



**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2018**

Economics

Assessment Unit AS 2

assessing

Managing the National Economy

[SEC21]

THURSDAY 17 MAY, MORNING

**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.

Section A

- 1 The Gini coefficient measures the degree of income inequality in a country. NI has a lower Gini coefficient than the UK which tells us that income in NI is more evenly distributed than in the UK as a whole.
For clear explanation than the lower Gini coefficient in NI tells us that income in NI is more evenly distributed than in the UK as a whole. [2]
For understanding of what the Gini coefficient measures but error in use of data. [1]
Equal credit will be awarded for reference to wealth rather than income.
- 2 (a) GDP is Gross Domestic Product which measures the **total** value of **output** produced within the **domestic** boundaries of a country in any given time period. The term gross refers to the fact that subtractions have not been made for capital consumption. The term domestic refers to the fact that it measures everything produced within a country even when the output is produced by a foreign owned company. The term product refers to the value of goods produced. GDP is typically measured by 3 different methods – the output, expenditure and income methods. [3]

For accurate definition of GDP. [2]

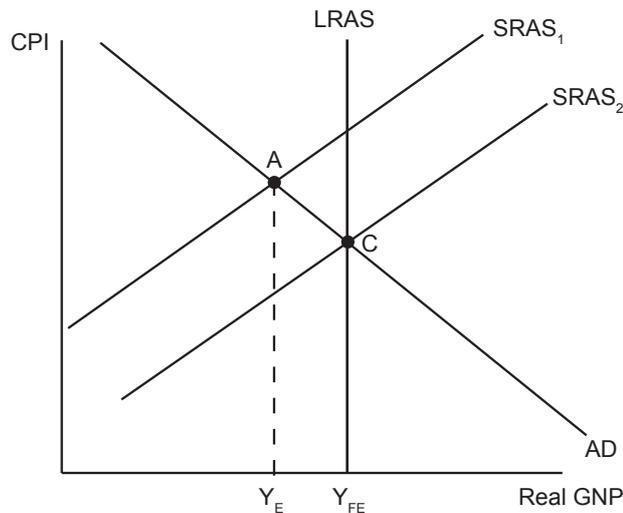
For development of the Gross or Domestic element. [1]
- (b) For calculation that GNP in the Republic of Ireland is approximately 13.8% lower than GDP [2]
For correct methodology but error in calculation [1] [2]
For calculation that GNP is 86.2% of GDP [1]
- (c) GNP is Gross National Product which measures the total value of output produced by a country's factors of production whether they are located in that country or abroad. GNP is calculated by adding Net Property Income from Abroad (NPIA) to GDP. In the Republic of Ireland (ROI) NPIA is a negative figure (€-32bn) and hence GNP is lower than GDP. This negative NPIA figure represents the fact that the ROI economy contains a significant number of foreign firms who have been attracted to the ROI in part because of its competitive corporate tax regime. The output of these companies contributes to ROI GDP but not ROI GNP.
For explanation of the difference between GDP and GNP [2]
For explanation of why ROI NPIA figure is negative [2] [4]

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- 3 (a) The term real wages refers to nominal wages adjusted for inflation. In the chart CPI inflation is consistently above earnings growth and hence real earnings have fallen over the period. For example in Jan 2010 the annualised rate of inflation was 3.1% while the annualised rate of earnings growth was 1.3% – which meant that real wages fell by 1.8%
For explanation that real wages have fallen [1]
For appropriate use of data [1] [2]
- (b) A negative output gap occurs whenever the actual level of output in an economy is below the potential level of output. This is represented by point A on the diagram. Classical economists argue that this fall in real wages between 2010 and 2013 would benefit the economy since it would cause the SRAS curve to shift to the right and hence the economy would move towards its long run equilibrium point at point C, with higher levels of output and employment and a lower average price level.



Level 1 ([1]–[2])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

Level 2 ([3]–[4])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

Level 3 ([5]–[6])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.

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MARKS

- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [6]

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- 4 An undervalued currency will, *ceteris paribus*, make Chinese goods more competitive relative to goods produced elsewhere. This should increase the demand for Chinese exports and reduce the demand for imports in China. This in turn should lead to an increase in Chinese aggregate demand (AD) and hence lead to higher levels of GDP and employment. However if the Chinese economy is operating at close to full capacity this increase in AD may lead to demand pull inflation. The undervalued currency also makes imported raw materials more expensive and hence can lead to cost push inflationary pressures. The undervalued currency also reduces the spending power of Chinese citizens when they travel or shop abroad.

Level 1 ([1]–[2])

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- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

Level 2 ([3]–[4])

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- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
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- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [6]

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Section A**25**

Section B
Data Response

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- 5 (a) A leading indicator is a measurable economic factor that changes before the economy starts to follow a particular trend and hence can be used to predict changes in the economy.

The PMI is generally regarded to be an excellent leading indicator. It is clear from the chart that there is a strong positive correlation between the PMI and GDP growth with only a very short time lag. For example in late 2007 the PMI began to fall quite rapidly and GDP growth fell very quickly afterwards. The rapid increase in the PMI in 2009 was mirrored by the recovery in GDP growth with a very short time lag. However there are periods where the trends diverge, most notably late 2011, early 2012.

For explanation (supported by data) that the PMI and GDP growth are positively correlated and that the PMI moves before GDP [3]

For explanation (supported by data) that the PMI is an imperfect leading indicator [2]

[5]

- (b) An economic slowdown occurs whenever GDP growth falls but is still positive. For example GDP growth fell from 0.8% in the last quarter of 2007 to 0.2% in the first quarter of 2008.

A recession is defined as two consecutive quarters of negative economic growth. In other words GDP actually falls for a period of six months. The UK officially entered recession in the third quarter of 2008 and remained in recession until it posted positive growth again in the third quarter of 2009.

Level 1 ([1]–[2])

A basic response provides an answer that demonstrates:

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- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

Level 2 ([3]–[4])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

Level 3 ([5]–[6])

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- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.

- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.

[6]

- (c) Concerns and uncertainty over the UK's exit from the EU are likely to lead to a fall in business and consumer confidence. When consumer confidence falls, consumers cancel or postpone big ticket purchases such as home extensions, new cars or luxury goods. This has the effect of reducing the consumption component of AD.

When business confidence falls businesses cancel or postpone investment decisions as they are concerned that they may not gain a satisfactory return on their investment. This has the effect of reducing the investment component of AD. Firms may also decide to postpone hiring or indeed to let some temporary staff go which will reduce employment in the economy and hence reduce AD. Foreign firms who were considering investing in the UK may decide to go elsewhere and indeed some firms who have already invested in the UK may decide that they are better off in a country that is likely to remain in the EU. This reduction in FDI will also negatively affect growth and employment in the UK.

Issues, analysis and areas for discussion include:

- Impact on consumer confidence and spending
- Impact on business confidence and investment – concerns over plugging the skills gap
- Impact on savings – paradox of thrift
- Impact on FDI
- Impact on employment
- Impact on tax revenues
- Reference to “animal spirits”
- Impact on ER
- Relevant examples
- Relevant diagrams

Level 1 ([1]–[3])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

Level 2 ([4]–[6])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

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Level 3 ([7]–[9])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Excellent, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [9]

- (d) Those who believe that the MPC should cut interest rates argue that it would provide the stimulus required to stop the UK falling into a full blown recession. They argue that the MPC have plenty of scope to cut interest rates as inflation is well below the target of 2% +/- 1%. Those who are opposed to cutting interest rates argue that it is unlikely to be effective since interest rates are already at historically low levels. They also argue that cutting interest rates now would leave the MPC with very little scope to take further action later if the economy deteriorates or is faced with an external shock.

Issues, analysis and areas for discussion include:

- Impact of a cut in interest rates on consumption
- Impact on investment
- Impact on the exchange rate and the balance of payments
- Impact on growth and employment
- Impact on inflation
- Reference to liquidity trap
- Consideration of significance of rate cut
- Reference to alternative policies to stimulate the economy – expansionary fiscal policy, quantitative easing, supply side policies
- Reference to the limitations of alternative policies
- Impact on savers and the distribution of income
- Appropriate examples – including historical or from other countries
- Appropriate diagrams

Level 1 ([1]–[5])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question. Some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

Level 2 ([6]–[10])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; where relevant, some reasonable use of data and diagrams in relation to the context of the question.

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Section C

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- 6 There is a wide range of policies that the UK government could use to reduce both unemployment and economic inactivity.

To reduce unemployment the government could:

- Reduce the NMW/NLW and hence make employing labour more attractive for firms
- Provide a wage subsidy to firms
- Increase aggregate demand in the economy through expansionary fiscal, monetary or exchange rate policy and hence increase the demand for labour
- Reduce corporation tax to encourage FDI
- Employ more people directly in the public sector
- Reduce equilibrium unemployment through a range of supply side measures such as education and training reforms, reducing state benefits and the expansion of welfare to work programmes such as the “steps to work” programme

To reduce economic inactivity the government could try:

- Expansion of family friendly policies to encourage mothers back into the workforce
- Tightening of regulations with regard to entitlement to sickness and incapacity benefits
- Changing regulations with regard to entitlement to income support for parents with children
- Reviewing legislation with regard to pensions
- Expansion of pathway to work programme – to encourage people into work
- Strengthening of age discrimination legislation

The success of each of the policies above will depend on the cause of the unemployment or inactivity and each policy will have its own strengths and weaknesses which should be discussed.

Issues, analysis and areas for discussion include:

- Impact of reduction in NMW on relative poverty, living standards and the demand/supply of labour
- Opportunity cost of wage subsidies and of employing workers directly in public sector
- Inflationary impact of expansionary policies
- Reference to budget deficit and national debt
- Reference to liquidity trap
- Possibility of conflicting objectives
- Compliance cost for business of expansion of family friendly policies and age discrimination legislation
- Impact of tightening entitlements to benefits on those with genuine illnesses
- Administration costs of government intervention
- Impact of policies on work incentives and reference to perverse incentives
- Appropriate examples
- Appropriate diagrams

Level 1 ([1]–[7])

A basic response provides an answer that demonstrates:

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- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

Level 2 ([8]–[14])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

Level 3 ([15]–[20])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [20]

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7 Supply side policies are policies that aim to improve the productive potential of the economy. The aim of supply side policies is to shift the LRAS to the right and therefore the economy should benefit from higher employment, higher growth and lower inflation. However some people argue that while supply side policies may benefit firms they also harm the interests of workers and the environment. For example they argue that:

- Privatisation leads to workers being laid off as firms try to reduce costs and become efficient
- Working conditions in the new private firms are often not as good as in the public sector
- Deregulation of industry makes it easier for firms to lay off workers and pollute the environment
- Reducing the power of Trade Unions also harms workers since it often leads to lower wages and poorer working conditions
- Relaxing the legislation around maximum working hours can lead to workers being forced to work long hours for fear of being laid off if they refuse

- By encouraging increases in economic output supply side policies can lead to greater energy use and hence environmental damage

However some supply side policies can actually benefit employees and the environment. For example:

- Cutting corporation tax rates encourages Foreign Direct Investment and therefore creates jobs rather than destroys them
- Cutting income tax improves the incentive to work and helps employees since they get to keep more of their earnings
- Education and training reforms help potential employees get a job or get a better job
- Grants and subsidies to business helps individuals start their own business and therefore create jobs. If these subsidies are targeted at environmentally friendly firms they may help protect the environment
- Investment in transport and energy infrastructure may benefit the environment

While supply side policies have caused short term suffering for some employees – particularly those in former nationalised industries- and put greater strain on the environment it could be argued that they have on the whole benefited workers since they have led to job creation and economic growth. It could also be argued that the high levels of economic growth created by supply side policies has allowed the government to raise the money to invest in education, environmental protection and health which of course benefits everyone.

Issues, analysis and areas for discussion include:

- Explanation of supply side policies
- Examples of supply side policies used in the UK or elsewhere
- Discussion of the negative impact of supply side policies on workers
 - Impact on pay, job security, working conditions etc
- Discussion of the positive impact of supply side policies on workers
 - Impact on job opportunities, training opportunities and self-employment etc.
- Discussion of the negative impact of supply side policies on environment
- Discussion of the positive impact of supply side policies on environment
- Relevant examples
- Relevant diagrams

Level 1 ([1]–[7])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

Level 2 ([8]–[14])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.

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- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

Level 3 ([15]–[20])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [20]

Section C

Total

**AVAILABLE
MARKS**

20

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80