



**General Certificate of Secondary Education
2012**

Economics

Paper 1

[G9271]

FRIDAY 18 MAY, AFTERNOON

MARK SCHEME

Introduction

[60] are allocated to the report-writing task for Paper 1. Candidates' reports will be marked holistically by examiners according to the following criteria.

Candidates will be assessed on their ability to:

- recall, select and communicate their knowledge and understanding of economic concepts, issues and terminology [15];
- apply skills, knowledge and understanding to the context of the pre-released case study [18];
- analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions [27].

For each of the above assessment criteria there are four levels of response. If no success has been demonstrated for any criterion then no mark should be awarded for that criterion.

A level 1 response indicates a limited performance.

A level 2 response indicates a fair performance.

A level 3 response indicates a good performance.

A level 4 response indicates an excellent performance.

Report-writing task: anticipated responses

Describe how the government's income and spending have changed between 2000 and 2010

The introduction illustrates how public spending was higher than tax revenue from 2002–2010. Source 1 provides details of the year on year difference between income and spending. From 2000 until 2001, government finances appear to have been in balance at approximately £300 to £400 billion. From 2002, spending started to grow and to be higher than income. By 2009, government spending had increased to £675 billion and while income from tax revenue also increased during this period to approximately £500 million per year, a clear deficit had emerged over successive years and by 2009–2010, the deficit was approximately £150 billion.

Explain how the government elected in May 2010 plans to reduce the budget deficit.

The government is implementing a package of measures designed to save money on key areas of spending alongside increasing taxes in order to generate more revenue.

Source 3 outlines the main changes to taxation and these include an increase in the rate of VAT by 2.5% to 20% and an increase in tax on insurance policies. There was some surprise that excise duties on alcohol and tobacco have not been targeted and an increase in tax on cider announced by the previous Labour government was scrapped. Taxes on incomes appear at first glance not to have changed substantially – the annual tax free allowance has increased by £1,000 and this will benefit lower income households. However,

the starting point for the higher 40% band has stayed the same and the former government's policy measure of a new 50% has been introduced for taxable earnings over £150,000.

While the government has introduced a levy on banks, other taxes on businesses have been changed in ways that are intended to support business. It remains to be seen what impact measures such as a 1% reduction in Corporation Tax per year for the next few years, the reduction on the tax on the profits of small companies and changes to the threshold at which employers start to pay national insurance will have on government finances, and the economy.

Source 4 indicates that the government appears to be committed to reducing all areas of spending apart from the health service and international development which have been "ring fenced".

The policies that the government introduced to achieve cuts in public spending include a blanket 25% cut in the budgets for most government departments. This is expected to mean cuts in jobs and a reduction in services. Source 4 outlines some specific changes to government spending in relation to social welfare. Some changes are expected to "save" the government more money than others. For example, the proposed change to the rules governing Disability Living Allowance are estimated to reduce spending by £11 billion per year.

One significant change in policy is the decision to link cost of living benefits to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). It is estimated that this will save the government £5.8 billion per year. Changes to families' eligibility to Child Tax Credit are expected to save £2 billion per year.

Other relevant examples with an estimate of their reduction to public spending would be acceptable.

Examine how these measures might affect different households and businesses

Source 5 indicates that pensioners are expected to benefit from the so-called "triple" guaranteed increase in the State Pension. However, pensioners, like all households will see a decrease in real income as a result of the rise in VAT. Some candidates may indicate the regressive nature of this latter change in taxation. Some of the poorest and most vulnerable households such as the disabled and their family support will be adversely affected by the changes in funding to local councils and by funding/subsidies for targeted employment opportunities.

Some families such as those without children will be less affected than those with children. Middle income families in particular are expected to see reductions in support for child care as well as the possible loss of Child Benefit depending on the size of their total household income.

Sources 3 and 6 outline some of the specific changes that are expected to affect workers and businesses. For example, Source 3 details the proposal to increase the annual personal income tax allowance by £1,000 to £7,454. It is estimated that this will increase the disposable income of those on basic income tax by £170 per year.

Source 3 also details how changes in taxation will impact on businesses. Proposals to reduce Corporation Tax gradually by 1% per year from 27% until it reaches 24% should benefit businesses as they will have access to a larger proportion of their profits. With this additional finance they could invest or simply use the “cushion” to survive in the current challenging market conditions.

Other changes in taxation are designed mainly to support businesses. For example, the reduction in small companies tax rate and the threshold at which employers are required to pay National Insurance Contributions will make a positive contribution to the financial viability of businesses. The new bank levy designed to stimulate investment in “green” businesses is a welcome development and this may provide a stimulus to investors.

However, Source 6 highlights the concerns of the trade unions in relation to expected job cuts and the changed rules about their pension entitlements. The situation appears to be difficult to predict but there is some consensus that unemployment could increase more quickly than government estimates. There is also an expectation that job creation may not be as rapid as the government hopes and expects.

Discuss and recommend possible policies that the government could use to help the economy to grow

Source 8 focuses on the slower economic growth rate of 1.7% predicted by the Organisation of Economic Co-operation and Development (OECD) compared with the government estimate of 2.5%. The graphical data in Source 7 suggest that the economy has emerged from the recession and that economic growth was approximately 2.5% in 2010. However, candidates may update the information in Source 7 about the performance of the UK economy and reflect on the impact of policies since 2010.

For the economy to continue on this growth path, whether at 2.5% or the lower rate, there are concerns about the effects of the government’s fiscal policies. The combined effect of tax and benefits policy changes was that aggregate demand was expected to fall. The government introduced some changes to their tax and spend policies designed to support businesses such as the changes to Corporation Tax and National Insurance contributions.

From an economists’ perspective, policies to support growth would have to promote aggregate demand and aggregate supply while not causing inflation to rise. Given the government’s commitment to reducing public spending, it is challenging to develop policies to promote demand without adding inflationary pressure or contributing further to the budget deficit.

If UK exports increase as a result of the depreciation in the pound, this could contribute to stimulating the UK economy. If there is an increase in orders to UK firms, more workers can be employed and output in the economy will increase. To support such a development, the government may need to promote business. If fiscal policy measures are not sufficient to stimulate such development, the government may also choose direct policy measures. For example, in October 2010, the Prime Minister (David Cameron) led a trade delegation to China accompanied by a number of prominent business leaders in the hope that they could secure orders for UK goods and services.

While not referred to in the source material, monetary policy measures could also support the recovery of the economy. The problem of reduced spending by the government, consumers and businesses illustrated in the source material could be influenced by lower interest rates (but already very low) or a more positive borrowing environment, as businesses could borrow more easily to invest and promote their businesses and contribute to economic growth. However, there are fears that such actions could contribute to inflation.

Some reference may be made in the analysis to the distributional effects of different income groups and the knock-on effects of these on government income and spending, and the potential to generate economic growth.

Overall, the consensus is that the government has very challenging decisions to make and the fear is that these may cause the economy to slow down rather than grow.

Total**60**

Levels of response: guidelines for examiners

The following guidelines are provided for examiners in identifying levels of response for each assessment criterion:

(AO1) Recall, select and communicate their knowledge and understanding of economic concepts, issues and terminology:

Level of response	Description	Mark
0	No relevant concepts, issues and terms are included in the report.	0
1	Few relevant concepts, issues and terms are included in the report. There is only very restricted evidence of understanding. Quality of written communication is limited.	1–5
2	Relevant concepts, issues and terms are included in the report. There is some evidence of understanding. Quality of written communication is satisfactory.	6–9
3	Most of the report makes effective use of relevant concepts, issues and terms. There is evidence of good understanding. Quality of written communication is of a high standard.	10–12
4	The report makes extensive and skilful use of a wide range of relevant concepts, issues and terms. There is clear evidence of highly developed understanding. Quality of written communication is excellent.	13–15

(AO2) Apply skills, knowledge and understanding to the context of the pre-released case study:

Level of response	Description	Mark
0	No relevant skills, knowledge and understanding are applied to the problem of the budget deficit.	0
1	A restricted range of basic skills, knowledge and understanding are applied to the problem of the budget deficit. Quality of written communication is limited.	1–6
2	Some relevant skills, knowledge and understanding are applied to the problem of the budget deficit. Quality of written communication is satisfactory.	7–10
3	A good range of relevant skills, knowledge and understanding are effectively applied to the problem of the budget deficit. Quality of written communication is of a high standard.	11–14
4	A wide range of relevant skills, knowledge and understanding are successfully applied to the problem of the budget deficit. Quality of written communication is excellent.	15–18

(AO3) Analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions:

Level of response	Description	Mark
0	No relevant analysis, evaluation, judgement or conclusion provided.	0
1	Evidence is only superficially analysed and there is little attempt at evaluation. Basic judgements are made but tend to lack reasoning. Conclusions and recommendations are unsupported. Quality of written communication is limited.	1–9
2	Evidence is partially analysed and evaluated. Some relevant judgements are made but inadequately explained. Conclusions and recommendations are presented but insufficiently supported. Quality of written communication is satisfactory.	10–15
3	Most evidence is analysed and evaluated. Relevant and reasoned judgements are made. Conclusions and recommendations are appropriately presented and adequately supported. Quality of written communication is of a high standard.	16–21
4	Nearly all evidence is comprehensively analysed and evaluated. All judgements are well reasoned and consistent. Conclusions and recommendations are clearly presented and well supported. Quality of written communication is excellent.	22–27