Mark Scheme (Results)
Summer 2010

GCE

GCE ECONOMICS (6EC02) Paper 01

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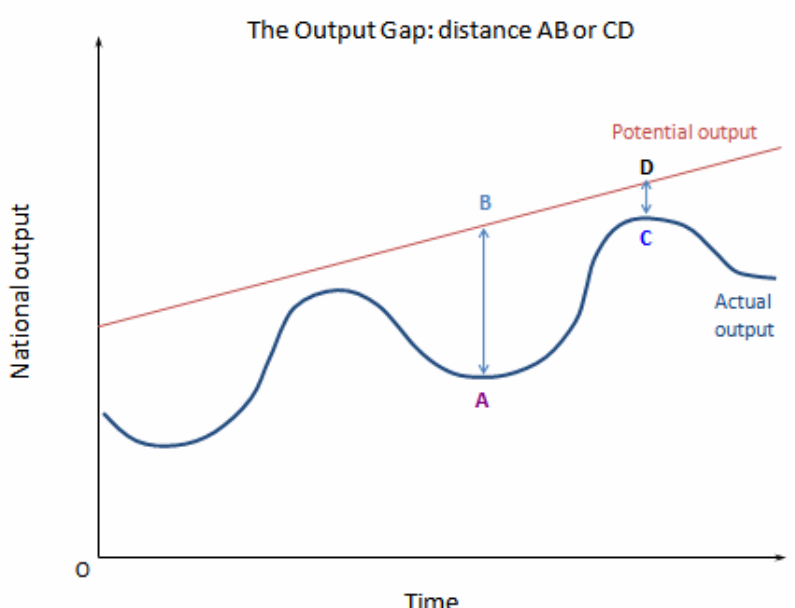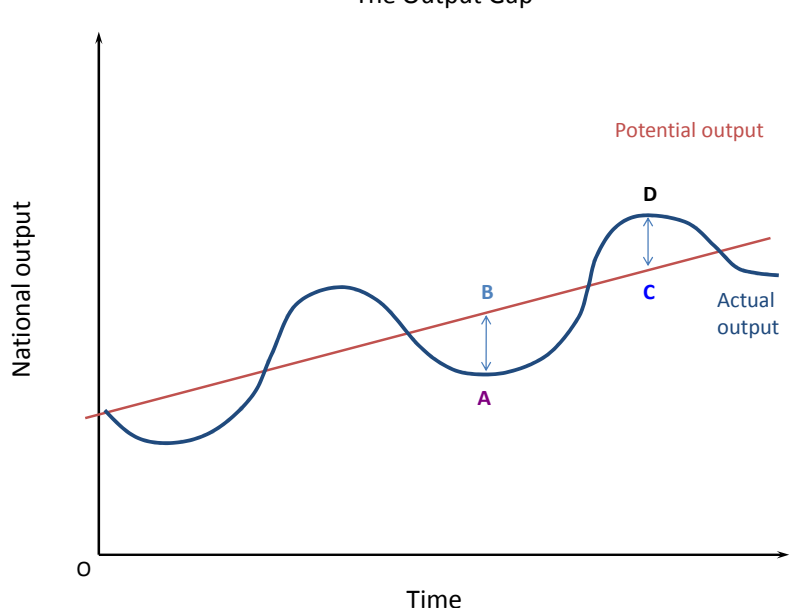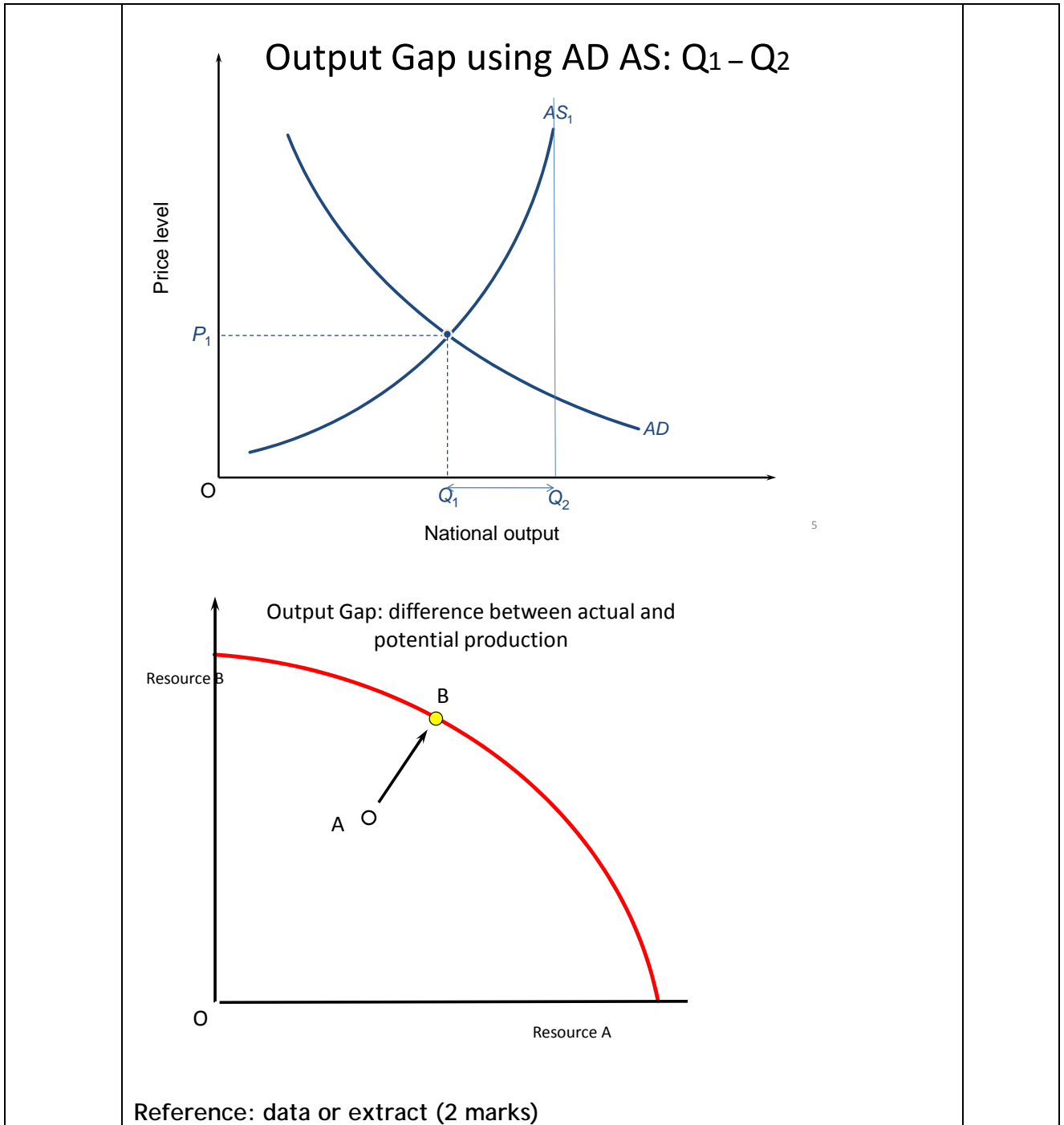Ask The Expert can be accessed online at the following link:

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Question Number	Answer	Mark
1(a)(i)	A measure of the difference between actual and potential (or trend) growth/output/GDP. Reward explanations of both positive and negative output gaps. (2 marks). Allow up to 2 marks for written explanation OR an appropriate diagram (AS/AD, PPF, Business Cycle showing trend or potential and actual) showing actual and potential growth/output/GDP. The Output Gap: distance AB or CD *National output* Potential output D B C Actual output A O — Time The Output Gap *National output* Potential output D B C Actual output A O — Time	(4)
	continued on next page	

Output Gap using AD AS: Q$_1$ – Q$_2$

Price level

AS$_1$

P$_1$

AD

O   Q$_1$ Q$_2$

National output

5

Output Gap: difference between actual and potential production

Resource B

B

A   O

O

Resource A

Reference: data or extract (2 marks)

Question Number	Answer	Mark
1(a)(ii)	Definition of fiscal (2 marks: G 1 and T 1) and monetary policies – interest rates are sufficient (2 marks) Use of extract 2 marks Identification of certain differences (up to 4 marks), e.g. • body in charge, government vs MPC; • frequency of adjustment, typically annual vs monthly.	(6)

Question Number	Answer	Mark
1(a)(iii)	KAA 12 marks Expansionary: (4 marks) G rises or T falls (2 marks); interest rate falls (2 marks) How the policy shifts AD (right/up) either: • Written explanation (2x4 marks); or • Up to 8 marks can be awarded for a written explanation and diagram; Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1) Evaluation (4 marks) factors might include (1x4 marks or 2x2 marks) • that demand management might not work if AS vertical • the policies work in tandem • the policies cancel each other out • inaccurate or missing information • time lag or other short run/long run distinction • taxes may have to rise, or government spending fall in the future • size of multiplier, e.g. high savings ratio means the policy is not very effective • other things not equal, e.g. low confidence, credit crisis	(16)

Question Number	Answer	Mark
1(b)(i)	Unemployment (ILO) up to 2 marks: • out of work in last four weeks (1) • ready to work in two (1) • Questionnaire/interview (1) • Survey by phone call/paper (1) • Internationally recognised (1) • age 16-65 (1) • Sample, and related problems (1) Claimant count up to 2 marks: • the number of people claiming/receiving (1) • JSA/dole/or unemployment related benefit (1) • Age range – 18-60/65 (1) • savings cap (1) • must be able to prove they are looking for work (1). • Register at unemployment offices (1)	(4)

Question Number	Answer	Mark
1(b)(ii)	Unemployment is a lagging indicator or similar indication that there is a time delay (2 marks). Allow one reason up to 4 marks, or two reasons 3+3 marks or 4+2 marks. • Workers are not laid off immediately when sales fall because contracts are in place or for compassionate reasons (this may be two points). • Cost of redundancy and recruitment • Fear that recovery will not be sustained, therefore lack of investment in recruitment and training • As recession hits workforce, incomes fall, so spending falls, so unemployment increases further. A vicious circle. • Workers are only laid off as a last resort because they represent investment in human capital • Unreliable ILO data	(6)

Question Number	Answer	Mark
1(c)	KAA 10 marks Use of data (2 marks) Significance of immigration for employment: • 30% of immigrants have definite job – the immigrants may fill vacancies that cannot be filled by indigenous workers • Increased supply of labour might push down wages and average wage levels will fall. The demand for workers increases and employment increases • Increased consumer spending from increased population means more jobs are created (4 marks for one point or 2+2 marks or 3+1 mark) Significance of immigration for unemployment: • 12% of immigrants are looking for work or the 30% with jobs – these might displace current employees • Surplus labour in the market, e.g. friends and family, might attempt to join labour market but with inappropriate skills (4 marks for one point or 2+2 marks or 3+1 mark) The arguments in reverse are allowable in the context of falling immigration rates (shown in fig. 3) Evaluation 4 marks (2+2 marks or 3+1 mark): • Evidence might not be reliable – e.g. reason for immigration is a loaded question • It is not known whether those coming for 'formal study' are going to remain in the UK • The friends and family may or may not wish to join the labour market; they cannot be counted as unemployed unless they are willing and able to work in the next two weeks. Might have dependents. • Dependents may or may not have an effect • Net migration is a more significant figure	(14)

Question Number	Answer	Mark
1(d)	KAA 18 marks Identification of falling GDP (might be implicit) (2 marks) Diagram or equivalent verbal analysis showing AD and/or AS shift to left/down. Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1) (4 marks) Effects. Award three effects 3 x 4 marks, or two well-argued, 2 x 6 marks. Include positive and negative effects but allow negative/positive effects as evaluation. Factors might include: - Unemployment - Lower incomes - Less government revenue, so there may be lower government spending in future on health, education - Fall in investment so innovation suffers and R&D - Less investment by domestic and foreign firms in UK so job security is lost - Lower external costs of growth - Less inflationary pressure - Trade deficit narrows - Exchange rate changes - Regional effects - Inequality - Social factors, e.g. crime rate, poor health - House prices depressed - Labour market impacts Evaluation 12 marks as 4 x 3 marks or 2 x 6 marks Accept benefits if costs given above or vice versa Factors might include: - Counter-arguments – there are benefits despite costs or vice versa - Changes over time – or other short run/long run issues - Other things are not equal, e.g. depends on government policy or redistribution of income - Falling inflation - environmental damage lessens although jobs fall, as fewer people travel by air - Falling house prices make houses affordable to non-homeowners	(30)

Question Number	Answer	Mark
2(a)(i)	1 marks for explaining weights: weights are attached to reflect relative importance (1 mark) Other elements, up to 3 marks Exclusion of housing costs (1 mark) Price survey (1 mark) Index use (1 mark) Base year (1 mark) Reference to data 3.2% (1 mark) From the expenditure and food survey (1 mark) Basket of goods (1 mark).	(4)

Question Number	Answer	Mark
2(a)(ii)	Award two reasons (2 x 4 marks) • Inflation damages those on fixed incomes • Other widening of income gaps • Maintain international competitiveness • Helps price signalling • Increased confidence in government control of economy • Avoids the dangers of hyperinflation • Avoiding deflation • To maintain value of savings • To encourage investment • Avoid wage/price spiral • Avoid shoe leather costs and/or menu costs 1 mark identifying each reason, 1 mark defining each reason, up to 2 marks explaining each reason.	(8)

Question Number	Answer	Mark

2(a)(iii)	KAA 10 marks
	
	Interest rates must be raised to reduce inflation or vice versa (2 marks)
	
	Description of transmission mechanisms
	  as follows or costs of borrowing increases(2 x 4 marks):
	
	C falls as:
	  • mortgage interest repayments increases
	  • the return to savings increases
	  • hire purchase costs increase
	
	I falls as the opportunity cost or cost of credit rises; expectation of future income might fall
	
	Pound sterling rises in value.
	  • Imports cheap exports dear, so AD falls
	
	The transmission mechanism could be explained using a diagram. Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1)
	
	2 marks can be awarded for use of data
	
	Evaluation (4 marks). Factors might include (1x4 marks or 2x2 marks):
	  • Time lag of 18-24 months before the full effects is felt
	  • Fixed rate mortgages held by half the 9.5 million mortgage holders in the UK
	  • Investment depends on many things besides interest rates, e.g. confidence, availability of credit
	  • Commercial banks might not pass rate changes on
	  • Magnitude or timing of changes (one big change or a prolonged series of change).
	  • Possible impact on AS
		(14)

Question Number	Answer	Mark
2(b)(i)	Up to 2 marks for each figure Trend (1 mark) correct use of numerical data (1 mark) e.g. fig. 1 House prices peaked (1) in 2007 (1) or at £200 000 (1) e.g. fig. 2 Affordability similar path (1) – reached over 5 times earnings of first time buyers (1), but houses are now more affordable (1), at 4 times earnings (1) Affordability peak in 2007, but give credit for 2008. (1)	(4)

Question Number	Answer	Mark
2(b)(ii)	When asset (accept house prices or shares etc.) values change (accept data) (2 marks) This affects changes in spending (or similar, e.g. confidence) (2 marks).	(4)

Question Number	Answer	Mark
2(b)(iii)	KAA 12 Diagram AD shifts to left. Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1) (4 marks) State output falls (2 marks) and price level falls (2 marks) Transmission mechanisms (1x4 or 2x2 marks) showing: - house price effect on consumption and/or other elements of AD - AD falls with multiplier effects, as C falls. Refer to mortgage equity withdrawal, credit problems or confidence issues. Evaluation (1 x 4 marks or 2 x 2 marks) might include: - This appears to be a return to trend of affordability. - Housing is a very significant proportion of UK assets - Confidence is likely to improve, but it depends on other factors too. - Other things may not be equal, e.g. global recession effects on confidence - First time buyers can now enter the market. - Time factors might delay impact - There is only limited and possibly inaccurate information. - Depends on elasticity of AS - Magnitude of the multiplier effect	(16)

Question Number	Answer	Mark
2(c)	KAA 18 marks of which Identification of concept of stimulating growth, that is, raising real or potential GDP (might be implicit) (2 marks) Diagram, or equivalent written analysis (4 marks). AD/AS or shift to the right. Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1) Policies that might stimulate growth (12 marks) 3 x 4 marks might include: • Increased government spending • Cutting tax • Monetary policy (e.g. cutting interest rates) • Improved trade, e.g. export led growth • Supply side policies (may count as up to three separate policies) Evaluation (12 marks) 3 x 4 marks or 2 x 6 marks might include: • Depends on elasticity of AS when AD shifts • Conflict between policies • Depends on credit availability. Credit problems might prevent growth policy from working, e.g. Greece 2010 or other countries with problems of increased fiscal deficit • Time lag and implementation lags • Other things are not equal – e.g. depends on global economic changes • Proximity to full capacity if AD led growth • Magnitude of multiplier effect Other side effects of policies, e.g. higher growth rates tend to widen income inequality.	(30)