



General Certificate of Education

Economics 6141

ECN6 Government Policy, the National and International Economy

Mark Scheme

2005 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Advanced Level Economics

June 2005

ECN 6

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 4 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 3. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 4. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE ‘LEVELS’ MARK SCHEME**Levels of Response Mark Band Descriptors****Level 1**

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks (*Mid-Point: 3 marks*)

Level 2

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 12 marks (*Mid-Point: 10 marks*)

Level 3

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks (*Mid-Point: 17 marks*)

Level 4

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.

21 to 26 marks (*Mid-Point: 24 marks*)

Level 5

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

27 to 30 marks (*Mid-Point: 29 marks*)

THE KEY TO BE USED WHEN USING THE ‘LEVELS’ MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate’s response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist’s ‘tool kit’ of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

SECTION A

1

Total for this question: 50 marks

1 (a) Using **Extract A**, describe the actual and forecast growth performance of the UK economy for the period 1997 to 2006. *(4 marks)*

Award up to 2 marks for each point made (one mark for identification and one mark for reference(s) to the data). For example:

- comments on the range of growth rates
- growth was highest in 2000
- with the exception of 2000, the actual rate of growth falls 1997 to 2002
- forecasts for 2004 to 2006 are higher than the actual growth of the earlier years 2001-2002
- the period is free of negative GDP growth
- any other valid point

Maximum of **2 marks** if the candidate simply trawls by quoting figures from the extract without showing any understanding or makes points not supported by the data.

Award **1 mark** if a candidate refers to decreases in GDP rather than in the rate of growth of GDP throughout the answer

MAXIMUM FOR PART (a) 4 MARKS

1 (b) Explain the distinction between “real GDP growth” and the “trend rate of growth”
(**Extract C**, lines 4 and 5). *(6 marks)*

For candidates who:

define ‘real’ (1 mark) and offer further explanation (1 mark) **up to 2 marks**

define the term ‘GDP’ (1 mark) and offer further explanation (1 mark) **up to 2 marks**

explain the concept of ‘trend rate of economic growth’, perhaps distinguishing between actual and trend growth by reference to the output gap **up to 4 marks**

include relevant and accurate diagrams, eg output gaps, PPF **up to 2 marks**

include any other valid point (**1 mark** per point), eg reference to the UK economy, the economic cycle, the way in which economic growth is calculated

MAXIMUM FOR PART (b) 6 MARKS

1 (c) **Extract B** (line 1) refers to the “requirements for achieving faster economic growth”. Analyse **three** causes of a more rapid rate of economic growth in economies such as the UK and USA. (10 marks)

Issues and areas for discussion include:

- an explanation of economic growth
- the distinction between demand-side and supply-side factors
- investment
- R&D and technological progress
- quantity and quality of labour
- natural resources
- flexibility of markets
- mobility of resources
- the function of a system of incentives
- macroeconomic management
- the national and international economic climate
- free trade
- government initiatives
- productivity

Candidates should be rewarded for accurate and relevant diagrams and reference to the UK economy (or other economies).

LEVEL 1

The candidate makes limited and vague references to causes, copying from the extract, and showing no real understanding of economic growth or its causes. **1 to 3 marks**

LEVEL 2

Two or more causes are identified and clear explanations given. At the lower end of the band, there may be some confusion and/or incomplete explanations. At the higher end of the band, these inadequacies should not be found and there needs to be evidence of sound economic analysis and appropriate use of terminology. Candidates who show some understanding of growth but only go on to list a number of causes from the extract with little or no development should be limited to **4 marks**.

4 to 7 marks

LEVEL 3

Three causes are well explained. The answer is well organised, displaying good understanding and sound analytical skills. Economic terminology is well used. At the top of the band there is likely to be reference to the distinction between demand-side and supply-side factors, an understanding of the view that supply-side factors need to be in evidence if there is to be non-inflationary growth, perhaps with reference to the UK or other economies. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

1 (d) Using the data and your economic knowledge, evaluate the consequences of a sustained, high rate of economic growth. (30 marks)

It is anticipated that candidates will develop the various costs and benefits of the growth process identified in Extract B. There must be evidence of evaluation for candidates to score **19 marks** or above.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three consequences should be presented and competently evaluated. To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the consequences discussed in order that a concluding judgement can be made by the candidate.

Evaluation could include commenting on whether the growth referred to in the question is a global phenomenon or one confined to just a few countries or one part of the world; how regulated/controlled the growth process is, linked to the degree of government awareness of the costs and extent of response to such costs; whether or not economic development accompanies the growth process; the distribution of benefits; economic growth and population growth.

Issues and areas for discussion include:

- economic growth
- the growth and development issue
- GDP
- PPF
- LRAS
- the dangers of global generalisations
- living standards: qualitative and quantitative factors
- the possible significance of population growth
- distribution issues re both costs and benefits
- impact on quality of public services
- impact on infrastructure
- economic growth and employment/unemployment
- economic growth and prices
- economic growth and the balance of payments
- economic growth and the exchange rate
- the sustainability issue
- environmental degradation
- resource depletion
- externalities

Also give credit for:

- reference to data
- reference to economies
- use of diagrams

Other equally valid points may be discussed and should be given due credit.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (d) 30 MARKS

SECTION B**2****Total for this question: 50 marks**

2 (a) Explain the possible causes of a rise in the rate of inflation in an economy.	(20 marks)
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For candidates who:

define inflation, eg a rise in the general level of prices (1 mark) causing a reduction in the internal processing power of money (1 mark) **up to 2 marks**

explain inflation further, eg refer to the official measurement, how measurement takes place, what is measured, RPI v CPI, recent UK inflation performance **up to 3 marks**

explain the potential significance of aggregate demand (AD) to the inflationary process **up to 6 marks**

use an AD/AS diagram to illustrate how AD can cause inflation (1 mark for correct axes labelling, 1 mark for coordinates, 1 mark for correct shift of AD curve, 1 mark for correct labelling of curves) **up to 4 marks**
Maximum 2 marks if the shift shown is incorrect

explain the process through which rising costs can lead to inflation, perhaps with reference to the Phillips curve **up to 6 marks**

use an AD/AS diagram to illustrate how rising costs can cause inflation (1 mark for correct axes labelling, 1 mark for coordinates, 1 mark for correct shift of AS curve, 1 mark for correct labelling of curves) **up to 4 marks**
Maximum of 2 marks if the shift shown is incorrect

explain the monetarist view of the causes of inflation, perhaps with reference to the quantity theory of money **up to 6 marks**

explain other specific causes of inflation, eg expectations, a depreciating exchange rate **up to 4 marks per explanation**

MAXIMUM FOR PART (a) 20 MARKS

2 (b) In recent years, the priority in UK macroeconomic policy has been the control of inflation. Evaluate the likely economic consequences of this for the UK's economic performance.

(30 marks)

It is anticipated that candidates will emphasise in their answers the potential benefits of such a priority, given their knowledge of recent UK experience, and that benefits will be discussed in terms of other macroeconomic indicators. There must be evaluation for a candidate to be able to achieve **19 marks** or more.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three consequences should be presented and competently evaluated. To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the consequences discussed in order that a concluding judgement can be made by the candidate.

Evaluation could be in terms of drawing a distinction between short run and long run consequences; the eventual level of inflation given its rapid rise (high or low?); assessing the inflation problem in an international context; the condition of other macroeconomic indicators; the choice of anti-inflation policy and strength/weakness of the choice(s).

Issues and areas for discussion include:

- the nature of inflation
- measurement of inflation
- demand pull and cost push inflation
- other macroeconomic objectives/indicators
- consequences of failing to control inflation
- the way in which inflation is controlled
- use of demand management policies
- relevant UK experience
- the role of the MPC and use of interest rates
- use of supply-side policies
- short run v long run consequences
- the regional impact
- the impact on manufacturing (reference to the potential influence of interest rates on the exchange rate)
- benefits of giving priority to an anti-inflation policy, eg strengthening the foundations for long run growth, sustainable job creation, competitiveness helping to improve the balance of payments
- 'costs' in terms of short term impact on jobs and economic growth
- Phillips Curve
- expectations
- consequences of favouring other macroeconomic objectives, eg full employment, demand-led growth
- impact of a severe anti-inflation policy on household and business confidence

Also give credit for:

- use of diagrams

Other equally valid points may be discussed and should be given due credit.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

3

Total for this question: 50 marks

3 (a) Explain the main economic reasons for government spending.

(20 marks)

For candidates who:

explain the nature of government spending, eg the capital/current spending distinction **up to 2 marks**

who identify examples of government spending, eg defence and education **up to 2 marks**

put spending into the context of fiscal policy (taxation and borrowing) **up to 2 marks**

refer to UK fiscal policy of recent years **up to 2 marks**

explain reasons for government spending, eg;

- provision/financing of public/merit goods/other goods, with reference to positive/negative externalities
- income redistribution/poverty alleviation
- macroeconomic stabilisation/demand management
- economic growth
- support to private sector investment

1 mark for identification of a reason and up to 7 further marks for its explanation

MAXIMUM FOR PART (a) 20 MARKS

3 (b) The UK government indicated in 2003 that it needed to borrow £37bn to finance the budget deficit. To what extent, if any, is it important for a UK government to restore and maintain a balanced budget? (30 marks)

To be awarded **19 marks** or more, there must be i) evidence of evaluation, ii) reference to the UK economy.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three issues should be presented and competently evaluated. To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the consequences discussed in order that a concluding judgement can be made by the candidate.

Evaluation for this question could include the extent to which, if at all, the borrowing breaks any self-imposed or EU fiscal rules; the reasons for extra spending/tax cuts, leading to the need to borrow; how the borrowing, if at all, relates to the economic cycle; whether a balance is achieved for appearances sake (good housekeeping) when the economy could actually benefit from deficits; the difficulty of achieving balance.

Issues and areas for discussion include:

- budget balance and budget deficit
- PSNCR
- financing or eliminating a deficit
- recent UK experience
- source(s) of borrowing
- short run/long run methods of borrowing
- impact on money supply
- impact on interest rates
- crowding out
- code for fiscal stability (golden rule, sustainable investment rule)
- Stability and Growth Pact and implications for entry to the single currency
- impact on AD
- AD and inflation
- AD and the balance of payments
- impact on short/long run economic growth
- implications for future spending/ taxation policy
- borrowing in the context of the economic cycle
- National Debt
- assessment of reasons for increase spending/tax cuts
- impact on confidence domestic and international
- the benefits which come from balance eg greater national and international confidence in the government's management of the economy
- does 'balance' really matter?

Also give credit for:

- use of diagrams

Other equally valid points may be discussed and should be given due credit.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

4

Total for this question: 50 marks

4 (a) Explain the likely determinants of exchange rates in a freely floating exchange rate system. (20 marks)

For candidates who:

explain the concepts of ‘exchange rate’ and ‘exchange rate systems’, eg through use of a standard definition, distinguishing between the various types of systems **up to 4 marks**

explain the relevance of supply and demand analysis to explain the basis for determination of exchange rates, including use of well-explained diagrams **up to 4 marks**

explain specific determinants, eg;

- trade flows
- long term capital flows
- speculative movements
- expectations
- confidence/uncertainty
- domestic economic conditions having an indirect impact eg inflation
- interest rates

1 mark for identification of a determinant and up to 7 further marks for its explanation, including use of diagrams

MAXIMUM FOR PART (a) 20 MARKS

4 (b) “In January 2004, renewed concern over currency instability emerged as the dollar’s collapse was accompanied by steep rises in the value of sterling and the euro.”
Discuss the **advantages** and **disadvantages** of a floating exchange rate system in the light of such instability. (30 marks)

There needs to be evidence of evaluation if a candidate is to be awarded **19 marks** or more.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three consequences should be presented and competently evaluated (two advantages and one disadvantage or vv). To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the issues discussed in order that a concluding judgement can be made by the candidate.

For this question, evaluation could be in terms of the impact of currency instability on the stability of the world economy; the perceived attractions of the floating system in comparison to the potential weaknesses of a fixed system; the way in which central banks may be able to intervene effectively to reduce instability and hence the potential impact on economic performance of the countries affected.

Issues and areas for discussion:

- fixed v floating v managed flexibility systems
- the essential features of the alternative fixed exchange rate system
- appreciation/depreciation
- PPP
- reference to past experiences eg the ERM, the Bretton Woods system
- the possible use of official reserves (managed flexibility) but also reserves not being needed in a free floating system
- the benefits of an independent domestic policy to achieve internal economic objectives
- the absence of any anti-inflation discipline in a floating system
- greater incidence of crises under managed systems eg Black Wednesday
- alleged benefits for trade and investment flows arising from the greater certainty of fixed systems
- adjustment mechanism eg current account deficit > depreciation of the currency > greater competitiveness > improvement to balance of payments on current account
- possible significance of elasticity conditions
- assessment of the alternative fixed system in the context of current system and experiences

Also give credit for:

- use of diagrams
- reference to the recent experience of the UK economy and/or other economies

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS