OCR
Oxford Cambridge and RSA

GCSE

Economics

Unit **A592**: How the Economy Works

General Certificate of Secondary Education

Mark Scheme for June 2017

Oxford Cambridge and RSA Examinations

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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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

These are the annotations, (including abbreviations), including those used in scoris, which are used when marking

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
BP	Blank page
✔	Tick
✘	Cross
?	Unclear
BOD	Benefit of the doubt
IR	Irrelevant
L1	Level one
L2	Level two
L3	Level three
L4	Level four
NAQ	Not answered question
OFR	Own figure rule
SEEN	Noted but no credit given.
TV	Too vague
∧	Omission mark

Highlighting is also available to highlight any particular points on the script.
'SEEN' to be inserted on every blank page and in every question space where NR is the mark.

Subject-specific Marking Instructions

Some questions may 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.

Question			Answer/Indicative content	Mark	Guidance
1	a		• Huge losses • Falling sales • High operating costs • Cheap Chinese steel (on World markets) • Over-supply of steel (on World markets)	2	For two marks: Any two from the list given. (No other answers are acceptable as they are not in Fig.1.) Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
1	b		• Strong £ makes steel more expensive abroad (1) so sales / exports of steel fall OR other countries buy from elsewhere (1) • Strong £ makes imported steel cheaper (1) so UK sales of UK steel fall OR imported steel is bought instead (1)	4	Up to 4 marks as shown. 2 marks if answer says simply UK steel is more expensive (1) so sales fall (1). Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
1	c		The workers from the steelworks become unemployed – structural unemployment Their incomes fall There is less demand in their community This affects the sales and profits of local businesses, e.g. shops These in turn may lay off workers Local steelwork suppliers will also lose their market – more unemployment Demand for housing and property prices fall The area could become 'depressed' and social problems may occur, e.g. increased crime rates. There may be less negative externalities.	6	• At, L3, analysis may be with regard to knock-on effects (reverse multiplier) on the community. • At L2 local effects of more unemployment are applied, e.g. social or housing problems are explained. • At L1 knowledge is demonstrated that the closure leads to higher unemployment (as in	**Level 3: 5-6 marks** Candidate analyses effects of the steelworks closing **Level 2: 3-4 marks** Candidate applies knowledge of effects of the steelworks closing **Level 1: 1-2 marks** Candidate demonstrates some knowledge of effects of the steelworks closing.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
1	c		• Exemplar response A lot of workers have become unemployed so their incomes fall (L1). This could lead to social problems such as more crime and people leaving the area (L2). There are knock-on effects on the community because other businesses suffer as the unemployed workers spend less. This can lead to even more unemployment in the community (L3)		the data) and lower incomes. • Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
1	d		**Indicative content:** Lower interest rates will encourage spending in the economy. Saving will be less rewarding for consumers so they may consume more. Borrowing is less expensive for consumers. In the UK, consumers finance a lot of spending by using credit, especially for expensive durable goods like cars, appliances and so on. As the credit becomes less expensive they may spend more. Millions of households have mortgages, and as the monthly payments fall with a fall in interest rates, their disposable incomes and spending rise. Firms borrow to finance investment expenditure, as this becomes cheaper with lower interest rates, they raise their investment spending. The £ is likely to fall in value which makes exports more competitive and more are sold. As total demand rises, output will rise so there is more economic growth. The policy may be ineffective / lacks scope if interest rates are already low (e.g. UK recent years). Extent of change is relevant also.	8	At L4 there is evaluation to address the issue of effectiveness in reducing unemployment. Evaluative comments may be in relation to issues shown towards the end of the indicative content. At L3 analysis is present. eg analyses how spending is affected by a fall in interest rates on saving and borrowing. Note that exchange rate effects are not expected, but reward where present. At L2, application is present, e.g. candidates may explain the effect on saving and/or borrowing.	**Level 4: 7-8 marks** Candidate evaluates the effectiveness of interest rate policy with regard to reducing unemployment. **Level 3: 5-6 marks** Candidate analyses effects of interest rate policy with regard to reducing unemployment. **Level 2: 3-4 marks** Candidate applies knowledge of effects of interest rate policy with regard to reducing unemployment. **Level 1: 1-2 marks** Candidate demonstrates some knowledge of effects of interest rate

Question			Answer/Indicative Content	Marks	Guidance	
1	d				**Content**	**Levels of response**
			Consumers may choose to save extra disposable incomes. Consumers may spend extra incomes on imports, so limited effect on UK growth. The policy may be effective in reducing cyclical unemployment but other policies may be required for structural unemployment. Exemplar response Interest rate is the cost of borrowing. If interest rates are lowered, unemployment will fall (L1). Borrowing is cheaper and saving less rewarding so consumers will spend more (L2). People with mortgages will pay less every month, which means a rise in disposable incomes to spend. This means more workers are needed to produce more goods, so unemployment falls (L3). This seems effective but in practice may not work. If consumers' extra spending is on imports, then unemployment will not be reduced. (L4).		At L1, knowledge that lower interest rates encourage growth is present. Also award definition marks at L1. Note: the policy may cause demand-pull inflation but this is not likely to be relevant in the context of effectiveness in reducing unemployment. Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	policy with regard to reducing unemployment. Give definition mark. • *Quality of Written Communication* is assessed on this question. Please see page 6 for guidelines.

Question			Answer/Indicative content	Mark	Guidance
2	a		• £6.64 - £4.34 = £2.30 (allow £2.3) (If no £ sign, still award).	2	For 2 marks: a correct calculation or correct answer stated. 1 mark for correct method but arithmetic error. Note: if candidate has the correct answer but then goes on to calculate a percentage, award the marks and ignore the % part of the answer. Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
2	b		• Services including health, education, defence • Benefits including state pensions, universal credit. • E.g. 1. NHS 2. Schools 3. Pensions 4. Army 1. • Note: 'Subsidies' too vague	4	Up to 4 marks for a list which shows knowledge of the main areas. Do not reward the same thing twice, e.g. social protection and benefits. The example shown would be 4 marks. Use ticks. Number of ticks will be the same as the mark awarded. .

Question			Answer/Indicative Content	Marks	Guidance		
						Content	**Levels of response**
2	c		Indirect taxes hit lower income groups the most. They are regressive taxes. They take a greater % from a lower income. The measures would therefore widen inequalities of (post tax) incomes and make distribution more unequal. Exemplar response The VAT rise means consumers would have to pay more for many goods and services and they could not afford so much (L1). Indirect taxes are regressive which means the poor pay more (L2). In fact regressive means the low income groups pay a larger % of their incomes in the taxes, so incomes become more unequal / there is a wider distribution of incomes (L3).	6	At L3, there is correct analysis of the regressive nature of the tax changes which makes the distribution less equal / widens inequality. At L2 there is understanding that the lower income groups will have a greater burden than the higher income groups At L1 there is knowledge of the effect on disposable incomes but there may be limited reference to income distribution. Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	**Level 3: 5-6 marks** Candidate analyses effects of increase in tax with regard to income distribution. **Level 2: 3-4 marks** Candidate applies knowledge of effects of increase in tax with regard to income distribution. **Level 1: 1-2 marks** Candidate demonstrates some knowledge of effects of increase in tax with regard income. Give definition mark.

Question			Answer/Indicative Content	Mar ks	Guidance	
					Content	Levels of response
2	d		Possible benefits are as follows: Disposable incomes rise. This leads to greater demand in the economy. This in turn can lead to greater output and employment, thus helping to achieve economic growth and reduce unemployment. It may generate a multiplier effect. Incentives rise as there is a greater post-tax reward from work and enterprise. This improves the supply-side of the economy. Possible drawbacks are as follows: As demand rises, this could have demand-pull inflationary effects. The demand for imports is likely to rise thus worsening the balance of payments current account. Extra disposable income may be saved / spent on imports so effects on growth etc are limited. Effects on income distribution: It is a regressive measure as a progressive tax has been reduced. It may widen inequalities. However, if personal allowances are raised (as in Fig.3) this benefits low earners more (a greater % of their income is tax free). Extent of tax change is relevant also. Exemplar response If income tax is cut, the workers have more disposable incomes (L1). People are likely to spend their extra income which means that firms will receive more income (L2). Firms will need to produce more output, and to do this they may	8	For L4, there must be evaluation, so the question of 'to what extent' is addressed. The candidate may weigh up benefits and drawbacks. A conclusion which considers the current state of the economy will be evaluative, e.g. whether the extra demand leads to employment or inflation. At L3 analysis is present, e.g. analyses how the effect on disposable incomes affects the economy, analyses the possible effect on inflation. At L2, application is present, e.g. candidates may explain the effect on spending in the economy. At L1, knowledge that disposable incomes rise is present. Also award definition marks at L1. NB Do not reward comment that there is less revenue for government spending as this ignores the economic growth effects of the measure. Annotate SEEN next to such material. Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level	**Level 4: 7-8 marks** Candidate evaluates the effectiveness of reductions in income tax with regard to the economy. **Level 3: 5-6 marks** Candidate analyses effects of reductions in income tax with regard to the economy. **Level 2: 3-4 marks** Candidate applies knowledge of effects of reductions in income tax with regard to the economy. **Level 1: 1-2 marks** Candidate demonstrates some knowledge of effects of reductions in income tax with regard to the economy. Give definition mark. • *Quality of Written Communication* is assessed on this question. Please see page 6 for guidelines.

Question			Answer/Indicative Content	Mar ks	Guidance	
					Content	**Levels of response**
			employ more workers. Thus growth and employment are likely to rise therefore benefitting the economy (L3). However, the extent to which it benefits the economy depends upon whether there is already full employment. If so, then extra demand can lead to demand-pull inflation so the economy would not benefit.		reached.	

Question			Answer/Indicative content	Mark	Guidance
3	a		• Highest: 2014 Q3 • Lowest 2013 Q1	2	For 2 marks. 1 mark for each correct answer. Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative content	Mark	Guidance
3	b	i	• Gross Domestic Product	1	For 1 mark. All three words must be correct for the mark. Use a tick in this case.

Question			Answer/Indicative content	Mark	Guidance
3	b	ii	• GDP is value of the output of the country (or similar) (per year) 1 mark. • GDP per capita is GDP divided by population 1 mark. • To show the average output/income of each person 1 mark (allow GDP per person).	3	For 3 marks. Award marks as shown. Use ticks. Number of ticks will be the same as the mark awarded.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
3c			• The growth rates are always positive. • They rise from 1.0%pa to 3% pa over 7 quarters. • They then fall from 3%pa to 2.1% pa over 6 quarters. • Growth is likely to lead to more employment. • Growth means greater output, so more workers are required to produce it, raising employment. • There is likely to be a multiplier effect. Indicative answer: There is always positive growth during this period, and the growth rate rises to 3% pa in 2013. (L1). This means more output so employment is likely to go up in this period. (L2). To produce the extra output, more workers are needed and this is why employment is likely to rise throughout the period, although at a lesser rate after 2013 Q3. (L3).	6	• At L3, the candidate analyses how positive growth rates throughout the period affects employment. • At L2, candidate explains why employment is likely to rise. • At L1, knowledge of the trends shown in Fig.3 is shown. Note: Candidate cannot go beyond L2 without specific reference to Fig. 3. Note: as the rate of growth slows in the later quarters, employment may rise more slowly, and candidates should be rewarded for explaining this. However, it is not correct to state that employment would be likely to fall, as the economy is still growing. Award L2 for answers which correctly explain rising employment but also incorrectly argue there will be rising unemployment during the period. Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	**Level 3: 5-6 marks** Candidate analyses effects of growth rates on employment. **Level 2: 3-4 marks** Candidate applies knowledge of effects of growth rates on employment. **Level 1: 1-2 marks** Candidate demonstrates some knowledge of effects growth rates on employment. Give definition mark.

Question	Answer/Indicative Content	Marks	Guidance	
			Content	**Levels of response**
3d	• Supply side policies can include • education and policies to promote training • reducing direct taxes on workers • reducing direct taxes on firms • offering other incentives to firms (not subsidies) • reducing state benefits • encouraging new technology and innovation • improving infrastructure • reducing monopoly power/encouraging competition/deregulation • reducing trade union power. A lot of these policies take a long time to work through the economy. Exemplar response: Supply side policies include education and training (L1) It would mean that workers would have more skills (L2). Productivity (output per worker) is likely to rise thus increasing output / achieving growth. (L3). Another policy is cutting state benefits (L1). This means more people are likely to look for jobs (L2). With greater incentive to work, more output is likely, thus achieving growth (L3). Supply side policies can be very effective because the economy is capable of producing more, but they might not work if there is a lack of demand. Just because more people have skills, or benefits are cut, does not lead to more growth if there is no demand for extra	8	• For L4, there must be evaluation, so the question of effectiveness is addressed. Where L3 has been reached and the answer states that they are effective because growth can be achieved without inflation, award 7 marks OR that they are effective in the long term but not in the short term, award 7 marks. • At L3, the candidate analyses how supply side policies can achieve growth. • At L2, candidate explains how supply side policies work. • At L1, knowledge of supply side policies is shown. Some specific policies may be named, e.g. training and education. Also award definition marks at L1. Notes: This question does not require candidates to describe a wide range of supply side measures, and it may be possible to achieve L4 by concentrating on only two supply side policies / measures. Note: simply stating that policies have long time lags in itself is not evaluative / not L4. Do not accept subsidies as a supply side policy.	**Level 4: 7-8 marks** Candidate evaluates the effectiveness of supply side policies with regard to economic growth. **Level 3: 5-6 marks** Candidate analyses the effectiveness of supply side policies with regard to economic growth. **Level 2: 3-4 marks** Candidate explains an effect of supply side policies with regard to economic growth. **Level 1: 1-2 marks** Candidate demonstrates some knowledge of supply side policies. Give definition marks. • *Quality of Written Communication* is assessed on this question. Please see page 6 for guidelines.

Question			Answer/Indicative Content	Marks	Guidance	
					Content	**Levels of response**
			output (L4).		Do not reward where an answer veers off into demand rising / multiplier effects. Use ticks. Number of ticks will be the same as the mark awarded. In addition annotate the highest level reached.	

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