

Mark Scheme (Results) Summer 2010

GCE

GCE ECONOMICS (6EC02) Paper 01

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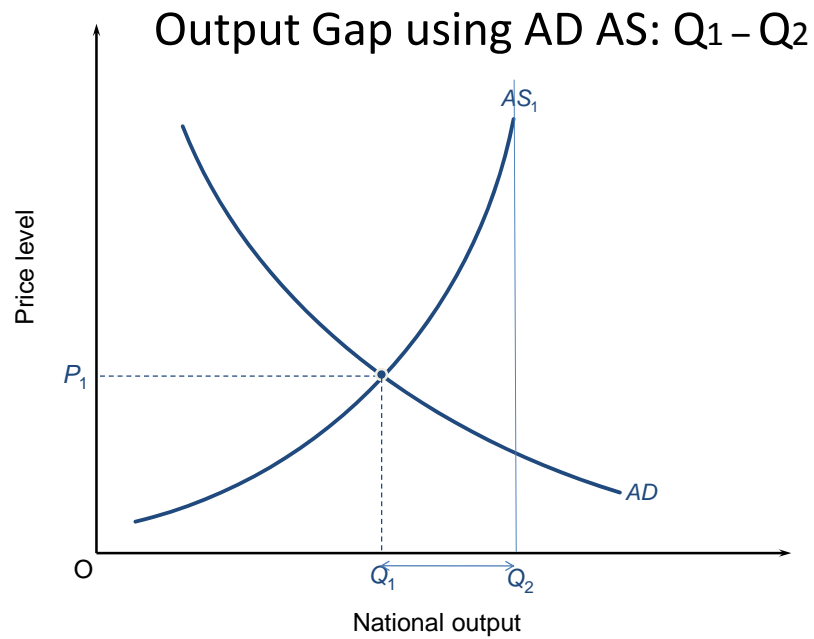
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Publications Code US023771

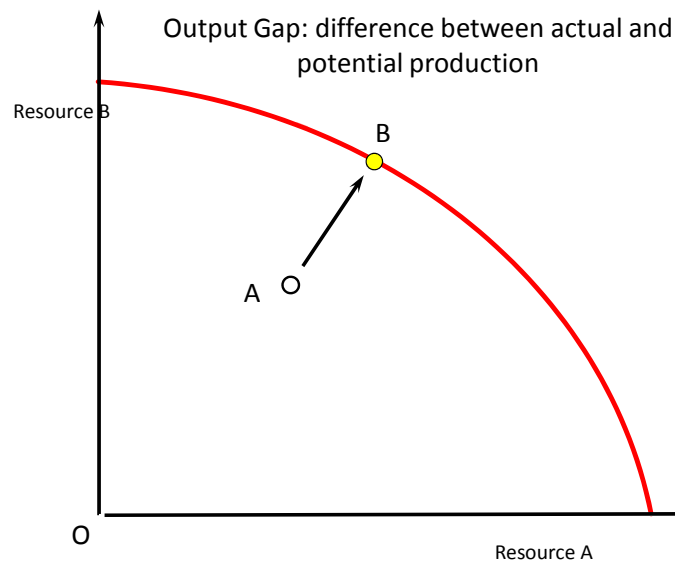
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Question Number	Answer	Mark
1(a)(i)	<p>A measure of the difference between actual and potential (or trend) growth/output/GDP. Reward explanations of both positive and negative output gaps. (2 marks).</p> <p>Allow up to 2 marks for written explanation OR an appropriate diagram (AS/AD, PPF, Business Cycle showing trend or potential and actual) showing actual and potential growth/output/GDP.</p> <div style="text-align: center;"> <p>The Output Gap: distance AB or CD</p> <p>The Output Gap</p> </div>	(4)

continued on next page



5



Reference: data or extract (2 marks)

Question Number	Answer	Mark
1(a)(ii)	<p>Definition of fiscal (2 marks: G 1 and T 1) and monetary policies - interest rates are sufficient (2 marks)</p> <p>Use of extract 2 marks</p> <p>Identification of certain differences (up to 4 marks), e.g.</p> <ul style="list-style-type: none"> • body in charge, government vs MPC; • frequency of adjustment, typically annual vs monthly. 	(6)

Question Number	Answer	Mark
1(a)(iii)	<p>KAA 12 marks</p> <p>Expansionary: (4 marks) G rises or T falls (2 marks); interest rate falls (2 marks)</p> <p>How the policy shifts AD (right/up) either:</p> <ul style="list-style-type: none"> • 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) <p>Evaluation (4 marks) factors might include (1x4 marks or 2x2 marks)</p> <ul style="list-style-type: none"> • 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)	<p>Unemployment (ILO) up to 2 marks:</p> <ul style="list-style-type: none"> • 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) <p>Claimant count up to 2 marks:</p> <ul style="list-style-type: none"> • 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)	<p>Unemployment is a lagging indicator or similar indication that there is a time delay (2 marks).</p> <p>Allow one reason up to 4 marks, or two reasons 3+3 marks or 4+2 marks.</p> <ul style="list-style-type: none"> • 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)	<p>KAA 10 marks</p> <p>Use of data (2 marks)</p> <p>Significance of immigration for employment:</p> <ul style="list-style-type: none"> • 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 <p>(4 marks for one point or 2+2 marks or 3+1 mark)</p> <p>Significance of immigration for unemployment:</p> <ul style="list-style-type: none"> • 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 <p>(4 marks for one point or 2+2 marks or 3+1 mark)</p> <p>The arguments in reverse are allowable in the context of falling immigration rates (shown in fig. 3)</p> <p>Evaluation 4 marks (2+2 marks or 3+1 mark):</p> <ul style="list-style-type: none"> • 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)	<p>KAA 18 marks Identification of falling GDP (might be implicit) (2 marks)</p> <p>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)</p> <p>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:</p> <ul style="list-style-type: none"> • 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 <p>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:</p> <ul style="list-style-type: none"> • 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)	<p>1 marks for explaining weights: weights are attached to reflect relative importance (1 mark)</p> <p>Other elements, up to 3 marks</p> <p>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).</p>	(4)

Question Number	Answer	Mark
2(a)(ii)	<p>Award two reasons (2 x 4 marks)</p> <ul style="list-style-type: none"> • 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 <p>1 mark identifying each reason, 1 mark defining each reason, up to 2 marks explaining each reason.</p>	(8)

Question Number	Answer	Mark
2(a)(iii)	<p>KAA 10 marks</p> <p>Interest rates must be raised to reduce inflation or vice versa (2 marks)</p> <p>Description of transmission mechanisms as follows or costs of borrowing increases(2 x 4 marks):</p> <p>C falls as:</p> <ul style="list-style-type: none"> • mortgage interest repayments increases • the return to savings increases • hire purchase costs increase <p>I falls as the opportunity cost or cost of credit rises; expectation of future income might fall</p> <p>Pound sterling rises in value.</p> <ul style="list-style-type: none"> • Imports cheap exports dear, so AD falls <p>The transmission mechanism could be explained using a diagram. Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1)</p> <p>2 marks can be awarded for use of data</p> <p>Evaluation (4 marks). Factors might include (1x4 marks or 2x2 marks):</p> <ul style="list-style-type: none"> • 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)	<p>Up to 2 marks for each figure Trend (1 mark) correct use of numerical data (1 mark)</p> <p>e.g. fig. 1 House prices peaked (1) in 2007 (1) or at £200 000 (1)</p> <p>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)</p> <p>Affordability peak in 2007, but give credit for 2008. (1)</p>	(4)

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

Question Number	Answer	Mark
2(b)(iii)	<p>KAA 12</p> <p>Diagram AD shifts to left. Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1) (4 marks)</p> <p>State output falls (2 marks) and price level falls (2 marks)</p> <p>Transmission mechanisms (1x4 or 2x2 marks) showing:</p> <ul style="list-style-type: none"> • 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. <p>Evaluation (1 x 4 marks or 2 x 2 marks) might include:</p> <ul style="list-style-type: none"> • 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)	<p>KAA 18 marks of which</p> <p>Identification of concept of stimulating growth, that is, raising real or potential GDP (might be implicit) (2 marks)</p> <p>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)</p> <p>Policies that might stimulate growth (12 marks) 3 x 4 marks might include:</p> <ul style="list-style-type: none"> • 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) <p>Evaluation (12 marks) 3 x 4 marks or 2 x 6 marks might include:</p> <ul style="list-style-type: none"> • 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 <p>Other side effects of policies, e.g. higher growth rates tend to widen income inequality.</p>	(30)

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