



Rewarding Learning

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

Economics

Assessment Unit AS 2

assessing

The National Economy

[AE121]

THURSDAY 23 JANUARY, MORNING

**MARK
SCHEME**

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) Candidates should:
- Give a clear explanation of GDP including some reference to ownership of resources (3 marks)
 - Explain that real GDP has been adjusted for inflation (2 marks)
- Constrained maximum of [4] [4]

- (b) Candidates should:
- Explain what is meant by recession (two consecutive quarters of negative economic growth)
 - Explain what is meant by a double dip recession (two periods of recession separated by a brief recovery)
 - Use the data in **Fig. 1** to explain the concept of double dip recession.

Level 1 ([1]–[2])

Candidate provides little explanation of double dip recession. There is no significant reference to the data and quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some explanation of double dip recession. However this is likely to be superficial or contain errors. There is some reference to the data and quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and comprehensive explanation of double dip recession and this is complemented by relevant use of the data. Quality of written communication is of a high standard. [6]

- (c) The passage refers to two reasons for this:
- Households have amassed large quantities of debt and are using any spare cash to reduce debt rather than spending
 - Wages are rising at a slower rate than inflation meaning that real wages are falling and households are less able to spend.

Other relevant factors might be:

- Falling consumer confidence
- Lack of job security and increased unemployment.

Level 1 ([1]–[2])

Candidate provides little explanation for the fall in UK consumer spending. The points in the source may be used verbatim but with no further explanation or development. Quality of written communication is limited.

Level 2 ([3]–[4])

Candidate provides some explanation for the fall in UK consumer spending. The points in the source will have some further explanation or development but this will be limited. There is unlikely to be any reference to additional points. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate provides a clear and comprehensive explanation for the fall in UK consumer spending. The points in the source will have extensive further explanation and development. Alternatively candidates may provide rather less extensive development of the points in the source but do refer to some additional points. Quality of written communication is of a high standard. [6]

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- (d) The Eurozone crisis is affecting the UK economy in a number of ways, the most important of which are referred to in the passage. These are: recession in the Eurozone reducing demand for UK exports and the falling value of the euro doing likewise. Candidates should explain and develop these points by analysing the knock-on impacts on the wider UK economy.

In addition the crisis is affecting both consumer and investor confidence with again a knock-on impact on aggregate demand in the UK.

Level 1 ([1]–[2])

Candidate provides little analysis of the impact of the Eurozone crisis on the UK economy. The points in the source may be used verbatim but with no further explanation or development. Quality of written communication is limited.

Level 2 ([3]–[5])

Candidate provides some analysis of the impact of the Eurozone crisis on the UK economy. The points in the source will have some further explanation or development but this will be limited. There is unlikely to be any reference to additional points. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate provides a clear and comprehensive analysis of the impact of the Eurozone crisis on the UK economy. The points in the source will have extensive further explanation and development. Alternatively candidates may provide rather less extensive development of the points in the source but do refer to some additional points. Quality of written communication is of a high standard. [8]

- (e) Economic forecasts are frequently wrong for the simple reason that the future is by definition unknown. We may make informed guesses about it but these are certainly not guaranteed to be correct.

Former American Secretary of State Donald Rumsfeld said the future was uncertain because of unknown factors which he further classified as either known unknowns or unknown unknowns.

In the context of economic forecasts for the UK economy known unknowns would be factors such as the weather, the economic impact of the Olympics and the Diamond Jubilee celebrations and the ongoing Eurozone crisis.

Unknown unknowns are by definition unforeseeable but might include a war in the Middle East, a catastrophic earthquake or a massive terrorist attack on the USA.

In addition to uncertain events there may also be issues with regard to the accuracy of data and the reliability of economic relationships.

Level 1 ([1]–[2])

Candidate gives little explanation of why economic forecasts are frequently inaccurate. There will typically be an anecdotal approach with vague references to earthquakes and floods. Quality of written communication is limited.

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Level 2 ([3]–[4])

Candidate gives some explanation of why economic forecasts are frequently inaccurate. There will be some reference to relevant issues and quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate gives a clear and comprehensive explanation of why economic forecasts are frequently inaccurate. A number of relevant issues will be analysed and quality of written communication is of a high standard. [6]

- (f) The government faces a difficult policy dilemma. Should it stick to its deficit-reduction programme or increase government spending and borrowing?

Issues for analysis and evaluation include:

- The impact of expenditure cuts on aggregate demand and economic growth
- The impact of expenditure cuts on government finances
- The impact of expenditure cuts on employment and unemployment
- The impact of expenditure cuts on lower income groups and benefit recipients
- The impact of increased government borrowing on the UK credit rating and interest rates
- The impact of higher interest rates on the economy
- The impact of improved infrastructure on the economy both on aggregate demand and on the LRAS.

Level 1 ([1]–[3])

Candidate provides little critical examination of this decision. There may be a few superficial references to relevant issues but little analysis. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some critical examination of this decision. There will be a degree of analysis of relevant issues but this is likely to be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a detailed critical examination of this decision. There will be in depth analysis and evaluation of relevant issues and this will include arguments both for and against increased government spending on infrastructure. Quality of written communication is of a high standard. [10]

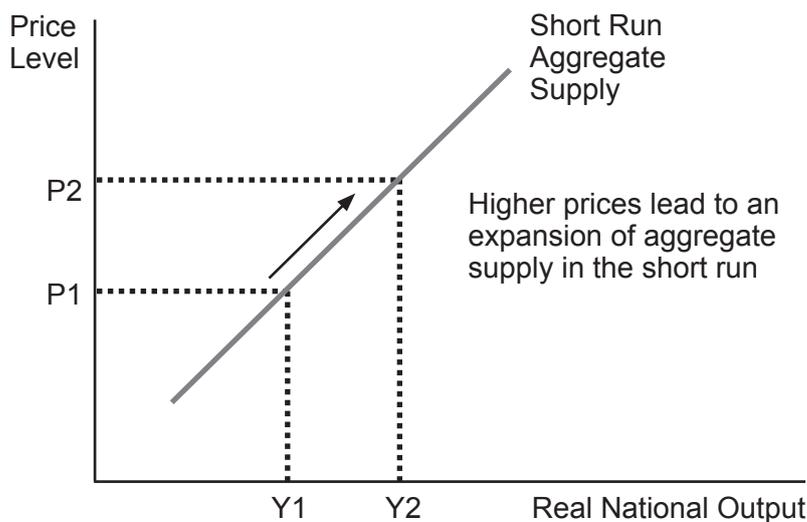
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- 2 (a) The aggregate supply curve shows the quantity of goods and services that firms are willing to supply at each price level. In the short run it is assumed that the prices of factors of production remain unchanged so that an increase in the price of the finished product should increase profitability and cause firms to increase output.

The short run aggregate supply curve (SRAS) will be relatively elastic as increased output will only lead to slight increases in costs, perhaps due to lower productivity or the payment of overtime rates. Wage rates and other factor costs are unchanged.

Should these factor prices change then the SRAS will shift either to the right if they fall or to the left if they rise.



Level 1 ([1]–[3])

Candidate provides little explanation of what is shown by the short run aggregate supply curve. Any definition is flawed or incomplete and there is no significant exposition. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation of what is shown by the short run aggregate supply curve. There is a reasonable definition though this may contain minor errors and a degree of exposition. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation of what is shown by the short run aggregate supply curve. There is an accurate and complete definition with significant exposition. Quality of written communication is of a high standard. [10]

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- (b) Commodities such as oil and copper are significant inputs into the process of production. If they increase in price then firms face higher costs and there is a shift to the left in the SRAS. This is known as a supply side shock and will lead to a reduction in real GDP accompanied by an increase in the price level. The economy will face a cost push inflationary process and a negative output gap.

The effect of a supply side shock depends on the price elasticity of aggregate demand. If demand is inelastic firms will be able to raise prices with only a small drop in national output accompanied by a large rise in inflation. If demand is elastic firms will face a large fall in output if they decide to raise prices. The wider impact of a supply-side shock is similarly dependent on how producers and consumers respond to changing economic circumstances.

In the long run if the economy has a flexible labour market then the fall in GDP may cause wages to fall and the SRAS will shift back to its original position.

Level 1 ([1]–[5])

Candidate provides little explanation of the impact on the economy of rising commodity prices. There will be vague generalisations about rising prices but no significant economic analysis. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of the impact on the economy of rising commodity prices. There will be a degree of economic analysis though this may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of the impact on the economy of rising commodity prices. There will be significant economic analysis and quality of written communication is of a high standard. [15]

- (c) In the long run the productive potential of an economy (measured by LRAS) is driven by improvements in productivity and by an expansion of the available factor inputs (more firms, a bigger capital stock, an expanding active labour force etc).

Improvements in labour productivity and efficiency cause the long run aggregate supply curve to shift out over the years.

The government can facilitate this process in a number of ways.

These include:

- Reduced direct taxation.
This increases the incentive to work and to earn profits. It is also likely to increase the level of Foreign Direct Investment. However it is likely to be regressive and to increase inequality.
- Increased expenditure on education and training.
This should in theory lead to a more skilled and productive workforce.

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However, significant increases in education spending have had only a marginal impact on educational attainment and have made it very difficult for the government to control its deficit.

- Allowing inwards migration of skilled workers.
This should increase the skills base of the workforce but is likely to be socially divisive and be politically unpopular.
- Reduced levels of welfare benefits.
This should increase work incentives but again is likely to be socially divisive.
- A programme of de-regulation.
This would reduce the administrative burden on firms and make it easier for them to expand. It would obviously be welcomed by employers but not by workers who would see employment protection and health and safety legislation as central to their interests.
- Expansionary demand side policies such as fiscal and monetary.
These are only relevant in so far as they increase the productive potential of the economy. Low interest rates may be beneficial as they make it cheaper for firms to invest in new plant and equipment.

Level 1 ([1]–[5])

Candidate provides little critical examination of the policies available to the government in shifting the LRAS to the right. There will be no significant critical examination of these policy options and quality of written communication will be limited.

Level 2 ([6]–[10])

Candidate provides some critical examination of the policies available to the government in shifting the LRAS to the right. There will be a degree of critical examination of these policy options but this will lack depth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth critical examination of the policies available to the government in shifting the LRAS to the right. Quality of written communication is of a high standard.

[15]

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- 3 (a)** Unemployment in the UK is measured by the ILO (International Labour Organisation) Labour Force Survey and by the Claimant Count. As its name would indicate the Claimant Count method only includes unemployed persons who qualify for benefits such as Job Seekers Allowance.

The ILO method includes persons such as those with working partners who may be unemployed but not able to claim benefit.

According to the ILO definition unemployment means that an individual has no job, not even a part-time one, is available to start work within two weeks and has actively sought work during the previous 4 weeks.

This usually produces a higher figure than the Claimant Count measure, although it should be noted that some workers with only part-time jobs would be included in the Claimant Count as unemployed but not classified as unemployed on the ILO definition. The ILO figures are supported by the EU and by the OECD and hence are a better basis for international comparisons.

Level 1 ([1]–[3])

Candidate provides little explanation of either the Claimant Count or Labour Force Survey methods and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation of the main features of both the Claimant Count and Labour Force Survey methods or an in-depth explanation of one method. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation of the main features of both the Claimant Count and Labour Force Survey methods. Quality of written communication is of a high standard. [10]

(b) A number of factors lie behind the current relatively high levels of unemployment in the UK. These include:

- A slowdown in the world economy has reduced demand for UK exports and contributed to demand deficiency unemployment
- The ongoing eurozone crisis has had a similar impact
- The construction industry has been particularly badly affected by the slowdown and this has contributed to structural unemployment for construction related jobs such as bricklaying
- UK has an ongoing problem of voluntary unemployment and welfare dependency
- Frictional unemployment is a continuing problem.

Level 1 ([1]–[5])

Candidate provides little analysis of the causes of UK unemployment. There may be vague references to generalised causes of unemployment but these are not developed or applied to the UK economy. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the causes of UK unemployment. However this is likely to be a generalised analysis of the causes of unemployment with only limited application to the UK economy. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive analysis of the causes of UK unemployment. There will be in-depth application to the UK economy and quality of written communication is of a high standard. [15]

(c) The government can use fiscal and monetary policies to increase aggregate demand and deal with demand deficient unemployment.

However, all of these methods have significant disadvantages. For example in the current (September 2012) economic climate the UK government is heavily in debt and would find it difficult to increase borrowing in order to fund additional government spending. Similarly monetary policy is also an unlikely option as interest rates have been at record lows since 2009.

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Supply side policies including benefit reforms might help to reduce voluntary unemployment but these are subject to significant time lags and are politically unpopular.

Level 1 ([1]–[5])

Candidate provides little critical examination of the main policies available to governments in order to reduce unemployment. There may be vague references to issues like infrastructural spending but no significant evaluation and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some critical examination of the main policies available to governments in order to reduce unemployment. However this is likely to be incomplete and not accompanied by any significant evaluation. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive critical examination of the main policies available to governments in order to reduce unemployment. This will be complemented by in-depth evaluation and quality of written communication is of a high standard.

[15]

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4 (a) Microeconomics is the study of individual markets within an economy.

Typical microeconomic issues are the markets for:

- labour
- housing
- transport
- food
- oil.

Macroeconomics is concerned with the study of the economy as a whole.

Typical macroeconomic issues are:

- The economy's total output of goods and service
- Total employment and unemployment
- The general price level throughout the entire economy.

In practice micro- and macroeconomic issues frequently overlap. For instance a downturn in an individual market such as housing may have a significant impact on the level of aggregate demand.

Level 1 ([1]–[3])

Candidate provides little explanation of the differences between microeconomics and macroeconomics. There will typically be a few isolated examples but no clear explanation. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation of the differences between microeconomics and macroeconomics. A few examples will be explained but analysis will be superficial. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation of the differences between microeconomics and macroeconomics. There is a clear explanation supported by extensive use of relevant examples. Quality of written communication is of a high standard. [10]

- (b) Candidates should explain the meaning of the terms investment and equilibrium level of national income. The latter may be addressed either through aggregate demand and supply analysis or through the circular flow model.

A fall in investment will cause a fall in aggregate demand, leading to a fall in national income and a negative output gap. If investment falls to a level where it is less than capital consumption then the LRAS will shift to the left and the PPF will shift inwards.

Level 1 ([1]–[5])

Candidate provides little analysis of the impact of a fall in investment on the equilibrium level of national income. There will be no significant economic analysis and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the impact of a fall in investment on the equilibrium level of national income. There will be a degree of economic analysis though this may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive analysis of the impact of a fall in investment on the equilibrium level of national income. There will be accurate economic analysis and quality of written communication is of a high standard. [15]

- (c) Candidates should point out that the collection and publication of GDP estimates is an expensive process and at a time when the coalition government is intent on deficit reduction a significant sum of money could be saved by discontinuing the process.

Indeed once produced the figures are frequently shown to be inaccurate and may be subject to numerous revisions.

Even if the published figures are correct they can give a very misleading impression of a country's economic growth rates and standard of living. Nevertheless GDP estimates do have a number of uses. These include:

- Making international comparisons of growth and living standards
- Determining the level of a country's contribution to international bodies
- Comparing the performance of different sectors of the economy
- Comparing the performance of different regions of the economy
- Assistance in the creation of economic models

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Level 1 ([1]–[5])

Candidate provides no significant evaluation of this view. There is likely to be a vague anecdotal approach and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some evaluation of this view. However this is likely to be superficial or be one-sided. A number of candidates may just explain the limitations of GDP as a measure of welfare. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth evaluation of this view. The pros and cons of collecting GDP figures are discussed and there is an overall judgement of this view. Quality of written communication is of a high standard. [15]

Total**AVAILABLE
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40

80