GCE A LEVEL MARKING SCHEME

SUMMER 2022

A LEVEL
ECONOMICS - COMPONENT 2
A520U20-1

INTRODUCTION

This marking scheme was used by WJEC for the 2022 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.

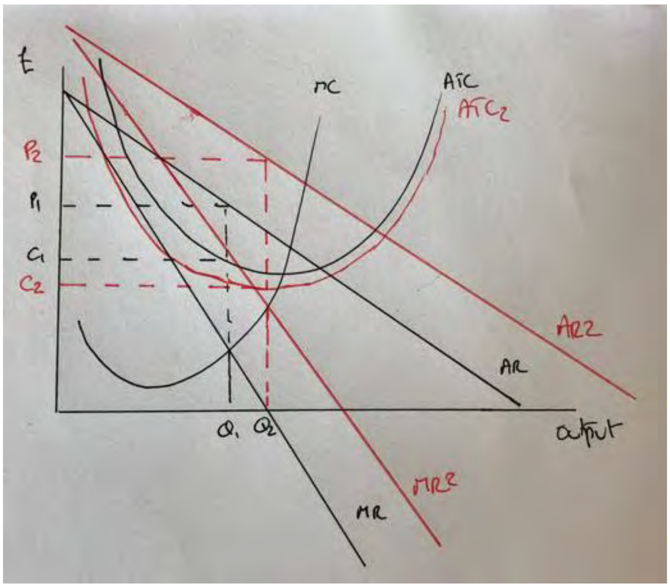
GENERAL MARKING GUIDANCE

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.

1. (a)	**Using a revenue and costs diagram and with reference to the data, outline why Bovis Homes' profits rose in 2018. [6]**
	AO1: 4 marks AO2: 2 marks **AO1** Award **4** marks: Diagram is completely accurate (revenue and cost changes both correct) Award **3** marks: Diagram contains one minor error (one done well, one with inaccuracies) Award **2** marks: Diagram does one of the two elements accurately (higher revenue or lower fixed costs) or does both with inaccuracies Award **1** mark: Diagram has significant inaccuracies but makes an attempt at one of the two elements **AO2** Award **1** mark for prices higher/3% more homes sold/housing market continuing to expand/higher demand from attractive mortgage finance and government support/overseas investment Award **1** mark for increased efficiency (has reduced fixed costs)  AR and MR rise, ATC falls. Price and output are both higher, therefore increasing revenue Simultaneously, fixed costs have been reduced. Therefore, all things operating in favour of higher profits are lined up – profits rise from P1C1*Q1 to P2C2*Q2

1 (b)	**Explain the link identified in the data between the UK's balance of payments and house prices in the UK. (lines 7-10).** **[6]**		
Band	AO1	AO2	AO3
	2 marks	1 mark	3 marks
3			**3 marks** Excellent analysis Strong well-developed answer which explains the link between a current account deficit and a financial account surplus and hence house prices
2	**2 marks** Good understanding Clear understanding of the overall structure of the balance of payments		**2 marks** Good analysis The link between a current account deficit/financial account surplus and inflows into property is present but not fully developed
1	**1 mark** Limited understanding Understanding of what a current account deficit means	**1 mark** Application Data used to show that prices have been driven up by inward property investment	**1 mark** Limited analysis There is an argument that house prices have been driven up by overseas investment, but the link with the balance of payments overall is unclear.
0	**0 marks** No valid understanding	**0 marks** No valid application	**0 marks** No valid analysis

Indicative content:

AO1
The balance of payments comprises the current account and financial/capital accounts. The former measures regular incomes from exports, imports and investments. The latter measures one off transfers and investments.

For 2 – good understanding of each or good understanding of one plus good understanding of the interrelationship

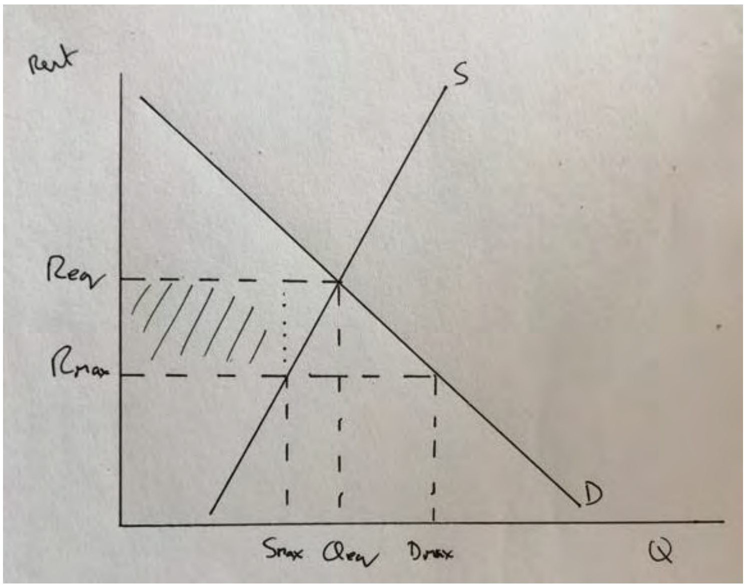
AO2
There have been significant financial account inflows to finance the current a/c deficit - £30bn per year
These flows have driven up property prices by 20% over 15 years.

AO3
The balance of payments sums to zero overall because overall inflows of £ (D) will equal overall outflows (S). A current account deficit (trade in goods and services and primary/secondary incomes) will therefore be balanced by a financial/capital account surplus (short and long term investment flows). Hence a current a/c deficit will be financed by financial/capital account inflows. Some of these are likely to go into property investment, therefore driving up house prices.

1 (c)	**With reference to the data and using a diagram, discuss whether the Government should introduce maximum rents in the UK rental market. [9]**			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	3 marks
3				**3 marks** Excellent evaluation Well-developed counter-arguments are made and the answer comes to a reasoned judgement supported by the preceding analysis.
2	**2 marks** Good understanding Good accurate diagram that is used as part of the answer	**2 marks** Good application Relevant data has been used on both sides of the case	**2 marks** Good analysis Developed arguments are present on one side of the discussion	**2 marks** Good evaluation Developed counter-arguments are made.
1	**1 mark** Limited understanding Diagram that has significant errors or is not effectively used as part of the answer	**1 mark** Limited application Relevant data has been used but only on one side of the case or data used on both sides but superficially	**1 mark** Limited analysis Arguments are present on one side of the discussion but are not developed	**1 mark** Limited evaluation Counter-arguments are present but lack development
0	**0 marks** No valid diagrams	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation.

Indicative content:

AO1



Shaded area shows increased consumer surplus for those still able to rent
Smax Qeq shows those who used to be able to rent but are no longer able to do so
QeqDmax shows those attracted by the prospect of low rents, but unable to find a property
Area between Rmax and supply shows new (lower) level of producer surplus.
Smax Dmax shows the overall shortage of rented property.

AO2
Average rents unaffordable for average families across half of UK
33% of families renting privately have cut down on buying food
Max rents simply cause private landlords to sell, exacerbating the problem
Reduced profits lead to a reduction in investment into home improvements.

AO3/4
Diagram is well used to illustrate some of the benefits and/or costs of maximum rents or points are very well-developed:

Shouldn't:
Reduced producer surplus can be linked to reduced investment
Fall in supply can be linked to landlords selling
In addition, may worsen issues with homelessness
In reality low rents often benefit well-informed middle-income groups as a result of contacts, discrimination and information asymmetry
Doesn't tackle the underlying problem which is a lack of housing supply/social housing

Should:
Increased consumer surplus for those able to rent can be linked to problems of unaffordability.
Prevents exploitation of vulnerable groups
Might work as a temporary measure while other policies are introduced.

1 (d)	**Based on the information available in the data above (written in March 2019), discuss whether, at that time, house prices were more likely to rise than fall. [8]**		
Band	AO2	AO3	AO4
	3 marks	2 marks	3 marks
3	**3 marks** Excellent application The answer uses a wide range of factors on both demand and supply side using graphical and textual information/Excellent use of context on both sides		**3 marks** Excellent evaluation Well-developed counter-arguments are made and there is a well-reasoned judgement as to whether house prices are more likely to rise than fall, showing good depth of discussion
2	**2 marks** Good application The data is well used to illustrate supply and demand factors	**2 marks** Good analysis The answer has well developed chains of reasoning arguing that house prices are likely to fall/rise	**2 marks** Good evaluation The answer has developed counter-arguments or evaluative points arguing that house prices are likely to rise/fall
1	**1 mark** Limited application Use of the data is less effective. Relevant data has been used but not well developed	**1 mark** Limited analysis Chains of reasoning are not fully developed	**1 mark** Limited evaluation Counterarguments are present but not developed.
0	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

Likely to fall:
Brexit effect (could operate either way – impacts on both supply and demand)
Majority of forecasts in the chart suggest a fall of some sort.
House prices have already started to drop in some areas and for some house types (Figures 2 and 4)
House price rise has been very significant – bubble?
Many of the factors which have driven house prices up might fade away – QE, low mortgage rates, help to buy – no guarantee that they will continue.

Likely to continue rising
Nobody can predict the end of bubbles and they tend to be self-fuelling, operating independently of real market forecast
Actions of home-builders to build property at a slow pace to maximise their profits.
Evidence from figure 6
Constraints on supply likely to be sustained –green belt and constraints on local council finances.
London attractive as a financial centre – inward investment likely to continue
May continue to rise in areas where prices have been undervalued but fall in others such as the south east where the boom has been stronger.

1 (e)	**With reference to the data, explain how the Bank of England's QE programme affects households and discuss the extent to which it has been beneficial for them. [11]**		
Band	AO2	AO3	AO4
	4 marks	3 marks	4 marks
3	**4 marks** Excellent application The data is used comprehensively on both sides of the argument	**3 marks** Excellent analysis Well-developed chains of argument showing a thorough understanding of how the effects identified in AO2 have come about. There is a convincing explanation of the QE process	**4 marks** Excellent evaluation Well-developed arguments on both sides and the answer makes well-reasoned judgements in the context of the case showing good depth of discussion, coming to a supported view as to the extent to which QE has been beneficial to households
2	**2-3 marks** Good application The data is very well used on one side of the argument or well used on both Low band answers will have more superficial use on one side of the case	**2 marks** Good analysis Developed chains of argument showing an understanding of how the effects identified in AO2 have come about. There is a reasonable explanation of the QE process with some vagaries	**2-3 marks** Good evaluation The answer is two-sided with developed arguments on both sides. Low band answers may be underdeveloped on one side of the case.
1	**1 mark** Limited application Use of the data is less effective. Relevant data has been used but not well developed	**1 mark** Limited analysis There is a limited explanation of how the QE process brings about impacts on households which nevertheless demonstrates some understanding of what QE is	**1 mark** Limited evaluation The answer is two sided, but points are asserted or there is judgement of a one-sided response
0	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO2/4:
House prices have risen by over 60% trough to peak – those already owning property have therefore benefitted significantly as the value of any mortgage falls as a proportion of the price of the asset. Those who are not home-owners are increasingly priced out of the market, putting stress on the rental market. Nevertheless, this looks very much like a bubble and anyone coming into the market in 2018-19 stands a significant risk of negative equity in the short term.

Share prices have risen over 70% trough to peak meaning that anyone already in the market (those with pension funds and financial investments) will have benefitted. However, such people are only a minority – many have a minimal pension fund or are employed by the state on defined benefit pensions.

Savings rates have been destroyed, falling from 3.5% in real terms to negative for almost the entire period of QE (other than 2014-15 when they rose to about 1% real). This damages anyone with significant savings or those who are retired and trying to live off savings wealth – therefore the effects are mixed. Low rates have also led to a flight to risky investments with predictable consequences in terms of fund collapses. On the other hand, borrowing costs fall too, meaning that high-debt households will have more discretionary income.

Inequality has been both widened or narrowed depending on how you look at it. In proportional terms the lowest decile has gained the most, but this is likely to have been a handful of people within that decile who owned property, meaning that the analysis is misleading; the impact on the wealth of the lowest decile in absolute terms is essentially nil. The wealthiest 10% have clearly gained very significantly in absolute terms.

According to the BoE, QE made the recession less serious than it might otherwise have been (+1.5-2% of GDP). Hence helping to support jobs and therefore benefit low-income groups with lower skills who might find it harder to find another job.

Hence the effects have been mixed with some groups gaining and others losing.

AO3:
QE is an asset purchase scheme. In the UK the BoE has bought (primarily) UK government bonds. These purchases have the immediate effect of driving up bond prices and reducing bond yields.

The increase in bond prices means that remaining bond-holders have higher levels of wealth, boosting confidence and possibly consumption.

The reduction in bond yields means that investors will seek out higher returns from other assets such as property and bonds, increasing the value of those assets and in turn reducing their yields too. In addition to the wealth effects arising from this, lower yields make it easier for corporations to access funding via equity and loans.

Likewise, the increase in liquidity in the system may have made banks more willing to lend, allowing households to access loans at low rates.

2 (a)	**With reference to Extract 1, outline the difference between a GDP recession and a 'per capita' recession. [4]**	
Band	AO1	AO2
	2 marks	2 marks
2	**2 marks** Good understanding The difference between a recession and a per capita GDP recession is clearly understood showing how population affects the latter figure	**2 marks** Good application Data is well used to support the answer
1	**1 mark** Limited understanding Understanding of one of a recession and a per capita GDP recession is present	**1 mark** Limited application Data is used to support the answer, but usage has not been well developed.
0	**0 marks** No valid understanding	**0 marks** No valid application

Indicative content:

AO1
A GDP recession occurs when GDP falls in at least two consecutive quarters of the year.
A per capita recession occurs when GDP per head/per capita falls in two consecutive quarters. This means that the economy's GDP doesn't grow fast enough to match the increase in population.

AO2
There is no recession because GDP growth has fallen from 4% to 1%- therefore there is no recession.
A per capita recession exists because per capita GDP shrank in the third and fourth quarter by 0.1% in the 3rd quarter and 0.1% in the 4th.
Data needs to be used to support understanding shown in AO1, not just lifted

2 (b)	**Discuss the possible effects of the changes in the household savings ratio shown in Figure 1 on Australian households and the Australian economy.** **[8]**			
Band	AO1	AO2	AO3	AO4
	1 mark	2 marks	2 marks	3 marks
3				**3 marks** Excellent evaluation Answer makes well-reasoned judgements showing a good depth of discussion. One evaluative point will have been made for each of households and the economy
2		**2 marks** Good application Data used is well-developed to support the answer	**2 marks** Good analysis Answer has well developed chains of reasoning that link to impacts of the falling savings ratio on households and/or the economy	**2 marks** Good evaluation Developed counterarguments are present on either households or the economy
1	**1 mark** Limited understanding Understanding of the savings ratio is shown	**1 mark** Limited application Data is used to support the answer	**1 mark** Limited analysis Chains of reasoning are less well developed	**1 mark** Limited evaluation The evaluation is not well developed and lacking depth. Superficial response.
0	**0 marks** No valid diagrams	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation.

Indicative content:

AO1
Understanding that the savings ratio is the proportion of GDP saved rather than an absolute amount of saving.

AO2
Chart is used directly as part of the answer - savings ratio has fallen from 10% down to 2%.
The Australian economy is on the brink of recession, so a fall in the savings ratio might help to prevent this.
Households may suffer as a result of inadequate pensions and low savings for emergencies.
But falling savings ratio helps to sustain household living standards given weak earnings growth.
Fall in savings ratio means that household debt is rising because consumption is rising faster than wages.

AO3
The fall in the savings ratio may give households more spending power maintaining consumption levels/living standards if wages are depressed.
Lower savings ratio may mean higher consumer spending in the economy which boosts AD and via the multiplier GDP.

AO4
Lower precautionary balances for times when household income falls/less saved for big ticket items.
May imply a failure to build up pension savings, creating problems later in life.
Lower savings ratio may imply more households are financing spending on credit, which comes with interest payments and risk of default. Borrowers also vulnerable to potential increases in interest rates (although these are low and forecast to remain so).
Fall in the supply of loanable funds which can have a negative effect on bank lending and investment (Harrod-Domar etc.).
Risk of credit bubble emerging.
Possible inflation risk

<table>
<tr><td>2 (c)</td><td colspan="3">Using the data, assess the extent to which consumer spending in Australia will continue to grow. [10]</td></tr>
<tr><td rowspan="2">Band</td><td>AO2</td><td>AO3</td><td>AO4</td></tr>
<tr><td>3 marks</td><td>3 marks</td><td>4 marks</td></tr>
<tr><td>3</td><td>3 marks
Excellent application

The data is well used on both sides of the argument</td><td>3 marks
Excellent analysis

Well-developed chains of argument analysing rising or falling consumer spending trends</td><td>4 marks
Excellent evaluation

The answer makes well-reasoned judgements in the context of the case showing good depth of discussion</td></tr>
<tr><td>2</td><td>2 marks
Good application

The case is well used on one side of the argument</td><td>2 marks
Good analysis

The answer has chains of reasoning that explain likely rising or falling consumption</td><td>2-3 marks
Good evaluation

The answer has developed counter-arguments or evaluative points.</td></tr>
<tr><td>1</td><td>1 mark
Limited application

Use of the data is less effective

Relevant data has been used but not well developed.</td><td>1 mark
Limited analysis

Chains of reasoning are not fully developed</td><td>1 mark
Limited evaluation

Only one evaluative point may have been developed or more points have been identified but not developed</td></tr>
<tr><td>0</td><td>0 marks
No valid application</td><td>0 marks
No valid analysis</td><td>0 marks
No valid evaluation</td></tr>
</table>

Indicative content:

AO2/3
Reasons consumer spending should continue to grow.
Record low interest rates – and expected to stay low.
Low and falling savings ratio.
Low levels of unemployment.
Growth in LNG sector supporting employment there.
Economic growth still positive.
Falling asset prices don't cut consumption in the short term.

AO2/4
Reasons consumer spending might not continue to grow.
Tighter credit and lending by banks following the Royal Commission report.
Wage growth sluggish.
House prices: negative wealth effect.
Per capita recession.
Rising debt levels because of falling savings ratio.
Drought in eastern states.
Coal and Iron ore sectors suffering partly due to slow growth in China.

2 (d)	**With reference to Extract 2, explain the need for regulation of financial systems. [8]**		
Band	AO1	AO2	AO3
	2 marks	3 marks	3 marks
3		**3 marks** Excellent application Data is fully used throughout the answer to provide examples of and reasons for financial sector regulation	**3 marks** Excellent analysis The answer identifies and effectively explains the need for financial regulation and shows a clear line of reasoning. The consequences of a failure to regulate are developed
2	**2 marks** Good understanding The answer shows a good understanding of the meaning of financial regulation	**2 marks** Good application Relevant data is well used to support the answer. Examples of financial market failure from the data being used to support theoretical analysis	**2 marks** Good analysis The answer identifies and effectively explains the need for financial regulation and shows a clear line of reasoning
1	**1 mark** Limited understanding The answer shows limited understanding of the role of financial regulation being vague or only partially correct	**1 mark** Limited application Relevant data is used to support the answer, but usage has not been well developed nor always applied consistently to theoretical analysis	**1 mark** Limited analysis Reasons are identified but chains of reasoning may not be fully developed
0	**0 marks** No valid understanding	**0 marks** No valid application	**0 marks** No valid analysis

Indicative content:

AO1
Financial regulation involves authorities such as central banks imposing restrictions on financial institutions. These may include:
Setting minimum standards for capital and liquidity
Setting standards for conduct
Controls on the types of products that can be offered and to whom
Rules on information provision
Investigation of misconduct (such as misselling)

AO2
Case is used to support the need for regulation
Billing the dead for financial advice
Deliberately misleading regulators
Sub-prime loans
Misleading advice
PPI

AO3
Regulation is needed to tackle various forms of financial market failure such as:
Asymmetry of information – customers missold financial products to gain more profits for financial institutions.
Regulatory capture – financial institutions misleading regulators.
Behavioural- safeguards not in place to protect consumers from acting irrationally with loans and financial products.
Moral hazard-banks and their employees take bigger investment risks knowing that central banks/governments will rescue them.
Excessive speculation- herding/animal spirits.
Externalities- a poorly banking/financial sector could collapse and damage the economy in terms of output and employment.

Strong AO3 will explain how financial regulation can deal with market failures and negative outcomes.

2 (e)	**To what extent is being 'well-endowed with natural resources' (line 38) always a barrier to economic development? Use the data and your own knowledge to support your answer. [10]**			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	3 marks	3 marks
3			**3 marks** Excellent analysis Arguments have been well developed on one side of the argument showing a thorough understanding of why a resource curse could restrict **economic development** Clear lines of reasoning are evident	**3 marks** Excellent evaluation Well-developed counter-arguments are made, arguing that high levels of resource endowments might well not act as a barrier to economic development Answer reaches a reasoned judgement.
2	**2 marks** Good understanding The answer identifies a good range of issues surrounding being well-endowed with natural resources such as a resource curse or Dutch disease	**2 marks** Good application Effective use of relevant data (from case or own knowledge) to support arguments as to how high levels of resource endowment can affect economic development in a country	**2 marks** Good analysis Arguments have been well developed on one side of the argument showing an understanding of why a resource curse could hold an economy back Clear lines of reasoning are evident	**2 marks** Good evaluation Developed counter-arguments are made, arguing that high levels of resource endowments might well not act as a barrier to economic development
1	**1 mark** Limited understanding The answer identifies a limited range of issues surrounding being well-endowed with natural resources such as a resource curse or Dutch disease	**1 mark** Limited application Relevant data (from case or own knowledge) has been used but not well developed Use of the data may be superficial or not well applied to the question	**1 mark** Limited analysis One side of the argument has been developed but with unconvincing chains of reasoning	**1 mark** Limited evaluation Counter-arguments are present but lack development
0	**0 marks** No valid understanding	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation.

Indicative content:

AO1
Issues include:
Corruption
Appreciation in the exchange rate (Dutch disease),
Foreign ownership
Low-income elasticity of demand contributing to falling terms of trade in the long run (Prebisch-Singer)
Low PES and PED contributing to primary product price instability
Lack of incentive to diversify into other economic activities
Less need to educate workforce.

AO2
Natural resources are clearly contributing to Australia's economic success – 3/5% of GDP and a major source of export earnings. This suggests that Australia is sufficiently diversified to avoid some of the more serious issues associated with resource dependency.
On the other hand, in 2019-20, Australia's growth may well be hit by falling primary exports. Commodity purchases appear to be quite income elastic, exposing Australia to China's slowdown.
Some evidence of Dutch disease from Figure 2 – clear correlation between exchange rates and commodity prices.
Australia has managed to grow for a long time without a recession and resources have formed a part of this.

AO3
The reasons put forward to explain issues such as the resource curse, are disputes of ownership, corruption, appreciation in the exchange rate (Dutch disease), foreign ownership, low income and price elasticity of demand, lack of incentive to diversify into other economic activities e.g. Nigeria, DRC and Venezuela. These factors hold back economic development in an economy.

AO4
Resource endowments are not necessarily a barrier to economic development. Norway has made effective use of natural resources (creating a successful sovereign wealth fund).
Botswana is dependent on the diamond industry with 40% of GDP stemming from diamonds but has had strong growth.
Australia depends heavily on the exports of minerals (coal and iron ore) and is a highly developed economy (data).
Resource rich countries can avoid the resource curse by having a flexible and robust macroeconomic and industry policy framework, a highly accountable public service and government, less corruption and clearly defined property rights.
Financial flows need to be fully transparent.
Mining generates relatively few jobs, so what happens to the royalties is critical.
Extraction rights should be sold by auction.
Resource rich country governments should also maximise the amount of information about the country's subsoil assets.