

Results Mark Scheme

January 2012

GCE

GCE Economics (6EC02/01)

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)(i)	<p>KAA 4 marks</p> <p>Output per worker or output per hour worked (2) measured either in volume or value; or output per unit of labour (2)</p> <p>If refers only to efficiency or lower costs then only 1 mark</p> <p>Use of data. Only 1 data reference needed for 2 marks. (2)</p> <p>N.B. No marks for data reference if definition is incorrect.</p>	(4)

Question Number	Answer	Mark
1(a)(ii)	<p>KAA 8 marks</p> <p>4 marks per reason</p> <ul style="list-style-type: none"> • Fall in demand leading to reduced value of work per employee • Fall in demand leading to reduced volume of work per employee • Labour costs rising faster than labour output (eg pay rise) • Employers holding on to staff hoping the recession will end (to avoid redundancy, recruitment and training costs) • The high value industries in the UK were particularly hard hit (financial services) • Lack of investment will contribute to low labour productivity • Reduced training opportunities • Accept minimum wage increases prevented wages falling as far as they should • Reduction in incentives to work for those in work e.g. rise in income tax/NIC • Demotivation e.g. resulting from job insecurity 	(8)

Question Number	Answer	Mark
1(a)(iii)	<p>KAA 8 marks</p> <p>Maximum 6 out of 8 marks if there is no data reference</p> <p>Relevant data reference: e.g. UK productivity; UK growth; or reference from Extracts 1 or 2 (2 marks)</p> <p>Loss of international competitiveness or rising costs of UK goods relative to foreign goods (2) leading to</p> <ul style="list-style-type: none"> • Reduction in exports (2) and • Increase in imports (2) • Leading to a worsening of the current account deficit (2) <p>Reward other valid explanations e.g. reduction in economic growth; increased unemployment; cost push inflation: up to 6 marks.</p> <p>Award up to 2 marks for a diagram if it develops the analysis.</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include</p> <ul style="list-style-type: none"> • No great change in the short run but more significant in the long run • The size of the fall in productivity • The importance of non price factors (eg quality or branding) • Significance of gradient of AS curve • Impact will be greater on US trade component than on EU component • EU a more significant (approx. 60% of exports) than US (approx. 15%) 	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing effects with at least one evaluative point
Level 2	5-8	2 convincing effects with no connections, or 1 convincing effect with some good analysis but no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-4	Identification of relevant effect with or without brief evaluative keywords

Question Number	Answer	Mark
1(b)(i)	<p>KAA 6 marks Maximum 4 out of 6 marks if no data reference. Use of data: e.g. 60% of UK exports to euro zone or direct reference to Extract 1 (2)</p> <p>Up to 4 marks for Fall in Aggregate Demand (2) from a reduction in exports (2) of British goods and services causing a fall in UK growth</p> <p>AD/AS diagram correctly labelled showing AD moving left (2).</p> <p>Allow: 'Need to replace domestic 'credit-fuelled' consumption' (2) and public expenditure (2).</p> <p>Accept also a fall in investment (2).</p> <p>Reward further analysis of falling confidence as a result of negative economic growth in UK (2)</p>	(6)

Question Number	Answer	Mark
1(b)(ii)	<p>KAA 8 marks Award two factors only (2 x 4 marks) Two factors identified (2 marks each) and explained (2 marks each)</p> <p>Factors may include:</p> <ul style="list-style-type: none"> • Increase in business confidence or start of the recovery • Lower interest rates for borrowers • Greater willingness of banks to lend to business/credit easing • Government incentives such as a reduction in corporation tax or tax breaks • Subsidies for investment 	(8)

Question Number	Answer	Mark
1(b)(iii)*	<p>KAA 8 marks</p> <p>Up to 2 marks for use of data reference from Figure 2 showing positive correlation between investment and growth</p> <p>Up to 4 marks for diagram If investment increases growth then: Diagram AD and/or AS shifts to the right; correct movement (1), lines labelled (1), axes labelled (1), equilibria labelled (1). Note diagrams where the movement is incorrect receive no marks. N.B. Accept diagram and analysis based on a fall in investment</p> <p>Up to 2 marks for the transmission mechanism explained</p> <ul style="list-style-type: none"> ○ AD: investment as an injection into circular flow (2). Multiplier (2) ○ AS: Significance of investment for productive capacity. This may include an explanation of an outward shift of the PPF. <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • Depends on the effects of other factors in the economy (consumer confidence and consumer debt) • Knowledge that investment is small but significant component of AD (about 15%) • New machinery can give a competitive edge if old stock is replaced • Enables development of new companies and even industries • Britain needs high-technology industry to compete • Suggests long term commitment to the growth of the firm and the economy • Correlation might be caused by other factors/ data might be coincidental <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing points with at least one evaluative point
Level 2	5-8	2 convincing points with no further analysis or explanation, or 1 convincing point with some good analysis but no evaluative point; 1 or 2 less-convincing point with some evaluation
Level 1	1-4	Identification of relevant points with or without brief evaluative keywords

Question Number	Answer	Mark
1(c)*	<p>KAA 18 marks</p> <p>Identification of 3 macroeconomic objectives 6 marks (3 x 2marks)</p> <ul style="list-style-type: none"> • Economic Growth • Control of inflation • Reduction in unemployment • Making the distribution of income more equal • Accept reduction of the national debt or balancing the budget • Restoration of equilibrium in the balance of payments • Protection of the environment <p>Explanation of how the macroeconomic objective might be affected 12 marks (3 x 4 marks);</p> <ul style="list-style-type: none"> • As some former IB claimants find jobs and the productive potential of the economy increases (AS shift to right or PPF shifts to right - accept also an outward movement towards the PPF) increasing growth • As former IB claimants enter the job market deflationary effect on inflation target • Official numbers of unemployment may increase as some former IB claimants qualify for JSA • Many former IB claimants lose their income, many may not be eligible for JSA and so income inequality increases • Reduction in overall benefit payments leading to a reduction in the fiscal deficit and national debt. <p>Reward explanation of the effect of other policies such as:</p> <ul style="list-style-type: none"> • Minimum wage • Incentives to work • Changing employers' NI contributions <p>Reward use of diagrams (maximum of 2 marks each per objective)</p> <p>Maximum of 8 marks out of 12 (i.e. 2 x 4 marks) if only 1 policy discussed.</p> <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks);</p> <p>Comments might include reference to</p> <ul style="list-style-type: none"> • Need to invest in human capital to restore employability • Availability of jobs in the economy when is unemployment already high • Difference in indicators measurements (JSA vs ILO) • Extent of shifts in AS curves or PPF • Time lags - (eg length of time for former claimants to find jobs) • Short run and long run impact on the objectives • Critical consideration of the effectiveness of policies • Social consequences of hardship caused • Potential increase in black economy (cash in hand work) <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(30)

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing effects with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing effects with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing effects with no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-6	Identification of relevant effects with or without brief evaluative keywords

Question Number	Answer	Mark
2(a)(i)	<p>KAA 4 marks</p> <p>Government spending is greater than the revenue (accept tax) it receives (2)</p> <p>Use of data or relevant reference to the article (2). No data marks if definition is incorrect.</p>	(4)

Question Number	Answer	Mark
2(a)(ii)	<p>KAA 8</p> <p>Up to 2 marks for use of data in Extract 1. e.g. huge budget deficit is to be reduced in real terms by 3% by 2014-15</p> <p>Up to 2 marks for the following</p> <ul style="list-style-type: none"> • definition of the circular flow of income as a model of the economy which shows the movement of goods and services between households and firms, and their corresponding payments in money terms (2 marks) • OR diagrammatic representation of circular flow of income (2 marks) • OR If the candidate's answer only states that injections are $I+G+X$ and withdrawals are $S+T+M$ then award (2 marks). <p>Up to 4 marks for explanation of the reasoning: e.g.</p> <ul style="list-style-type: none"> • A reduction in the budget deficit is a reduction in net injections (2) • which results in a reduction in the total spending in the economy/money flowing around the circular flow (2) 	(8)

Question Number	Answer	Mark
2(a)(iii)	<p>KAA 8 marks</p> <p>Up to 4 marks for the diagram AD shifts to the left; correct movement (1), lines labelled (1), axes labelled (1), equilibria labelled (1). Note diagrams where the movement is incorrect receive no marks.</p> <p>Up to 4 marks for an explanation of transmission mechanism: Less employment leads to less government expenditure and/or consumption and/or less investment (2), falling AD leading to less output (2).</p> <p>The following analysis with accompanying diagram could be awarded all KAA marks: If AS is shifted to left on the basis that productivity will fall if (maximum of 2 marks):</p> <ul style="list-style-type: none"> • quality of health and education fall • workers leave the workforce • deteriorating human capital resulting from long term unemployment and therefore reducing the PPF or full employment output (2) <p>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include</p> <ul style="list-style-type: none"> • Rise in unemployment leads to a rise in benefits (G) and so automatically stabilises • Smaller change in the short run but more significant in the long run • Size of the multiplier • Large impact as unemployment already high so many won't be able to get jobs immediately • Effect of other factors counterbalancing or exacerbating the effect 	(12)

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Level 3	9-12	2 convincing points with at least one evaluative point
Level 2	5-8	2 convincing points with no further analysis or explanation, or 1 convincing point with some good analysis but no evaluative point; 1 or 2 less-convincing point with some evaluation
Level 1	1-4	Identification of relevant points with or without brief evaluative keywords

Question Number	Answer	Mark
2(b)(i)	<p>KAA 6 marks</p> <p>Definition (2 marks) A situation where there are unemployed resources in the economy. Accept also negative output gap.</p> <p>Explanation (maximum 4 marks) that there is significant and persistent spare capacity that might take the form of:</p> <ul style="list-style-type: none"> • Recession (2) • Unemployment (2) • underemployed labour (2) • machinery lying idle or not used to its maximum (2) • use of PPF diagram or AD/AS diagram or output gap diagram (2) • Fall in rate of inflation with reference to Phillips Curve (2) • use of information provided (2) 	(6)

Question Number	Answer	Mark
2(b)(ii)	<p>KAA 8 marks</p> <p>Reward identification of up to 2 Factors in Extract 2 with 2 marks each (2 x 2 mark)</p> <ul style="list-style-type: none"> • VAT 15% to 17.5% in January 2010 and/or 17.5% to 20% in January 2011 • Rises in oil prices • Effects of higher import prices resulting from the big 25% fall in sterling from mid-2007. • World food prices have been rising sharply, by 8% in just the past month and 31.5% in the past year • Inflationary expectations are higher <p>Explanation of transmission mechanism for each factor - up to 2 marks for each factor's explanation (2 x 2 marks) e.g.:</p> <ul style="list-style-type: none"> • How increase in VAT affects CPI inflation (2) • Oil as a cost of production relevant to most goods and services (2) • cost push inflation shifting AS curve to left (2) increasing price level (2) • diagram without explanation (AS curve and increased price level, but must be correctly labelled) (2) <p>Also reward comment such as VAT 17.5% to 20% the increase is expected to be passed through to prices fully whereas only about half of the earlier cut and ensuing rise went through to prices (2)</p>	(8)

Question Number	Answer	Mark
2(b)(iii)*	<p>KAA 8 marks</p> <p>2 reasons (2 x 4 marks)</p> <ul style="list-style-type: none"> • Inflation is above the MPC's target and tolerance • Important to stop inflationary expectations taking hold and further fuelling inflation • Lowering relative inflation should increase international competitiveness • Stronger pound would reduce impact of cost push inflation <p>2 marks could be awarded for a diagram which develops the analysis</p> <p>Evaluation 4 marks (2 x 2 marks or 1 x 4 marks)</p> <ul style="list-style-type: none"> • Greater concern about potential deflationary spiral if consumption collapses • Most factors are temporary • Unions not powerful enough to create wage price spiral • Raising interest would strengthen sterling and reduce exports' competitiveness and further weaken AD • Significance of gradient of curves <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)

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	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
ai	2	2			4
aii	2	2	4		8
aiii	2	2	4	4	12
bi	4	2			6
bii	2	4	2		8
biii	2	2	4	4	12
c	6	6	6	12	30
Total	20	20	20	20	80
Question 2					
ai	2	2			4
aii	2	2	4		8
aiii	2	2	4	4	12
bi	4	2			6
bii	2	4	2		8
biii	2	2	4	4	12
c	6	6	6	12	30
Total	20	20	20	20	80