Mark Scheme (Results)

Summer 2012

GCE Economics (6EC02)
Paper 01

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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	Indicative Content	Mark
1(a)(i)	KAA 4 marks Explanation 2 marks. Real income is the value after the effects of inflation have been removed. Accept also reference to the real income's internal purchasing power being identified but not with nominal incomes. Use of data 2 marks • Real household disposable income falling by 0.8% in 2010 • Nominal wage growth edged up with average earnings rising 2.3 % whereas CPI inflation was 4.0% in the year to January 2011	**(4)**

Question Number	Indicative Content	Mark
1(a)(ii)	KAA 8 marks 2 causes up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each cause. • Weak aggregate demand maintaining unemployment • Cuts to public sector employment • Decline in manufacturing sector employment • Rising unemployment, highest in North-East of England • Lower productivity increases in UK than in other countries • Falling value of the £ • Inflation • Low union power - unable to keep pace with inflation • Increase in income tax • Reduction in welfare benefits Reward other valid explanations Also reward use of data to support explanation up to 2 marks: • Real household disposable income falling by 0.8% in 2010 • Nominal wage growth edged up with average earnings rising 2.3% whereas CPI inflation was 4.0% in the year to January 2011	**(8)**

Question Number	Indicative Content	Mark
1(a)(iii)	KAA 8 marks Explanations of likely impact up to 4 marks include: • Falling real incomes lead to falling consumption (2) • With lower consumption firms will reduce investment (2) • Written description of fall in price level (1) and in real output (1) Diagram up to 4 marks; AD/AS diagram showing leftward shift in AD curve; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction. Evaluation 4 marks (1 x 4 or 2 x 2) factors might include • The relative impact of other factors • Elasticity of AD and AS • Timing – Short Run- Long Run • Regional/sectoral/occupational differences • Inequality or equity issues • Magnitude of the fall	**(12)**

Question Number	Indicative Content	Mark
1(b)(i)	KAA 6 marks Use of data up to 2 marks for any one of the following: • Figure 1 ILO typically 1 million higher than Claimant Count 05-11 • Extract 2 ILO approximately 1 million higher than Claimant Count Jan 2011 • Extract 3 Grayling's view that full time students who cannot find a part time job while they study should not be included in the ILO. **N.B. Must use actual figures to gain data marks. Award only 1 mark if it is stated that ILO is typically higher than CC.** Differences up to 4 marks (2 x 2 marks) Unemployment (ILO) up to 2 marks: • Actively looking for a job and out of work in last four weeks (1) • ready to work in two (1) • Questionnaire/interview (1) • Survey by phone call/paper (1) • Internationally recognised (1) • age 16-65 (1) • Sample, and related problems (1) Claimant count up to 2 marks: • the number of people claiming/receiving (1) • JSA/dole/or unemployment related benefit (1) • Age range – 18-60/65 (1) • savings cap (1)	**(6)**

	• must be able to prove they are looking for work (1). • Register at unemployment offices (1) • Does not include those unemployed for more than 6 months (1) • Excludes those who have voluntarily left employment (1) Reward other valid explanations	

Question Number	Indicative Content	Mark
1(b)(ii)	KAA 8 marks 2 reasons up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each reason. Reasons may include: • Rise in youth unemployment (including 16 and 17 year olds) • It has become increasingly difficult to claim JSA • Stigma of collecting the JSA means that the unemployed will only collect it if they really can't find a job, whereas those who can manage without JSA • Decrease in the value of JSA relative to wage changes In the LFS: • The underemployed might declare themselves unemployed on the LFS • Recession makes it more difficult for students to find part time work and so more likely to claim to be unemployed on LFS • Rise in students seeking employment following increase in tuition fees Also: award 2 marks for recognition of divergence between ILO and CC after 2009. Reward other valid explanations	**(8)**

Question Number	Indicative Content	Mark
1(b)(iii) ***QWC** **i-iii**	KAA 8 marks 2 factors up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each factor. • Fall in UK domestic demand in the recession causing more unemployment generally • Decline in real incomes • Global recession resulting in falling exports • UK reliance on service sector which has a low propensity to export • Loss of UK competitiveness e.g. linked to a higher rate of inflation • The minimum wage being too high • Net immigration rates	

- Exchange rate changes
- Structural unemployment
- Reduction in availability of credit
- Tightening of fiscal policy

Reward other valid explanations

Also award up to 2 marks for use of data

Evaluation 4 marks (1 x 4 or 2 x 2) factors might include
- The relative impact of the factors
- Timing of the factors and their expected persistence
- Regional/sectoral/occupational differences
- Inequality or equity issues

Quality of written communications will be assessed in this question based on the candidate's ability:
- 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 explanations with no connections, or 1 convincing explanation with some good analysis but no evaluative point; 1 or 2 less-convincing explanation with some evaluation
Level 1	1-4	Identification of relevant points with or without brief evaluative keywords

Question Number	Indicative Content	Mark
1(c) ***QWC** **i-iii**	KAA 18 Up to 6 marks • Identification of low and stable unemployment/full employment as a government objective (2) • Identification of any macroeconomic policy as fiscal, monetary and/or supply side (reward implicit understanding) (2) • Use of data indicating extent of unemployment (2) • AD/AS diagram showing rightward shift in AD and/or AS curve or equivalent verbal analysis of how price level and real output are affected or PPF diagram showing rightward shift in PPF and/or a movement towards PPF (4 marks). Diagram showing AD and/or AS shifts to the right; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction. Explanation of how the policies might reduce the level of unemployment	

in the UK 12 marks (3 x 4 marks);
- Fiscal expansion through government spending increasing employment
- Reduction in taxation rates through borrowing or policy financed through lowering immediate tax burden increasing AD
- Reduction in interest rates (or increase in money supply) increasing borrowing and reducing debt payments
- Measures to increase incentives such as reduced marginal tax rates;
- Reduction in benefits.
- Measures to increase competitiveness and productivity through outsourcing and tenders;
- Privatisation;
- Health care improvements;
- Training and education.
- Increase price flexibility and signalling in the market (ie reducing the minimum wage)

Reward other valid explanations

Evaluation 12 marks (3 x 4 marks, OR 2 x 6 marks, OR 6 + 4 + 2 marks)
Comments might include reference to
- Tax cuts ineffective if used to increase savings or repay debts
- Cuts in Bank of England's interest rate ineffective if banks unwilling to lend or if banks do not reduce interest rates to customers
- Identification of common elements of both policies e.g. cutting taxes as a demand management policy as well as improvement to incentives
- Crowding out
- Long term debt payments to repay will reduce future living standards
- Time lag for supply side policies
- Depends on the elasticity of the AS
- Depends on magnitude of multiplier (i.e. increased savings ratio because of lack of confidence leading to lower multiplier)
- Relative merits of policies which justifies prioritisation
- Other things being equal **(30)**

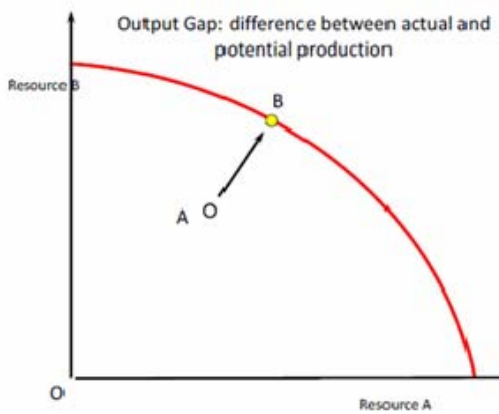**Quality of written communications will be assessed in this question based on the candidate's ability:**
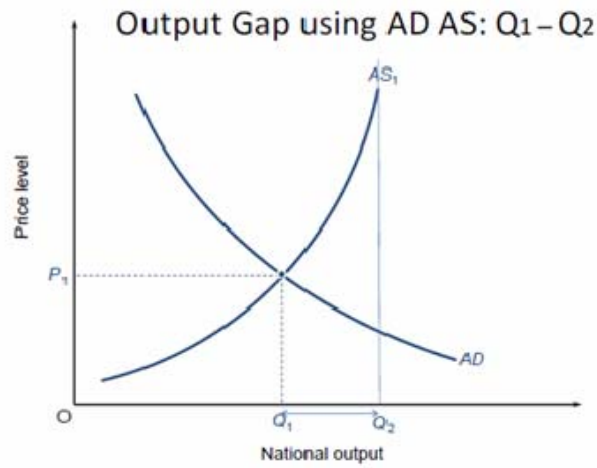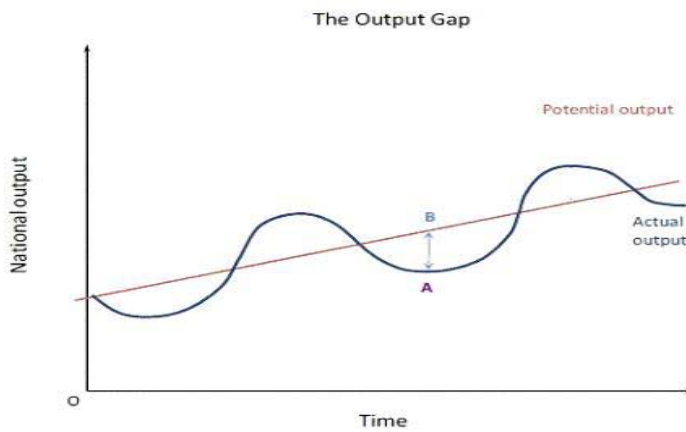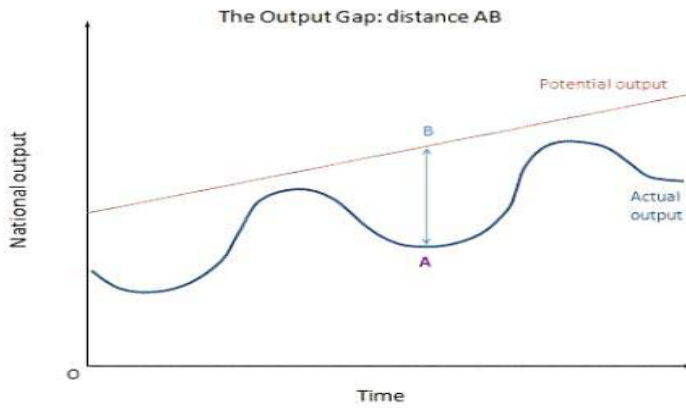- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economic vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

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

Question Number	Indicative Content	Mark
2(a)(i)	KAA 6 marks Definition up to 4 marks A recession is two consecutive quarters or 6 months (2) of negative growth or reduction in output (2) Use of data up to 2 marks e.g.: Q2 2008 to Q3 2009 six quarters of negative growth	**(6)**

Question Number	Indicative Content	Mark
2(a)(ii)	KAA 8: 2 marks for diagram; 2 marks for data; 4 for explanation Explanation of reasons for a negative output gap up to a maximum of 4 marks • The actual/current output (or GDP) is lower (2) than the UK's potential/trend output. (2) • Reward also the level of expenditure is lower (2) than the capacity of the economy to produce. (2) • It is characterised by a significant amount of unemployment (2) and idle capital (2) • N.B. Award 2 marks for a general definition of output gap: e.g. difference between actual output and potential output. Use of data up to 2 marks: real actual output fell significantly or fell for most of the period during 2008-9 (2) 2marks for correctly labelled diagram:	

The Output Gap: distance AB

National output

Potential output

B

Actual output

A

O

Time

The Output Gap

National output

Potential output

B

Actual output

A

O

Time

Output Gap using AD AS: Q₁ – Q₂

Price level

AS_1

P_1

AD

O

Q_1 Q_2

National output

Output Gap: difference between actual and potential production

Resource B

B

A O

O

Resource A

(8)

Question Number	Indicative Content	Mark
2(a)(iii)	KAA 8 marks 2 factors related to Extract 1 up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each factor – linked to effect on AD. • Fall in consumer confidence (2) from economic uncertainty of government fiscal tightening and fear of a double dip recession (2) • Recession (2) leading to rising unemployment/reducing consumption/fall in value of exports (2) • Fall in investment (2) from economic uncertainty of government fiscal tightening and fear of a double dip recession (2) • Cuts to Government sector spending (2) will lead to a fall in AD (2) and a further reduction through the multiplier effect resulting in further job cuts and AD falling further (2) • Increase in tax e.g. increase in VAT; increase in income tax (50% tax rate) • Depreciation in value of the pound (2); impact on exports & imports (2) • Rise in value of imports (2) from price rises of necessities with inelastic demand such as oil and food (2) • Increase in costs servicing household debt Evaluation 4 marks (1 x 4 or 2 x 2) factors might include • Extent of change depends on magnitude of multiplier (increased savings ratio because of lack of confidence) • Relative impact of each factor • Relative importance of each component (Consumption 65% approx) • Time lag (e.g. unemployment is a lagging indicator) • Effect of other factors counterbalancing or exacerbating the effect	**(12)**

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

Question Number	Indicative Content	Mark
2(b)(i)	KAA 4 marks Explanation up to 2 marks that the value of imports (withdrawal) is greater than the value of exports (injection). Accept reference to outflows of money being greater than inflows. Use of data up to 2 marks e.g. current account balance £-36.4 billion or current account balance -2.5% of GDP for 2010 (2 marks)	**(4)**

Question Number	Indicative Content	Mark
2(b)(ii)	KAA 8 marks 2 problems up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each problem. A persistent and increasing net leakage result in • Loss of output (growth) • Loss of jobs (unemployment) • Possibly rising household debt to fund purchases • Possibly a lack of investment as firms are concerned about the lack of UK non price competitiveness • Threat of cost push inflation from the increased price of imports (price of imports generated by a weakening currency).	**(8)**

Question Number	Indicative Content	Mark
2(b)(iii) ***QWC** **i-iii**	KAA 8 marks 2 causes up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each cause. • Rises in oil prices and relatively inelastic demand and we are a net importer • World food prices and relatively inelastic demand and we are a net importer • Inflation relatively high reducing international competitiveness • UK manufacturers' non price competitiveness is too low (e.g. quality of UK goods) • Lack of domestic substitutes for some imported goods (line 14) e.g. we don't produce some of the goods we import. • 'Manufacturing base is so depleted' line 15 • Lack of confidence to invest because of the global financial situation • Lack of confidence to invest because of the belief that the exchange rate is temporary. Evaluation (1 x 4 or 2 x 2) • Relative contribution of each cause • Timing of each cause (SR/LR impact) • Government policies to remedy the cause over time • Comparison to other countries with stronger manufacturing base • Relative size of the deficit in comparison to GDP may not be the largest but in absolute terms it is the largest deficit **Quality of written communications will be assessed in this question based on the candidate's ability:** • 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	Convincing explanation of two causes with at least one evaluative point
Level 2	5-8	Convincing explanation of two causes with no evaluation, or 1 convincing explanation of a cause or either with some good analysis and 1 evaluative point. Less-convincing explanation of a cause with some evaluation
Level 1	1-4	Identification of relevant explanation with or without brief evaluative keywords

Question Number	Indicative Content	Mark
2(c) ***QWC i-iii**	KAA 18 marks Up to 6 marks • Explicit or implicit understanding of economic growth – a measure of the increase in either real GDP or real GDP per head or potential GDP(2) • Use of data(2) • Identification of economic growth as a government objective (2) • AD/AS diagram showing rightward shift in AD and/or AS curve or equivalent verbal analysis of how price level and real output are affected (4 marks). Diagram showing AD and/or AS shifts to the right; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction. • PPF diagram showing rightward shift in PPF and/or a movement towards PPF (4 marks). Marks awarded for showing axes labelled (1), equilibria labelled (1), PPF lines labelled (1), correct shift/movement (1). No marks for diagram if shift/movement in wrong direction. Explanation of how growth might benefit the economy 12 marks (3 x 4 marks); • Increased tax revenues for the government which may be used to improve public services or redistribute incomes • Higher profits for companies which may be used to improve quality products or to produce new products • Consumers can afford to buy more goods and services and/or have more leisure time • More employment opportunities/lower unemployment • If there is export –led growth, then the current account of the Balance of Payments would improve • Real economic growth increases LRAS and could lower inflation Evaluation 12 marks (3 x 4 marks, OR 2 x 6 marks, OR 6 + 4 + 2 marks); Comments might include reference to • Companies may not invest but distribute profits to shareholders • Consumers might spend extra income on imports	

- Growth might involve depletion of natural resources
- External costs of growth
- Greater inequality
- Lack of sustainability
- Technological unemployment
- Short run/Long run effects
- Growth could cause a deterioration in the Balance of payments since Britain has a high marginal propensity to import
- Growth from supply side improvements may reduce inflation

Quality of written communications will be assessed in this question based on the candidate's ability: **(30)**
- 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

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

	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	2		6
aii	2	4	2		8
aiii	2	2	4	4	12
bi	4				4
bii	2	4	2		8
biii	2	2	4	4	12
c	6	6	6	12	30
Total	20	20	20	20	80