

**EC4****GENERAL MARKING GUIDANCE****Positive Marking**

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate 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.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

**GCE ECONOMICS – EC4**  
**MARK SCHEME -SUMMER 2014**

**Section A**

Question	Answer	Mark allocation	Assessment objective
1. (a)	<p><b>Explain what happened to rail fares between 2004 and 2013.</b></p> <p><b>Level 1</b> Identification of increase for all tickets/season tickets e.g. higher than inflation for 3<sup>rd</sup> successive year rose compared to earnings. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development e.g. rising in real terms (tickets 57%, earnings 30%) use of figures/percentages differential between ‘all tickets’ and season tickets narrowed after 2012. <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4</b> <b>AO2 4</b>
(b)	<p><b>Explain George Osborne’s argument that the HS2 link would be an “engine of growth for the north of the UK”.</b></p> <p><b>Level 1</b> Identification of possible benefits e.g. faster travel, businesses establish in north orders for construction businesses other multiplier effects reduced need for Government support in north. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development related to growth e.g. reduction in costs increased international competitiveness increase in AD/AS - Outward movement of PPC - because of improved infrastructure. The wealth moves North. <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4</b> <b>AO2 4</b>
(c)	<p><b>Discuss whether improvements in the rail network should be financed by an increase in fares rather than by increasing subsidies.</b></p> <p><b>Level 1</b> Explanation of possible advantages of policy e.g. reduction in subsidies/tax burden Government spending fairer that passengers should pay more rail passengers better off than average taxpayer better use for tax revenue elsewhere/opportunity cost. <b>1 – 6 marks</b></p>	<b>12</b>	<b>AO3 6</b> <b>AO4 6</b>
	<p><b>Level 2</b> Evaluation of policy e.g. fares already rising in real terms/as proportion of income Government backing required for larger-scale investment might create greater external costs by increasing road travel. <b>7 - 12 marks</b></p>		

Question	Answer	Mark allocation	Assessment objective
(d)	<p><b>Discuss the view that it would be better to spend £33 billion on improving education and health services than on the HS2 link.</b></p> <p><b>Level 1</b> Explanation of case for education and health spending rather than HS2  e.g. benefits would be more widespread  HS2 will widen regional disparities  Education and health merit goods e.g. will make workforce more productive/increase LRAS more efficiently  Might create more employment.  HS2 benefits are very long term.  <b>1 – 6 marks</b></p> <p><b>Level 2</b> Evaluation of case  e.g. HS2 needed to make businesses more efficient/will shift LRAS to right  boost for output. Employment and profit in construction and ancillary industries  regional multiplier effects  will reduce business costs  reduction of traffic congestion and pollution  UK will be more internationally competitive.  <b>7 – 12 marks</b></p>	<b>12</b>	<b>AO3 6 AO4 6</b>
2. (a)	<p><b>Using the data in Figure 1, explain how the output of different sectors of the economy changed between 2008 and 2012.</b></p> <p><b>Level 1</b> Identification of different rates  e.g. services maintained output over period/  fell until 2009 and rose afterwards  industry and construction fell (approximately 13% and 18% respectively)  construction fell most. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development using data  e.g. construction fluctuated most  Use of percentages e.g. industry and construction fell  (approximately 13% and 18% respectively).  <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4 AO2 4</b>

Question	Answer	Mark allocation	Assessment objective
(b)	<p><b>Explain possible reasons for the changes shown in Figure 1.</b></p> <p><b>Level 1</b> Explanation of possible causes e.g. falling house prices reduce construction output and house-related industries e.g. white goods, furniture, DIY consumers reducing spending on durables may reduce industry output world recession likely to hit industry rather than services service employment supported by high percentage of jobs being in public sector manufacturing and construction more reactive to changes in GDP/income. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development using figures/percentages/explaining effects of economic variables e.g. income elasticity of demand, wealth effect, multiplier effects on different sectors. Effect of recession/growth. <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4</b> <b>AO2 4</b>
(c)	<p><b>Discuss the possible effects of the Bank of England “announcing that it plans to keep interest rates low for a long time, at least until mid-2015”.</b></p> <p><b>Level 1</b> Explanation of possible advantages of committing to low interest rates beneficial for housing market and related industries e.g. might encourage people and firms to increase consumption and investment might foster more optimistic expectations may help to keep exchange rate competitive/help to reduce trade deficit. Theoretical development e.g. rising AD/AS. <b>1 – 6 marks</b></p> <p><b>Level 2</b> Evaluation of policy may indicate lack of commitment of controlling inflation low interest rates may discourage saving capital inflows may fall exchange rate may fall and increase inflation effect may be long-term won't work unless consumer and business confidence strong/other factors may be more relevant than interest rates. <b>7 - 12 marks</b></p>	<b>12</b>	<b>AO3 6</b> <b>AO4 6</b>

Question	Answer	Mark allocation	Assessment objective
(d)	<p><b>Discuss the argument that George Osborne should “relax his grip on the nation’s purse strings and abandon his obsession with cutting the public sector deficit.”</b></p> <p><b>Level 1</b> Explanation of case for abandoning concentration on public sector deficit  e.g. reducing quality of public services  causing job losses and higher social security payments/lower tax revenue  reducing confidence  downward multiplier effects because of public spending cuts  may lead to high interest rates  more important to create growth and employment  lower provision of merit goods e.g. health education may reduce LRAS  alternative is permanent stagnation  lower interest rates not working  could use supply-side policies. <b>1 – 6 marks</b></p> <p><b>Level 2</b> Evaluation of abandoning “austerity”  e.g. may reduce confidence in the economy  possible inflationary effects  may discourage foreign investment/need to maintain confidence of international financial markets  possible effects on exchange rate  might make UK uncompetitive  higher Government spending may lead to higher interest rates/crowding-out/bad effect on housing market  GDP rising again after 2009 so policy must be working. <b>7 – 12 marks</b></p>	12	AO3 6 AO4 6

**Section B**  
Answer **one** question

**The following level should be applied to each question.**

<b>LEVEL</b>	<b>MARK BAND</b>	<b>DESCRIPTOR</b>
Level 1	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with sound logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

## Section B

Question	Answer	Mark allocation	Assessment objective
3.	<p><b>Discuss the view that a policy of significant cuts in the rates of all taxes is the best way to create long-term growth.</b></p> <p>Definition of long-term growth e.g. increase in LRAS/outward shift of PPC, distinction between growth and recovery, descriptive explanation of effect of tax cuts.</p> <p>Explanation of how tax cuts may affect growth using appropriate theory e.g. AS/AD analysis  e.g. higher disposable income if personal taxes cut  tax cuts create incentives to effort/enterprise/investment  higher retained profits for investment if corporation taxes reduced  higher potential profitability  cutting excise taxes will lower prices/inflation/create negative externalities  e.g. higher alcohol and tobacco consumption  cutting customs duties may increase imports  will increase aggregate demand  creation of confidence.  May increase tax revenue/Laffer curve.</p> <p>Evaluation  e.g. may have only short-term effects if AS is unresponsive  depends upon level of output  possible inflationary effects  may increase imports/widen trade deficit  need for supply-side policies to accompany fiscal policy if LRAS is to shift.  Other policies better (answers must focus mainly on tax cuts).</p> <p>Level 4 answers should refer to possible effects on other macroeconomic variables/whether policy would work  e.g. inflation, imports, time-lags before policy takes effect.</p>	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
4.	<p><b>“A sudden increase in aggregate demand in the UK would be more likely to increase inflation than to reduce unemployment”. Discuss.</b></p> <p>Identification and explanation of increase in AD/possible causes e.g. higher consumption/investment/Government spending/exports.</p> <p>Explanation of why prices may rise without reducing unemployment  e.g. demand-pull inflation,  prices will rise if AS does not rise in line with AD  if output is static unemployment may not fall  effect depends upon elasticity of supply/shape of LRAS curve  firms may be unwilling to expand output/investment because of lack of confidence that increased AD will last  increased AD may increase imports therefore little effect on output/employment  theoretical explanation e.g. Friedman’s long-run Phillips curve, use of Keynesian X/AS/AD analysis.</p> <p>Evaluation of statement  e.g. If LRAS curve horizontal (e.g. mass unemployment) output and therefore employment may increase without increase in price level  increased AD may increase business confidence and investment therefore shifting LRAS curve to right and reducing/removing possible inflationary effect  theoretical explanation e.g. traditional Phillips curve, use of Keynesian X/AS/AD analysis.</p> <p>Level 4 answers should refer to importance of assumption about LRAS curve and refer to other macroeconomic variable such as growth and trade balance.</p>	20	<b>AO1 4</b> <b>AO2 4</b> <b>AO3 6</b> <b>AO4 6</b>



Question	Answer	Mark allocation	Assessment objective
5.	<p><b>“The protectionist policies of rich industrialised countries are the largest obstacle to the development of poor developing countries”. Discuss.</b></p> <p>Identification and explanation of protectionist measure e.g. tariffs, quotas, exchange controls, licence restrictions, domestic subsidies.</p> <p>Explanation of how protectionism may damage developing countries e.g. generally heavier on goods and services than on commodities large trade blocs e.g. EU/NAFTA often restrict access rich countries subsidise own producers such as farmers effects on developing countries e.g. exports made dearer in richer countries by tariffs/restricted by quotas/subsidies make domestic prices lower.</p> <p>Evaluation of statement e.g. WTO has encouraged dropping of trade barriers Technology transfer is improving LDC productivity Poorer countries have natural resources/lower costs so can compete Other factors such as labour skills, governance, economic policies etc. more important than protectionism some countries such as tigers/BRIC have succeeded.</p> <p>Level 4 answers should refer to specific examples of LDCs and explain why the effects of protectionism may vary between different countries.</p> <p>The answer should focus on protectionism.</p>	20	<b>AO1 4</b> <b>AO2 4</b> <b>AO3 6</b> <b>AO4 6</b>



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