V1.0

**General Certificate of Education (A-level)
June 2013**

Economics   **ECON2**

(Specification 2140)

Unit 2: The National Economy

Final

Mark Scheme

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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 students' 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.

AQA Advanced Subsidiary Economics

June 2013   **ECON2/1**

Section A: Objective Test (ECON 2/1)
The following list indicates the correct answers used in marking the candidates'
responses.

KEY LIST

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

Advanced Subsidiary Economics

June 2013   **ECON2/2**
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 questions **01**, **02**, **03**, **05**, **06** and **07** 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 questions **04** and **08** 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 (eg 13 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.

LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 04 AND 08 ONLY

AS LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) **Good analysis <u>and</u> good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	Good throughout the answer with few errors and weaknesses / Good throughout much of the answer with few errors and weaknesses	Good application to issues Good use of data to support answer / Some good application to issues. Some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning / Largely relevant and well organised with reasonable logic and coherence	Limited but showing some appreciation of alternative points of view / Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues No use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

THE KEY TO BE USED WHEN USING THE LEVELS MARK 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.

An 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.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 04 and 08 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more)

EITHER

Context 1   **Total for this Context: 50 marks**

01	Define the term 'real incomes' (**Extract B** line 13).	*(5 marks)*

For an acceptable definition such as: • the amount of money coming into a household (received by an individual) over a period of time after the effects of inflation have been removed • income is the flow of money coming into a household/received by an individual. 'Real' means that the effects of inflation have been removed • it is the value of a person's wage/salary after the effects of inflation have been taken into account. • the monetary value of the total output produced by the economy adjusted for inflation	**5 marks**
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term '**real incomes**' even if the definition is not exactly the same as the acceptable examples quoted above.	

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

Real means that the effects of inflation have been removed. **Also accept:** Inflation has been taken into account Nominal/money income minus inflation	**3 marks**
Income is the amount of money coming into a household over a period of time. **OR** Income is the flow of money coming into a household/received by an individual.	**3 marks**
For 'money coming into the household' or 'money earned' without mentioning 'flow' or 'over a period of time'. The marks can be awarded for a statement such as 'the amount of money a household receives after paying tax and national insurance' even though this indicates a confusion between 'real' and 'disposable' income.	**2 marks**
For examples such as: wages/salary, dividends, interest on savings, commissions and bonuses. **DO NOT accept items of wealth such as: shares, savings**	**1 mark per example - up to a maximum of 2 marks for examples**

NB: Candidates who define incomes in terms of the total flow of money received by all households in the economy should not be penalised. This is equally acceptable.

Maximum of 4 marks if the definition is incomplete or inaccurate

MAXIMUM FOR PART 01: 5 MARKS

02	Using **Extract A**, identify **two** significant points of comparison between the index of real GDP and total employment over the period shown. *(8 marks)*	

Award up to 4 marks for <u>each</u> significant point made.

Identifies a significant point of comparison Makes accurate use of the data to support the comparison identified Unit of measurement given accurately.	**4 marks**
Identifies a significant point of comparison Makes use of the data to support the comparison identified However, no unit of measurement is given **and/or** the unit of measurement is used/applied inaccurately **and/or** the dates aren't quoted or are inaccurate. **NB** A unit of measurement is **NOT** required for 'the index of real GDP'	**3 marks**
Identifies a significant point of comparison No correct use of the data to support the comparison identified	**2 marks**
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified Unit of measurement given accurately	**1 mark**

If a candidate identifies more than 2 significant points of comparison, reward the best two.

The valid points include:

- At the start of the period, the index of real GDP was lower (index of 93.3) than at the end of the period (index of 97.3). Employment was also lower at the start of the period (28.48 million) than at the end of the period (29.04 million)

- The lowest index of real GDP was in 2004 (93.3) and employment was also at its lowest in 2004 (28.48 million)

- The highest index of real GDP was in 2007 (101.1) whereas employment was at its highest in 2008 (29.44 million)

- For most of the period, there is a positive (also allow 'direct relationship' but **NOT** 'proportional') relationship between real GDP and employment. For example, between 2004 and 2007 both real GDP (93.3 to 101.1) and employment increase (28.48 million to 29.23 million).

OR

- The only time when there is an inverse relationship between real GDP and employment is between 2007 and 2008. The index of GDP falls from 101.1 to 100.0 whereas employment rises from 29.23 million to 29.44 million

- The data shows evidence of a cyclical pattern. The economy is growing between 2004 and 2007, it goes into recession between 2007 and 2009 before starting to recover in 2010. This must be supported by quoting figures for **BOTH** employment and real GDP

- The variation in the index of real GDP is between 93.3 and 101.1 whereas employment varies between 28.48 million and 29.44 million.

MAXIMUM FOR PART 02: 8 MARKS

03 **Extract C** (lines 3 – 4) states: 'Low economic growth is usually accompanied by rising unemployment'. Explain why, in a period of low economic growth, unemployment is likely to increase. *(12 marks)*	

For a candidate who provides a relevant definition, eg economic growth, unemployment. Do NOT accept 'an increase in GDP' as a definition of economic growth but do accept 'an increase in real GDP' or 'an increase in productive capacity'.	**1 mark per definition Up to a maximum of 2 marks**

Award 2 marks for each logical link in a chain of reasoning.	
In a period of low growth, aggregate demand increases slowly **(2 marks)**, there will be some increase in output **(2 marks)** but it is also likely that productivity will rise **(2 marks)**. If output per person **(2 marks)** increases more rapidly than the increase in output **(2 marks)** employment will fall **(2 marks)**.	**Up to 12 marks**
Why an increase in growth may not be sufficient to reduce unemployment if the size of the labour force is growing. This might be linked to the data and what has happened in the UK economy.	**Up to 12 marks**
For a more general discussion of the importance of growth for employment and hence the consequences for unemployment if growth is slow, eg slow growth often implies a lack of investment and hence very few new jobs are created; low growth might imply a lack of competitiveness and hence fewer exports and more imports; if industries and regions fail to grow, the result might be rising structural unemployment. There might be some consideration of multiplier effects.	**Up to 12 marks**
In a period of low growth, aggregate demand will fall **(2 marks)**, firms' revenue/profits will fall and they will need to reduce their costs **(2 marks)**. Since wages are the largest cost for many firms **(2 marks)** they are likely to reduce the number of workers they employ **(2 marks)**. Lower output also means that fewer workers are needed to produce the goods/services supplied **(2 marks)**. **NB This example starts with the premise that low growth equates to a fall in AD. This is incorrect and a candidate that makes this mistake can be awarded a MAXIMUM of 10 marks for their answer, including marks for definitions and diagrams.**	**Up to 10 marks**

Award up to **4 additional marks** for the use of relevant diagrams, eg an AD/AS diagram that illustrates why a small rise in aggregate demand, and hence growth, will lead to an increase in the size of the negative output gap if underlying growth, illustrated by a rightward shift in the LRAS curves is greater than the rise in AD (or short-run growth).

Candidates who show a leftward shift in the AD curve leading to falling real GDP can also be awarded up to 4 marks for their diagram. They may, or may not, show an increase in the size of the negative output gap.

Candidates should also be rewarded for appropriate use of a production possibility diagram. To achieve 4 marks for such a diagram, the candidate must show that the gap between the current level of output and potential output (ie the PPC boundary) has increased.

Similarly, candidates should be rewarded for appropriate use of a 'trend growth diagram'. To achieve 4 marks they must show an increase in the size of the negative output gap.

A maximum of 4 marks can be awarded for diagrams.

Breakdown of the marks for the diagram if an AD/AS diagram is used:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but not Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and real GDP (PL_1 Y_1).	**1 mark only**
For showing a valid shift in the AD curve (must be consistent with the written explanation).	**2 marks**
For showing a rightward shift in the LRAS curve	**1 mark**
Dotted lines and associated labelling showing the new level of real GDP and price level.	**1 mark**
For clearly labelling the negative output gap	**1 mark**

Breakdown of the marks for the diagram if a PPC diagram is used:

Axes labelled (eg allow: 'Consumer Goods and Capital Goods', 'Goods and Services' or 'Good A and Good B'). Original PPC boundary and the initial output of the economy. The initial output can be either on or inside the boundary.	**1 mark only**
For showing a rightward shift in the PPC boundary.	**1 mark**
The new position of the economy; for 2 marks, this must show **an increase** in the size of the negative output gap. If the diagram just shows a negative output gap then only 1 mark can be awarded.	**2 marks**
For clearly labelling the increase in the negative output gap	**1 mark**

Breakdown of the marks for the diagram if a 'trend growth diagram' is used:

Axes labelled (allow on the vertical axis: Real GDP, National Output, Output or Y but **not** just GDP. Also, do not allow Growth or GDP growth unless the trend growth curve is shown as a horizontal straight line; only allow on the horizontal axis: time). The trend growth and actual growth lines labelled.	**1 mark only**
For both marks, the new position of the economy must show that there has been **an increase** in the size of the negative output gap. If the diagram just shows a negative output gap then only 1 mark can be awarded.	**2 marks**
For clearly labelling the increase in the negative output gap	**1 mark**

If the candidate only explains why a **fall** in an aggregate demand/output will lead to an increase in unemployment, then **a maximum of 10 marks in total** can be awarded. If, anywhere in their answer, the candidate indicates that low growth means a fall in AD or a fall in output, this constraint must be applied. For example, the constraint will apply if they draw a diagram showing AD shifting to the left.

MAXIMUM FOR PART 03: 12 MARKS

Examples of suitable diagrams include:

AD/AS diagram:

Ideally, the diagram should show a rightward shift in both the AD and LRAS (AS) curves but the LRAS (AS) curve should shift by more than the AD curve to show that, in a period of low growth, the negative output gap is likely to increase because AD does not increase as much as the increase in the productive capacity of the economy.
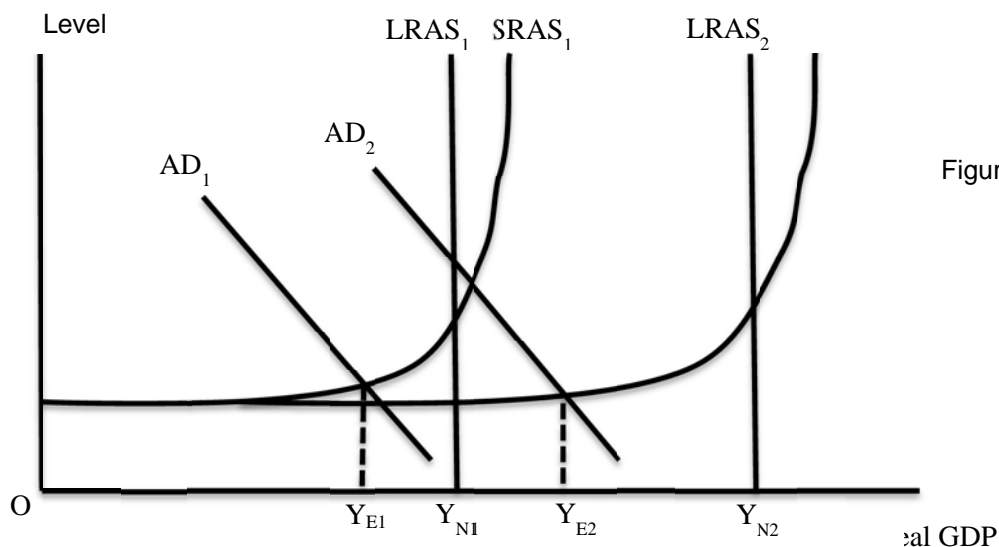
Figure 1

In Figure 1, the negative output gap increases from $(OY_{N1} - OY_{E1})$ to $(OY_{N2} - OY_{E2})$
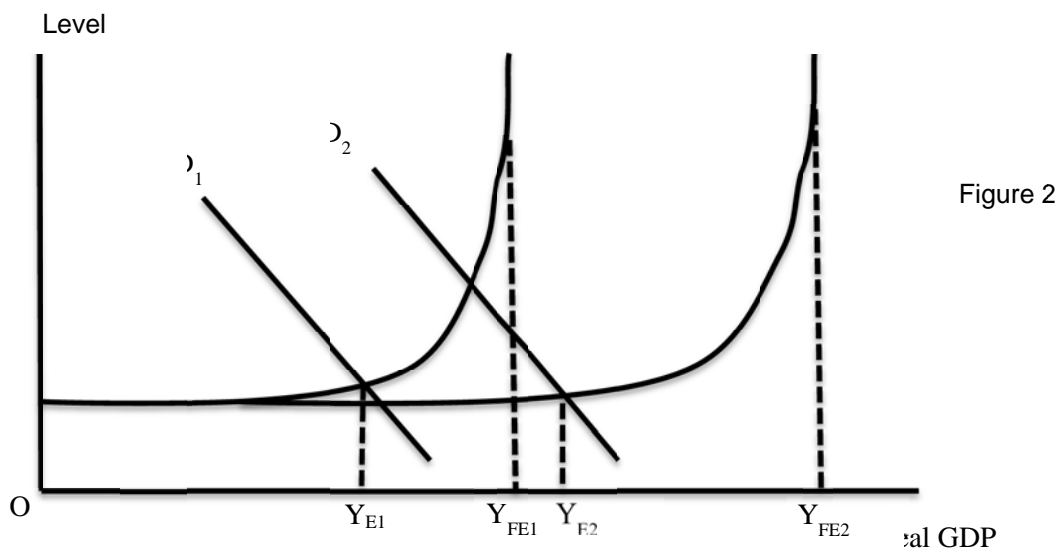
Figure 2

In Figure 2, the negative output gap increases from $(OY_{FE1} - OY_{E1})$ to $(OY_{FE2} - OY_{E2})$

However, if the AD/AS diagram just shows a fall in AD leading to lower output and hence higher unemployment, up to 4 marks can still be awarded for the diagram.

An AD/AS diagram that just shows a rightward shift in the LRAS curve can also achieve up to 4 marks

A PPC diagram
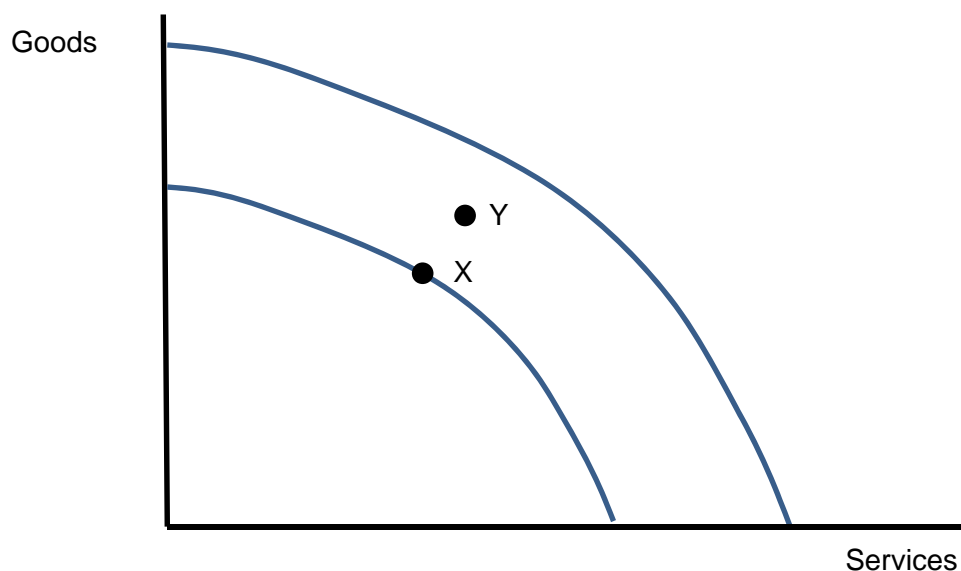
The movement from X to Y represents the low growth of the economy resulting from an increase in AD. The rightward shift in the PPC represents the increase in the productive capacity of the economy. The diagram shows that since the increase in AD is less than the increase in productive capacity, a negative output gap will emerge. This means that unemployment will increase.

Point X does **NOT** have to be on the PPC boundary. However, to get full marks for the diagram, the distance between X and Y should be less than the distance between the two PPCs. This indicates an increase in unemployment because the negative output gap will be bigger at point Y than at point X.
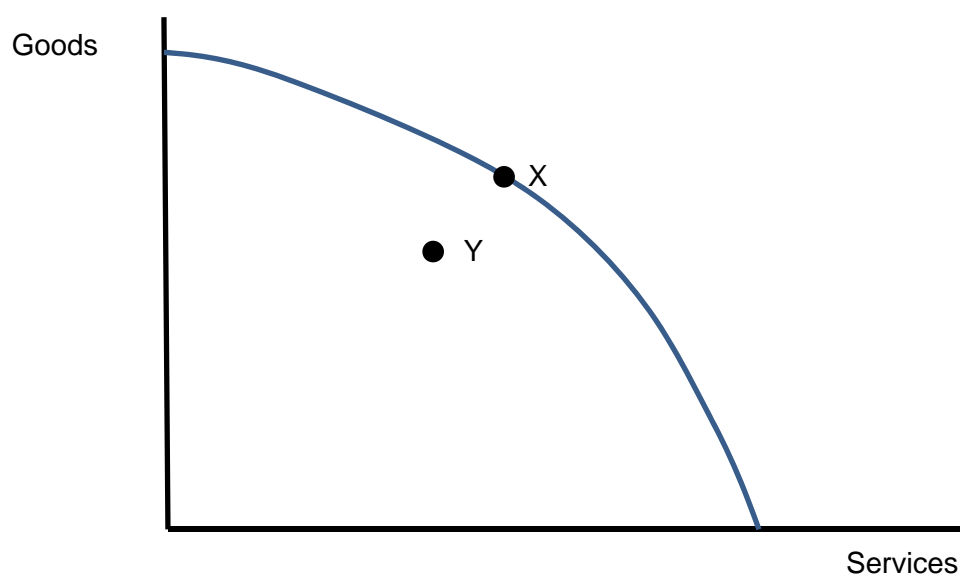
A PPC diagram showing a negative output gap, such as the one above, can be awarded **up to 2 marks.** Both the initial and the final position of the economy are required for 2 marks.

A trend growth diagram that illustrates the economic cycle
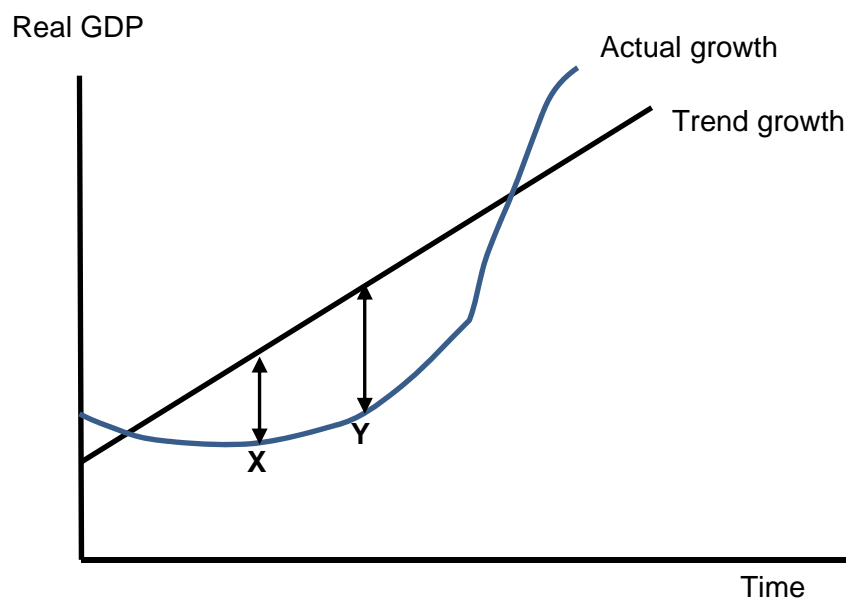
The diagram shows that, over time, as the economy moves from point X to point Y, the size of the negative output gap increases. In a period of low growth, the amount of spare capacity increases and hence unemployment also increases.

To get the full 4 marks for the diagram, the vertical distance between the actual and trend growth lines must be larger at point Y than at point X.

MAXIMUM FOR PART 03: 12 MARKS

04	**Extract C** (lines 1 – 2) states: 'Many believe that the main objective of government economic policy should be to increase productivity and economic growth.' Using the data and your economic knowledge, discuss the difficulties that the Government is likely to encounter when attempting to boost the rate of growth of the UK economy. *(25 marks)*

Extracts B and **C** provide some help to candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will analyse demand-side and supply-side policies that might be used to try to increase economic growth. Good answers will also discuss the pros and particularly the cons of individual policies and consider possible conflicts between economic growth and other policy objectives.

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data, eg through the use of quotes or referring explicitly to the extracts.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but </u>limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4-9 marks** *Mid-point 7*
Level 1	**Very weak**	**0-3 marks** *Mid-point 2*

Introduction	• define economic growth, perhaps distinguishing between short-run growth (actual growth) and long-run growth (underlying growth) • explain the phrase 'to boost the rate of economic growth' • mention that growth might conflict with other policy objectives • draw a diagram to illustrate what is meant by economic growth, eg a PPC diagram or an AD/AS diagram • identify policies that might be adopted to boost economic growth.
Developing the response to the question: (Application)	• the application of economic theory in a manner which is relevant to the question asked • **Extract B** refers to 'The Government's tightening of fiscal policy' and candidates might use this when discussing aggregate demand and supply-side fiscal measures designed to stimulate growth • **Extract C** mentions that boosting demand to stimulate growth 'risks higher inflation and a larger balance of payments deficit' • **Extract C** also mentions that 'when business confidence is fragile, it is not easy to persuade firms in the private sector to invest'

	• using any other relevant evidence from the extracts to support arguments presented • using their knowledge of recent, or past, developments in the UK economy, eg the recovery in 2011 was accompanied by rising inflation, rapid growth after 2005 was accompanied by both inflationary pressures and a large balance of payments deficit.
Developing the response to the question: (Analysis)	**The analysis is likely to involve an explanation of the policies that the government might adopt to boost economic growth in preparation for the discussion of the difficulties that might be encountered when trying to boost growth, which is likely to involve evaluation. However, some candidates might just analyse some of the difficulties associated with boosting growth and attempt to evaluate the significance, or otherwise, of these potential difficulties. Difficulties that might be identified include, for example: the size of the budget deficit, low growth in the world economy, decline in UK manufacturing, policy conflicts, the time taken for supply-side policies to influence the economy**. • analysis of the role of aggregate demand in boosting the actual rate of economic growth • analysis of the role of aggregate demand in creating an environment in which firms are likely to undertake activities that boost underlying growth, eg investment in physical and human capital, spending on R & D, product and process innovation • analysis of the role of supply-side policies in general in influencing economic growth • use of relevant diagrams • analysis of the impact of a 'free market/non-interventionist' approach to growth, eg cuts in corporation tax, income tax cuts, welfare reform, deregulation, privatisation, measures to make markets more competitive, trade union reforms • analysis of the impact of an interventionist approach to growth, eg offering grants for capital spending, government spending on retraining, more spending on R & D in universities, increased spending on infrastructure projects • analysis of the impact of specific measures to boost growth such as those mentioned above and others, eg enterprise zones, intervening to keep the exchange rate low, support for manufacturing, switching resources from the public sector to the private sector • analysis of the impact of growth upon inflation and the balance of payments, indicating possible policy conflicts • analysis of the impact of growth on the budget balance.

Evaluation	• pros and particularly cons of the use of demand-side policies in an attempt to achieve growth, eg
	  ○ the difficulty of increasing demand when confidence is low
	  ○ problems of boosting demand further when Bank Rate is already very low
	  ○ problems of using fiscal policy to increase AD when the budget deficit is already very large and many believe cuts are essential
	• the significance of whether growth is achieved through attempting to boost demand or through supply-side improvements, eg policy conflicts are more likely to emerge when governments attempt to increase growth by boosting aggregate demand

	• the problems of introducing some supply-side measures when there is already a large budget deficit, eg spending to improve the transport network or improve education and training
	• if the government spends more on supply-side measures it will either have to cut spending elsewhere, raise taxes or borrow more. However, if higher growth is achieved, this may help to reduce the budget deficit, particularly as a percentage of GDP
	• attempts to boost growth might increase inflation but increasing capacity and productivity can help to moderate inflationary pressures
	• attempts to boost growth might increase the current account deficit but, in the long run, increasing productivity and competitiveness may help to reduce the current account deficit
	• supply-side improvements are unlikely to be achieved quickly and policies designed to improve supply-side performance aren't always effective
	• growth may require some rebalancing of the UK economy from services to manufacturing and/or from the public to private sectors. This is not easy to achieve and may result in some structural unemployment
	• Growth is more dependent on external factors rather than government policy, eg technological change, developments in financial markets, growth in Europe and the world economy
	• use of the data from **Extracts B and C** to support arguments presented
	• use of own knowledge of developments in the UK economy to support the issues raised.

Examiners should note that credit can be given for basic evaluation. For example, a candidate might simply identify some pros and cons of supply-side policies designed to achieve growth. Basic evaluation (and good analysis) would allow the answer to achieve low **Level 4**. Stronger evaluation is provided by candidates who demonstrate that they recognise that there is a variety of approaches that can be adopted to try to stimulate growth but that the effectiveness of these policies cannot be guaranteed. Good evaluation is also likely to include discussion of the particular difficulties that exist at the present time and possible policy conflicts.

THE LEVELS MARK SCHEME ON PAGES 5 & 6TO DETERMINE THE MARK TO BE AWARDED FOR THE CANDIDATE'S RESPONSE TO THIS QUESTION

MAXIMUM FOR PART 04: 25 MARKS

OR

Context 2   **Total for this Context: 50 marks**

05 Define the term 'deficit on the current account of the balance of payments' (**Extract E,** line 11). *(5 marks)*	

For an acceptable definition such as: • the current account of the balance of payments records trade in goods and services, income flows (or investment income) and current transfers. The account is in deficit when the debit items (outflows/negatives) are greater than credit items (inflows/positives). • the current account of the balance of payments records trade in goods and services, income flows (or investment income) and current transfers. The account is in deficit when imports are greater than exports. • it is when the imports of both visible and invisible items is greater than the export of visible and invisible items.	**5 marks**
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term **'deficit on the current account of the balance of payments'** even if the definition is not exactly the same as the acceptable examples quoted above.	

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

The current account is in deficit when imports of goods and services are greater than exports of goods and services	**4 marks**
The current account is in deficit when imports are greater than exports. Although this is not correct, allow 'when the volume of imports is greater than the volume of exports'.	**3 marks**
The current account of the balance of payments records trade in goods and services, income flows (or investment income) and current transfers, ie there is no indication of what is meant by 'deficit'.	**3 marks**
The balance of payments is a record of a country's financial transactions with the rest of the world.	**2 marks**
The current account records exports and imports of goods and services.	**2 marks**
The current account records exports and imports.	**1 mark**
Defining income flows or giving an example of an 'income flow'.	**1 mark**
Defining current transfers or giving an example of a 'current transfer'.	**1 mark**
Giving an example of a service that might be exported or imported.	**1 mark**

Maximum of 4 marks if the definition is incomplete or inaccurate

MAXIMUM FOR PART 05: 5 MARKS

06	Using **Extract D**, identify **two** significant points of comparison between the balance of trade in goods and services and the current account balance over the period shown. *(8 marks)*

Award up to 4 marks for each significant point made

Identifies a significant point of comparison Makes accurate use of the data to support the comparison identified Unit of measurement given accurately	**4 marks**
Identifies a significant point of comparison Makes use of the data to support the comparison identified However, no unit of measurement is given and/or the unit of measurement is used/applied inaccurately and/or the dates aren't quoted or are inaccurate.	**3 marks**
Identifies a significant point of comparison No correct use of the data to support the comparison identified	**2 marks**
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified Unit of measurement given accurately	**1 mark**

If a candidate identifies more than 2 significant points of comparison, reward the best two

The valid points include:

- At the start of the period the deficit on the balance of trade in goods and services was higher than at the end of the period (the deficit fell from £42.70 billion to £39.68 billion). On the other hand, the deficit on the current account was lower at the start of the period than at the end of the period (the deficit increased from £32.66 billion to £36.72 billion).
- The lowest deficit on the balance of trade in goods and services was in 2009 (£25.64 billion) whereas the lowest deficit on the current account was in 2008 (£19.75 billion)
- The highest deficit on the balance of trade in goods and services was in 2005 (£42.70 billion) whereas the highest deficit on the current account was in 2006 (£43.11 billion)
- Over the period the balance of trade in goods and services fluctuated less than the current account balance. The range for the balance of trade in goods and services was £17.06 billion whereas the range for the current account balance was £23.36 billion.
- With the exception of 2006, the deficit on the balance of trade in goods and services was always higher than the deficit on the current account. For example, in 2010 the deficit on the balance of trade in goods and services was £39.68 billion whereas the deficit on the current account was £36.72 billion.
  OR
- The only year in which the deficit on the balance of trade in goods and services was lower than the deficit on the current account was 2006. In 2006, deficit on the balance of trade in goods and services was £40.73 billion whereas the current account deficit was higher at £43.11 billion.
- Both the balance of trade in goods and services and the current account balance are in deficit throughout the period, for example, in 2007 the deficit on balance of trade in goods and services was £42.65 billion and the current account deficit was £34.83 billion.

MAXIMUM FOR PART 06: 8 MARKS

07	**Extract E** (lines 11 – 12) states that 'the deficit on the current account of the balance of payments is likely to be lower in 2011 than it was in 2010.' Explain **two** factors, **other than a fall in the value of the pound**, which might help to reduce the size of the deficit on the current account of the UK balance of payments. *(12 marks)*

For a candidate who provides a relevant definition, eg inflation, productivity, competitiveness. **BUT** do **NOT** credit a definition of the term 'deficit on the current account' because this was the definition required for **Part 05**.	**1 mark per definition Up to a maximum of 2 marks**

Award 2 marks for each logical link in a chain of reasoning.	
Low inflation in the UK **(2 marks)** will help to improve the competitiveness of UK exports **(2 marks)** provided inflation is lower than in other countries **(2 marks)**. This should result in an increase in demand for UK exports **(2 marks)**. Lower inflation in the UK than elsewhere will make imports into the UK less competitive **(2 marks)** reducing spending on imports **(2 marks)**. More exports and fewer imports will help to reduce the size of the current account deficit **(2 marks)**.	**Up to 8 marks**
Improvements in productivity in the UK	**Up to 8 marks**
Growth in UK export markets/Europe/world economy	**Up to 8 marks**
Recession/rising unemployment/falling incomes in the UK reducing the demand for imports etc.	**Up to 8 marks**
Reduced trade restrictions in UK export markets. Also allow additional restrictions, eg tariffs and quotas, on imports into the UK.	**Up to 8 marks**
The introduction of, or increase in, export subsidies	**Up to 8 marks**
Other factors that result in an improvement in the competitiveness of UK exports and import substitutes, eg non-price factors.	**Up to 8 marks**
For a reasonable explanation of factors that might increase the surplus on the 'Total income balance'.	**Up to 8 marks**
For a reasonable explanation of factors that might reduce the deficit on the 'Current transfers balance'.	**Up to 8 marks**
Award **up to 4 additional marks** for the use of relevant diagrams, eg an AD/AS diagram that illustrates the impact of a rise in productivity, ie AS shifts right leading to a movement along the AD representing, at least in part, higher exports and lower imports. An AD/AS diagram that shows a fall in AD, and hence a reduction in national income, should be rewarded provided it is linked to a possible explanation of why a fall in national income will lead to a fall in the spending on imports, or possibly more exports, (ie when domestic demand is low, companies may be encouraged to look overseas to maintain sales) **A diagram should only be rewarded if it is related to a valid explanation.**	

Breakdown of the marks for a diagram:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but not Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and real GDP (PL$_1$ Y$_1$).	**1 mark only**
For showing a valid shift in the curve (must be consistent with the written explanation).	**2 marks**
Dotted lines and associated labelling showing the new level of real GDP and the new price level (PL$_2$ Y$_2$).	**1 mark**

Do not award any marks for defining the exchange rate or explaining the effect of a change in the exchange rate on the current account balance.

Award a maximum of 10 marks if only ONE factor is identified. However, 12 marks can be awarded provided the candidate has identified two factors, even if one of the factors is not valid. For example, 8 marks could be awarded for a valid explanation of one factor plus 4 marks for a relevant diagram.

MAXIMUM FOR PART 07: 12 MARKS

08	**Extract F** (lines 1 – 2) states: 'Economic policymakers hope that UK trade with the rest of the world will help to rebalance the economy and boost aggregate demand.' Using the data and your economic knowledge, assess the impact on the performance of the UK economy of a significant increase in exports and a reduction in imports of goods and services. *(25 marks)*

Extracts E and F provide some help to candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will recognise the particular significance of the Government's attempts to increase exports and reduce imports of goods and services at a time when public spending is being cut and the growth in consumer spending is, at best, slow. Good candidates will assess the impact of more exports and fewer imports upon the other macroeconomic policy objectives.

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data, eg through the use of quotes or referring explicitly to the extracts.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4-9 marks** *Mid-point 7*
Level 1	**Very weak**	**0-3 marks** *Mid-point 2*

Introduction	• identify indicators that can be used to assess the performance of the UK economy, eg growth, unemployment, inflation, the current account balance, living standards and perhaps the budget balance
	• explain what is meant by 'to rebalance the economy'
	• explain the impact of more exports and fewer imports upon aggregate demand.

Developing the response to the question: **(Application)**	• the application of economic theory in a manner which is relevant to the question asked • comments in **Extract E** referring to the difficulties that are likely to be encountered in achieving an increase in exports and cut in imports • **Extract F** – the importance to the economy when there is 'little or no growth in domestic consumption and cuts in government spending' • **Extract F** – the importance for growth and unemployment – 'Growth and employment will suffer if this change in the structure of the economy fails to materialise.' • using other evidence from the extracts to support arguments presented • using their knowledge of recent, or past, developments in the UK economy.
Developing the response to the question: **(Analysis)**	• the impact upon aggregate demand and possible multiplier and accelerator effects • analysis of the impact on the actual rate of economic growth • use of AD/AS analysis to illustrate the impact • analysis of the impact of the consequent increase in aggregate demand on employment and unemployment • analysis of the possible impact upon structural unemployment, eg the growth in exports may require transferring resources from services into manufacturing • analysis of the possible impact upon the underlying rate of economic growth • analysis of the impact of more exports and fewer imports and the consequent increase in aggregate demand upon inflation • analysis of the impact upon the exchange rate and hence inflationary pressures *(Not expected at AS level but some candidates might include this in their answer and should be rewarded for doing so)* • impact on the performance of different sectors of the economy, eg manufacturing compared to services, public sector compared to the private sector, regional consequences • analysis of possible effects on living standards.
Evaluation	• discussion of the significance of the way in which the rebalancing is achieved and the impact on the performance of the UK economy, eg whether it results from a fall in the exchange rate, growth in the rest of the world or underlying supply-side improvements • depends on the magnitude of the increase in exports and fall in imports whether or not the change is sustained • why boosting exports and reducing imports is particularly important at a time when the budget deficit is being reduced and domestic consumption is constrained • whether the change is likely to help or hinder in the achievement of the other macroeconomic policy objectives.

	• an overall assessment of whether or not a significant increase in exports and reduction in imports of goods and services is likely to be beneficial for the UK economy
	• the difficulties that are likely to be encountered when attempting to achieve a significant increase in exports and reduction in imports of goods and services
	• use of the data from **Extracts E and F** to support arguments presented
	• use of own knowledge of developments in the UK economy to support or cast doubt on the views presented.

Examiners should note that credit can be given for basic evaluation. For example, a candidate might just explain the impact on the other macroeconomic policy objectives and, as a result, judge whether or not a significant increase in exports and reduction in imports is likely to improve the performance of the UK economy. Basic evaluation (and good analysis) would allow the answer to achieve low **Level 4**. Stronger evaluation is provided by candidates who are able to assess the impact on the UK economy in relation to current economic circumstances and who recognise that the effects will depend on the way in which the increase in exports and reduction in imports is achieved.

THE LEVELS MARK SCHEME ON PAGES 5 & 6 TO DETERMINE THE MARK TO BE AWARDED FOR THE CANDIDATE'S RESPONSE TO THIS QUESTION

MAXIMUM FOR PART 08: 25 MARKS