GCE AS MARKING SCHEME

AUTUMN 2020

AS
ECONOMICS - COMPONENT 2
B520U20-1

INTRODUCTION

This marking scheme was used by WJEC for the 2020 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

GCE AS ECONOMICS - COMPONENT 2

AUTUMN 2020 MARK SCHEME

<table>
<tr><td colspan="4">1. (a) With reference to the data and using a supply and demand diagram, explain why the price of copper is rising. [6]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO2</td><td>AO3</td></tr>
<tr><td>2 marks</td><td>2 marks</td><td>2 marks</td></tr>
<tr><td>2</td><td>2 marks
Good understanding

Diagram is used successfully to show both demand and supply shifts with a drop in quantity</td><td>2 marks
Good application

Both relevant aspects of the context are used to support the shifts in the diagram.</td><td>2 marks
Good analysis

Clear explanation as to why prices have risen</td></tr>
<tr><td>1</td><td>1 mark
Limited understanding

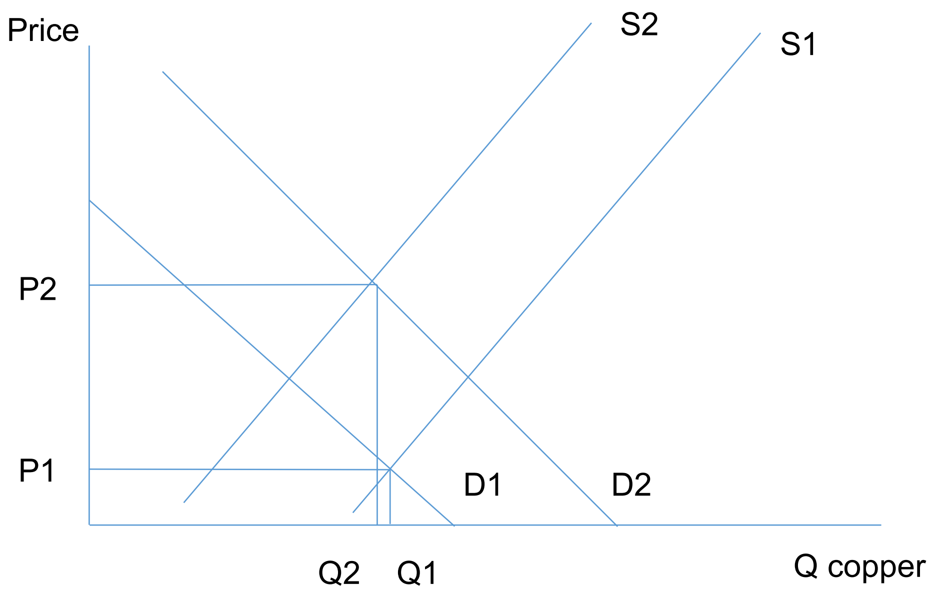
Diagram is used successfully to show one of the demand and supply shifts. Or both shifts are correct but the diagram doesn’t show the decrease in quantity</td><td>1 mark
Limited application

One relevant aspect of the context is used to support the shift in the diagram.</td><td>1 mark
Limited analysis

Partial explanation as to why prices have risen</td></tr>
<tr><td>0</td><td>0 marks
Diagram is not appropriate or incorrect</td><td>0 marks
Context is not used effectively</td><td>0 marks
Price rise is not explained</td></tr>
</table>

Indicative content:

AO1: see diagram below.



AO2

Demand is rising because of growing demand for electric cars – copper is a key battery ingredient
Global supply is falling because of exhaustion – global production is falling by 500,000 tonnes per year.

AO3

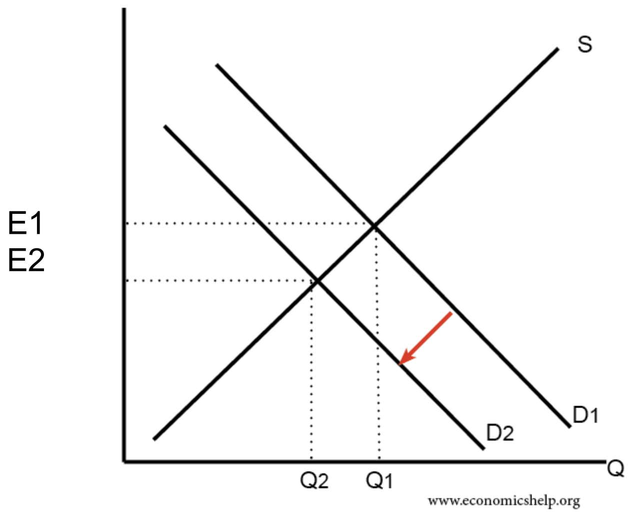
Supply is falling and demand is rising
At the original price there is now excess demand which will push up the equilibrium price until excess demand has been eliminated.

1. (b) Using an exchange rate diagram and Figures 1 and 2, evaluate the link between the world price of copper and Zambia's exchange rate. [8]				
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**	**2 marks**
2	**2 marks** Good understanding Correct well labelled exchange rate diagram showing ex rates lower overall and is used as part of the answer.	**2 marks** Good application Figures 1 and 2 are used directly on both sides of the argument.	**2 marks** Good analysis Well-developed explanation of the link between falling (rising) copper prices and a falling (rising) rising exchange rate.	**2 marks** Good evaluation Developed counter-arguments which explains valid reasons why the two are not always directly correlated.
1	**1 mark** Limited understanding Exchange rate diagram is present but is either not used, shows an ex rate appreciation for after 2015/16 or has missing features and serious labelling errors.	**1 mark** Limited application Figures 1 and 2 are used directly on one side of the argument.	**1 mark** Limited analysis Limited development of the link between rising copper prices and the exchange rate, missing a key step in the analysis.	**1 mark** Limited evaluation Counterargument is made showing a valid reason(s) that the two are not directly correlated but the reason(s) for this are not developed.
0	**0 marks** No appropriate diagram is present.	**0 marks** No direct reference to Figures 1 and 2 is made.	**0 marks** Analysis is incorrect or missing.	**0 marks** Evaluation is either incorrect or missing.

Indicative content:

AO1

Kwacha-Dollar exchange rate



AO2

The fall in the copper price between 2014 and 2016 from around $7000 per tonne to $4500 per tonne lines up nicely with the fall in Zambia's exchange rate from $0.0002 per Kwacha to $0.000075.

However, the more recent increase in copper prices from around $4500 per tonne in 2016 to $7000 in 2018 has not made much of an impact on the kwacha, with a small increase from about £0.00009 to $0.00011 per kwacha.

AO3

A falling copper price has a big impact on Zambia's export earnings as demand for copper is price inelastic, therefore reducing the demand for kwacha and hence weakening the exchange rate as kwacha is required as a currency to purchase the copper from Zambia so importers of Zambia's copper need to exchange less Kwacha to purchase the same amount of copper as previously.

Or A falling copper price makes the whole sector less attractive as it is deemed less profitable, therefore reducing FDI in the copper industry, again reducing the demand for kwacha.

The falling oil price creates worries about the Zambia economy as it is their largest export, with worries about economic growth, this could lead to less FDI from multi-nationals in sectors other than the copper industry, again reducing the demand for kwacha.

AO4

Other factors are likely to have had an effect on the kwacha apart from the price of copper such as slower growth in 2015 and 16 and rapid inflation in 2016. Therefore, although movements in the price of copper have an impact, they don't necessarily explain the full effect.

It is clear that from 2016-18 the increase in the price of copper has not led to a big increase in the exchange rate probably because of confidence issues affecting inward investment.

Allow any plausible counterargument in terms of why the link might be weak or non-existent.

1. (c) Explain why Zambia's budget/fiscal deficit was expected to fall. [6]			
Band	**AO1**	**AO2**	**AO3**
	2 marks	**2 marks**	**2 marks**
2	**2 marks** Good understanding Answer shows a clear awareness that the budget deficit is the annual difference between G and T.	**2 marks** Good application Wider context is well used to support how changes in the copper industry can improve the budget deficit.	**2 marks** Good analysis Clear explanation as to why T will rise and G might fall. **Or** an in-depth explanation of rising tax base.
1	**1 mark** Limited understanding Some understanding that the budget deficit means that the government's finances are weak, but lacks clarity over what this really means.	**1 mark** Limited application Limited parts of the context is used relatively simply.	**1 mark** Limited analysis Answer focused on one or the other of G and T **or** a limited consideration of both.
0	**0 marks** Understanding of budget/ fiscal deficit is not shown.	**0 marks** Context is not used effectively.	**0 marks** No valid analysis

Indicative content:

AO1

Budget deficit is the gap between the value of tax revenue and the value of government spending each year.

AO2

The rising copper price is expected to increase economic growth as copper is Zambia's biggest export, contributing greatly to economic growth and the economy becomes unstable if the price of copper changes.
The copper sector is a major employer as copper is Zambia's biggest export, contributing greatly to economic growth.
Rising copper prices will increase profitability as firms gain a higher revenue per unit at a faster rate than wages due to workers often lowly paid.
Wages expected to increase in the sector which employs a large number of workers. As copper prices rise and firms can afford higher costs due to higher revenue per unit gained

AO3

Rising economic growth, wages and profitability would be expected to increase both direct and indirect tax receipts:

Rising wages should increase income tax revenue
Rising profitability should increase corporation tax revenue
Rising wages and growth should increase revenue from sales taxes

Likewise, rising employment in the sector should help to reduce unemployment overall, therefore cutting benefit payments.

1. (d) Using appropriate economic analysis, discuss whether introducing more environmental regulations would be a good way of correcting the market failures described in the copper industry. [8]			
Band	**AO1**	**AO3**	**AO4**
	2 marks	**2 marks**	**4 marks**
3			**3-4 marks** Excellent evaluation Clear judgement as to whether or not tougher regulations would be likely to work, making reference to the objections raised in the case.
2	**2 marks** Good understanding Clear understanding of what is meant by market failure with reference to external costs and/or welfare loss.	**2 marks** Good analysis Well-developed explanation of how tougher regulations would help to correct market failure, with reference to appropriate economic concepts.	**2 marks** Good evaluation A well-developed chain of reasoning that argues that tougher regulation might not be a good way forward.
1	**1 mark** Limited understanding Some understanding of market failure, but less technically accurate	**1 mark** Limited analysis Some development of the way in which tougher regulations might correct market failure, but chains of reasoning are superficial.	**1 mark** Limited evaluation Some development of a counter argument (s) but there is a lack of depth to the evaluation. More generic in nature
0	**0 marks** Understanding of market failure is not shown	**0 marks** Answer only asserts points	**0 marks** One sided response

Indicative content:

AO1

The copper industry creates significant external costs which means that in a free market copper would be over-supplied and under-priced, hence there would be a misallocation of resources resulting in a welfare loss.

AO3

Regulations in terms of higher standards or cleaner production will both increase firms' costs and restrict output.
The increase in costs will help to internalise the externality
Tougher regulations in terms of set quantity of output can directly deal with reducing the size of the problem and so decreasing the external costs that are created, therefore reducing the welfare loss
Regulations due to the higher costs of following higher production standards and bureaucracy will be likely to reduce copper output, therefore helping to reduce output to the socially optimal level
Regulations if not followed can be enforced by fines, these fines increases costs for copper produces, internalising the externality and create funds for the government that could be used to solve the external cost.

AO4

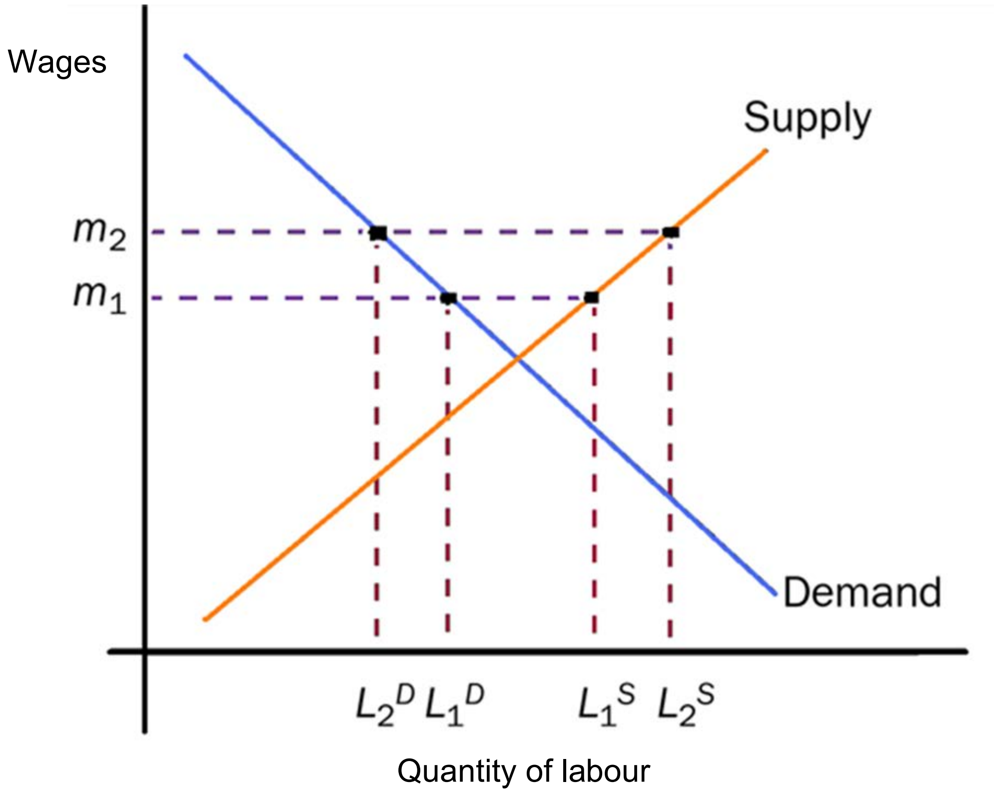
The case implies that regulations are not currently enforced very effectively, so simply adding more may make little difference because there is no actual impact on firms' costs.
Regulations may have negative side effects on Zambia's position as a global player – hence this might not be a good solution.
Regulations will require enforcement which adds to government expenditure unless the costs can be recouped from firms
Tougher regulations may hit firms' output and so profits, therefore impacting on wage rates and corporation tax payments.
Rising global demand may mean that firms can easily afford the new regulations, making this a good solution.

1. (e)	**Using a minimum wage diagram and an AD/AS diagram, consider whether the minimum wage increases described in the data would be "bad for the economy at both a micro and macro-economic level". [12]**			
Band	**AO1**	**AO2**	**AO3**	**AO4**
	4 marks	**2 marks**	**2 marks**	**4 marks**
3	**3-4 marks** Excellent understanding AD/AS and minimum wage diagrams are drawn accurately and used as part of the answer			**4 marks** Excellent evaluation A strong two sided answer with effective points on both sides of the argument Reasoned judgement about the extent to which a rise in the minimum wage will be damaging at both micro and macro level
2	**2 marks** **Good understanding** AD/AS and minimum wage diagrams are drawn accurately	**2 marks** **Good application** Case is used to support both a micro and a macro point **or** both a cost and benefit (which could be both macro or both micro).	**2 marks** **Good analysis** Well-developed chains of reasoning show how the minimum wage might negatively affect the economy **or** individual economic agents within it.	**2-3 marks** **Good evaluation** Well-developed chains of reasoning show how the minimum wage might not negatively affect the economy **and** individual economic agents within it.
1	**1 mark** Limited understanding Only one of the two diagrams is accurately drawn	**1 mark** Limited application Case is used to support one of either a micro or macro point.	**1 mark** Limited analysis There is a limited analysis of how a rise in the minimum wage might negatively affect the economy, but chains of reasoning are superficial.	**1 mark** Limited evaluation Under-developed chain(s) of reasoning show how the minimum wage might not negatively affect the economy **or** individual economic agents within it.
0	**0 marks** No appropriate diagrams are drawn.	**0 marks** Case not used	**0 marks** No analysis shown.	**0 marks** No valid evaluation.

Indicative content:

AO1

Minimum wage diagram should be some variant on this (Candidates don't have to show the increase in the minimum wage)



AD/AS
Anything plausible here – can show the possible effect on cost-push inflation using the upward sloping section of the Keynesian AD/AS or SRAS, or might argue that AD will be stimulated, therefore shifting it to the right.

AO2

Minimum wage has doubled – significant increase
But, first increase since 2012 and there has been significant inflation since then, driving the real wage down – therefore this increase is needed just to return real wages to their 2012 level.

Zambia is forecast to grow so firms should be able to afford it (although current growth is well below the levels of a few years ago).
Trade deficit has been worsening, and rising labour costs could damage Zambian firms' competitiveness

If unemployment doesn't rise, increased incomes could contribute to a higher tax take, therefore helping to bring down the budget deficit.

AO3/AO4

Macro
Unemployment – could either rise or fall depending on what happens to growth – in principle unemployment will be pushed up but external factors such as rising copper prices may prevent this and in any case the increase in the minimum wage may increase AD

Inflation
Is likely to rise from both cost-push and demand pull sources, but it is currently quite low and the overall impact is likely to depend on how labour intensive the economy is. The case talks about a rise in the minimum wages of unskilled workers so the wider effects are unknown.

Growth
See unemployment

Trade balance
Could lead to a further deterioration of the trade balance – increase costs and rising consumption could both negatively impact X-M, but much will depend on the other issues identified above.

Budget
Again, much depends – could either improve or deteriorate.

Micro
Workers – depends on whether or not they keep their jobs, but some will have higher wages and living standards, although wages haven't increased much in real terms.

Firms – likely to be damaged, although they have been hiring workers on the cheap in real terms. Higher NMW incentives firms to increase worker productivity.

Households – may suffer from higher cost of living if the increase in wages feeds through to higher prices.

Question		Total
2. (a)	**With reference to figure 2, outline what is most likely to happen to the price level between 2018 and 2021.**	2
	AO1: **1 mark** understanding that inflation is falling OR **1 mark** understanding that inflation is stable **AO2:** **1 mark** use of the data to show understanding that prices are rising more slowly between 2018 and 2021 in the darker band on the figure. OR **1 mark** use of the data to show understanding that prices will rise at a relatively constant rate between 2018 and 2021 in the darker band on the figure.	

2. (b)	**To what extent do you agree with the view that the Bank of England "does not have the tools to bring about lasting change" in productivity levels in the UK economy? [10]**		
Band	**AO1**	**AO3**	**AO4**
	3 marks	**3 marks**	**4 marks**
3	**3 marks** Excellent understanding Excellent understanding of the tools available to the Bank of England and productivity.	**3 marks** Excellent analysis Well-developed chain of reasoning on one side of the argument that is clearly linked to the issue of changing productivity levels.	**3-4 marks** Excellent evaluation Clear judgement as to whether or not the Bank of England has the tools or not with reasoned supporting arguments.
2	**2 marks** Good understanding Good understanding of the tools available to the Bank of England and productivity.	**2 marks** Good analysis Developed chain of reasoning on one side of the argument.	**2 marks** Good evaluation A well-developed chain of reasoning used to support a counter argument.
1	**1 mark** Limited understanding Some understanding of the tools available to the Bank of England and productivity.	**1 mark** Limited analysis Some development of one side of the case, but the arguments are lacking in depth.	**1 mark** Limited evaluation Some development of a counter argument to the assertion in the case but there is a lack of depth to the evaluation.
0	**0 marks** No understanding of the Bank of England's tools.	**0 marks** No analysis shown.	**0 marks** No valid evaluation.

Indicative content:

AO1

Clear understanding of the tools available to the Bank of England in fulfilling its role. These include:

Control of interest rates in terms of the reward for saving or more importantly for businesses the cost of borrowing.
The role of the Bank of England in creating monetary and financial stability
Its status as lender of the last resort
If quantitative easing is mentioned then this is also credit worthy.

AO3

The tools at the disposal of the Bank of England are there primarily to influence AD i.e. interest rates, QE etc rather than output per worker.
Changes in AD have little impact on productivity impacting instead on nominal GDP
Productivity improvements come from the supply side and the Bank of England cannot directly influence the AS curve.

AO4

Creating monetary and financial stability can create the right climate for investment which can then increase productivity
Low interest rates can stimulate investment which will increase productivity.
When factors of production are underemployed, an increase in AD can then increase output per worker.
Rising AD may move resources into higher value added sectors of the economy, therefore raising productivity.

2. (c) Explain why a heavily negative net export figure is a 'drag on economic growth'. [4]		
Band	**AO1**	**AO3**
	2 marks	**2 marks**
2	**2 marks** Good understanding Good knowledge and understanding of the meaning of a negative net trade balance is clearly shown.	**2 marks** Good analysis Strong analysis of how a negative net trade balance affects AD/circular flow and economic growth.
1	**1 mark** Limited understanding Limited economic knowledge and understanding is shown of the meaning of a negative net trade balance.	**1 mark** Limited analysis Use of economic analysis is less convincing with weaknesses in the chain of reasoning.
0	**0 marks** No knowledge or understanding is shown.	**0 marks** No valid analysis.

Indicative content:

AO1

A negative balance of trade means that the value of imports into an economy is greater than the value of exports from the economy – hence X-M is negative.

AO3

Because M>X, this means that demand is leaking from the economy, creating demand overseas instead of the UK. Therefore total demand in the UK is lower than it would otherwise have been, meaning that GDP growth will be lower.

2. (d) Evaluate the view that the Bank of England should have its inflation target increased to 4%-5%. [8]				
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**	**2 marks**
2	**2 marks** Good understanding Strong knowledge and understanding of an inflation target is demonstrated.	**2 marks** Good application A good use of the case to show how a higher inflation target would affect the economy.	**2 marks** Good analysis A good explanation of how a higher inflation target would or would not benefit the economy.	**2 marks** Good evaluation A strong counter-argument is made against the idea that the inflation target should be increased.
1	**1 mark** Limited understanding Some knowledge and understanding of inflation target is demonstrated.	**1 mark** Limited application The case is used to a limited extent to show the effects of a higher inflation target.	**1 mark** Limited analysis The explanation of how a higher inflation target would affect the economy is underdeveloped or focuses on inflation rather than the target.	**1 mark** Limited evaluation Any counter argument is not fully developed.
0	**0 marks** No knowledge or understanding is shown.	**0 marks** No valid use of the case.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

Indicative content:

AO1

An inflation target is a central bank strategy of specifying an inflation rate as a goal and it is a guide to the Bank of England for monetary policy. It also meant to give confidence that prices will continue to rise at a given rate.
A higher inflation target would allow room for inflation to reach a higher level than previously

AO2

If the inflation target is set higher at 4-5% then interest rates can be kept lower for longer
Higher inflation may damage the UK's trade position, which is already weak.
Interest rates are close to zero right now, meaning that there is limited scope for a subsequent cut – the zero bound problem
Real wages are below their 2008 levels – higher inflation will put further downward pressure on real wages.

AO3

If the inflation target is set higher at 4-5% then interest rates can be kept lower for longer helping to boost AD especially investment.
With a low inflation target (2%) interest rates have to rise earlier and there is the danger that policy errors could tip the economy into deflation.
With a higher inflation target, interest rates can ultimately be higher in the longer term, which allows the central bank more policy room if there is an economic downturn.

AO4

A higher inflation target means that the economy becomes less price competitive against imports and loses competitiveness in the export market.
A higher inflation target can mean higher government spending on index linked benefits/pensions etc.
Higher inflation can put pressure on wages and a wage-price spiral could develop.
Higher inflation can damage confidence and hence hit investment

2. (e) With reference to the data, explain why the UK government might want to increase the rate of economic growth. [6]			
Band	**AO1**	**AO2**	**AO3**
	2 marks	**2 marks**	**2 marks**
2	**2 marks** Good understanding Strong understanding of economic growth.	**2 marks** Good application The data is used convincingly to show why growth is important.	**2 marks** Good analysis There is clear and developed chain(s) of reasoning explaining why growth is important.
1	**1 mark** Limited understanding Limited understanding of economic growth.	**1 mark** Limited application Data is used only to a limited extent to show why growth is important.	**1 mark** Limited analysis There is some explanation of why growth is important.
0	**0 marks** No understanding shown.	**0 marks** There is no use of the data.	**0 marks** No valid analysis.

Indicative content:

AO1

Economic growth shows an increase in real GDP over time.

AO2

Growth has been associated with falling unemployment (Figure 3) and higher retail sales
Weak wage growth has been linked with low pay.
Link to low productivity
Rapid growth might have an impact either way on household debt
Inflation rates look like they are decreasing slightly

AO3

Rising growth will create positive multiplier effects
May increase household income as the demand for labour increases
May continue to decrease unemployment
Impact on government finances
Encourages investment by boosting confidence.

2. (f) To what extent will a steady rise in interest rates help to shift the balance of economic growth away from consumption and towards investment and net exports? [10]				
Band	**AO1**	**AO2**	**AO3**	**AO4**
	3 marks	**2 marks**	**2 marks**	**3 marks**
3	**3 marks** Excellent understanding Excellent understanding of how interest rates affect the components of AD.			**3 marks** Excellent evaluation A strong two sided answer with effective points on both sides of the argument which comes to a reasoned judgement about the extent to which a rise in interest rates will help.
2	**2 marks** Good understanding Good understanding of how a rise in interest rates affects the components of AD.	**2 marks** Good application Developed use of the case is made to support one or both sides of the argument.	**2 marks** Good analysis Good analysis of how a rise in interest rates will shift the balance of the economy away from consumption and towards investment and exports. There is a strong well developed chain of reasoning in the analysis.	**2 marks** Good evaluation A strong two sided answer with effective points on both sides of the argument.
1	**1 mark** Limited understanding A limited understanding of how a rise in interest rates will affect the components of AD.	**1 mark** Limited application The case is directly used on one or both sides of the argument, but use is superficial.	**1 mark** Limited analysis There is a limited analysis of how a rise in interest rates might rebalance the economy. Chains of reasoning are present but not highly developed and may also contain inaccuracies.	**1 mark** Limited evaluation Evaluative points are made but a merely as assertions. Points made are not developed and superficial.
0	**0 marks** No understanding shown.	**0 marks** Case not used.	**0 marks** No analysis shown.	**0 marks** No valid evaluation.

Indicative content:

AO1

Higher interest rates should reduce consumption due to more expensive credit, higher mortgage payments, and more attractive savings options.
Higher interest rates may lead to a higher exchange rate making firms uncompetitive and hitting exports in the short term.
Higher interest rates may depress investment in the short term.

AO2

High levels of household debt
Weak productivity growth
Andy Haldane – BoE can't affect productivity
Real wages are rising, so higher interest rates needed to choke this off.

AO3

Investment
Higher savings will increase the supply of loanable funds for investment.
Higher interest rates may help to maintain economic stability, therefore creating a strong investment climate.

Consumption
Higher interest rates would be expected to make credit more expensive also pushing up interest payments on variable rate mortgages

Exports
Higher interest rates will probably raise the exchange rate reducing the price of components and capital for firms possibly stimulating exports.

AO4

Higher interest rates may not deter consumption if increases are fairly small. Other factors affect consumption i.e. incomes, wealth.
Higher interest rates may increase the exchange rate which raises the price of exports and possibly lowers their demand worsening x-m and thus net exports.
Higher interest rates will make borrowing more expensive, which may damage investment (depending on the extent to which investment is financed from borrowed funds).