Version:1.1

General Certificate of Education

Economics

ECON2: The National Economy

Mark Scheme

2009 examination - June series

This mark scheme uses the new numbering system which is being introduced for examinations from June 2010

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Registered address: AQA, Devas Street, Manchester M15 6EX *Dr Michael Cresswell Director General*

June 2009 **ECON2**

Advance Subsidiary Economics Unit 2

Section A: Objective Test

June 2009

The following list indicates the correct answers used in marking the candidates' responses.

1.	**B**	**10.**	**C**	**19**	**D**
2.	**A**	**11.**	**B**	**20**	**A**
3.	**A**	**12.**	**C**	**21**	**D**
4.	**C**	**13.**	**A**	**22**	**A**
5.	**D**	**14.**	**B**	**23**	**A**
6.	**C**	**15.**	**D**	**24**	**C**
7.	**D**	**16.**	**C**	**25**	**D**
8.	**C**	**17**	**B**		
9.	**D**	**18**	**C**		

Advanced Subsidiary Economics

June 2009 **ECON 2**

Mark Scheme

Section B: Data Response

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An issue based approach.** The mark scheme for the first three elements of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) **A levels approach.** This approach is used for marking the final element of the data response questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated at each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (e.g. 14 marks for Level 3). Move up and down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the levels descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

THE LEVELS MARK SCHEME FOR AS

Levels Descriptions

In part (d) of the data response questions, approximately half the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 13 marks (in Level 3). The quality of the evaluation should be the sole distinction between a Level 4 and Level 5 answer. It is not necessary for the answer to identify a wide range of issues to score the top mark. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. There might be some evidence of organisation in the answer but generally it fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

0 to 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused and analysis will therefore be very limited. There may be some attempt to present alternative points of view but any attempt at evaluation is limited or superficial. There is some logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

7 to 11 marks

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated and there is some evidence that the candidate can analyse issues. There will be some attempt to present alternative points of view and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand, but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Some appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

22 to 25 marks

Mid-Point 24 marks

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARKING SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

26 UNITED KINGDOM INFLATION AND MONETARY POLICY

Total for this question: 50 marks

01 Define the term 'negative output gap' (**Extract C**, line 11).	*(5 marks)*

For an acceptable definition e.g.

(i) When actual GDP is below the economy's productive potential
(ii) Where the actual level of output is below the potential level of output
(iii) Where the economy is working below full capacity
(iv) Where the equilibrium level of output is below the full employment level of output

5 marks

NB Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'negative output gap' even if the definition isn't exactly the same as the four acceptable examples quoted above. Equally if this is shown accurately in a diagram, full marks should be awarded.

If the definition is incomplete (or inaccurate), marks can be broken down, for example as follows:

the actual level of output minus the potential level of output (i.e. the candidate defines the term output gap but doesn't attempt to explain '*negative*') **4 marks**

the term output gap is defined correctly BUT confuses a negative output gap with a positive output gap **4 marks**

the *growth* of actual output is less than the *growth* of potential output **4 marks**

a recession (or a recessionary gap) **2 marks**

there is unemployment in the economy **2 marks**

This mark scheme does not allow examiners to award 1 mark for a point.
Examiners must award 0, 2 or 4 marks for each point made by the candidate

MAXIMUM FOR 01 = 5 MARKS

02	Using **Extract A**, identify **two** points of comparison between the changes in Bank Rate and the changes in the CPI inflation rate between 2004 and 2007. *(8 marks)*

Award up to 4 marks for each valid point made (two marks for identification and up to two marks for supporting references to the data). The valid points include:

- CPI inflation fluctuates by more than Bank Rate (e.g. Bank Rate from 4.5% to 5.75% whereas CPI inflation fluctuates from 1.1% to 3.1%)
- Up to July 06, there was little change in Bank Rate (either 4.5% or 4.75%) but CPI inflation fluctuated (e.g. ups and downs between 1.1% to 2.5%) whereas after July 06 both changed more frequently (e.g. Bank Rate rose in irregular steps from 4.5% to 5.75% and was then cut to 5.5% in December 07, CPI inflation fluctuated in the range 1.8% to 3.1%)
- Throughout the whole period the CPI rate of inflation was below Bank Rate although the difference between them varied (e.g. from 2% to 4%)
- Bank Rate tends to be cut when CPI inflation is below target and increased after inflation rises above the target (e.g. Bank Rate was cut in August 04 when CPI inflation was below target. It was increased in August 06, and subsequently, in a period when CPI inflation was above target and rising)
- In the period when Bank Rate is low (Jan 04 to July 06) the trend in CPI inflation is upwards (e.g. 1.1% to 3.1% in March 07) whereas when interest rates rise (Jan 06 to July 07), after a time lag, CPI inflation falls (e.g. from a peak of 3.1% in March 07 to 2.1% in November 07.)
- Between January 2004 and December 2007, both interest rates and CPI inflation rose. (Interest rates rose from 4.75% to 5.5% and inflation rose from 1.4% to 2.1%)
- The highest Bank Rate was in 2007 (5.57%) and the highest CPI inflation rate was also in 2007 (3.1%)
- The lowest Bank Rate was between 2004 and 2006 (4.5%) whereas the lowest CPI inflation rate was in 2004 (1.1%)

Award only **1 mark** for each supporting reference to the data if the % sign is missing.

Up to 4 marks may be awarded if there is no use of statistics to support the points made or if a candidate simply trawls through the data without attempting a comparison.

Up to 6 marks may be awarded where there is evidence of an overview being taken, even though parts of the answer give the impression of a trawl through the data.

Where a candidate has included more than two points, award marks to the best two points.

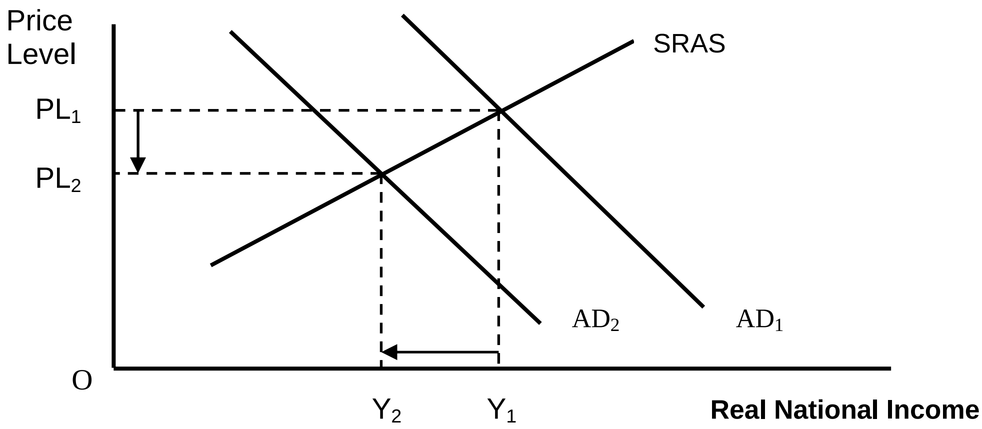
MAXIMUM FOR 02 = 8 MARKS

03 Using an AD/AS diagram to help you, explain the likely effect of an increase in interest rates upon inflation. *(12 marks)*

When awarding marks for the diagram, it is important to reward candidates who produce a valid response even if it is not the one which is shown below.

The anticipated response for the diagram:

An increase in interest will reduce aggregate demand and hence the diagram should show a leftward shift in the AD curve leading to a fall in the equilibrium output and price level. Most candidates are likely to draw an upward sloping SRAS curve but others might, for example, show the LRAS curve.



Breakdown of the marks for the diagram:

Axes labelled (allow Inflation, PL and Real GDP or National Output or output or Y but do NOT allow Price and Quantity) **1 mark**

Original AD and AS curves correctly labelled **1 mark**

Leftward shift in the AD curve **2 marks**

Dotted lines and associated labelling showing the original equilibrium point (Y_1 PL_1) **1 mark**

Dotted lines and associated labelling showing the new equilibrium point (Y_2 PL_2) **1 mark**

Any other relevant feature of the diagram (e.g. the amount of excess supply at the original equilibrium) **1 mark per feature up to a maximum of 2 marks**

Up to 6 marks for the diagram

The anticipated written response:

For candidates who:

define interest rates, inflation or other relevant concept **Up to 2 marks per definition**
Maximum of 2 marks for definitions

explain why an increase in interest rates is likely to reduce AD (e.g. via the impact on the incentive to save, borrowing costs, mortgage repayments, the exchange rate, expectations, asset prices and wealth).

1 mark for identifying the effect and **1 mark** for explaining why it has this effect e.g. higher interest rates increase savings (**1 mark**) because savers receive a higher return on their savings **(1 mark)** **2 marks per explanation, up to 8 marks**

use the diagram to explain the impact of the fall in AD on the price level and hence inflation (some may sensibly state that the most likely effect is a fall in inflation rather than a fall in the price level and they should be rewarded for doing so) **2 marks**

explain why a reduction in AD is likely to reduce inflation (e.g. they might discuss the effects in the goods market, factor markets and hence wages and other factor prices) **Up to 4 marks**

state or explain that a rise in interest rates will tend to increase the exchange rate and explain why a rise in the exchange rate is likely to reduce inflationary pressures (e.g. via its impact on AD and on the price of imports) **Up to 4 marks**

Up to a MAXIMUM of 8 marks for the written explanation

MAXIMUM FOR 03 = 12 MARKS

04 **Extract B** (lines 11-12) states: 'When total spending grows more quickly than the volume of output produced, inflation is the result.'

Assess the view that inflation is always caused by an increase in aggregate demand.
(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *For this question they are likely to discuss possible causes of inflation, distinguishing between demand-pull and cost-push inflation, recognising that many economists believe that inflation can have different causes. Candidates may also discuss circumstances in which an increase in aggregate demand may or may not cause inflation, perhaps using an AD/AS diagram to support their discussion. They are likely to conclude that inflation can be caused by rising costs as well an increase in aggregate demand and may refer to the data (especially* ***Extract C****) to support their conclusions.*

Some of the best candidates may argue that rising costs result from an increase in aggregate demand and hence conclude that inflation ***is*** *always caused by an increase in aggregate demand. Others might argue that although a short-term increase in the price level might result from an increase in costs, this cannot be sustained unless demand also increases.*

Issues and areas for discussion:

It is anticipated that candidates will draw on ideas given in **Extract C**, which outlines some of the factors that the Monetary Policy Committee consider might affect inflation. There are references to cost pressures as well as demand side influences on inflation.

- definition of inflation and aggregate demand
- explanation of the demand-pull inflationary process
- causes of an increase in aggregate demand
- give credit for the monetarist view of inflation (not expected as it is an A2 topic)
- explanation of the cost-push inflationary process
- rising wages and possibly strong trade unions as a source of cost-push inflation
- rising commodity prices as a source of cost-push inflation
- a falling exchange rate and/or an increase in the price of imports as a source of cost-push inflation
- the use of diagrams to illustrate demand-pull and cost-push inflation
- expectations and inflation
- the significance of the size of the output gap
- why inflation is likely to increase if aggregate demand grows more quickly than the volume of output produced

- circumstances when an increase in aggregate demand is not likely to cause inflation, e.g. when there is a significant negative output (or recessionary) gap or when productive capacity is increasing more rapidly than aggregate demand
- use of diagrams to illustrate the circumstances when an increase in aggregate demand may or may not lead to inflation
- increases in aggregate demand as the reason for persistently rising costs
- whether or not rising costs can cause inflation in the absence of an increase in aggregate demand
- use of the data, particularly in **Extract C**, to support arguments presented
- discussion of the Bank of England's view of the cause of inflation, perhaps making reference to **Extract B**
- a conclusion that attempts to bring together the arguments presented and to assess whether or not inflation is always caused by an increase in aggregate demand

The issues identified above are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

Also give credit for:

- use of diagrams, e.g. AD/AS
- use of data plus reference to the UK and/or other economies
- an overview of issues raised; a final judgement that is probably contained in a concluding paragraph

USE THE LEVELS MARK SCHEME ON PAGES 5 AND 6

MAXIMUM FOR 04 = 25 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

27 CONSUMPTION EXPENDITURE AND UNITED KINGDOM ECONOMY

Total for this question: 50 marks

05	Define the term 'economic growth' (**Extract F**, line 4)	*(5 marks)*

For an acceptable definition e.g.

(i) The annual percentage change/increase in the productive capacity of the economy
(ii) The annual percentage change/increase in the output of the economy
(iii) The annual percentage change/increase in real GDP/GNP/national income
(iv) The change/increase in output/real GDP/productive capacity of an economy

5 marks

NB Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'economic growth' even if the definition isn't exactly the same as the acceptable examples quoted above.

If the definition is incomplete, marks may be broken down, for example as follows:

the change/increase in GDP (real is not mentioned) **4 marks**

rightward shift in the LRAS curve or rightward shift in the PPC **2 marks**

shows the output/income/productive capacity of the economy (doesn't mention change or increase) **2 marks**

an increase in aggregate demand/spending **2 marks**

This mark scheme does not allow examiners to award 1 mark for a point. Examiners must ward 0, 2 or 4 marks for each point made by the candidate.

MAXIMUM FOR 05 = 5 MARKS

06	Using **Extract D**, identify **two** points of comparison between the growth in real household consumption expenditure and the growth of real GDP between 1993 and 2006. *(8 marks)*

Award up to 4 marks for each valid point made (two marks for identification and up to two marks for supporting references to the data). The valid points include:

- The change in real household consumption expenditure fluctuates by more than changes in real GDP (e.g. consumption expenditure from just under 1.5% to around 4.7% whereas real GDP fluctuates from 1.8% to 4.3%)
- For most of the period the % change in real household consumption expenditure was above the % change in real GDP (e.g. a difference of 1.7% occurred in 1999)
- There were four years when the growth in real GDP was greater than % change in real household consumption expenditure (i.e. 1994-95 and 2005-06, the difference was greatest at around 1.5% in 1994)
- The two series are *generally* positively correlated, i.e. when the % change in real household consumption expenditure is increasing the growth in real GDP also increases and vice versa (e.g. as real GDP growth rises from 2.95% in 1995 to 3.8% in 2000 real consumption expenditure grows from 1.7% to 4.5%, **OR** as the growth in real GDP slows from 3.8% in 2000 to 1.8% in 2005 real consumption expenditure growth slows from 4.5% in 2000 to around 1.5% in 2005)
- The growth in both series was positive throughout the 14-year period (e.g. the lowest rate of increase in real GDP was +1.5% and lowest rate of increase in real household consumption expenditure was +1.9%)
- In 1993 (at the start of the period), the increase in real GDP was approximately 0.5% **below** the increase in real household consumption expenditure whereas in 2006 (at the end of the period) the increase in real GDP was approximately 0.9% **above** the increase in real household consumption expenditure. **OR** The growth in real GDP was lower in 1993 than in 2006 (2.2% compared to 2.8%) whereas the growth in real household consumption expenditure was higher in 1993 then 2006 (2.7% compared to 1.9%)
- The highest rate of growth of real household consumption expenditure was in 1999 (4.7%) whereas the highest rate of growth in real GDP was in 1994 (4.3%)
- The lowest rate of growth of both series was in 2005 (1.9% for real GDP and 1.6% for real household consumption expenditure)

A maximum of **2 marks** may be awarded for each point of comparison if the candidate confuses the levels of GDP and consumption with rates of growth of GDP and consumption.

Award only **1 mark** for each supporting reference to the data if the % sign is missing.

Up to 4 marks may be awarded if there is no use of statistics to support the points made or if a candidate simply trawls through the data without attempting a comparison.

Up to 6 marks may be awarded where there is evidence of an overview being taken, even though parts of the answer give the impression of a trawl through the data.

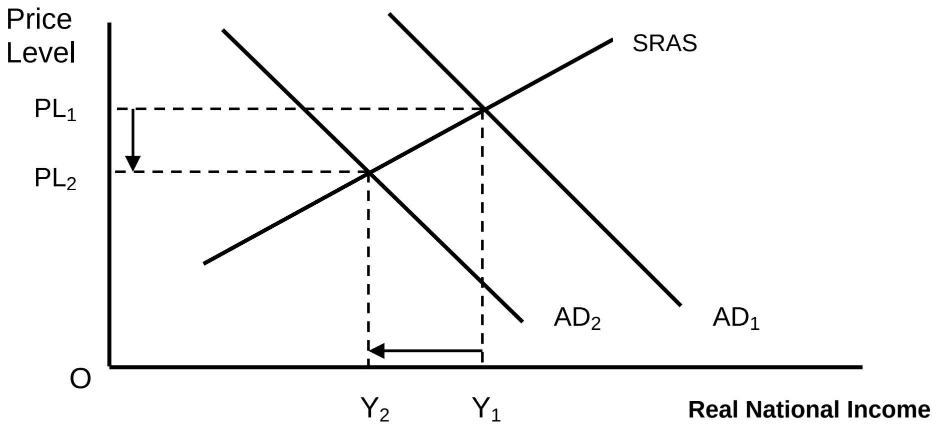
Where a candidate has included more than two points, award marks to the best two points.

MAXIMUM FOR 06 = 8 MARKS

07	**Extract E** (line 3) states that 'future growth is likely to be affected by tighter availability of credit'. Using an AD/AS diagram to help you, explain the likely effect of 'tighter availability of credit' upon output **and** employment. *(12 marks)*

When awarding marks for the diagram, it is important to reward candidates who produce a valid response even if it is not the one which is shown below.

The anticipated response for the diagram:



Break-down of the marks for the diagram:

Axes labelled (allow Inflation, PL and Real GDP or National Output or output or Y but do NOT allow Price and Quantity) **1 mark**

Original AD and AS curves correctly labelled **1 mark**

Leftward shift in the AD curve **2 marks**

Dotted lines and associated labelling showing the original equilibrium point (Y_1 PL_1) **1 mark**

Dotted lines and associated labelling showing the new equilibrium point (Y_2 PL_2) **1 mark**

Any other relevant feature of the diagram (e.g. the amount of excess supply at the original equilibrium) **1 mark per feature up to a maximum of 2 marks**

Reward leftward shift in AS only if there is a valid explanation for this in the written response

Up to 6 marks for the diagram

The anticipated written response:

For candidates who:

define output, employment, tighter availability of credit or any other relevant concept
Up to 2 marks per definition

Up to 2 marks for definitions

explain that if credit is tight it is likely to lead to a reduction in aggregate demand. The effect on the consumption of durable items and investment expenditure may be considered. Some candidates might also discuss the impact on the housing market, wealth and hence aggregate demand. **Up to 4 marks**

explain why 'tight credit' might lead to higher interest rates and go on to explain how higher interest rates might affect aggregate demand **Up to 4 marks**

Maximum of 4 marks for the effect on aggregate demand

explain the possible multiplier effects of a reduction in aggregate demand **Up to 4 marks**

explain why a fall in aggregate demand is likely to reduce output **Up to 4 marks**

explain the link between a fall in output and employment **Up to 4 marks**

explain how the relationship between output and employment is affected by rising productivity and/or other possible other influences, e.g. expectations about future levels of spending **Up to 4 marks**

use the diagram to explain the impact of the fall in AD on real national income/output, i.e. a simple statement such as 'In the diagram it can be seen that as aggregate demand falls from AD_1 to AD_2, real national income, and hence output, decreases from Y_1 to Y_2 is enough for both marks. **2 marks**

Up to a MAXIMUM of 8 marks for the written explanation

Candidates who only explain the impact on output OR employment should be restricted to a maximum of 10 marks.

MAXIMUM FOR 07 = 12 MARKS

08 **Extract F** (line 2) states that the 'level of consumption is generally a good indicator of the strength of the economy'

Assess the view that rising consumer expenditure is always beneficial for an economy.
(25 marks)

It is anticipated that candidates will draw on ideas given in **Extracts E and F**, which identify some of the ways in which consumer expenditure may affect the performance of an economy.

Evaluation

Candidates will need to demonstrate that they are able to evaluate issues and arguments if they are to be awarded **more than 13 marks.**

Candidates who make a genuine attempt at evaluation should be well rewarded. *For this question, it is expected that candidates will discuss the impact of an increase in consumer expenditure on various aspects of economic performance. They are likely to conclude that some of these effects are favourable and others unfavourable. They might also conclude that the consequences of an increase in consumer spending depend on: the rate of increase in consumption, what is happening to the other components of aggregate demand, the current state of the economy (e.g. the output gap) and the supply-side performance of the economy. Candidates may also use the data provided and/or their knowledge of developments in the UK or other economies to support their conclusions.*

Overall, they are likely to conclude that rising consumer spending is not always good for an economy and, although this is worth credit, they will need to support this conclusion by sound analysis and/or the use of evidence if they are to achieve ***Level 4 or Level 5****.*

Issues and areas for discussion:

- an explanation of what is meant by consumer expenditure
- the impact of consumer expenditure on aggregate demand
- other components of aggregate demand
- indicators of macroeconomic performance, e.g. unemployment, inflation, growth and the balance of payments
- an analysis of the impact of rising consumer expenditure on employment and unemployment (they might refer back to part (c))
- an analysis of the impact of rising consumer expenditure on economic growth
- an analysis of the impact of rising consumer expenditure on inflation
- an analysis of the impact of rising consumer expenditure on the balance of payments
- the use of diagrams to support the above
- discussion of why the effects of a rise in consumer expenditure depend on what is happening to the other components of aggregate demand
- discussion of why the effects of a rise in consumer expenditure depend on the current state of the economy
- discussion of why the effects of a rise in consumer expenditure depend on the rate at which consumption is growing (particularly in relation to capacity)

- the significance of the supply-side performance of the economy, e.g. the flexibility of product and labour markets, productivity growth, factor mobility
- use of the data provided
- use of their own knowledge of developments in the UK and other economies
- an overall conclusion that attempts to assess whether or not rising consumer expenditure is always beneficial for an economy

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these, or others of their choosing, in the time available.

Also give credit for:

- use of diagrams, e.g. AD/AS
- use of data plus reference to the UK and/or other economies
- an overview of issues raised; a final judgement that is probably contained in a concluding paragraph

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR 08 = 25 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS