). • Depends how big the deficit is as a % of GDP/how persistent/is it related to the trade cycle i.e. cyclical and not structural? • How much of the deficit is down to an underlying competitiveness issue or an over-valued exchange rate problem? • Depends on what is being imported-capital goods/raw materials help economic growth. • Other objectives may mean that the current a/c deficit is not the major concern. <p>Maximum 14 without evaluation.</p> <p>Max 4 marks for each evaluated point explained.</p> <p>2 marks for a relevant integrated diagram.</p>		

Question	Answer	Mark allocation	Assessment objective
			
5	<p>Evaluate the different policies which less developed countries can use to achieve economic development.</p> <p>Economic development means an improvement in economic welfare through higher real GDP, but also through an improvement in other economic indicators, such as improved literacy, better infrastructure, reduced poverty and improved health care standards.</p> <p>Identification, explanation and evaluation of factors:</p> <p>Government interventionist supply side policies - increased spending on 'public goods' such as education, public transport, infrastructure and health care.</p> <p>But problems with low tax revenues and 'bad' government.</p> <p>Export Oriented Development – Reduction in tariff barriers and promoting free trade as a way to improve economic development.</p> <p>But tariff barriers from trade blocs such as the EU and NAFTA remain a barrier to free trade for LDCs. Better to promote import substitution.</p> <p>Diversification away from agriculture to manufacturing as a way to promote economic development. Primary products have volatile prices with unpredictable incomes for producers.</p> <p>But countries with a poor basic level of infrastructure struggle to make effective use of capital investment in manufacturing. Some argue government attempts to encourage manufacturing industry are often ineffective as they have poor information about best kinds of industries to promote as well as corruption by some governments.</p> <p>Assistance from international institutions: e.g. the World Bank is committed to the reduction of poverty in developing countries. It offers long term loans for capital programs.</p> <p>But their policies have been criticised ie structural adjustment policies.</p>	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	<p>Foreign Aid can help boost capital investment in schemes which improve economic development. But it depends on the type of foreign aid</p> <p>Foreign Direct Investment (FDI) LDCs can benefit from improved knowledge and expertise of foreign multinational higher wages and improved working conditions, also employment and balance of payments benefits.</p> <p>But FDI may be a convenient way to bypass local environmental laws. Developing countries may be tempted to reduce environmental regulation to attract the necessary FDI. FDI does not always benefit recipient countries as it enables foreign multinationals to gain from ownership of raw materials, with little evidence of wealth being distributed throughout society.</p> <p>Import substitution industrialisation (ISI): active industrial policy to subsidize and orchestrate production of strategic substitutes, protective barriers to trade (such as tariffs), an overvalued currency to help manufacturers import capital goods (heavy machinery), and discouragement of foreign direct investment</p> <p>But often these policies lead to inefficiency within domestic markets and growth slowed when the size of the domestic market was reached meaning that they were most successful in countries where domestic economies were biggest (e.g. Brazil).</p> <p>Non-interventionist supply-side - liberalisation: The use of free market policies to stimulate competition and growth. Internal - privatisation, deregulation and cuts in public spending to promote enterprise and stimulate growth. Externally, reductions of protectionism and floating the currency (generally devaluing) to increase growth. Hence classic supply-side policies. In theory efficiency increases, hence growth is created. But cuts in government spending may hit health and education, one sided/unilateral free trade can lead to dumping by MEDCs and other LEDCs, devaluation drives up the costs of essential imported goods, privatisation may prove difficult to implement effectively unless there is strong institutional strength.</p> <p>Maximum 14 without evaluation.</p> <p>At least THREE well evaluated policies for maximum marks</p> <p>2 marks for a relevant integrated diagram.</p> <p>L4 requires relevant use of a country-specific example. L4 requires relation back to living standards.</p>		



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