



GCSE

Economics

Unit **A592**: How the Economy Works

General Certificate of Secondary Education

Mark Scheme for June 2016

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.
















All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Use ticks on all answers, including level of response answers. **The number of ticks must equal the number of marks awarded.**

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Unclear
	Benefit of the doubt (needs to be accompanied by a tick)
	Irrelevant
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Own figure rule
	Noted but no credit given.
	Too vague
	Repeat (unfortunately not available. Do not use EE which is there).

Highlighting is also available to highlight any particular points on the script.

‘BP’ to be inserted on every blank page and ‘SEEN’ in every question space where NR is the mark.

Some questions have a ‘Level of Response’ mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (d) of each question.

Level 4:

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be few, if any, errors of spelling, punctuation and grammar

Level 3:

Relatively straight forward ideas have been expressed with some clarity and fluency. There may be some errors of spelling. Punctuation and grammar, but these are to be obtrusive or obscure marking.

Level 2:

Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, which may be noticeable and obtrusive.

Level 1:

Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, of which some may be noticeable and obtrusive.

Here is the mark scheme for this question paper.

Question			Answer/Indicative content	Mark	Guidance
1	a	i	Gross Domestic Product	1	For one mark. All three words must be correct for the mark. Use one tick for the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
1	a	ii	2009	1	For one mark. Use one tick for the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
1	b		Indicative content: <ul style="list-style-type: none"> • economic growth is measured as a % rise in GDP (accept measured using GDP) • a rise in real GDP takes inflation into account • GDP is the value of output in a year OR growth is increase in productive capacity • this is also the value of total incomes of the citizens and firms, and expenditure of households • GDP is measured in year 1 then again in year 2 • the % difference can be calculated each year to achieve the growth rate <p>(note: references to GDP per head/capita are not relevant)</p>	4	Up to four marks One mark for each point of explanation up to a maximum of four such points, but allow development marks. Award marks for each relevant point. Award marks for a numerical example which shows how growth is measured. Award marks for explanation of the distinction between monetary and real GDP growth, taking inflation into account. Use ticks. Number of ticks will be the same as the mark awarded.

Question		Answer/Indicative Content	Marks	Guidance	
1	c	<p>Indicative content: Causes include:</p> <ul style="list-style-type: none"> • investment in capital (allow FDI) • investment in infrastructure • changes in technology • a larger workforce, possibly via immigration or less unemployment • education and training, increasing the quality of the workforce • exploitation of natural resources • a rise in total demand e.g. through a rise in population or export-led growth or incomes or consumer confidence <p>Exemplar response: Investment is spending on capital goods (L1). This could include machinery and equipment to produce other goods (L2). The economy then has the capacity to produce more, leading to economic growth (L3).</p> <p>Exemplar response: More education and training (L1). This increases the skills of the workforce (L2). This means that the workers' productivity rises, leading to more output, leading to economic growth (L3).</p>	6	<p>Content</p> <p>One mark for some knowledge shown plus up to two marks for the explanation. Thus one mark for a cause identified, plus 1 mark for some development or plus 2 marks for further development.</p> <p>Note: credit a demand-side cause of growth once only.</p> <p>Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached for each cause.</p>	<p>Levels of response</p> <p>For each cause, use levels marking as follows:</p> <p>Level 3 - 3 marks Candidate analyses a cause of growth</p> <p>Level 2 - 2 marks Candidate applies a cause of growth</p> <p>Level 1 -1 mark Candidate identifies a cause of growth</p>

Question		Answer/Indicative Content	Marks	Guidance	
1	d	<p>Indicative content:</p> <ul style="list-style-type: none"> income tax is paid on earnings and other income a fall in income tax raises disposable income income earners will have more to spend which raises demand the output of goods and services will rise to meet the demand thus economic growth is achieved the extra output may require more workers, this will mean that demand rises further there is a multiplier effect on the economy, raising output and achieving economic growth this will be less effective if people save rather than spend extra income, or spend it on imports if the economy is close to full capacity, then the measure may cause demand-pull inflation. it may also worsen a balance of payments deficit income tax reductions may increase incentives to work / invest / open businesses, which can raise output as a supply side measure on the other hand, workers might work less and maintain their take-home pay <p>Exemplar response: A cut in income tax means that workers have more disposable income (L1). They are likely to spend some of this rise in income, leading to more demand in the economy (L2). Firms will raise output to meet the increased demand, leading to economic growth; and there will be a multiplier effect (L3). However, if workers just</p>	8	<p>Content</p> <p>At Level 4 an evaluative comment/a judgement will be made. This may be with reference to:</p> <ul style="list-style-type: none"> supply side effects in addition to demand side, i.e. there is great effectiveness as the measure acts in two ways it will be less effective if people save rather than spend extra income, or spend it on imports the state of the economy e.g. in a boom lower income taxes may be inflationary. <p>Note: when deciding to give 7 or 8 marks for an evaluative answer, consider whether both D-side and S-side were discussed.</p> <p>At Level 3 this should include an analysis of the effects on economic growth. On the demand side, the multiplier process may be analysed. On the supply side, incentives may be analysed.</p> <p>At Level 2 an effect on growth is explained, such as a rise in demand for goods and services.</p> <p>At Level 1 award definition mark for income tax. Award for knowledge that disposable incomes rise as tax falls.</p>	<p>Levels of response</p> <p>Level 4: 7-8 marks Candidate evaluates the effectiveness of reductions in income tax with regard to economic growth</p> <p>Level 3: 5-6 marks Candidate analyses effects of reductions in income tax with regard to economic growth</p> <p>Level 2: 3-4 marks Candidate applies knowledge of effects of reductions in income tax with regard to economic growth</p> <p>Level 1: 1-2 marks Candidate demonstrates some knowledge of effects of reductions in income tax with regard to economic growth. Give definition mark.</p> <p>Quality of Written Communication is assessed on this question. Please see page 6 for guidelines.</p>

Question			Answer/Indicative Content	Marks	Guidance	
			saved their extra income, this would not happen and the tax cut would not be effective (L4).		Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	

Question			Answer/Indicative content	Mark	Guidance
2	a		$40.5\text{bn} + 11\text{bn} = 51.5\text{bn}$	2	Up to two marks One mark for method, two marks for correct answer. 1 method mark for 51.5 where bn missing. Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
2	b	i	Indicative content: A negative externality is an adverse (bad) (accept negative) effect (1 mark) on a third party (1 mark). Exemplar responses: It is a bad effect (1) on someone who is not using the product themselves (1) An adverse effect (1) on the rest of society (1) A third party (1) bears the external costs (1) (Note: no mark for example here, as this is in 2bii)	2	Up to two marks One mark for the correct identification of each main feature, i.e. an adverse effect (1) on a third party (1). If one of these features is missing, limit to 1 mark, e.g. a bad effect like smoking damages your health (1); or e.g. when you consume something it affects somebody else (1). Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
2	b	ii	Indicative content: <ul style="list-style-type: none"> passive smoking – damage to someone else’s health discomfort to others – smell, sore eyes, smelly clothes etc. air pollution. cost to taxpayer – treating damage done by smoking fire risk litter 	2	One mark for each correct identification up to a maximum of two identifications Ensure two separate examples for both marks. Note: do not accept lung cancer (not external). Use ticks. Number of ticks will be the same as the mark awarded.

Question		Answer/Indicative Content	Marks	Guidance	
2	c	Indicative content: <ul style="list-style-type: none"> the tax will not be very effective in reducing consumption the tax rise would raise the price this may lead to a fall in consumption price elasticity measures the extent to which demand changes cigarettes have an inelastic demand it is inelastic as it is a habit forming good this means demand changes at a lesser rate than price <p>Exemplar response: As the tax is increased, the price will rise, so people will buy less (L1). PED measures how far demand will fall in relation to the price rise. In this case, demand is inelastic (L2). This means demand falls at a lesser rate than price</p>	6	Content At L3, candidate shows understanding of PED, accurately explains price inelastic demand and reaches a valid conclusion At L2 candidate attempts to apply the concept of PED. If the candidate assumes demand will not fall at all (perfectly inelastic), award L2. At L1 candidate states that the tax will increase the price and the demand will fall Note: can award a mark for stating price rise could lead to more smuggling / black markets but no more than 3 marks in total where no successful attempt to use PED concept.	Levels of response Level 3: 5-6 marks Candidate analyses effects of increase in tax with regard to reduced consumption Level 2: 3-4 marks Candidate applies knowledge of effects of increase in tax with regard to reduced consumption Level 1: 1-2 marks Candidate demonstrates some knowledge of effects of increase in tax with regard to reduced consumption

Question			Answer/Indicative Content	Marks	Guidance
			<p>risers, so the tax rise is not very effective at reducing consumption (L3).</p>		<p>Note: discussion of regressive nature not relevant here.</p> <p>Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.</p>

Question			Answer/Indicative Content	Marks	Guidance	
2	d		<p>Indicative content: Policies could include:</p> <ul style="list-style-type: none"> • banning smoking in public places • making it illegal to buy cigarettes under a certain age (e.g. 16 or 18). • banning advertising • banning branding on the packets • minimum pricing • free help to quit smoking, e.g. nicotine patches on the NHS • subsidies for alternatives, e.g. electronic cigs • making cigarettes illegal • education to discourage smoking <p>Exemplar responses: Banning smoking in public places (L1) would reduce demand because there is less opportunity to smoke (L2). However, smokers could find somewhere else to smoke (L3). I think it would be effective at reducing the amount which people smoke but unlikely to get people to quit (L4).</p> <p>Setting a minimum price (L1) would make cigarettes more expensive (L2). Some people might quit smoking as they can no longer afford it</p>	8	<p>Content</p> <p>For each policy: 1 mark for identification of policy, up to 2 marks for its explanation, and 1 mark for evaluative comment which must be with reference to effectiveness. Thus each policy is marked out of 4 marks.</p> <p>At Level 4 an evaluative comment / a judgement will be made about effectiveness of the policy. Examples are shown in the exemplar responses.</p> <p>At Level 3, a clear analysis of how the policy works to reduce consumption is present.</p> <p>At Level 2 application of knowledge of the policy to reduce consumption is present.</p> <p>At Level 1 knowledge of a policy to reduce consumption is present.</p>	<p>Levels of response</p> <p>For each policy:</p> <p>L4 4 marks – candidate evaluates the effectiveness of the policy and makes a judgement.</p> <p>L3 3 marks – candidate analyses the effects of the policy.</p> <p>L2 2 marks – applies knowledge of the effects of the policy.</p> <p>L1 1 mark – demonstrates some knowledge of the effects of the policy.</p>

Question			Answer/Indicative Content	Marks	Guidance	
			<p>(L3). However, if demand is inelastic, this will not be very effective (L4).</p> <p>Making cigarettes illegal (L1) means they cannot be bought in shops any more (L2) so consumption will definitely fall (L3). However, this measure would encourage a black market and consumption would not stop altogether (L4).</p>		<p>Accept regulation as policy or regulation measures as shown in the left hand column.</p> <p>Do not accept: interest rate, monetary, fiscal or supply side policies; direct taxes; import restrictions.</p> <p>Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached for each policy.</p>	<p>Quality of Written Communication is assessed in this question. Please see Page 6 for guidelines</p>

Question			Answer/Indicative content	Mark	Guidance
3	a		<ul style="list-style-type: none"> price imports 	2	<p>One mark for each correct identification up to a maximum of two identifications</p> <p>Use ticks. Number of ticks will be the same as the mark awarded.</p>

Question			Answer/Indicative content	Mark	Guidance
3	b		Indicative content: <ul style="list-style-type: none"> inflation is measured by CPI the government finds out what the 'average family' buys the items are weighted to reflect their importance in total spending the prices of these goods and services are recorded at regular intervals the rise in the price level of the items is calculated this is further calculated as a % rise in the price level the index reflects the % rise in price level, e.g. if it rises from 100 to 103 there has been 3% inflation 	4	<p>Up to four marks</p> <p>One mark for each correct point of explanation up to a maximum of four such points, but allow development marks</p> <p>Accept RPI as a measure of inflation. Award marks for each relevant point. Award marks for a numerical example which shows how inflation is measured.</p> <p>Use ticks. Number of ticks will be the same as the mark awarded.</p>

Question		Answer/Indicative content	Mark	Guidance
3	c	<p>Indicative content:</p> <ul style="list-style-type: none"> GDP growth positive in 2014 but at a slightly lower rate than 2003; 2.6% v 2.7% Note: Stating output or GDP is lower in 2014 is incorrect. rate of inflation lower in 2014; 0.5% v 1.3% inflation was below the 2% target in both years, but further below in 2014, and below the 1-3% range unemployment higher in 2014 than 2003; 5.7% v 4.9% Note: this does not mean less workers were employed in 2014 current account deficit much larger in 2014 than 2003; £97.9bn v £18.8bn. This could be perceived as a very 'unhealthy' deficit in 2014 on all four measures the economy was healthier in 2003, although growth rates very similar 	6	<p>Up to six marks</p> <p>Award one mark for a comparison of each variable between the two years, up to a maximum of four marks. Each comparison should have at least a brief comment such as 'risen to..' or 'risen by..' or fallen by..' rather than a simple reiteration of the figures in the table.</p> <p>Award up to a further two further marks for comment on the comparative health of the economy. The candidate may comment within each variable considered and this should be rewarded. Do not reward a generalised statement such as 'less healthy in 2014.'</p> <p>With regard to inflation, do not reward candidates who state it is 'better' in 2014. In fact, it is further below the 2% target, so worse from this viewpoint.</p> <p>The growth rate figures do not tell us absolute GDP or GDP per capita for each year, so it is difficult to make a judgement on this aspect of the economy.</p> <p>Use ticks. Number of ticks will be the same as the mark awarded.</p>

Question		Answer/Indicative Content	Marks	Guidance	
3	d	<p>Indicative content: Policies which could be used are:</p> <ul style="list-style-type: none"> • fiscal policy • interest rate / monetary policy • supply-side policies <p>The policy objectives are:</p> <ul style="list-style-type: none"> • economic growth • low unemployment/high employment • low inflation (within target range) • long term balance in the current account <ul style="list-style-type: none"> • expansionary fiscal and monetary policies may be used to achieve growth and employment • these raise demand (AMD) and lead to a multiplier effect • this may have adverse effects on inflation and current account • deflationary fiscal and monetary policies may be used to reduce inflation and a current account deficit. • these reduce demand (AMD) and lead to a reverse multiplier effect • this may have adverse effects on growth and employment • supply-side policies increase the capacity of the economy to produce which could aid growth and employment. • output may rise rather than prices, so controlling inflation. • increased output may reduce the current account deficit. <p>Exemplar responses: The government could use fiscal and interest rate policies to reflate the economy (L1), this would help to achieve growth and increase employment (L2). Lower taxes or lower interest rates would increase disposable incomes and raise demand (AMD) leading to a multiplier effect; firms producing more output and employing more workers (L3). However, this could have adverse effects on inflation especially as the economy nears full capacity as the extra demand may pull the price level up. The balance of payments deficit could rise as more is spent on imports. (L4).</p> <p>The government could use fiscal, interest rate and supply-side policies (L1). Supply-side policies could help the economy produce more, achieving growth (L2) e.g. by training workers and reducing direct taxes this will</p>	8	<p>Content</p> <p>At Level 4, an evaluative comment / a judgement will be made about effect of policy on other objectives. (max. 7 where only one policy). Candidates may comment on why objectives conflict when demand side policies are used near to full capacity.</p> <p>At Level 3, candidate analyses the effects of policies on the economic objectives, e.g. through multiplier process, and may analyse conflict e.g. between growth & inflation</p> <p>At Level 2, candidate applies knowledge of government policies and objectives. Max. L2 for clash of objectives where policies are absent.</p> <p>At Level 1, candidate demonstrates some knowledge of government policies and/or objectives</p> <p>Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.</p>	<p>Levels of response</p> <p>L4 7-8 marks – candidate evaluates the effects of the policies on other objectives and makes a judgement.</p> <p>L3 5-6 marks – candidate analyses the effects of policies on objectives</p> <p>L2 3-4 marks – candidate applies knowledge of which policies are used to achieve an objective/objectives</p> <p>L1 1-2 marks – candidate identifies / demonstrates some knowledge of objectives or policies</p> <p>Quality of Written Communication is assessed in this question. Please see Page 6 for guidelines</p>

Question			Answer/Indicative Content	Marks	Guidance	
			encourage more growth and employment (L3). There is also less likely to be demand-pull inflation because output rises, and also we produce more which could be exported, so I think that this policy does not have adverse effects on other objectives (L4).			

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

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OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553

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