

Mark Scheme (Results)

Summer 2013

GCE Economics (6EC02/01)

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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.

Question Number	Indicative content	Mark
1 (a) (i)	<p>Data reference: 2005 as \$45 (1) and 2012 as \$125 (1)</p> <p>Identification: base year (January 2005) of index = 100 OR \$45 = 100 (1) Calculation of percentage increase in price as 177.7% (accept 177 or 178) (1) Calculation: $(125/45) \times 100$ (2) OR 177% increase + 100% (2)</p> <p>Answer = 277.77 accept 277 or 278 and anything in between these two numbers (6)</p> <p>If only $(125/45) \times 100$ and the answer is wrong award 4 marks For incorrect data reference, but correct calculation using incorrect data, award up to 3 marks</p>	(6)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8</p> <p>Data reference (2)</p> <p>Up to 4 marks each:</p> <ul style="list-style-type: none"> • Up to mid 2008 booming global economy (2) pushes demand for oil up, raising price (2) • Up to mid 2009 recession (2) and collapse in global demand, lowering demand for oil and hence price (2) • Up to end 2010 demand for oil recovers (2) mainly from developing countries such as China and India, raising price (2) • 2011 Arab spring (2) threatens supply of oil and/or stocks are bought up/speculative buying raises demand for oil, raising price (2) <p>Accept correct supply and demand diagram for 2 marks within each point</p>	(8)

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8 marks</p> <p>Up to 4 marks for the diagram: Diagram demonstrating leftward shift of AS and/or AD if linked to higher imports: correct shifts in line (1), lines labelled (1), axes labelled (1), equilibria labelled (1). Note diagrams where a single line shift is shown and it is incorrect receive no marks, even if curves and axes are labelled correctly. If one line shift is correct and the other shift is wrong then award 2 marks assuming the rest of the diagram is labelled correctly.</p> <p>Up to 4 marks for the analysis e.g.</p> <ul style="list-style-type: none"> • Explanation that oil is a factor of production / costs of production rise (2) and that inflation occurs (2) • Aggregate supply and/or aggregate demand falls so real output will fall (2) and this could lead to a rise in unemployment (2) • Worsening of balance of payments on current account / trade balance (2) through increase in value of oil imports (2) • Rising costs of production for firms may lead them to reduce investment (2) causing further falls in AD and AS and hence real output (2) • Negative effect on income distribution (2) as price rise is regressive / could result in fuel poverty (2) <p>Evaluation 4 marks (1x4 or 2x2)</p> <ul style="list-style-type: none"> • The extent of the effect on the balance of payments on current account depends on the PED of oil. Oil is likely to have a low PED leading to a significant worsening of the current account balance. • The effect being offset by technological change/use of substitutes • Supply chain, stocks and fixed price contracts may mean price rise is not felt immediately • Different effects on different industries • Dependency on oil may be falling due to deindustrialisation / increasingly service-based economy, and/or increasing use of renewable energy sources • Magnitude of price increases • Extent of other factors offsetting this effect (questioning ceteris paribus) • Length of time oil price remains high for and timescale of the effects 	(12)

Level	Mark	Descriptor
Level 3	9-12	One convincing effect with AS/AD diagram, with at least one evaluative point
Level 2	5-8	One convincing effect with evaluation but no/incorrect diagram, or one convincing effect with diagram but no evaluative point; Less-convincing effect or diagram with some evaluation
Level 1	1-4	Identification of relevant effect with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (i)	<p>KAA4</p> <p>Data reference (2) for example:</p> <ul style="list-style-type: none"> • 21% increase in export volumes (1) and 16% increase in import volumes (1) since 2009. • The fall in the exchange rate (1) by 25% between 2007 and 2009 (1) would make imports more expensive, supposedly reducing the total value we import, and exports cheaper, supposedly increasing the total value sold, reducing the deficit. <p>The value of the country's imports of goods and services is greater than the value of the country's exports of goods and services (2)</p> <p>Amount/volume of exports or 'exports' less than amount/volume of imports or 'imports' (1)</p>	(4)

Question Number	Indicative content	Mark
(b) (ii)	<p>KAA 8</p> <p>Up to 4 marks for each consequence (2 x 4 marks) - 2 marks for identification and 2 marks for explaining why it is a cost to UK economy</p> <ul style="list-style-type: none"> • Low/constrained aggregate demand (2) leading to suppressed economic growth (2) • Net withdrawal from the circular flow of income (2) leading to falling output (2) • As labour is a derived demand (2) creation of unemployment in export and/or import substitute industries (2) • Rising unemployment means lower average incomes (2) and a consequence of that such as lower domestic consumption or higher total paid by government in unemployment benefits/lower tax revenue (2) • Weakening pound (2) which would lead to imported cost push inflation from products with price inelastic demand such as oil (2) • Loss of manufacturing skills (2) meaning no choice but to continue importing goods in the future / deficit will persist (2) 	(8)

Question Number	Indicative content	Mark
* (b) (iii) QWC i-iii	<p>KAA 8</p> <p>Up to 8 marks</p> <ul style="list-style-type: none"> • Reference to data (2) • Definition of a fall in the exchange rate OR the exchange rate (2) • Fall in the price of exports (1) leading to a rise in exports (1) • Rise in price of imports (1) leading to a reduction in imports (1) • Leading to a reduction in the trade deficit (2) <p>Evaluation (1 x 4 marks or 2 x 2 marks)</p> <p>Factors might include:</p> <ul style="list-style-type: none"> • 25% depreciation in exchange rate, so effects likely to be significant • Extract states that import volumes rose, rather than fell as would be expected • Large price differential persists even after depreciation • Imports and exports may not be that price sensitive (focus on quality) and so the deficit may not reduce so quickly • Depreciation may lead to inflation which may in the long run eliminate the trade benefits of a fall in the sterling exchange rate • Extent of industrial production reduction • Producers may not pass on depreciation in their final prices • Extent of dependency on overseas countries • Depends on economic conditions in UK's main export markets (questioning ceteris paribus) <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)

Level	Mark	Descriptor
Level 3	9-12	Effect on trade deficit explained convincingly with at least one evaluative point
Level 2	5-8	Effect on trade deficit explained convincingly with no evaluation, or effect on trade deficit explained less convincingly with some evaluation
Level 1	1-4	Identification of effect on trade deficit with or without brief evaluative keywords

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>KAA 18</p> <p>Up to 6 marks (3 x 2 marks):</p> <ul style="list-style-type: none"> • Defining supply side policies as measures by the government to increase productive capacity of the economy OR increase LRAS • Defining economic growth as an increase in either real OR potential GDP • Use of relevant data (e.g. data on corporation tax rates from Extract 2 and/or Figure 2) • Use of a production possibility frontier diagram to demonstrate growth through SSP OR use of an AD/AS diagram to demonstrate growth through SSP <p>Policies might include (up to 12 marks):</p> <p>Corporation tax reductions (1 x 4 marks or 1 x 6 marks)</p> <ul style="list-style-type: none"> • increasing investment/productivity or attraction of overseas investment and link to economic growth <p>Other SSP (2 x 4 marks or 1 x 6 marks) - 2 marks for identification of policy and up to 4 marks for link to economic growth</p> <ul style="list-style-type: none"> • Increased or improved education • Increased and improved training • Increased or improved health care • Changing the level of benefits to incentivise employment • Reducing income tax to incentivise employment • Cutting cost of bureaucracy / increased deregulation • Privatisation of an industry such as Royal Mail, which may lead to increased competition, innovation and efficiency • Infrastructure investment such as roads or broadband, reducing industries' costs or improving access to market • Increased flexibility and/or mobility of labour market, e.g. reduce trade union power / improved information flows / reduce or abolish national minimum wage <p>Reward use of diagrams (maximum of 2 marks each if develop analysis)</p> <p>Evaluation 12 marks:</p> <p>Evaluation of reduction of corporation tax (up to 2 x 6 or 3 x 4 marks)</p> <ul style="list-style-type: none"> • Cut in corporation tax ineffective if companies use the cut to boost dividend payments / retained profits rather than for investment • Interest rates / confidence may affect investment more than corporation tax rates (questioning ceteris paribus) • Positive or negative comparison to other countries' corporation tax rates <p>Evaluation of other supply side policies (up to 1 x 6 marks or 2 x 4 marks)</p> <ul style="list-style-type: none"> • Time it takes for supply side policies to take effect • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Cut in income tax designed as an incentive to work and invest may be ineffective if workers use it as an opportunity to work less for the 	(30)

	<p>same income</p> <ul style="list-style-type: none"> • The actions of other countries also trying to attract investment • Increase in UK taxation elsewhere may have an effect on incentives • Supply side policies ineffective if AD is very low • Elasticity of AD curve • Magnitude of policy changes <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	
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Level	Mark	Descriptor
Level 4	25-30	Two or three convincing policies (including corporation tax cut) with at least two evaluative points
Level 3	19-24	Two or three convincing policies with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	Two or three convincing policies with no evaluative point; one or two less-convincing policy with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

Question Number	Indicative content	Mark
2 (a) (i)	<p>KAA 6</p> <p>6 x 1 mark</p> <ul style="list-style-type: none"> • Definition of CPI: a measure of the average price level of goods and services in the UK • Price survey • Expenditure and Food Survey • of approximately 7,000 households • Basket of goods • containing approximately 650 goods and services • Contents of the basket revised annually • Weighted average • Weights are attached to reflect relative importance / further explanation of calculation (1+1) • Use of an index • Base year • Data is published monthly • Exclusion of most housing costs 	(6)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8</p> <p>Up to 4 marks each:</p> <ul style="list-style-type: none"> • Rising import prices (2) such as oil/commodity prices (2) • Rising import prices (2) such as food (2) • Rising raw material/energy prices (2) increase production costs for firms (2) • Weakening pound (2) making imports more expensive (2) • VAT rises (2) increasing the price of products sold (2) • Monetary tools tend to be more focussed on AD (2) so unable to combat cost-push inflation effectively (2) • Low interest rate (2) stimulating consumption/investment and AD growth (2) • Quantitative easing (2) / stimulating consumption/investment and AD growth (2) • Increase in nominal wages (2) leading to higher production costs for firms (2) <p>Reward use of AS/AD diagrams (maximum of 2 marks each if develop analysis)</p>	(8)

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8 marks</p> <p>Up to 8 marks:</p> <ul style="list-style-type: none"> • Reference to data (2) • Definition of the standard of living as a measure of the welfare of people living in an economy / real GDP per capita PPP (2) OR a definition of real income (2) • Explanation of effects (4+4 marks): <ul style="list-style-type: none"> ○ Lower purchasing power of income (2) means fewer goods and services consumed (2) ○ Negative multiplier effect (2) leads to unemployment/further falls in income and fall in standard of living (2) ○ Consumers may save more as fearful about the future (2) so lower consumption of goods and services (2) ○ Change in purchasing preferences (weighting of the basket of goods) (2) as necessities remain relatively unaffected but luxuries are reduced (2) ○ Lower tax revenue for government (2) could feed through into cuts in government spending on public goods/goods with positive externalities etc. (2) <p>Evaluation (1 x 4 marks or 2 x 2 marks)</p> <p>Factors might include:</p> <ul style="list-style-type: none"> • Short run and long run effects • Magnitude of fall in real incomes - is 3.5% significant? • Size of the multiplier effect • Consumers may draw upon savings to maintain consumption levels • Unequal impact across society (e.g. different income groups, or those on fixed incomes) • Problems of accuracy of measuring output due to shadow or underground economy (i.e. cash in hand) • The value of non-marketed output including work done in the home • Regional variation in income, health and education • Leisure and working hours • Environmental considerations • How the standard of living should be measured (i.e. GDP per capita PPP too limited and broader HDI more representative) / other determinants of standard of living may be improving 	(12)

Level	Mark	Descriptor
Level 3	9-12	Two convincing effects with at least one evaluative point
Level 2	5-8	Two convincing effects with no evaluative point; or one or two less-convincing effects with some evaluation
Level 1	1-4	Identification of relevant effects with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (i)	<p>KAA 4 marks (maximum of 2 marks for KAA if no reference to data)</p> <p>Data reference: output was lower than initially estimated OR that the growth estimate was revised from -0.2% to -0.3% OR other relevant data use (2)</p> <p>Up to 2 marks:</p> <ul style="list-style-type: none"> • to reflect new or improved data (e.g. final official data rather than estimated data) (2) • to reflect greater accuracy (e.g. better estimates of unreported activity) (2) • to give a more accurate reflection of the underlying state of the economy for policy purposes (2) 	(4)

Question Number	Indicative content	Mark
(b) (ii)	<p>KAA 8</p> <p>2 x 4 marks for each consequence - 2 marks for identifying consequence and 2 marks for linking to falling inflation</p> <ul style="list-style-type: none"> • If nominal wages rise faster/gap between wage increase and inflation less large (2) then real incomes rise / real incomes not falling as fast (2) which may raise consumption (2) • Greater UK competitiveness (2) and rising exports (2) • Danger of falling into deflation if inflation rate goes below zero (2) and hence consumption delayed (2) • Further monetary policy stimulus (2) such as interest rate cuts OR QE (2) • Improved confidence that the UK can manage the economy at a low inflation level (2) leading to increased investment / consumption (2) • Effect on unemployment (2) supported by Phillip's curve analysis (2) OR increased (derived) demand for labour if consumption rises (2) • Effect on income distribution (2) as real value of savings and borrowings eroded at a slower rate (2) 	(8)

Question Number	Indicative content	Mark
* (b) (iii) QWC i-iii	<p>KA A 8</p> <p>Up to 4 marks:</p> <ul style="list-style-type: none"> • Use of data: low interest rates at 0.5% /greater QE (2) • Definition of monetary policy (2) • Explanation of increase (or at least reduction in fall) in components of AD and therefore increase UK output/reduce unemployment through: <ul style="list-style-type: none"> ○ consumption transmission mechanism with explanation (2) ○ Investment transmission mechanism with explanation (2) ○ Net trade transmission mechanism (2) <p>Up to 4 marks: Diagram demonstrating rightward shift of AD and/or AS (4); correct shifts in lines (1), lines labelled (1), axes labelled (1), equilibria labelled (1)</p> <p>Note diagrams where a single line shift is shown and it is incorrect receive no marks, even if curves and axes are labelled correctly. If one line shift is correct and the other shift is wrong then award 2 marks assuming the rest of the diagram is labelled correctly.</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2):</p> <ul style="list-style-type: none"> • Despite low Bank rate and a demand for loans, banks are unwilling to lend, or do not pass on low Bank rate • Evidence from the Extract suggests that loose monetary policy is not effective in supporting economic recovery, e.g. unemployment is rising • Because of the global or European recession businesses lack confidence to invest and consumers lack confidence to spend thus limiting economic recovery. • Those on fixed rate loans/mortgages are not affected by low interest rate • Low return on savings, so less consumption by those with savings • Reduced effectiveness of monetary policy as interest rate has been low for so long • Long run and short run impact • Other effects such as weakening pound helping exports • Other determinants of AD or AS produce counterbalancing effects <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)

Level	Mark	Descriptor
Level 3	9-12	One or two convincing reasons with AS/AD diagram, with at least one evaluative point
Level 2	5-8	One or two convincing reasons with evaluation but no/incorrect diagram, or one convincing reason with diagram but no evaluative point; Less-convincing

		reason or diagram with some evaluation
Level 1	1-4	Identification of relevant reason with or without brief evaluative keywords

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>KAA 18</p> <p>Up to 6 marks (3 x 2marks):</p> <ul style="list-style-type: none"> • Definition of macroeconomic objectives (the aims/targets of the government to improve economic welfare) • Definition of a fiscal (budget) deficit • Identification of cutting government spending • Identification of raising taxation • Use of relevant data • AS/AD diagram showing impact of falling government spending and/or rising taxation <p>12 marks (3 x 4 marks or 2 x 6 marks) - Identification of macroeconomic objective (2) and explanation of effect on objective (up to 4 marks)</p> <p>Factors might include:</p> <ul style="list-style-type: none"> • Reduce unemployment / achieve full employment (2) - AD would be reduced leading to lower demand for labour and increased unemployment (2) • Low, stable inflation (2) - AD would be reduced leading to reduced price level or deflationary demand-pull pressure (2) • Sustainable economic growth (2)- AD would be reduced leading to lower real output (2) • Equilibrium on balance of payments on current account (2) - falling real incomes leads to lower demand for imported goods and services which would reduce the deficit on the current account of the balance of payments (2) • More equal income distribution (2) - cuts in government spending likely to affect lower income earners more, but rising tax rates could have a regressive or progressive effect (2) • Achievement of environmental goals - likely to be positive as real output / production levels fall • Reduction of national debt or balancing the budget - objective achieved <p>Reward use of diagrams (maximum of 2 marks each if develop analysis)</p> <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks):</p> <ul style="list-style-type: none"> • Despite fiscal retrenchment unemployment is falling and employment is at an historic high, although this could be accounted for by record number of part time workers • Despite fiscal retrenchment inflation remains above target, although 	(30)

	<p>this could be accounted for by cost push inflation from a weakening exchange rate or rising raw material prices</p> <ul style="list-style-type: none"> • The impact on the deficit on current account might be relatively small if imports are relatively income inelastic such as oil / food • Rising tax on firms and falling government spending may reduce international competitiveness, worsening the current account position • Falling real incomes should lead to lower demand for imports which will reduce the leakages from the circular flow of income and the size of AD's fall. • Fiscal retrenchment will reduce the speed of economic recovery so delay reduction of the budget deficit and national debt (Labour argument) • Prioritisation of objectives • Elasticity of AS curve / level of spare capacity • LR / SR effects • Availability of credit • Size of the multiplier • Size and speed of reduction of fiscal deficit • Size of national debt • Time lag and implementation lags • Other things are not equal - e.g. depends on global economic changes • Conflict between policies <p>Award either as:</p> <ul style="list-style-type: none"> • KAA marks for objectives that this does help the government achieve • Evaluation marks for objectives that this doesn't help the government achieve <p>OR</p> <ul style="list-style-type: none"> • KAA marks for objectives that this may or may not help the government achieve • Evaluation marks for discussing the extent to which this would occur <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	
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Level	Mark	Descriptor
Level 4	25-30	Two or three convincing effect with at least two evaluative points
Level 3	19-24	Two or three convincing effects with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	Two or three convincing effects with no evaluative point; one or two less-convincing effect with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

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