

UNIT 2: ECONOMICS IN ACTION**MARK 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 learner 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.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1

Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2

Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

AO3

Analyse issues within economics, showing an understanding of their impact on economic agents

AO4

Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues

Q.1	Mark scheme	Total
(a) (i)	<p>Explain the term ‘unemployment rate’.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a complete definition.</p> <p>Award 1 mark for incomplete or brief definition.</p> <p>Percentage of total workforce who are unemployed and are looking for a paid job, Claimant count.</p>	2
(a) (ii)	<p>Explain two problems that might be caused by unemployment.</p> <p>AO1: 2 marks</p> <p>Award 1 mark for each correct problem identified.</p> <ul style="list-style-type: none"> - Increased government spending on welfare - Increased crime rates - Waste of resources - Lower GDP <p>AO3: 2 marks</p> <p>Award 1 mark for each development of the problem.</p> <p>Development of points made to say why that problem may have been caused by unemployment.</p>	4
(b) (i)	<p>Using the data in figure 2, calculate what percentage of Wales’ total international exports in 2013 were generated by petroleum, petroleum products and related materials.</p> <p>AO2: 2 marks</p> <p>Award 1 mark for identification of correct figures.</p> <p>Award 1 mark for correct calculation.</p> <p>$(100/14.8bn) \times 3.8 = 25.7\%$</p>	2
(b) (ii)	<p>Using an aggregate demand and supply diagram, explain how an increase in exports can lead to a decrease in unemployment.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a correctly drawn diagram.</p> <p>Award 1 mark for a diagram that has key features missing.</p> <p>AD/AS diagram drawn With AD shifting to the right. Increase in GDP along the x-axis marked on.</p> <p>AO3: 2 marks</p> <p>Award 2 marks for a clear analysis that explains that as exports increase (since they are a component of AD) AD will increase and therefore GDP will increase, increasing the demand for labour and hence decreasing unemployment rate.</p> <p>Award 1 mark for an incomplete or brief analysis.</p>	4

Q.1.(c)	Evaluate the current performance of the Welsh economy. [8]	
Band	AO2	AO4
	4 marks	4 marks
2	3-4 marks	3-4 marks
	Data is used effectively to support the idea that Wales is or is not performing well at the present time. Answers are likely to have 2 or 3 well applied pieces of evidence drawn from the data and explained.	The answer is well-balanced and a final judgement as to the overall strength of the performance of the Welsh economy is made or most points are well qualified at the point at which they are made. Evaluative points are generally developed.
1	1-2 marks	1-2 marks
	Appropriate data from the text is identified to support or oppose the idea that the Welsh economy is performing well, but either the range is too narrow or the points are too superficial to be worth a top band mark.	Some discussion is present and answers in this level will at the very least be clear two-sided responses. Alternatively a strong one-sided response is made in which the points are qualified to some extent.
0	0 marks	0 marks
	No data used from the passage.	No evaluation or purely brief evaluation on one side of the argument only.

Indicative content:**Good performance:**

Exports rose by 11% in 2013, far above that of the rest of the UK, suggesting underlying industrial strength **but** from what base?

Unemployment is below that of the UK as a whole, again suggesting that the Welsh economy is relatively robust.

Wales has a strong base of natural resources to support its economy especially in wind and tidal power.

Wales has been successful in attracting big global multinationals which suggest both that the economy is strong and add to Welsh GDP and employment.

Weak performance

Unemployment of 6.7% is still relatively high – clearly the after-effects of the recession have not yet been resolved.

Many jobs in Wales (25%) are in the public sector, suggesting that the Welsh economy isn't quite as strong as the increase in exports might suggest.

Average incomes in Wales are below those of the UK as a whole, suggesting that many jobs are in low paid sectors.

The Welsh government is believed to have an underlying budget deficit of 20% of GDP, which is an extremely large figure, suggesting that the economy as a whole cannot generate the tax revenue it needs to provide public services, **although** this might not be the case if Wales had more independent tax-generating powers.

Overall

Wales seems to have recovered more quickly from the recession than the rest of the UK and appears to have a promising export sector, but as it stands, the economy may well be too dependent on public sector jobs, which have contributed to a significant budget deficit.

Q.1.(d)	To what extent are the supply-side policies identified in the text likely to make Wales a tiger economy? [10]		
Band	AO1	AO3	AO4
	3 marks 2-3 marks	3 marks 2-3 marks	4 marks 3-4 marks
2	Learner has a good understanding of supply-side policies. Learner correctly identifies at least 2 supply-side policies from the text.	Learner shows a good understanding of how each supply-side policy leads to economic growth. Learner should normally be expected to use an AD/AS diagram and explain thoroughly the movements in AS (and indeed AD) which arise from the chosen policy – but this is not absolutely essential.	Learner evaluates each policy in order to show good appreciation of the reasons why this policy may not bring about an increase in economics growth. Greater credit should be given for those answers that are evaluated in the context of Wales rather than purely theoretical/standard answers.
1	1 mark Learner has a limited understanding of supply-side policies. Only 1 supply-side policy correctly identified from the text.	1 mark Learner offers a limited understanding of the impact of supply-side policies on the economy and/or doesn't successfully explain why growth may result from the use of such a supply-side policy.	1-2 marks Limited or brief evaluation. The evaluation may be unbalanced or focus on 1 issue. The evaluation is superficial/theoretical and not in the context of the data.
0	0 marks Learner does not display an understanding of supply-side policies.	0 marks Analysis is incorrect or missing.	0 marks Evaluation is either missing or incorrect.

Indicative content:

Learners show some understanding of the nature of supply-side policies (SSP) - policies associated with improving the competitiveness and efficiency of markets.

Learners identify SSP from the text:

- Jobs Growth Wales
- Non-repayable grants to firms for training purposes
- Reduced bureaucracy in planning permission
- Infrastructure links

Weaker answers will have an AS/AD diagram to show how supply-side policies **in general** can create economic growth (higher GDP) and lower average prices. There will be little attempt to explain the SSP policies in the text and how they affect the AD/AS diagram

The **best** answers will link the SSP from the text to the AS/AD diagram they have drawn.

For example:

Grants paid to firms to subsidise training costs result in a more skilful labour force which allows the aggregate supply of the economy to increase therefore forcing down average price levels whilst stimulating economic growth.

Improving infrastructure such as roads and trains will reduce time taken in the movement of goods and people for businesses. This then allows the firm to become more efficient by reducing their transport costs and hence aggregate supply will increase. Improved infrastructure will also allow the AD curve to shift rightwards and this will help to increase economic growth.

Less bureaucracy in the way of form filling will allow firms to concentrate on their core business which means that the firm will become more efficient.

Evaluation

Learners appreciate that SSP are not always effective and at times have considerable opportunity costs. The **best** answers will evaluate in terms of the SSP referred to in the text. For instance:

The effect of SSP on average price levels and particularly GNP depend on what is happening to AD at the same time. If AD is falling then SSP may not have any discernible effect.

The infrastructure and training grants referred to in the text will be expensive for the Welsh Government to implement. There is an opportunity cost in that other areas of the Welsh economy may be forced to have cutbacks, such as education and health.

The Jobs Growth Wales project may provide work for 6 months for 16-24 year olds, but are those jobs maintained into the long-term? Are the job opportunities provided monitored for their fitness?

Reduced bureaucracy may be attractive but in some cases it protects the interests and safety of the public. If firms are able to side line rules and regulations then there is a possibility that consumer welfare is at risk.

SSP's referred to are often long-term in their effect. Eg major road improvements can take 2-4 years for businesses to see improvement and in the short-term there are increased delays and congestion.

Weaker answers will evaluate in generic terms and refer to SSP not mentioned in the text. Some limited credit should be given to these learners. For instance:

Trade union controls to create a more flexible labour market mean that some workers can be exploited.

Reductions in PAYE to encourage more people to take up work.

Reduce corporation tax to allow firms to invest more in new technology and equipment.
SSP's have a time lag problem.

Q.1.(e)	Discuss the view that encouraging multi-national corporations to set up their business in Wales will benefit the Welsh economy. [10]		
Band	AO1	AO3	AO4
	2 marks	4 marks	4 marks
2	<p>2 marks</p> <p>Learner correctly identifies at least 2 benefits to an economy of multi-national corporation (MNCs) setting up.</p>	<p>3-4 marks</p> <p>Learner shows a good understanding of how each MNCs can lead to benefits for an economy.</p> <p>Learner should focus their answer in an analysis of the macroeconomic objectives of an economy and to use an AD/AS diagram.</p> <p>The top mark is reserved for an answer that appreciates the main objectives that have been highlighted in the data concerning Wales (e.g. growth, unemployment and exports).</p>	<p>3-4 marks</p> <p>Learner fully evaluates the advantages and disadvantages of MNCs.</p> <p>Learner identifies and explains several downsides to MNCs which counter balance the benefits.</p> <p>Clear reference to economic theory and real-life context to justify judgement.</p> <p>Again, greater credit should be given for those answers that focus on the context of Wales rather than purely theoretical/standard answers.</p>
1	<p>1 mark</p> <p>Learner successfully identifies 1 benefit.</p>	<p>1-2 marks</p> <p>Learner offers a limited understanding of the role of MNCs on the economy.</p> <p>Superficial development of the benefits that may result from MNCs.</p> <p>The benefits identified are theoretically correct but not at all in context of Wales.</p>	<p>1-2 marks</p> <p>Learner offers only a limited evaluation of the impact of MNCs on the economy.</p> <p>Evaluation is one-sided with little development.</p>
0	<p>0 marks</p> <p>No benefits identified.</p>	<p>0 marks</p> <p>Analysis is incorrect or missing.</p>	<p>0 marks</p> <p>Evaluation is either missing or incorrect.</p>

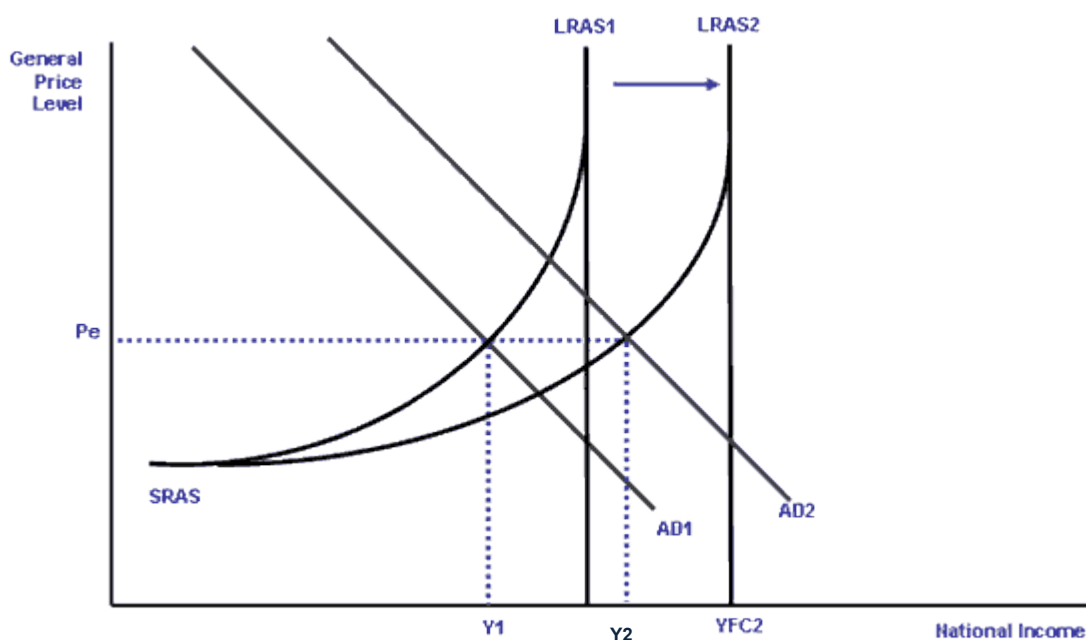
Indicative content:

If a multi-national company (MNC) set up business in Wales this is called foreign direct investment (FDI) and benefits the economy in a number of ways.

Foreign MNCs create direct employment in the running of their premises plus indirect employment via suppliers etc in the local economy.

MNCs increase investment in the economy and often export their products thus boosting aggregate demand.

The arrival of MNCs in countries such as Wales boosts the productive capacity of the economy and will also shift the aggregate supply curve to the right. These effects are shown in the diagram below with national income increase from Y1 to Y2.



However, MNCs coming to Wales may have a significant competitive advantage over Welsh firms vying for the same customers. This could put domestic firms out of business causing unemployment.

MNCs often import their own supplies of materials and components as well as repatriate their profits back to the overseas parent company, thus the balance of payments benefits are not always as good as expected.

Some MNCs have a poor record in relation to the treatment of their employees, an allegation made about Amazon's distribution centres – one of which is in Wales.

Q.2	Mark scheme	Total
(a) (i)	<p>Using supply and demand diagrams, explain why house prices are likely to fall sharply in flood affected areas.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a correct diagram showing demand curve shifting to the left thereby reducing price.</p> <p>Award 1 mark for a diagram that has features missing.</p> <p>AO2: 2 marks</p> <p>Award 2 marks for clear use of the data. Such as, that due to the floods, demand is likely to fall which in turn puts downward pressure on house prices.</p> <p>Award 1 mark for a partial reference to the data.</p>	4
(a) (ii)	<p>what might happen to the price and quantity of household flood defence devices being sold in the UK.</p> <p>AO2: 2 marks</p> <p>Award 2 marks for a correct diagram showing demand curve shifting to the right thereby increasing price and output.</p> <p>Award 1 mark for a diagram that has features missing.</p> <p>AO3: 2 marks</p> <p>Award 2 marks for a clear analysis that due to the floods, demand for household flood defence devices being sold in the UK is likely to increase therefore putting upwards pressure on price and increasing the number being sold.</p> <p>Award 1 mark for a brief analysis with little development.</p>	4
(b)	<p>Assuming that £1bn is spent on flood defences, what is the average spend per household at risk of coastal or river flooding in England?</p> <p>AO2: 2 marks</p> <p>Award 1 mark for identification of correct figures.</p> <p>Award 1 mark for correct calculation.</p> <p>1bn/1.7m = £588</p>	2

Q.2 (c)	Given the increasing frequency of flooding in the UK, discuss with reference to the data whether the government should increase its expenditure on flood defence systems. [10]		
Band	AO2 2 marks	AO3 4 marks	AO4 4 marks
2	<p style="text-align: center;">2 marks</p> <p>Learner uses the context specifically to make their points.</p> <p>Clear reference to the data.</p>	<p style="text-align: center;">3-4 marks</p> <p>Clear chain of argument that analyse the advantages and disadvantages of an increase in expenditure.</p> <p>Learner shows a good understanding of the advantages/benefits of increasing expenditure.</p> <p>Several points are well developed in terms of their positive or negative impact.</p>	<p style="text-align: center;">3-4 marks</p> <p>A critical evaluation on the advantages and disadvantages of increasing expenditure.</p> <p>Learner demonstrates an appreciation of both the advantages and disadvantages of increasing expenditure and evaluates between them with economic theory and real-life context as justification.</p>
1	<p style="text-align: center;">1 mark</p> <p>Learner makes limited reference to the data.</p> <p>The data is not used specifically to build an argument.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited development and analysis.</p> <p>Superficial development.</p>	<p style="text-align: center;">1-2 marks</p> <p>Learner offers only a limited evaluation of the impact of increasing expenditure on flood defences.</p>
0	<p style="text-align: center;">0 marks</p> <p>No reference to the data.</p>	<p style="text-align: center;">0 marks</p> <p>Analysis is incorrect or missing.</p>	<p style="text-align: center;">0 marks</p> <p>Evaluation is either incorrect or missing.</p>

Indicative content:

Benefits may include:

- Fixing market failure
- Prevents the cost of clean-up/health problems that arise from flood water
- Allows industry (esp. agriculture) to keep working
- Keep house prices stable
- Public good – won't be supplied otherwise
- Floods often hit rural, poorer communities

But:

May be very expensive

Money may be wasted – policies may be ineffective

Opportunity cost – there are many other priorities for the government that may be more important

Credit other appropriate points.

Q.2.(d)	Assess whether transport links are the most important economic factor in ensuring the economic prosperity of regional areas like Cornwall. [10]		
Band	AO1	AO3	AO4
	2 marks 2 marks	4 marks 3-4 marks	4 marks 3-4 marks
2	Clear understanding of economic prosperity.	Learner offers a good analysis of why transport links can play a vital role in the improved economic prosperity of regional areas. Greater credit should be given to those answers that reflect the context of the question (Cornwall/SE England) or refer directly to the text/use figures from the data to justify arguments made.	A critical evaluation of whether transport links are the most important factor in areas such as Cornwall. Learner identifies and explains at least 1 other important economic factor in ensuring prosperity and then evaluates the relative merits of both. Again greater credit should be given for those answers that are applied in the context of the UK rather than purely theoretical/standard answers.
1	1 mark Limited understanding of the term 'economic prosperity'.	1-2 marks Learner offers a limited or only partially correct analysis of why transport links are so important to economic prosperity.	1-2 marks Learner offers only a limited evaluation of the importance of transport links to economic prosperity.
0	0 marks Very limited or no understanding.	0 marks Analysis is incorrect or missing.	0 marks Evaluation is either missing or incorrect.

Indicative content:

Cornwall is relatively isolated geographically therefore good transport links with the rest of the UK are likely to be very important.

Better transport links would reduce the costs for Cornish businesses buying goods and services from other parts of the UK. Leading to greater profitability and higher incomes.

Cornish exports to the rest of the UK and foreign countries (tourism and agricultural products) could be increased as tourists can get to Cornwall more quickly/more easily and food products could be delivered elsewhere in the UK more quickly and hence be fresher and command higher prices.

Cornish residents would have a wider area in which to work as commute times would be shortened. This could result in higher incomes and/or more jobs for Cornish residents.

All these points could help boost Cornish GDP per head; an important point as currently earnings in Cornwall are only 79% of average UK earnings.

Evaluation

Other factors could be equally or more important to the economic prosperity of Cornwall.

The provision of better transport links might not, in itself, be sufficient to boost tourism and agriculture. It may be that these industries need a big increase in their marketing effort making the rest of the country more aware of tourist attractions, hotels and the quality of Cornish food products.

Support from local and/or central government could boost the number of business start-ups in Cornwall leading to more job creation/higher incomes. This might be particularly important as both tourism and agriculture are highly seasonal industries. New businesses in other sectors would help fill the 'dead time' for jobs and incomes in tourism and agriculture.

Investment in skills through education and training could increase worker productivity and help generate a higher Cornish GDP. This could cover both skills in general but obviously also to provide the extra skilled workers who would be needed in the tourist industry.

Greater investment in the main sectors. Upgrading of facilities in hotels, B&Bs, restaurants; opening new tourist attractions etc. Similarly new investment in agriculture could increase both productivity and output.

Improved broadband access in the county would help stimulate more business start-ups as well as giving businesses, such as tourism and agriculture better access to their markets.

Q.2.(e)	Evaluate ways in which the UK government might reduce CO2 emissions in the future. [10]		
Band	AO1	AO2	AO4
	4 marks	2 marks	4 marks
2	<p>3-4 marks</p> <p>Learner shows a good understanding of at least 2 ways in which the government might reduce CO2 emissions.</p> <p>Policies are well-explained showing a good knowledge of how they would work in practice.</p>	<p>2 marks</p> <p>Policies are well anchored into the context of the UK at the present time and going forward.</p> <p>Policies are not purely abstract, but do show that the learner is aware of the UK's current situation.</p>	<p>3-4 marks</p> <p>Well-reasoned judgements.</p> <p>Policies are well-qualified with the learner showing a good awareness of the extent to which they are likely to work.</p> <p>Policies are weighed up in terms of their likely overall effectiveness and a good understanding of any limitations is shown.</p>
1	<p>1-2 marks</p> <p>Learner identifies 1 or 2 policies that are appropriate but fails to show a good understanding of how they might work to reduce emissions.</p>	<p>1 mark</p> <p>Policies are appropriate for an advanced economy such as that of the UK, but do not make specific reference to issues of contemporary relevance for the UK at the present time or in the near future.</p>	<p>1-2 marks</p> <p>Limited evaluation which will focus on the effectiveness of the policies.</p> <p>The evaluation is more of list of advantages and disadvantages rather than one which attempts to weigh up the likely effectiveness of policies.</p>
0	<p>0 marks</p> <p>No knowledge or understanding demonstrated.</p>	<p>0 marks</p> <p>Policies are not appropriate to the UK.</p>	<p>0 marks</p> <p>Evaluation is either missing or incorrect.</p>

Indicative content:

This question is deliberately wide-ranging to allow learners scope to write outside of the confines of the data. Hence it is likely that a wide range of possible policies will be discussed. The emphasis therefore is to assess the quality of the explanation of each policy and the limitations to its effectiveness.

Possible policies might include:

Carbon taxes, such as those on aviation, petrol and so on. Such taxes tend to internalise the external costs of emissions and provide a direct incentive to become more efficient in the use of fossil fuels as well as raising revenue for the government. However, they tend to be regressive, may not work if demand is inelastic, impact on domestic inflation and may reduce the international competitiveness of UK firms.

Subsidies for better home insulation and other energy-efficiency initiatives. These policies tend to be quite expensive and generally only have an impact in the medium term. However it might be argued that there is a limit to how effective taxes can be and how much further they can be increased and therefore policies which correct failings in the past, or encourage better use of modern technology in existing homes that were built a long time ago might make a big difference.

Regulations: These include limits on the power of domestic equipment, rules on new home buildings and energy-efficiency and so on. These policies are quite forward-looking and can help to ensure that emissions do not rise in the future. However they again drive up costs for manufacturers and builders and are difficult to make retrospective, meaning that existing homes may be unaffected.

Many of these policies are now introduced at an EU level, making it more difficult for the UK to act independently.

UNIT 3: EXPLORING ECONOMIC BEHAVIOUR**MARK SCHEME****GENERAL MARKING GUIDANCE****Positive Marking**

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Analyse issues within economics, showing an understanding of their impact on economic agents

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Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.