



ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2013

Economics
Assessment Unit AS 2
assessing

The National Economy

[AE121]

TUESDAY 11 JUNE, MORNING

**MARK
SCHEME**

General Marking Instructions

This mark scheme is intended to ensure that the AS examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 17-year-olds, which is the age at which the majority of candidates sit their AS examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 17-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Marking calculations

In marking answers involving calculations, examiners should apply the “own figure” rule so that candidates are not penalised more than once for a computational error.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

- 1 (a) During the period of recession which lasted from the beginning of 2008 until the second quarter of 2009 GDP fell by approximately seven per cent. Employment fell by two per cent, meaning that employment fell by much less than output.

During the period of recovery which lasted from Q2 2009 till Q2 2011 GDP rose from an index of 93 to one of 96. This is a rise of three percentage points or approximately 3.2 per cent. Employment rose from an index of 98 to one of 99. This is a rise of one per cent meaning that output has risen by more than employment.

Over the entire period GDP is down by four per cent and employment is down by one per cent, meaning that output has fallen by more than employment.

Level 1 ([1]–[2])

Candidate provides little comparison of the trends in employment with those of GDP. There is no significant data manipulation and quality of written communication is limited.

Level 2 ([3]–[5])

Candidate provides some comparison of the trends in employment with those of GDP. There is a degree of data manipulation and quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate provides a clear and detailed comparison of the trends in employment with those of GDP. There is extensive and accurate data manipulation and quality of written communication is of a high standard. [8]

- (b) The Labour Force Survey (LFS) is conducted not just in the UK but in all EU countries. 1.5 million households in the EU are interviewed.

A person is classified as unemployed if he or she is “out of work” but “currently and actively seeking to work”.

This means the respondent:

- is without a job of any sort even part-time, wants a job, has actively sought work in the previous four weeks and is able to start work within the next two weeks; or
- is without work but has found a job and is waiting to start it within two weeks.

[2] for point explaining job-seeking activity

[1] for explaining that employment includes part-time work

[2] for explaining that respondent may be waiting to start work

Constrained maximum of 4

[4]

- (c) A number of factors have contributed to the rise in unemployment in the UK. These include:
- the UK public sector has been cutting jobs as part of the government's deficit reduction programme
 - the UK private sector has not been expanding fast enough to compensate for this
 - the world economy is weak, making it harder for UK firms to export
 - high rates of inflation are making our exports uncompetitive
 - the net export component of aggregate demand is not expanding
 - high levels of regulation, including the national minimum wage discourage firms from hiring labour
 - interest rates are as low as they can go, making it impossible for monetary policy to stimulate the economy
 - the government's focus on deficit reduction precludes a fiscal stimulus
 - the eurozone crisis is undermining confidence for investors.

Level 1 ([1]–[2])

Candidate provides little analysis of the reasons for increasing unemployment in the UK. There may be vague references to some of the issues mentioned in the passage but no significant explanation or development. Quality of written communication is limited.

Level 2 ([3]–[5])

Candidate provides some analysis of the reasons for increasing unemployment in the UK. The issues mentioned in the passage will be explained and there may be a reference to other issues. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate provides a clear and comprehensive analysis of the reasons for increasing unemployment in the UK. The issues mentioned in the passage will be explained in detail and there will be a reference to other issues. Quality of written communication is of a high standard. [8]

- (d) Economic inactivity exists when members of the working age population (16–64) are neither working or seeking employment or available to start work within two weeks. This may be for a variety of reasons:
- the largest group of economically inactive are those who are long-term sick or disabled. Most of these will be in receipt of incapacity or other sickness related benefits
 - the second major reason for economic inactivity is those with family responsibilities such as looking after young children. Parents of children aged below five are not required to seek employment
 - full-time education also keeps large numbers out of the workforce
 - early retirement keeps a significant number out of the workforce.

Level 1 ([1]–[2])

Candidate gives no significant explanation of the causes of economic inactivity. There may be vague references to not wanting to work but little analysis and quality of written communication is limited.

Level 2 ([3]–[5])

Candidate provides some explanation of the causes of economic inactivity. The distinction between economic inactivity and unemployment is made clear but the explanation of the causes is incomplete. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate provides a clear and comprehensive explanation of the causes of economic inactivity. All the key issues are covered and quality of written communication is of a high standard. [8]

- (e) Increasing employment requires not just the creation of more jobs but also the creation of conditions which incentivise the inactive to seek employment.

In order to create more jobs the government could:

- pursue an expansionary fiscal policy, perhaps by a programme of infrastructural spending. However, this would require high levels of borrowing which might jeopardise the UK's credit rating and lead to a rise in interest rates
- pursue an expansionary monetary policy. However, Bank of England official rates are already at record lows and further quantitative easing would be likely to be inflationary
- introduce a programme of deregulation to make it easier for firms to recruit. This could involve reducing or even abolishing the National Minimum Wage, and reducing employee protection against discrimination or unfair dismissal. These proposals would be very socially divisive and are likely to be strenuously opposed by trade unions.

In order to reduce economic inactivity the government could:

- reduce a range of benefits such as incapacity
- introduce stricter medical tests for incapacity claimants
- introduce stricter punishments for welfare fraud
- improve training facilities
- time limit on all benefits to preclude option of lifetime on benefits
- all of these policies could be viewed as unjust and inequitable
- reduce tax and national insurance payments to increase work incentives.

Level 1 ([1]–[4])

Candidate provides little critical examination of these policies. There may be vague references to some of them but no significant explanation or development. Quality of written communication is limited.

Level 2 ([5]–[8])

Candidate provides some critical examination of these policies. However, this is likely to be one-sided or incomplete and quality of written communication is satisfactory.

Level 3 ([9]–[12])

Candidate provides a comprehensive in-depth critical examination of these policies. The key issues are explained in-depth and quality of written communication is of a high standard. [12]

40

- 2 (a) Gross domestic product is the value of the total output of all resources located within the UK irrespective of ownership. The word gross indicates that no allowance has been made for depreciation. Real GDP is GDP which has been adjusted for inflation usually by valuing output at the prices of some previous year.

Appropriate development:

- explanation of GDP
- explanation of impact of inflation on GDP
- explanation of adjusting for inflation
- numerical example.

Level 1 ([1]–[3])

Candidate shows little knowledge or understanding of real GDP. There may be a reference to inflation but its significance is not explained. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some knowledge and understanding of real GDP. There will be a degree of explanation of the significance of inflation though this may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a comprehensive knowledge and understanding of real GDP. There will be a clear and accurate explanation of the significance of inflation and quality of written communication is of a high standard. [10]

- (b) In the short run economic growth can be stimulated by expansionary fiscal and monetary policies. However, sustained long run growth requires either more resources or greater productivity from existing ones. Expansionary demand-side policies may contribute to growth by reducing any output gap.

Issues for analysis and discussion include:

- explanation of distinction between short and long-term growth rates
- explanation based on AD/AS analysis

- impact of education and training/investment in human capital
- impact of immigration
- impact of investment in physical capital
- impact of supply side policies (explanation of how they stimulate growth)
- impact of change in cultural attitudes, e.g. enterprise culture
- explanation of problems of measurement.

Level 1 ([1]–[5])

Candidate provides no significant analysis of the factors which determine the growth rate of real GDP. Key issues are missed or their explanation contains major errors and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the factors which determine the growth rate of real GDP. Most key issues are addressed but this may be incomplete or contain minor errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive analysis of the factors which determine the growth rate of real GDP. Key issues are addressed accurately and quality of written communication is of a high standard. [15]

- (c) The term quality of life refers to the general well-being of individuals and societies. It will encompass not just material welfare but also a range of other issues such as physical and mental health, political freedom, education provision and social belonging. Standard of living is a much narrower measure and refers only to the material welfare of a nation's inhabitants. One measure of this is real GDP per capita which is the value of a nation's output after adjustment for inflation and the size of the population. It includes all output even those items such as defence which do not contribute directly to living standards. It excludes imports which do contribute directly to our living standards.

For this and many other reasons it is a flawed measure of welfare but so also are the alternatives such as the Human Development Index and it does have the advantage of ease of calculation and objectivity.

Issues for analysis and evaluation include:

- explanation of quality of life
- definition of real GDP
- definition of standard of living
- weaknesses of real GDP per head as guide to standard of living, e.g. pollution, working conditions, inequality, etc.
- other relevant issues, e.g. political freedom, literacy, etc.
- other indicators of the standard of living, e.g. Human Development Index, ISEW

- problems with these other indicators, e.g. measuring the extent of political freedom, etc.

Level 1 ([1]–[5])

Candidate provides little critical examination of this view. There is no significant evaluation and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some critical examination of this view. There is a degree of evaluation though this may lack depth or be one-sided and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an extensive critical examination of this view. There is in-depth evaluation and judgement including a comparison with other measures of welfare. Quality of written communication is of a high standard. [15]

40

- 3 (a) An aggregate demand curve shows the relationship between the price level (usually measured by the consumer price index) and real expenditure in the economy.

Appropriate development:

- explanation of the components of aggregate demand, (C+I+G+X–M)
- explanation of the inverse relationship
- diagram.

Level 1 ([1]–[3])

Candidate provides little explanation of what is shown by an aggregate demand curve. There may be vague references to some of its components but these are not explained and quality of written communication is limited.

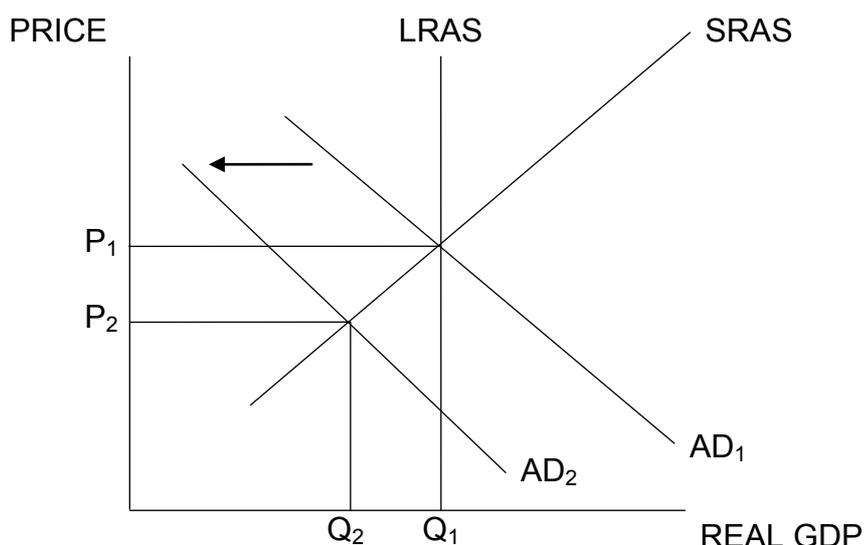
Level 2 ([4]–[7])

Candidate provides some explanation of what is shown by an aggregate demand curve. However, this will be incomplete or contain minor errors and quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation of what is shown by an aggregate demand curve. Quality of written communication is of a high standard. [10]

- (b) The coalition government policies to reduce the budget deficit are affecting the UK economy in a number of ways:
- there are on-going cuts in government expenditure and job losses in the public sector
 - public sector pay has been frozen, leading to a fall in living standards
 - many benefits have been cut or made more difficult to claim. The net impact of these events is a fall in aggregate demand.



Aggregate demand falls from AD_1 to AD_2 . Real GDP falls from Q_1 to Q_2 , creating an output gap equal to $Q_1 - Q_2$. The general price level falls from P_1 to P_2 .

Neo-classical economists assert that the output gap will correct itself through falling wages and the SRAS will shift to the right until full employment is restored.

Neo Keynesian economists assert that this will not happen because of “sticky wages” and that government intervention is required to restore full employment.

Level 1 ([1]–[5])

Candidate provides little analysis of the impact of reducing the budget deficit on the UK economy. There are likely to be vague assertions such as “will be bad for jobs” but no significant economic analysis. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the impact of reducing the budget deficit on the UK economy. The effect on aggregate demand will be recognised but not fully explained. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive analysis of the impact of reducing the budget deficit on the UK economy. The effect on aggregate demand, the price level and real GDP is clearly explained and there may also be some reference to longer term consequences. Quality of written communication is of a high standard. [15]

- (c) A budget surplus exists when government revenue, mostly from taxation exceeds government expenditure. However, it would be unrealistic and probably undesirable for the government to attempt to achieve this on a permanent basis. This is for two reasons:
- it is normal for the government's budget to vary throughout the economic cycle. Deficits may help the economy recover from recession
 - a distinction should be drawn between current and capital spending. It would be more responsible for a government to borrow in order to finance infrastructural projects than to finance day-to-day expenditure on a permanent basis.

Issues for analysis and discussion include:

- explanation of budget surplus
- distinction between current and capital spending
- analysis of link between economic cycle and government finances
- explanation of impact of surpluses on interest rates and on the government's credit rating
- social and political consequences of failure of government to attempt to correct a recession
- historical and international examples.

Level 1 ([1]–[5])

Candidate provides little evaluation of the desirability of a permanent budget surplus. Key issues are not addressed and quality of written communication is limited.

Level 2 ([6]–[11])

Candidate provides some evaluation of the desirability of a permanent budget surplus. Key issues are addressed though this will be incomplete or contain minor errors and quality of written communication is satisfactory.

Level 3 ([12]–[15])

Candidate provides an in-depth evaluation and judgement of the desirability of a permanent budget surplus. Key issues are addressed in detail though and quality of written communication is of a high standard. [15]

40

- 4 (a) A rise in the rate of inflation exist when the general price level is rising at an increasing rate. This is normally based on the Consumer Price Index (CPI).

This is illustrated below:

| | CPI | Rate of inflation (%) |
|--------|-----|-----------------------|
| Year 1 | 100 | |
| Year 2 | 105 | 5 |
| Year 3 | 120 | 14.3 |

Level 1 ([1]–[3])

Candidate shows little understanding of a rise in the rate of inflation. There may be vague references to the CPI or the RPI but little economic analysis and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of a rise in the rate of inflation. There will be a degree of explanation of the CPI or the RPI. However, this is likely to be incomplete or contain errors and quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear understanding of a rise in the rate of inflation. A distinction should be drawn between rising prices and rising inflation. There will be a clear explanation of the CPI perhaps accompanied by an accurate numerical example and quality of written communication is of a high standard. [10]

- (b) The textbook analysis of inflation identifies three possible causes:
- demand-pull inflation
 - cost-push inflation
 - inflation as a consequence of excessive monetary expansion.

At present (November 2011) CPI inflation in the UK is around five per cent which is significantly above the government’s target. A number of factors have contributed to this with the overall explanation containing elements of all the above:

- rising world commodity prices, e.g. copper
- a weak pound which increases the cost of imports
- record low interest rates and quantitative easing which has driven the pound’s value down still further
- a rise in VAT.

On balance the UK’s inflationary process is best described as cost-push.

Level 1 ([1]–[5])

Candidate provides little explanation of the causes of UK inflation. There may be vague generalities such as excess demand but no significant analysis or application to the UK economy. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of the causes of UK inflation. There are references to the general causes but limited application to the UK economy. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of the causes of UK inflation. The general causes are well explained and applied to the UK economy and quality of written communication is of a high standard. [15]

- (c) The Bank of England has a responsibility for keeping inflation within a range of one per cent either side of two per cent as measured by the CPI.

The main purpose of this target is to remove monetary policy from the domain of governments who may be tempted to set interest rates on the basis of political rather than economic considerations. A further reason for keeping the target is to convince international investors of the soundness of UK monetary policy and hence make them more likely to buy UK government bonds.

At present (November 2011) the economy has very low growth and rising unemployment. However, inflation is also significantly above its target which would normally trigger a rise in rates but in the present circumstances this would be likely to increase the recessionary pressures in the economy. So the BOE faces a policy dilemma and seems to have decided to ignore the inflation target. This of course raises the question as to the point of having an inflation target which is regularly ignored.

Issues for analysis and evaluation include:

- explanation of role of Bank of England in the economy
- explanation of impact of higher interest rates upon the economy
- evaluation of desirability of two per cent inflation
- evaluation of the accuracy of inflation measures
- economic and social costs of a recession
- historical and international experiences
- explanation of possibility that our inflation is international in origin and beyond the control of the Bank of England
- impact of abolition on UK credit rating.

Level 1 ([1]–[5])

Candidate provides little critical examination of removing the inflation target. There is no significant analysis or evaluation and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some critical examination of removing the inflation target. There is a degree of analysis in support of an evaluation, however, this is likely to be one-sided or lacking in depth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth critical examination of removing the inflation target. There is clear analysis in support of an in-depth evaluation and judgement and quality of written communication is of a high standard.

[15]

40

Total

80