



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2014**

Economics

Assessment Unit AS 2

The National Economy

[AE121]

TUESDAY 10 JUNE, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

General Marking Instructions

This mark scheme is intended to ensure that the AS examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 17-year-olds, which is the age at which the majority of candidates sit their AS examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 17-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Making calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

- 1 (a) UK unemployment started the period (Aug 2007) at 5.2% and EU unemployment was 7.1%. This is a difference of 1.9 percentage points. EU unemployment was 36.5% higher than UK unemployment. Over the period Aug 2007 till Aug 2012 EU unemployment rose from 7.1% to 10.5%. This is a rise of 3.4 percentage points or 47.9 %. UK unemployment over the same period rose from 5.2% to 7.9 %. This is a rise of 2.7 percentage points or 51.9%. For most of the period the two rates followed a similar pattern. However in September 2011 UK unemployment started to fall while EU unemployment continued to rise. At the end of the period the EU rate was 10.5% and the UK rate was 7.9 %. The EU rate was higher by 2.6 percentage points or 32.9 percent.

Level 1 ([1]–[2])

Candidate provides little comparison of the two trends. There may be a few isolated points of comparison but no significant data manipulation or explanation of trends. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some comparison of the two trends. There will be some manipulation of data but this will be limited or contain errors. Overall trends will be referred to but in no great depth. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides extensive comparison of the two trends. There is significant manipulation of data and overall trends will be identified and explained in depth. Quality of written communication is of a high standard.

[6]

- (b) A number of factors can cause unemployment rates between areas to be significantly different. These include:
- Different countries may be at different stages in their economic cycles
 - Different countries will have different levels of productivity. Some like Germany will be highly efficient and able to sell on international markets whereas others like Greece will have low productivity and significant current account deficits
 - The EU figure itself can be misleading as it will contain states like Germany and Austria with low unemployment and others like Spain with high unemployment
 - The eurozone crisis is undermining confidence and growth in many EU states
 - Different countries have different welfare benefit structures. Spain has a relatively generous structure which tends to lead to more long term unemployment
 - The UK can stimulate its economy by allowing the pound to depreciate. The option of currency depreciation is not available to eurozone countries
 - Different minimum wage levels in different countries.

Level 1 ([1]–[2])

Candidate provides little explanation for the difference in unemployment rates between the UK and the EU. There may be a few anecdotal points but no significant economic analysis. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some explanation for the difference in unemployment rates between the UK and the EU. There will be a few significant points supported by a degree of economic analysis. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and comprehensive explanation for the difference in unemployment rates between the UK and the EU. A range of significant issues will be addressed and supported by accurate economic analysis. Quality of written communication is of a high standard. [6]

- (c) Candidates should explain the meaning of the term economic inactivity and proceed to an analysis of its main causes and why these are more important in Northern Ireland. These include:
- Northern Ireland has a greater percentage of people over the age of 16 in full time education. If these students are not working part time or seeking part time work then they are classified as economically inactive. *Students are the largest group of economically inactive in Northern Ireland, constituting 31% of the total.*
 - Long term sick and disabled *are the next highest group, making up 26% of the total.*
 - Looking after family *is 24% of the total.*
 - Some people are not available for work because of early retirement *(12% of the Northern Ireland total.)*
 - The hidden economy may encourage economic inactivity.

Level 1 ([1]–[2])

Candidate provides little explanation for high rates of economic inactivity in Northern Ireland. There may be a couple of vague anecdotal points but no economic analysis and quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some explanation for high rates of economic inactivity in Northern Ireland. However this will lack depth or be incomplete There will be some economic analysis and quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and comprehensive explanation for high rates of economic inactivity in Northern Ireland. There will be complemented by accurate economic analysis and quality of written communication is of a high standard. [6]

- (d) Lower levels of unemployment will have an overall beneficial impact on government finances. This will be for a number of reasons:
- Although some people in employment can still claim benefits the net impact will be to reduce welfare spending
 - Those in employment will now have an income and pay some income tax to the government
 - Those now in employment will have a higher disposable income which they are likely to spend and hence pay more indirect taxes to government
 - Firms are likely to see an increase in sales and profits, leading to an increase in corporation tax receipts.

Level 1 ([1]–[2])

Candidate provides little analysis of the impact of falling unemployment on government finances. There is likely to be an anecdotal approach but no significant economic analysis. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some analysis of the impact of falling unemployment on government finances. There will be a degree of economic analysis but this is likely to be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and comprehensive analysis of the impact of falling unemployment on government finances. There will be extensive and accurate economic analysis. Quality of written communication is of a high standard. [6]

- (e) The budget deficit is the annual difference between the government's tax receipts and its expenditure where expenditure exceeds tax receipts ($G > T$). When this occurs there will be an increase in the government's total outstanding debt (Public Sector Net Debt). So long as there is a budget deficit even though it is falling then the national debt will continue to rise.

For explanation of budget deficit [1]

For explanation on National Debt [1]

For explanation of how budget deficit could fall but National Debt rise [2] [4]

- (f) This is a complex and emotive issue. It has economic, social and perhaps moral dimensions. These include:
- The need to reduce UK budget deficit. Impact on economy if deficit not reduced, e.g. burden of interest payments, impact on interest rates etc
 - Exploration of other ways of reducing deficit, e.g. higher taxes
 - Regressive nature of proposal
 - Impact on children of unemployed
 - Social costs of proposal, e.g. crime etc
 - Problems associated with large "dysfunctional" families
 - Impact on work incentives.

Level 1 ([1]–[4])

Candidate provides little critical examination of this proposal. There may be a few anecdotal points but no meaningful evaluation. Quality of written communication is limited.

Level 2 ([5]–[8])

Candidate provides some critical examination of this proposal. However this will lack depth or be one-sided. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

Candidate provides an in-depth and balanced critical examination of this proposal. There will be an overall judgement and quality of written communication is of a high standard. [12]

- 2 (a) The inflation rate is the increase in the average price level of an economy over a period of time, usually one year. An economy's average price level is measured in the form of an index such as the consumer price index (CPI) in the UK. So if the CPI were 95 in year one and rose to 106 in year 2 then the rate of inflation is 11.6%. This is the most widely used measure of inflation in the UK, although there are other measures such as the Retail Price Index.

Candidates should explain how a price index is constructed including the use of weightings and then show how the index is used to calculate the rate of inflation.

Level 1 ([1]–[3])

Candidate shows little understanding of how the UK's rate of inflation is measured. There is no significant explanation of any measure of inflation and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of how the UK's rate of inflation is measured. Either CPI or RPI will be explained though this may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear and comprehensive understanding of how the UK's rate of inflation is measured. CPI or RPI will be explained in some detail and quality of written communication is of a high standard. [10]

- (b) Inflation may have a number of impacts on the economy:
- Redistribution from savers to borrowers. Inflation is often associated with negative real interest rates which is to the benefit of borrowers and detrimental to savers
 - Impact on exchange rate. High rates of inflation would be expected to lead to a significant fall in the external value of a country's currency. *Purchasing power parity theory would support this view*
 - Impact on balance of payments. Inflation increases the cost of a country's exports, making them less internationally competitive. The high price of domestic goods makes imports more attractive. The overall impact is likely to be negative for the balance of payments though this may be mitigated by a fall in the external value of the country's currency
 - Inflation will reduce real value of public and private debt
 - Fiscal Drag. This occurs when tax payers experience an increase in money incomes and are "dragged" into a higher tax bracket. However real incomes may have remained unchanged or even fallen, making the taxpayer worse off
 - Menu costs. These are costs which firms face in regularly updating prices
 - Shoe leather costs. Inflation reduces the real value of money holdings encourages consumers to hold less currency. This will make them withdraw money from the bank more often and go shopping more often
 - Possibility of hyper-inflation and loss of confidence in fiat money
 - Social and political unrest, e.g. Weimar Republic

Level 1 ([1]–[5])

Candidate shows little understanding of the impact of inflation upon the economy. There is no significant economic analysis and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of the impact of inflation upon the economy. This will be supported by a degree of economic analysis but this will be incomplete or contain minor errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear and comprehensive understanding of the impact of inflation upon the economy. Key issues are explored in depth and there is relevant economic analysis. Quality of written communication is of a high standard. [15]

- (c) The monetarist explanation of inflation is that if the money supply rises at a rate faster than the economy's economic growth rate then this can only result in inflation. So if the economy grows by 5 per cent and the money supply rises by 10 per cent then the economy will experience inflation of 5 per cent. Hence monetarist economists assert that the only way of controlling inflation is to reduce the rate of expansion of the money supply.

However many economists believe that there can be other ways of controlling inflation. These include a contractionary fiscal policy, a strong exchange rate and increasing real output by the use of supply side policies.

Issues for analysis and evaluation include:

- Explanation of monetarist view of inflation.
- Explanation and evaluation of monetary policy.
- Explanation and evaluation of other policies to control inflation.
- Overall judgement of view that only monetary policy can control inflation

Level 1 ([1]–[5])

Candidate shows little understanding of how inflation may be controlled and of the importance of monetary policy. There is no significant comparison of different policies and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of how inflation may be controlled and of the role of monetary policy. There is a degree of comparison of different policies and evaluation of their relative merits. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear understanding of the various policies which can be used to control inflation. There is detailed comparison and in-depth evaluation of these policies and a judgement of the view that only monetary policy can control inflation. Quality of written communication is of a high standard. [15]

- 3 (a) Aggregate demand has 4 basic components:
- Consumption (C): Spending by households on goods and services.
 - Investment (I): Spending by firms on investment goods.
 - Government spending (G): This includes current spending such as wages and office supplies. It also includes spending by the government on investment goods such as new schools and hospitals
 - Exports minus imports (X-M): This is foreign spending on UK produced goods and services (X) less UK spending on foreign produced goods and services. (M)

Level 1 ([1]–[3])

Candidate shows little understanding of the components of aggregate demand. There is no significant economic analysis and quality of written communication is limited.

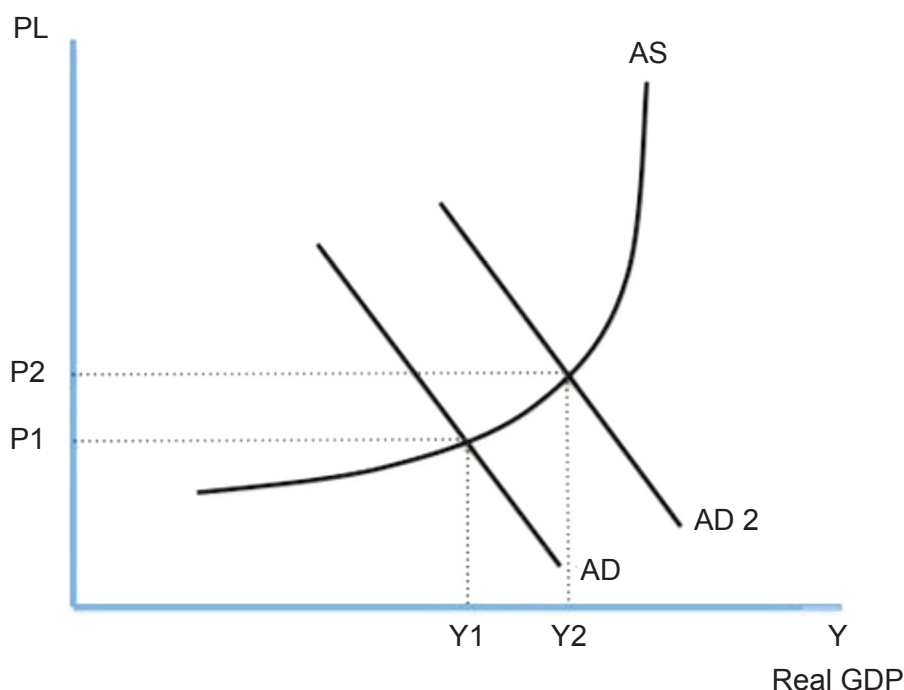
Level 2 ([4]–[7])

Candidate shows some understanding of the components of aggregate demand. There is a degree of economic analysis and quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear and comprehensive understanding of the components of aggregate demand. There is significant economic analysis and quality of written communication is of a high standard. [10]

- (b) An expansionary fiscal policy involves government attempts to increase aggregate demand. It will involve higher government spending and/or lower tax. In theory, higher government spending will increase aggregate demand ($AD=C+I+G+X-M$) and lead to higher economic growth.



Lower taxes should increase disposable income of consumers leading to higher levels of consumer spending. This should also increase aggregate demand and could lead to higher economic growth. Expansionary fiscal

policy can also lead to inflation because of the higher demand in the economy. The extent of this inflationary impact will depend on the elasticity of the AS curve. The more flexible the economy the greater the ease with which it can respond to the increase in demand and the less will be the inflationary impact.

Issues for analysis and discussion include:

- Explanation of expansionary fiscal policy
- Analysis of impact on price level and real GDP
- Explanation of significance of elasticity of AS curve
- Explanation of longer term effects of expansionary fiscal policy such as crowding out and higher interest rates.

Level 1 ([1]–[5])

Candidate provides little explanation of the impact on an economy of expansionary fiscal policies. There may be vague anecdotal references to issues like “more spending” but no significant economic analysis. and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of the impact on an economy of expansionary fiscal policies. However this will be limited to showing a rightward shift in the AD curve and the impact on the price level and real GDP. There is no attempt to explore other issues and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of the impact on an economy of expansionary fiscal policies. There will be significant economic analysis. which goes beyond simply showing a rightward shift in the AD curve. Quality of written communication is of a high standard. [15]

(c) A basic definition of a balanced budget is a situation where there is equality between government revenue, mostly from taxation, and government expenditure. However it would be unrealistic and probably undesirable for the government to attempt to achieve this on a permanent basis. This is for two reasons:

- It is normal for the government’s budget to vary throughout the economic cycle.
- A distinction should be drawn between current and capital spending.

Issues for analysis and discussion include:

- Explanation of balanced budget.
- Distinction between current and capital spending.
- Analysis of link between economic cycle and government finances.
- Consequences of failure by government to correct inflation and recession.
- Historical and international examples.

Level 1 ([1]–[5])

Candidate provides little evaluation of the desirability of a permanently balanced budget. Key issues are not addressed and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some evaluation of the desirability of a permanently balanced budget. Key issues are addressed though this will be incomplete or contain minor errors and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth evaluation and judgement of the desirability of a permanently balanced budget. Key issues are addressed in detail and quality of written communication is of a high standard. [15]

**AVAILABLE
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- 4 (a) The main macro-economic objectives of government are:
- High levels of employment and low levels of unemployment.
 - High but sustainable rates of economic growth.
 - Low levels of inflation. The official target is around 2 percent annual growth in CPI.
 - A satisfactory balance of payments position. This is one which does not undermine confidence in either the pound or in the competence of the UK government.

Government will have other objectives whose importance may vary over time.

Level 1 ([1]–[3])

Candidate shows no significant understanding of the government's main macro-economic objectives. There may be vague references to one or two objectives but no detailed explanation. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of the government's main macro-economic objectives. There will be a detailed explanation of at least two objectives or a more generalised explanation of at least three. Quality of written communication is satisfactory.

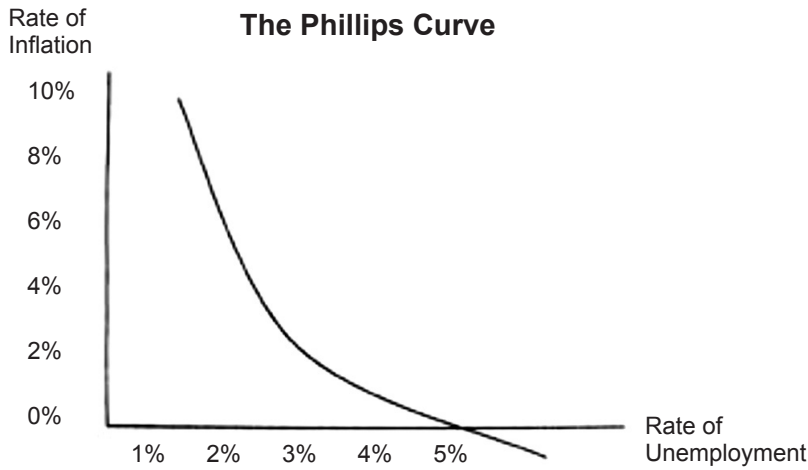
Level 3 ([8]–[10])

Candidate shows a clear and comprehensive understanding of the government's main macro-economic objectives. There will be a detailed explanation of a range of objectives and quality of written communication is of a high standard. [10]

- (b) A basic problem of macro-economic management is that policies which are appropriate for one objective may be detrimental for another.

There are several examples of such conflicts:

- Inflation and unemployment. This conflict or trade off is represented in the Phillips curve which shows high inflation being associated with low unemployment.



**AVAILABLE
MARKS**

The rationale for this relationship is that low unemployment normally requires high levels of aggregate demand and one side effect of this is often a high rate of inflation.

- Balance of payments current account equilibrium and unemployment. Correcting a current account deficit can often be achieved by deflationary policies which reduce the demand for imports. However reducing aggregate demand can drive the economy into recession and cause unemployment.
- Economic growth and inflation. Short term spurts of economic growth can be achieved by expansionary fiscal or monetary policies. Unfortunately these expansionary policies may also cause inflation. There are numerous other examples of policy conflicts involving issues such as protecting the environment or achieving a “fairer” society. Some economists argue that the significance of such conflicts can be reduced by the successful implementation of supply side policies.

Level 1 ([1]–[5])

Candidate provides little explanation of policy conflicts. There may be a reference to one or two but no significant economic analysis of their causes. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of policy conflicts. There will be a reference to one or two and a degree of economic analysis of their causes. However the explanation will lack depth or contain errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of policy conflicts. It would be expected that at least two would be analysed in some depth. Quality of written communication is of a high standard. [15]

- (c) Achieving a more equitable distribution of income has been the objective of left-leaning governments for centuries. *Indeed a French revolutionary slogan in the 18th century was “Liberte, egalite, fraternite (freedom, equality, brotherhood)* In spite of its long history greater equality has proved very difficult to achieve. Indeed 13 years of Labour government in the UK actually saw an increase in inequality.

Policies to reduce inequality include high rates of progressive taxation and high levels of welfare benefits to low income earners. Benefits can be in kind or in cash. In order to ensure that the right people receive benefits there would have to be a system of means testing. This can be a costly process and may create disincentives for both low and high earners.

Issues for analysis and evaluation include:

- Explanation of how a more equitable distribution of income could be achieved
- Explanation of means testing of benefits
- Explanation of Laffer curve
- Explanation of disincentive effect of policies to achieve a more equitable distribution of income
- Social benefits of greater equality, e.g. reduced crime
- International comparisons, e.g. Scandinavian countries.

Level 1 ([1]–[5])

Candidate shows little understanding of how a more equitable distribution of income could be achieved. There is no significant evaluation of the view that this should be a government’s top economic priority and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of how a more equitable distribution of income could be achieved. There is a degree of evaluation of the view that this should be a government’s top economic priority. However this is likely to lack depth or be one-sided and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear and comprehensive understanding of how a more equitable distribution of income could be achieved. There is in-depth evaluation and judgement of the view that this should be a government’s top economic priority and quality of written communication is of a high standard.

[15]

Total

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80