

# Mark Scheme Summer 2009

GCE

GCE Economics (8EC01)

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

## 6EC01 Mark Scheme

Question Number	Answer	Mark
1	<p><b>Answer D</b></p> <ul style="list-style-type: none"> <li>• Definition of a production possibility frontier (the maximum output combinations of two goods / services an economy can achieve when all its resources are fully / efficiently employed) (1 mark).</li> <li>• An outward shift in agricultural goods indicates an increase in potential output (accept output) (1 mark).</li> <li>• An increase in agricultural output can result from technological changes with no opportunity cost in tourist services (1 mark).</li> </ul> <p>Application to technological improvements in agriculture e.g. new machinery, GM crops, fertilisers. ( 1+ 1 mark).</p>	(4)

Question Number	Answer	Mark
2	<p><b>Answer C</b></p> <ul style="list-style-type: none"> <li>• Definition of division of labour (production of a good is broken down into different tasks and labour allocated to each task) (1 mark).</li> <li>• Advantages of division of labour, for example less time taken to train / repetition in one task quickly leads to greater productivity / greater variety of jobs to choose from / more efficient use of machinery (1 + 1 mark).</li> <li>• Application to beauty industry, for example face creams, lipsticks, eye shadow, other make up (1 mark)</li> <li>• Also award for diagram showing a decrease in average cost (1 mark).</li> </ul>	(4)

Question Number	Answer	Mark
3	<p><b>Answer D</b></p> <ul style="list-style-type: none"> <li>• Definition or formula of income elasticity of demand (responsiveness of demand for a good due to a change in income) (1 mark).</li> <li>• Calculation of income elasticity of demand for clothing and footwear (+3.6 accept 3.5 or 3.7) (1 mark).</li> <li>• Calculation of food and soft drinks (+0.63 accept 0.6 or 0.5) (1 mark).</li> <li>• Both categories of food and soft drinks, and clothing and footwear are normal goods (1 mark)</li> </ul>	(4)

Question Number	Answer	Mark
4	<p><b>Answer D</b></p> <ul style="list-style-type: none"> <li>• Definition of consumer surplus (the difference in the price consumers are prepared to pay for a good and the actual market price paid) (also accept the area above the equilibrium price and below the demand curve) (1 mark).</li> <li>• Original consumer surplus is XYP1 (1 mark).</li> <li>• Increase in consumer surplus is P1YZP2 (1 mark).</li> </ul>	(4)

Question Number	Answer	Mark
5	<p><b>Answer D</b></p> <ul style="list-style-type: none"> <li>• Definition of free market economy (where resources are allocated by the price mechanism and there is no government intervention) (1 mark).</li> <li>• Definition of the price mechanism (1 mark).</li> <li>• Application of price mechanism to rationing: eg an increase in price will cause demand to fall / diagrammatic analysis (up to 2 marks).</li> <li>• Explanation of scarcity / basic economic problem (up to 2 marks)</li> </ul>	(4)

Question Number	Answer	Mark
6	<p><b>Answer A</b></p> <ul style="list-style-type: none"> <li>• Definition of cross elasticity of demand</li> <li>• Goods which have a positive cross elasticity of demand are substitutes.</li> <li>• Application to motor vehicles and rail travel.</li> </ul> <p>Accept correct diagrammatic analysis depicting a positive cross elasticity of demand.</p>	(4)

Question Number	Answer	Mark
7	<p><b>Answer C</b></p> <ul style="list-style-type: none"> <li>• Definition of government failure (government intervention leads to a net welfare loss / inefficient allocation of resources) (1 mark).</li> <li>• High taxes on tobacco make it worthwhile for some people to break the law and smuggle in cheaper tobacco from abroad (1 mark).</li> <li>• It is government failure since it leads to a loss of tax revenue (1 mark).</li> <li>• Allow other forms of government failure, eg cheap smuggled cigarettes means people smoke more (1 mark)</li> </ul>	(4)

Question Number	Answer	Mark
8	<p><b>Answer B</b></p> <ul style="list-style-type: none"> <li>• Definition of market failure (the price mechanism leads to a net welfare loss / inefficient allocation of resources) (1 mark).</li> <li>• Identification of the type of market failure (external costs) (1 mark).</li> </ul> <p>Application: the carbon permits will restrict the amount of pollution from these industries to a certain level and so reduce extent of external costs (1 mark).</p>	(4)

Question Number	Answer	Mark
9(a)	<ul style="list-style-type: none"> <li>• Any two reasons for falling property prices: (2 + 2 marks) <ul style="list-style-type: none"> <li>➢ Rising unemployment / falling consumer confidence / more households unable to afford mortgage repayments or to purchase property.</li> <li>➢ Credit crunch has meant banks are less willing to lend / due to poor debtors.</li> </ul> </li> <li>• Diagram showing a decrease in demand and falling house prices: (original equilibrium price and quantity; new equilibrium price and quantity; inward shift in demand curve) (3 marks)</li> </ul>	(7)

Question Number	Answer	Mark
9(b)	<ul style="list-style-type: none"> <li>• <b>Any two points developed (2 + 2 marks)</b> <ul style="list-style-type: none"> <li>➤ The fall in property prices means it is easier for first time buyers to afford to buy / take out smaller mortgages.</li> <li>➤ If property prices continue to fall over next two years then more first-time buyers will be able to afford to get on housing ladder.</li> <li>➤ Nature of first time buyers and type of housing sought is changing: first-time buyers are older / look for smaller, more affordable properties.</li> </ul> </li> </ul> <p><b>Evaluation (2 marks for any one point)</b></p> <ul style="list-style-type: none"> <li>• It depends on the magnitude of house price fall - 13.4% is quite significant for one year; if this continues for the next two years then more first time buyers will be successful. However, house prices still greatly exceed average earnings so perhaps little impact.</li> <li>• It depends on whether first-time buyers are able to obtain mortgages as banks have greatly reduced their lending. Banks lack funds to lend and are under pressure to reduce debts.</li> <li>• The extract refers to the dramatic decrease in numbers of first time buyers / this is linked to difficulties in obtaining mortgages / higher cash deposit requirements.</li> <li>• Some first-time buyers may become unemployed or risk becoming unemployed. This will reduce their ability to purchase property.</li> </ul>	(6)

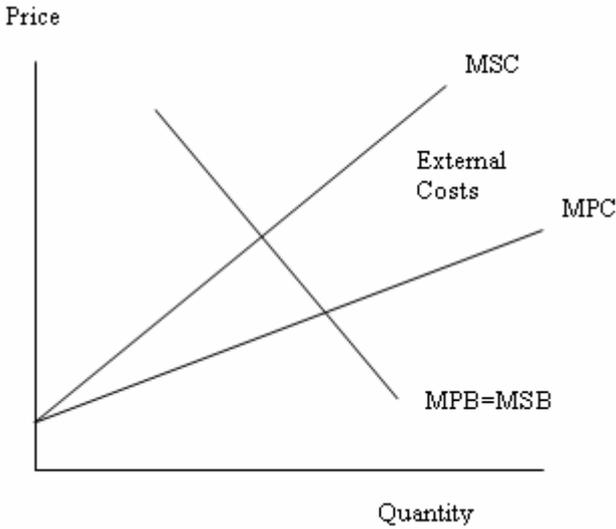
Question Number	Answer	Mark
9(c)(i)	<ul style="list-style-type: none"> <li>• Accept any two regions, though most candidates are likely to select Greater London / South East to compare with another region.</li> <li>• Identification of two or more factors (1 + 1 marks) <ul style="list-style-type: none"> <li>➢ Differences in regional average earnings</li> <li>➢ Differences in availability of land Accept other factors, eg differences in wealth / employment rates / net migration / cultural attractions.</li> <li>➢ Differences in regional unemployment rates.</li> </ul> </li> <li>• Development of two factors (2 + 2 marks) <ul style="list-style-type: none"> <li>➢ Higher regional earnings mean people can afford to pay more for housing - so higher demand will push up average price. Also accept view of lower average earnings in some regions.</li> <li>➢ Availability of land in some regions is less than others; where supply very limited average house prices will be higher. Also accept view of more availability of land in some regions.</li> <li>➢ Lower regional unemployment rates may lead to higher regional house prices / due to stronger demand in the housing markets.</li> </ul> </li> </ul> <p><b>Evaluation: (3 + 3 marks or 2 + 2 + 2 marks)</b></p> <ul style="list-style-type: none"> <li>• Prioritise between the two reasons, eg differences in the cost of land might be the major cause.</li> <li>• Regional average earnings may not account for the differences in house prices. The disparities in regional earnings are significantly less than regional house prices.</li> <li>• Time factor - the major house building programme for south-east may reduce regional differences in house prices.</li> <li>• Magnitude of the house price differentials.</li> <li>• Geographical element could be involved. The further the region is from London the lower average house prices. This suggests access to London is major determinant of regional house price differentials.</li> </ul>	

	<ul style="list-style-type: none"> <li>Data issues: more information required for example, regional wealth holdings / household earnings may be more appropriate than individual earnings / intra regional migration.</li> </ul> <p><b>Quality of written communication skills will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>To present an argument and conclude on the basis of that argument.</li> <li>To organise information clearly and coherently.</li> <li>To use economics vocabulary appropriately.</li> <li>To use grammar, spelling and punctuation appropriately.</li> </ul>	(12)
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Level	Mark	Descriptor
Level 1	1-2	Identification of two factors but no explanation.
Level 2	3-4	Explanation of two factors but no evaluation. (Mark cap of 6 if no evaluation offered).
Level 3	5-7	Explanation of two factors and one evaluation point.
Level 4	8-10	Convincing explanation of two factors and two or more evaluation points offered.

Question Number	Answer	Mark
9(c)(ii)	<ul style="list-style-type: none"> <li>• Understanding of geographical mobility of labour, eg the ability of labour to move from one region to another without obstacles (1 mark).</li> <li>• People in high house price regions are likely to have more geographical mobility. They will find it relatively easier to move to lower price regions. (1 mark).</li> <li>• People in low house price regions are likely to have less geographical mobility. They will find it relatively harder to move to higher price regions. (1 mark).</li> <li>• Explanation such as labour shortages likely to arise in Greater London / South-East since people unable to afford to buy or obtain mortgage (1 + 1 marks).</li> <li>• Labour can rent property rather than buy - as long as rent not too expensive. (1 mark)</li> </ul> <p><b>Evaluation (2 marks for one or more factors).</b></p> <ul style="list-style-type: none"> <li>• Magnitude: regional house price disparities are huge and people outside of the Greater London / South-East will have great difficulty in purchasing a house within this region.</li> <li>• Labour mobility could increase due to immigration from Eastern Europe -despite high house prices in some regions.</li> <li>• Labour may still be able move into Greater London / South-East if accept smaller property.</li> <li>• Labour moving into Greater London / South-East are likely to be on higher earnings, so may be able to afford more expensive property.</li> <li>• Labour might be able to commute into Greater London / South-East.</li> <li>• Labour mobility not so significant since many people work from home due to growth of Information Technology sector.</li> </ul>	(7)

Question Number	Answer	Mark
9(d)(i)	<ul style="list-style-type: none"> <li data-bbox="448 333 1153 465">• Definition of private costs: (cost internal to an exchange / cost which the price mechanism takes into account / a direct cost to the producer or consumer) (1 + 1 marks).</li> <li data-bbox="448 506 1153 701">• Definition of external cost: (cost external to an exchange / negative third party effect / spillover from production or consumption / cost which the price mechanism fails to take into account / difference between private cost and social cost) (1 + 1 marks).</li> </ul>	(4)

Question Number	Answer	Mark
9(d)(ii)	<ul style="list-style-type: none"> <li>• An example of private costs from house building and development (labour / raw materials / machinery / land purchase / fuel / insurance / security) (1 + 1 marks).</li> <li>• An example of external costs from house building and development (scenic pollution / noise pollution / air pollution from the machinery / damage to wildlife / falling property prices in nearby villages) (1+1 marks).</li> <li>• Relevant diagram depicting marginal private cost and marginal social cost curves) (2 marks).</li> </ul> <div style="text-align: center;">  </div> <p><b>Evaluation (3 + 3 or 2 + 2 + 2 marks)</b></p> <ul style="list-style-type: none"> <li>• Discussion of whether the house building programme is a market or government failure. Issue of internalising the external costs to reduce welfare loss.</li> <li>• Discussion of magnitude of house building programme: more than 1.1 million homes in South-East. This is very ambitious.</li> <li>• Time factor: 2016 means a relatively short time to construct so many homes. Will quality suffer?</li> <li>• Size of external costs will depend on various factors, eg planning regulations, quality of new builds, size of new houses, environmental awareness of housing companies.</li> </ul>	

	<ul style="list-style-type: none"> <li>• Credit crunch could mean the target for house building will not be met. House building companies face problems in raising finance / potential house buyers face problems raising finance.</li> </ul> <p><b>Quality of written communication skills will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument.</li> <li>• To organise information clearly and coherently.</li> <li>• To use economics vocabulary appropriately.</li> <li>• To use grammar, spelling and punctuation appropriately.</li> </ul>	<b>(12)</b>
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Level	Mark	Descriptor
Level 1	1-4	Examples of private costs and external costs of a major house building programme.
Level 2	5-6	Examples and relevant diagrammatic analysis applied to house building programme. No evaluation. (Mark cap of 6 if no evaluation offered).
Level 3	7-9	Examples and relevant diagrammatic analysis; one evaluation point offered.
Level 4	10-12	Convincing examples and diagrammatic analysis; two or more evaluation points offered.

Question Number	Answer	Mark
10(a)(i)	<ul style="list-style-type: none"> <li>• Identification and explanation of increase in demand: rising incomes in developing countries such as China / population growth in India and Indonesia (1 + 1 marks).</li> <li>• Identification and explanation of decrease in supply: severe floods and drought in rice growing regions (1 + 1 marks).</li> <li>• Diagrammatic analysis which shows: <ul style="list-style-type: none"> <li>➤ an increase in the demand curve (1 mark).</li> <li>➤ a decrease in the supply curve (1 mark).</li> <li>➤ original equilibrium price and quantity (1 mark).</li> <li>➤ New final equilibrium price and quantity (1 mark).</li> </ul> </li> </ul> <p>Price per ton</p> <p>Quantity</p>	(8)

Question Number	Answer	Mark
10(a)(ii)	<ul style="list-style-type: none"> <li>• Identification and explanation (1 + 1 marks) <ul style="list-style-type: none"> <li>➤ Demand factors include: change in tastes / rise in price of substitutes such as maize / fall in price of complements such as vegetables and fish / cut in income taxation leading to increase in disposable income.</li> </ul> </li> <li>• Identification and explanation (1 + 1 marks) <ul style="list-style-type: none"> <li>➤ Supply factors include: deterioration in quality of soil for rice growing / decrease in supply of agricultural land due to urbanisation / withdrawal of government subsidies to rice growers.</li> </ul> </li> </ul>	(4)

Question Number	Answer	Mark
10(b)	<ul style="list-style-type: none"> <li>• Definition or formula of price elasticity of demand (1 mark)</li> <li>• Demand is likely to be price inelastic / it is an essential good (1 + 1 marks)</li> </ul> <p><b>Evaluation (up to 2 marks for either point)</b></p> <ul style="list-style-type: none"> <li>• Significance of price inelastic demand, for example, Extract 1 refers to food riots following price increase.</li> <li>• No close substitutes exist for rice in many developing countries.</li> </ul>	(5)

Question Number	Answer	Mark
10(c)	<ul style="list-style-type: none"> <li>• Definition or formula of price elasticity of supply (1 mark)</li> <li>• Supply may be inelastic in the short run / due to time taken to grow (1 mark).</li> <li>• Supply is relatively price elastic in the long run / as farmers give up their jobs in towns and cities and return to work the fields (1 + 1 marks).</li> <li>• Diagram showing how price elasticity of supply might change over time (1 mark).</li> <li>• Understanding that in the short run, at least one factor input is fixed in quantity whereas in the long run all factor inputs are variable (1 mark).</li> </ul> <p><b>Evaluation (2 + 2 marks)</b></p> <ul style="list-style-type: none"> <li>• Supply could be relatively elastic in the short run too since up to four harvests of rice can be planted each year.</li> <li>• Discussion on the availability of land for growing rice / could switch land use from other types of crops to rice production / finite nature of land.</li> <li>• Discussion on the mobility of factor inputs, for example, growing rice requires limited skills so plentiful supply of labour.</li> <li>• Discussion on level of spare capacity in the economy.</li> <li>• Discussion on the quality of farmland after storms, flooding and drought. This could make supply less elastic.</li> <li>• Discussion on how long the price of rice will remain high - perhaps rice prices could fall dramatically over next few years if supply increases worldwide.</li> </ul>	(9)

Question Number	Answer	Mark
10(d)	<ul style="list-style-type: none"> <li>• Definition / understanding of government failure (government intervention in a market which leads to a net welfare loss / inefficient allocation of resources) (1 + 1 marks).</li> <li>• Government intervention takes the form of restricting exports / which mean producers may switch supplies to domestic markets / reducing price for domestic consumers (1 + 1 + 1 marks),</li> <li>• Government failure will occur if farmers lose incentive to grow rice for domestic market due to low price (1 mark). Development of this point, for example, farmers have less revenue to re-invest into rice production / farming commodities suffer a fall in incomes (1 + 1 marks).</li> </ul> <p><b>Evaluation (2 + 2 marks)</b></p> <ul style="list-style-type: none"> <li>• Magnitude of restriction on exports. The greater the restrictions the greater the effect on domestic farmers. The policy could backfire on the governments since there could still be rice shortages.</li> <li>• Time period in which restrictions on exports of rice may occur - over a short period there may be little effect. Over a long period farmers may exit the market / suffer bankruptcy.</li> <li>• Discussion of other effects, for example, a worsening in the Balance of Trade for rice exporting countries / negative multiplier effects / emergence of hidden market for exporting rice.</li> <li>• Discussion of view that it is not a government failure since it should reduce food shortage / reduce food prices in domestic market. It depends on the response of rice farmers.</li> </ul> <p><b>Quality of written communication skills will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument.</li> <li>• To organise information clearly and coherently.</li> <li>• To use economics vocabulary appropriately.</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(10)

Level	Mark	Descriptor
Level 1	1-2	Definition of government failure. No development.
Level 2	3-4	Explanation of why government failure - lower domestic price or rice may lead to lower production and revenue. (Mark cap of 6 if no evaluation).
Level 3	5-7	Explanation of why government failure and one evaluation point offered.
Level 4	8-10	Convincing explanation and two or more evaluation points.



	<ul style="list-style-type: none"> <li>➤ There are millions of rice farmers across south east Asia and so it will be very difficult to co-ordinate and manage the scheme.</li> <li>➤ Require funds to purchase stocks or support farmers in time of surplus. There are also storage costs of the stockpiles. These funds may not be available.</li> <li>➤ Danger of growth of substitute foods such as maize, wheat and barley.</li> </ul> <p>The scheme could be successful:</p> <ul style="list-style-type: none"> <li>➤ Rice can be stored for a relatively long time - as long as kept cool and dry. This enables the holding of stockpiles.</li> <li>➤ It might work in the short term if producers and government are seeking price stability. Over the long term there is more pressure on the scheme to breakdown.</li> </ul> <p><b>Quality of written communication skills will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument.</li> <li>• To organise information clearly and coherently.</li> <li>• To use economics vocabulary appropriately.</li> <li>• To use grammar, spelling and punctuation appropriately.</li> </ul>	<b>(12)</b>
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Level	Mark	Descriptor
Level 1	1-2	Limited explanation of buffer stock scheme.
Level 2	1-4	Correct diagram and explanation of buffer stock scheme. (Mark cap of 6 if no evaluation offered).
Level 3	5-7	Correct diagram and explanation of buffer stock scheme and one evaluation point offered.
Level 4	8-10	Convincing diagram, and explanation of buffer stock scheme with two or more evaluation points

## 6EC02 Mark Scheme

Question Number	Answer	Mark
1(a)(i)	<p>Increase (1 mark) in actual or real (1 mark) GDP or income or output (1 mark). Allow potential (1 mark) output.</p> <p>Further valid explanation. (1 mark) Use of data for example France 2.0%, Germany 2%, Spain 2.7%, or UK 2.3%. (1 mark)</p>	(4)

Question Number	Answer	Mark
1(a)(ii)	<p>Up to four marks available. Award reference to: Basket of goods (1 mark) price survey (1 mark) food and expenditure survey (or equivalent) (1 mark) index (process of how an index is compiled) (1 mark) base year. (1 mark)</p> <p>650 items (allow in range 600 to 700). (1 mark) Further development. (1 mark)</p>	(4)

Question Number	Answer	Mark
1(a)(iii)	<p><b>Award two factors only, up to 4 marks each:</b> For identification of each factor (1 mark) each and development of the factor (3 marks each). Factors might include:</p> <ul style="list-style-type: none"> <li>• ignores distribution of income</li> <li>• population changes (per capita discussion)</li> <li>• real versus nominal</li> <li>• quality versus quantity</li> <li>• factors that GDP ignores such as self produced goods.</li> </ul> <p>Evaluation (4 marks). Award (2 x 2 marks or 1 x 4):</p> <ul style="list-style-type: none"> <li>• GDP is very useful in the wider context of a composite indicator</li> <li>• living standards are not quantifiable</li> <li>• prioritisation of measures of living standards, with justification</li> <li>• best method we have?</li> </ul>	(12)

Question Number	Answer	Mark
1(b)(i)	<p>Withdrawal - explanation, for example money is flowing out. (2 marks) Use of data -10.2% of GDP to support this. (2 marks)</p>	(4)

Question Number	Answer	Mark
1(b)(ii)	<p>Accept two plausible reasons. (2 x 3 marks)  Identification (1 mark) and explanation. (2 marks)  Factors might include:</p> <ul style="list-style-type: none"> <li>• high level of growth, sucking in imports (3 marks)</li> <li>• high level of inflation, reducing competitiveness (3 marks)</li> <li>• high level of exports from Germany, which has higher relative competitiveness. (3 marks)</li> </ul> <p>Accept answers <b>not</b> related to data, for example level of confidence, low level of unemployment.</p>	(6)

Question Number	Answer	Mark
1(c)(i)	<p><i>Accept a reasonable definition such as:</i>  A composite measure of economic development (1 mark) which includes longevity, years of school enrolment, literacy and GDP at PPPs (1 mark for each element given) presented as an index or rank which gives an indication of health and education rather than just incomes. (1 mark)</p>	(4)

Question Number	Answer	Mark
1(c)(ii)	<p>QWC marks to be awarded as implicit. KAA 12 marks.</p> <p>Identification of three advantages and explanation (4 marks each) or (3 marks) for four less well developed factors (3 marks each).</p> <p>Factors might include:</p> <ul style="list-style-type: none"> <li>• measures chosen are easy and cheap to collect</li> <li>• measures chosen are fairly reliable</li> <li>• indicates GDP has been used to increase social welfare</li> <li>• GDP rank minus HDI rank as a useful measure or health and education</li> <li>• use of education and health is a sign of successful government policies</li> <li>• shift of PPF or AS curve outwards as a sign of increased potential without increases in costs, so HDI rank is a sign of welfare in the future.</li> </ul> <p>Evaluation (2 x 2 marks or 1 x 4 marks) (4 marks). Factors might include:</p> <ul style="list-style-type: none"> <li>• an indication of deprivation or poverty would increase the usefulness of HDI</li> <li>• PPP values change very quickly and are likely to be inaccurate or misleading</li> <li>• still very little sense of income distribution in this measure</li> <li>• still very little sense of quality of life in this measure, for example wars, political oppression</li> <li>• very difficult to measure human development - sense of prioritisation of options</li> <li>• other measures, such as access to the internet, might be more useful</li> <li>• better to use a combination of measures</li> <li>• changes over time or 'other things are not equal' make the measures less useful.</li> </ul>	(16)

Question Number	Answer	Mark
1(d)	<p>Knowledge, application and analysis (18 marks), of which:</p> <p>Definition of supply side policies. (2 marks)</p> <p>Diagram showing the effects of relevant government policies on the price level and output, showing an increase to the right of AS. (4 marks)</p> <p>Analysis (12 marks) of the effect of chosen policies - award three factors (4 marks each) or two factors (6 marks each). Factors might include:</p> <p>supply side policies:</p> <ul style="list-style-type: none"> <li>• privatisation</li> <li>• education and training</li> <li>• deregulation</li> <li>• cutting bureaucracy</li> <li>• promotion of competition</li> <li>• control of power of monopolies</li> <li>• reduction in planning restrictions</li> <li>• improvement in human capital increases the value of workers' output, meaning that firms can produce more for the same price</li> <li>• improved education increases opportunities which means that incentives can work more effectively.</li> </ul> <p>Evaluation (12 marks) - award three points up to 4 marks each or two well-developed points up to 6 marks each. Points might include the following:</p> <ul style="list-style-type: none"> <li>• time lag for the education to have a result on workforce</li> <li>• education might not be effective, for example Madonna studies, Surf Science</li> <li>• expansionary fiscal implications of supply side policies</li> <li>• other policies might be more effective, such as cutting interest rates</li> <li>• scope for further supply side policies is limited</li> <li>• time lags, for example supply side policies can lag for decades</li> <li>• supply side policy conflicts <ul style="list-style-type: none"> <li>- Increased government spending and tax can cause disincentives</li> <li>- Supply side policy might have positive impact on the fiscal side in the long run.</li> </ul> </li> </ul>	(30)

Question Number	Answer	Mark
2(a)(i)	<p>A permitted range for the increase in the price levels, measured by changes in the CPI (2 marks);</p> <p>of 2% (1 mark)(+ or - 1%) (1 mark) OR as a government-determined goal set for the MPC. (2 marks)</p> <p>Reference to data (2.1%) (1 mark)</p>	(4)

Question Number	Answer	Mark
2(a)(ii)	<p>For each point (allow two points only for up to 5 marks each):</p> <p>Identification of evidence (1 mark); with explanation of point (2 marks); and link to price level. (2 marks)</p> <p>Evidence might include:</p> <ul style="list-style-type: none"> <li>• prospects for output growth have worsened</li> <li>• disruption to global financial markets</li> <li>• tight credit</li> <li>• consumer spending growth has eased</li> <li>• output growth has moderated.</li> </ul>	(10)

Question Number	Answer	Mark
2(a)(iii)	<p>Distribution of income improves (if justified): identification of groups (ie winners and losers) affected by cut in interest rates, for example savers, borrowers, mortgage holders, pensioners, hire-purchasers. <b>(2 marks)</b></p> <p>Award up to <b>(4 marks)</b> for further analysis, for example savers are likely to be the higher-income groups and their returns will fall, monthly mortgage interest payments will reduce affecting lower-income groups more as a proportion of their income, link between interest rates and house prices.</p> <p>Evaluation <b>(4 marks)</b>. Award ( 2 x 2 marks or 1 x 4 ).</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• higher-income groups are not necessarily higher savers</li> <li>• higher-income groups might have larger mortgage interest payments as a proportion of their income</li> <li>• time implications for impact of interest rate changes</li> <li>• effects on income might take longer than wealth effects or other wealth issues</li> <li>• or other time issues.</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
2(b)(i)	<p>This is where the government spends more that it receives in taxation revenue. <b>(2 marks)</b></p> <p>Reference to data either £39.4 billion or 2.8% GDP. <b>(2 marks)</b></p> <p>Credit sense of negative figure or deficit. <b>(1 mark)</b></p>	<b>(4)</b>

Question Number	Answer	Mark
2(b)(ii)	<p>Identification of multiplier. (2 marks) Diagram showing rightward shift in AD, and/or rightward shift in AS or equivalent verbal description. (4 marks) Analysis of multiplier. (4 x 1 marks) Points might include:</p> <ul style="list-style-type: none"> <li>• spending becomes other peoples' incomes</li> <li>• explanation of reasons for size of leakages</li> <li>• process continues until all extra income is leaked away</li> <li>• relevance to government spending, for example on hospitals</li> <li>• knock-on effects can be shown with the multiplier formula, although this is not required.</li> </ul> <p>Evaluation (4 marks) Allow 2 x 2 marks or 1 x 4 marks. Factors might include:</p> <ul style="list-style-type: none"> <li>• discussion of the size of the multiplier</li> <li>• time lag effects</li> <li>• depends on the shape or the AS curve</li> <li>• other things might not be equal, for example the pound might change in value.</li> </ul>	(14)

Question Number	Answer	Mark
2(c)	<p>Award two costs.</p> <p>Identification of costs (2 marks for each cost clearly identified). For development/application of costs 2 marks each. Costs might include:</p> <ul style="list-style-type: none"> <li>• loss of income, credit problems such as house repossession, welfare problems for dependants, poverty issues</li> <li>• loss of skills and other human capital: hard to get back into labour market</li> <li>• government revenue falls so spending likely to fall, other fiscal issues</li> <li>• social costs: large numbers of idle workers can have negative effect on society, for example crime, morale, social disintegration</li> <li>• opportunity costs: resources could be used elsewhere.</li> </ul>	(10)

Question Number	Answer	Mark
2(d)	<p>Knowledge, application and analysis (18 marks), of which:</p> <ul style="list-style-type: none"> <li>• definition (2 marks): demand side policies refer to monetary and fiscal policy</li> <li>• diagram (or equivalent) (4 marks) showing an increase to the right of AD</li> <li>• identification and link to two macroeconomic objectives (4 marks)</li> <li>• analysis (12 marks) of the effect of conflicts in macroeconomic objectives - award three factors (3 marks each); or two factors (6 marks each).</li> </ul> <p>Factors might include:</p> <ul style="list-style-type: none"> <li>• Phillips curve short run trade off</li> <li>• expansionary policy causes growth but inflationary pressures occur</li> <li>• expansionary policies might increase employment but worsen the impact on the environment</li> <li>• rises in interest rates can control inflation but worsen the distribution of income</li> <li>• cuts in interest rates can encourage growth but there is likely to be a worsening of the current account</li> <li>• tight monetary policy can cause the value of the currency to rise increasing living standards but there is a worsening effect on the current account of the balance of payments.</li> </ul> <p>Conflicts might include:</p> <ul style="list-style-type: none"> <li>• inflation and growth</li> <li>• inflation and employment</li> <li>• inflation and balance of payments issues</li> <li>• growth and environment</li> <li>• growth and income redistribution</li> <li>• growth and balance of payments issues</li> </ul> <p>- or any other combination.</p> <p>Evaluation (12 marks) - award three points up to 4 marks each or two well-developed points up to 6 marks each. Points might include:</p> <ul style="list-style-type: none"> <li>• depends on elasticities, for example LRAS when AD shifts</li> <li>• short run versus long run arguments, for example unemployment is a lagging indication</li> <li>• prioritisation of objectives with justification</li> </ul>	

	<ul style="list-style-type: none"><li>• other things are not equal - confidence, availability of credit or inter-bank lending rates might be a more important influence on consumer spending than the repo rate</li><li>• policies themselves might conflict</li><li>• unreliable or missing information.</li></ul>	(30)
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