



GCSE

Economics

Unit **A592**: How the Economy Works
General Certificate of Secondary Education

Mark Scheme for June 2018

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

Annotation	Meaning of annotation
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 instructions

Some questions may have a 'Levels 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	<ul style="list-style-type: none"> • Highest - 2011 • Lowest - 2016 	2	<p>One mark for each correct identification up to a maximum of two identifications Use ticks and crosses</p>
1	b	<p>Indicative content: Consequences can include:</p> <ul style="list-style-type: none"> • Waste of labour resources • Lower living standards for unemployed and families • Leads to lower AD and more unemployment • Leads to lower AD and less economic growth • Excluded workers • Costs to taxpayers • A budget deficit • Regional problems • Social problems <p>Exemplar response: It costs taxpayers a lot (1). The unemployed have to have state benefits (1) such as job seeker's allowance (1). Also they pay less in taxes so other workers may have to pay more (1). Tax rates may rise (1).</p> <p>Exemplar response: Labour is wasted (1). Labour is one of the factors of production (1). The unemployed could be working and producing (1). The output of the country is lower than it could be (1). This means economic growth could be higher than it is (1).</p>	4	<p>1 mark for identification of a problem and up to 3 marks for development, up to a maximum of 4 marks.</p> <p>If not sure whether it is more than one consequence, if the answer 'flows' well then treat it as one consequence and award up to 4 marks.</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>
1	c	<ul style="list-style-type: none"> • Technological unemployment is caused when capital takes the place of labour. <p>Exemplar response: Technological unemployment occurs because capital/machines are used (1) that are more efficient/reliable than workers (1) so they replace the workers creating unemployment (1).</p>	3	<p>One mark for some knowledge plus a further two marks for an explanation, up to a maximum of 3 marks. Give a mark for an example where this aids the explanation.</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>

Question			Answer/Indicative content	Mark	Guidance
1	c	ii	<ul style="list-style-type: none"> Frictional unemployment is caused by people changing jobs and there is a time lag between one job and another. <p>Exemplar response: Frictional unemployment occurs because the workers change jobs (1) and take time to find new jobs (1) so it is temporary unemployment (1) due to imperfect information/imperfections in the labour market (1). It can be helpful for a changing/growing economy (1).</p>	3	<p>One mark for some knowledge plus a further two marks for an explanation, up to a maximum of 3 marks. . Give a mark for an example where this aids the explanation.</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>

Question			Answer/Indicative Content	Marks	Guidance
					Content Levels of response
1	d		<p>Indicative content:</p> <ul style="list-style-type: none"> Fiscal policy is using the government's budget, i.e. taxation and government spending. To combat unemployment the government may have a budget deficit. This means government spending will be greater than taxation. If it reduces taxes, or spends more itself, disposable incomes rise This leads to a rise in total spending in the economy. Output rises to satisfy the demand Workers are employed to produce the extra output. There may be a multiplier effect Reduced direct taxes can have incentive effects which influence the supply side of the economy Reduced benefits may have incentive effects Effectiveness depends on a number of factors such as the proportion of extra income which is spent on domestic goods and services, whether tax cuts increase incentives, whether other policies are 	8	<ul style="list-style-type: none"> At Level 4 an evaluative comment or judgement will be made. This must be with regard to the effectiveness of fiscal policy in reducing unemployment. Do not accept time lags. Examples of evaluation are shown in exemplar responses. Accept other comments such as the unreliability of data which the government uses, the unknown value of the multiplier, the degree of tax and spending changes, etc. <p>L4: 7-8 marks – candidate evaluates the effectiveness of fiscal policy in reducing unemployment and makes a judgement.</p> <p>L3: 5-6 marks - candidate analyses the effects of fiscal policy on unemployment</p> <p>L2: 3-4 marks - candidate applies knowledge of the effect of fiscal policy</p> <p>L1: 1-2 marks -candidate demonstrates some knowledge of the effect of fiscal policy. Award definition marks at L1.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		<p>used in tandem. Also it may be appropriate for cyclical unemployment but other policies may be needed, e.g. for structural unemployment.</p> <p>Exemplar response: Fiscal policy is using government spending and taxes to affect unemployment (L1). To reduce unemployment the government could have a budget deficit by reducing taxes (L2). People have more disposable income so they can spend more. More workers will be needed to produce the extra output (L3). However, this will not be effective if people save their extra income or spend it on imports (L4). OR This will be effective if tax on low incomes is reduced as poorer consumers tend to spend any extra money (L4).</p>		<ul style="list-style-type: none"> At L3 a clear analysis of how the policy works to reduce unemployment is present. Analysis may refer to the multiplier effect. At L2, application of knowledge of the policy to reduce unemployment is present. At L1 knowledge of fiscal policy is present. Award definition mark. <p>NB Max 5 marks for analysis which emphasises supply side rather than demand side aspects of fiscal policy.</p>	<p>Quality of Written Communication is assessed in this question. Please see page 5 for guidelines</p> <p>Use ticks. Number of ticks matches the mark awarded. In addition, annotate the highest level reached.</p>

Question			Answer/Indicative content	Mark	Guidance
2	a	i	<ul style="list-style-type: none"> Deflation 	1	<p>One mark for the correct identification</p> <p>Use ticks and crosses</p>
2	a	ii	<ul style="list-style-type: none"> Rose by more than 1.9% 	1	<p>One mark for the correct identification</p> <p>Use ticks and crosses</p>
2	b		<ul style="list-style-type: none"> Inflation is the rise in the general price level, and in the year to April 2015 the general price level fell. Prices of some items will rise while others will fall in this period. Inflation is an average of these. Services overall rose in price, therefore this rise must have been more than matched by falls in prices in other sectors. 	4	<p>Give one mark for an accurate definition of inflation.</p> <p>Where a candidate's answer reflects full understanding that as service prices rose, other prices must have fallen in order for inflation to be negative, then award 4 marks.</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>

Question		Answer/Indicative content	Mark	Guidance
		Exemplar response: Inflation is a sustained rise in the general price level over time (1). It is an average price level rise (1). If the price of services had risen, then other prices such as goods (1) must have fallen (1) in order that inflation is negative (1).		
2	c	i	<ul style="list-style-type: none"> • Any two costs such as • Wages or salaries (labour costs) • Business rates • Interest on loans • Costs of materials • Fuel and power / utility bills • Depreciation 	<p>One mark for each correct identification up to a maximum of two identifications. (Note: rent is named in the question, so no marks for 'rent.') (Do not accept 'tax.')</p> <p>Note: where candidate simply names the factor, e.g. labour, rather than the cost, e.g. wages, give BOD.</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>
2	c	ii	<ul style="list-style-type: none"> • Assuming the rise in costs is passed on to consumers, this increases the price level, hence leading to inflation. This is cost-push inflation. • This may further lead to a wage-price spiral as workers seek pay rises to match the rise in the price level. <p>Exemplar answer: A rise in costs reduces the profits of firms (1). To keep up their profits the firms pass on the rise in costs (1) in the form of higher prices (1). This means the price level rises, which means there is cost-push inflation (1).</p>	<p>A rise in costs will either reduce firms' profit margins or will be passed on in raised prices, unless the costs rise is matched by a rise in productivity. Reward candidates who make a valid point about productivity. Also reward those who explain the knock-on effect of a wage-price spiral.</p> <p>NB If an answer is restricted to an individual firm, then award a maximum of three marks for an explanation of one firm passing on its increased costs in higher prices.</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
2	d	<p>Harmful effects of inflation include:</p> <ul style="list-style-type: none"> • Shoe leather costs • Menu costs • Arbitrary redistribution of incomes • Labour market problems • Unemployment • Balance of payments problems • Danger of hyperinflation <p>Benefits of low inflation include:</p> <p>Easier for relative prices to adjust Wages tend to be more flexible May act as incentive for enterprise Gains for debtors Increased monetary tax revenues for government.</p> <p>Dangers of negative inflation include:</p> <p>Lack of spending in the economy leads to unemployment, recession.</p> <p>Exemplar response:</p> <p>Inflation can be very bad for an economy. As prices rise, less is sold and workers become unemployed (L1). Time is wasted checking prices and firms have menu costs adjusting their prices (L2). Furthermore, inflation could get out of control and lead to hyperinflation where the money becomes nearly worthless (low L3). So no inflation is better than some inflation (L3).</p> <p>Exemplar response: Inflation can have many problems such as shoe leather and menu costs (L1). If prices rise, then trade unions may push for wage rises, so prices rise even further (L2). This could lead to our exports becoming too expensive, sales fall and unemployment rises (L3).</p>	8	<p>At Level 4 an evaluative comment or judgement will be made. This may be that it depends on the rate of inflation. A little inflation is better than zero inflation but a high inflation rate can be very damaging. Accept this as L4 if it is backed by analysis.</p> <p>At Level 3 there is analysis of why some inflation is / is not better than no inflation. Award max. level 3 for an answer which analyses the problems of inflation but ignores any possible benefits.</p> <p>At level 2 some application of the effects of inflation is present</p> <p>At Level 1 some knowledge of the effects of inflation is present. Award definition mark.</p> <p>NB Candidates may point out that the government has a 2% target for inflation, not zero. This may be an evaluative comment if backed by analysis.</p>	<p>L4: 7-8 marks – candidate evaluates the consequences of inflation and makes a judgement.</p> <p>L3: 5-6 marks - candidate analyses the effects of inflation</p> <p>L2: 3-4 marks - candidate applies knowledge of the effects of inflation</p> <p>L1: 1-2 marks - candidate demonstrates some knowledge of the effects of inflation.</p> <p>Quality of Written Communication is assessed in this question. Please see page 5 for guidelines</p> <p>Use ticks. Number of ticks matches the mark awarded. In addition, annotate the highest level reached.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		However, a low rate of inflation could be helpful because it is more flexible than no inflation and makes it easier for prices and wages to adjust to changes in the economy. Overall I would say that a little inflation is better than no inflation, but high inflation can be very bad for the economy (L4).		NB dangers of negative inflation not asked for specifically, but should be rewarded.	

Question			Answer/Indicative content	Mark	Guidance
3	a	i	<ul style="list-style-type: none"> The base interest rate stays the same at 0.5% throughout the period (1) except for a fall to 0.25% in 2016 (1), whereas; The growth rate rises from 0.7% in 2012 to 2.8% 2014 (1), then falls to 2.0% by 2016 (1). <p>NB Max. 2 marks where answers refer to only 2012 and 2016 and not the period 2012-2016</p>	4	<p>Award 2 marks for statements such as base rate stays the same while growth rate rises then falls, with no specific reference to the figures in the data.</p> <p>Award 4 marks as shown in indicative content.</p> <p>Also award for other relevant comment such as growth rate is always higher than base rate; both rates are always positive.</p> <p>Max 2 marks where there is description but no attempt at comparison OR a 'trawl through the data.'</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>
3	b	(i)	GDP is Gross Domestic Product OR total value of output OR total incomes of the country	1	<p>Award one mark for an explanation of the term as shown in indicative content (or similar). (Do not accept amount of output).</p> <p>Use ticks and crosses</p>
		(ii)	GDP per capita is GDP divided by the population OR the average income/output of each person in the country OR income per head of population.	1	<p>Award one mark for an explanation of the term as shown in indicative content (or similar).</p> <p>Use ticks and crosses</p>
3	c		<p>Two factors affecting savings rates from:</p> <ul style="list-style-type: none"> Minimum deposit required Instant access v notice period / how long the money is tied up for. Regular savings requirement 	6	<p>For each factor, 1 mark for its identification plus a further two marks for an explanation, up to a maximum of 3 marks.</p> <p>Ensure there are two separate factors identified when awarding marks.</p>

Question		Answer/Indicative content	Mark	Guidance
		<ul style="list-style-type: none"> Where the account is operated (branch or post or telephone or internet) Whether another account is required in that bank Competition between institutions to attract customers <p>Exemplar response: Factor 1: How much needs to be put in the account (1). If a large amount has to be put in (1) the bank will pay a higher interest rate (1). Factor 2: Notice period (1). If you can get your money straight away the interest may be lower (1) than if you have to give a month's notice (1).</p>		<p>(Note: if candidates states and explains 'the amount of money' i.e. 'the more money in the account the higher the rate of interest' this may or may not be the case and should be awarded one BOD tick only.)</p> <p>Use ticks. Number of ticks matches the mark awarded.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
3	d	<p>Policies include:</p> <ul style="list-style-type: none"> Fiscal policy Monetary / interest rate policy Supply-side policies <p>Exemplar response 1: To achieve growth the government could reduce interest rates and have a budget deficit (L1). To get a deficit the government could reduce taxes which increases disposable incomes (L2). This leads to more spending in the economy, so output rises to satisfy the demand, thus achieving economic growth (L3). Lower interest rates encourage borrowing (L2) so consumers and firms spend more; output rises, thus achieving economic growth (L3). As both of these policies encourage spending in the economy they should work well together to lead to a multiplier effect and achieve economic growth (low L4) providing there is spare capacity in the economy (top L4).</p>	8	<ul style="list-style-type: none"> At L4 a combination of two policies is recommended with justification. Justification for fiscal and monetary may be that they work together to increase AD in the economy providing there is spare capacity for output to grow. Justification for fiscal or monetary with supply-side policies may be that while one works to increase AD the other increases 	<p>L4 7-8 marks – candidate evaluates a combination of government policies which may be used to encourage economic growth.</p> <p>L3 5-6 marks - candidate analyses a combination of government policies which may be used to encourage economic growth.</p> <p>L2 3-4marks – candidate applies knowledge of government policies which may be used to</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		Exemplar response 2: The government could use interest rate policy and supply side policy.(L1). Interest rates would be lowered to make borrowing cheaper (L2). This leads to more spending so output rises, achieving growth (L3). The supply side policy e.g. education and training (L2) makes the workforce more efficient thus also helping output rise and achieving growth (L3). Supply would need to rise to meet the extra demand so I think supply side policies such as training for skills should be used with lower interest rates (L4).		<ul style="list-style-type: none"> AS so that inflation is avoided. Fiscal or monetary policy will work well in the shorter run, but needs to be combined with supply-side policies for longer run real growth. Supply side policy has a long time lag so fiscal/monetary policy is required in the shorter run. If there is evaluation of a policy but not of the combination of two policies, then 7 marks may be awarded if backed by relevant analysis. At L3 there is analysis of how policies work to achieve economic growth. At L2, application of knowledge of at least one policy to achieve growth is present. <p>At L1 knowledge of policy/policies to achieve growth is present. Award definition marks.</p>	<p>encourage economic growth.</p> <p>L1 1-2 marks – candidate demonstrates knowledge of government policies which may be used to encourage economic growth.</p> <p>Quality of Written Communication is assessed in this question. Please see page 5 for guidelines</p> <p>Use ticks. Number of ticks matches the mark awarded. In addition, annotate the highest level reached.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
				<p>Fiscal policy - a budget deficit can be achieved by reducing taxes and/or raising government spending. This will lead to a rise in total spending encouraging output and growth.</p> <p>Interest rates can be lowered in monetary policy. This will discourage spending, encourage borrowing and raise disposable incomes of mortgage holders. This will lead to a rise in total spending encouraging output and growth.</p> <p>Both of the above policies can lead to a multiplier effect.</p> <p>Supply-side policies e.g. education and training can increase the capacity of the economy to supply, encouraging growth.</p> <p>NB Where there is only one policy, or components of a policy such as taxes and government spending are treated as two separate policies, allow up to 5 marks where analysis is present.</p>	

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