

Mark Scheme (Results)

Summer 2014

Pearson Edexcel GCE  
in Economics (6EC02) Paper 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.

**FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.**

Question Number	Indicative content	Mark
1 (a) (i)	<p>KAA 6 marks Reward up to 4marks</p> <ul style="list-style-type: none"> <li>• Although real (or potential) output in 3<sup>rd</sup> quarter of 2012 increased at the highest rate since the start of the recession (2), the fall in the economy's real output was so large in 2008-9 that even with the increase in the third quarter output was yet to reach the level of 2007 (2)</li> <li>• Up to 2 marks for any one reason why growth was high in 2012</li> <li>• Reward an illustrative graph of real output that is well explained e.g. output gap diagram (2)</li> </ul> <p>Up to 2 marks for correct use of any one piece of data</p> <ul style="list-style-type: none"> <li>• 1% in Q3 of 2012</li> <li>• Q3 2012 is still 3% below 2007 levels</li> </ul>	<b>(6)</b>

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8 marks 2 x 4 marks for identifying a benefit (2) and explaining it (2). Award 2 benefits only.</p> <ul style="list-style-type: none"> <li>• More employment opportunities/lower unemployment</li> <li>• Increase in real disposable income. Therefore, consumers can afford to buy more goods and services and/or have more leisure time – i.e. an increase in living standards</li> <li>• Retail sales increasing. Therefore, higher profits for companies which may be used to improve the quality of products or to produce new products</li> <li>• Increased tax revenues for the government which may be used to improve public services or redistribute incomes and/or reduce budget deficit</li> <li>• Higher profits may lead to higher share prices leading to the wealth effect and/or higher dividends leading to more consumption</li> <li>• If there is export-led growth, then the current account of the Balance of Payments would improve</li> <li>• Real economic growth increases LRAS and could lower inflation</li> </ul>	<b>(8)</b>

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8 marks</p> <p>Definition of multiplier (2); the number of times a rise in national incomes exceeds the rise in injections that cause it. It measures the subsequent effects when an injection or withdrawal changes. Accept formula <math>1/(1-m.p.c.)</math> or <math>1/m.p.w.</math> or <math>1/(m.p.s.+m.p.m.+m.p.t.)</math></p> <p>Maximum 6 marks for KAA if no multiplier reference</p> <p>Other 6 marks for one or more of the following (maximum 4 marks if no reference to output/growth):</p> <ul style="list-style-type: none"> <li>• Increase in C as people spend money in the UK on tickets and food and merchandise and therefore AD and real output rises</li> <li>• Increase in exports as tourists spend money on tickets and holidays in the UK and therefore AD and real output rises</li> <li>• Impact on employment: boost to construction industry; higher wages for construction workers;</li> </ul> <p>Reward up to 2 marks for a relevant diagram which helps explain the transmission mechanism</p> <p>Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include:</p> <ul style="list-style-type: none"> <li>• Size of the multiplier will have an impact on the increase in economic growth</li> <li>• Significance of elasticity of AS curve on growth in output</li> <li>• Consumption is likely to have had a larger effect than exports on AD and therefore on growth in output</li> <li>• Regional differences in impact (i.e. most of the events of the Olympics and Jubilee were held in London)</li> <li>• Short-term/long term- impacts</li> <li>• One-off events unlikely to cause sustained growth</li> <li>• Extract: 'confidence is fragile'.</li> </ul>	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing impacts with at least one evaluative point
Level 2	5-8	2 convincing impacts with no connections, or 1 convincing impact with some good analysis but no evaluative point; 1 or 2 less-convincing impacts with some evaluation
Level 1	1-4	Identification of relevant impacts with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (i)	KAA 4 marks 4 x 1 mark: <ul style="list-style-type: none"> <li>• It refers to those of working age who are not working (1)</li> <li>• Actively looking for a job and out of work in last four weeks (1)</li> <li>• Ready to work in two (1)</li> <li>• Labour Force Survey/survey (1)</li> <li>• Questionnaire/interview (1)</li> <li>• Conducted quarterly</li> <li>• Internationally recognised (1)</li> <li>• Age 16-64 (1)</li> <li>• Sample (1)</li> </ul>	(4)

Question Number	Indicative content	Mark
(b) (ii)	KAA 8 marks Up to 4 marks for each cost identified and explained/applied. Award up to 2 costs only. Costs might include: <ul style="list-style-type: none"> <li>• Loss of income and/or credit problems (such as house repossession) will have a downward pressure on consumption and AD, and therefore on output. It will have an upward pressure on unemployment.</li> <li>• Loss of skills and other human capital: hard to get into or back into labour market and increased welfare problems for individuals and dependents and poverty issues, possibly leading to a reduction in the PPF and a downward pressure on actual and potential growth.</li> <li>• Government revenue falls so spending likely to fall, leading to a downward pressure on AD and therefore on output. It will have an upward pressure on unemployment.</li> <li>• Increased government expenditure e.g. on benefits</li> <li>• Social costs: large numbers of idle workers can have a negative effect on society, for example crime, morale, social disintegration, possibly leading to a reduction in the PPF a downward pressure on actual and potential growth.</li> <li>• Opportunity costs: resources could be used elsewhere more effectively, leading to an actual output inside the PPF a downward pressure on actual growth</li> <li>• Downward pressure on wages caused by surplus of workers: could lead to increased inequality.</li> </ul>	(8)

Question Number	Indicative content	Mark
* (b) (iii) QWC i-iii	<p>KAA 8 (2 x 4 marks: 2 for identification of point; 2 for analysis). Do not double award analysis</p> <ul style="list-style-type: none"> <li>• Impact on current account balance: UK goods and services will be less competitive. Therefore, exports will become relatively more expensive and imports are relatively less expensive</li> <li>• Increase in unemployment</li> <li>• Lowering of output</li> <li>• Reduction in investment</li> <li>• Increase in inflation</li> <li>• Exchange rate will weaken</li> <li>• Lower profits for firms leading to lower investment</li> <li>• Downwards pressure on wages</li> </ul> <p>Up to 2 marks for relevant diagram</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> <li>• Depends on the price elasticity of demand for X and M</li> <li>• Other factors may be more important in determining the current account e.g. exchange rate, quality of goods and services</li> <li>• Problems with measuring productivity</li> <li>• Changes will take some time to come into effect</li> <li>• Impact of other factors</li> <li>• Magnitude</li> </ul> <p><b>Quality of written communications 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 economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(12)

Level	Mark	Descriptor
Level 3	9-12	Effect identified and explained with at least one evaluative point
Level 2	5-8	Effect identified and explained , or effect identified and explained with some good analysis but no evaluative point; effect identified, less-convincing explanation with some evaluation
Level 1	1-4	Identification of relevant effects with or without brief evaluative keywords

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>KAA 18 6 marks</p> <ul style="list-style-type: none"> <li>• Identification of government policy as supply side and/or fiscal (2)</li> <li>• Productivity is output per unit of input (2) Accept labour productivity definition</li> <li>• Diagram showing AS shifts to the right (4); axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction.</li> </ul> <p>Factors might include possible policies to raise productivity could include the following: N.B. 2 marks for identification of a relevant policy and 2/4 for analysis. Policies must be related directly to increases in productivity rather than to increased production for 2/4 analysis marks.</p> <ul style="list-style-type: none"> <li>• Increased government spending on infrastructure encouraging investment (inward and/or domestic).</li> <li>• Lower corporation tax to encourage investment (domestic and/or inward)</li> <li>• Redesigning taxes on incomes to create the incentive to work more productively i.e. increased competitiveness in the labour market</li> <li>• Redesigning benefits that create the incentive to work more productively</li> <li>• Improving the quality and focus of education and training will increase its effectiveness at raising productivity (Could be 2 separate points)</li> <li>• Improve health care to reduce sickness and absence which should increase output per worker</li> <li>• Facilitating inward migration of skilled labour increases output per worker</li> <li>• Deregulation to encourage competition leading to greater efficiency</li> <li>• Privatisation</li> <li>• Lower red tape encouragement of entrepreneurship and investment which should lead to higher productivity</li> <li>• Subsidy/tax break on investment such as creation of special enterprise zone or the increase in the use of new technology causing greater efficiency and productivity</li> <li>• Government measures to increase bank lending to further increase investment and productivity- Funding for Lending</li> </ul> <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks); Comments might include reference to</p> <ul style="list-style-type: none"> <li>• Discussion of effectiveness of individual policies- this could be 3 separate points</li> <li>• Effectiveness of certain policies as some services have few opportunities to increase productivity</li> </ul>	(30)



	<ul style="list-style-type: none"> <li>• Prioritisation of objectives such as fiscal deficit reduction limiting scope</li> <li>• Creditworthiness of UK government</li> <li>• Availability of credit in the UK</li> <li>• Size of national debt</li> <li>• A combination of policies may be more effective (e.g. fiscal and supply side)</li> <li>• Time lag and implementation lags</li> <li>• Other things are not equal – e.g. depends on global economic changes or exchange rate movements</li> <li>• Conflict between policies</li> <li>• Conflict with other macroeconomic objectives</li> <li>• Counter argument e.g. effectiveness of training</li> </ul> <p><b>Quality of written communications 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 economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	
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Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing policies with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing policies with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing policies with no evaluative point; 1 or 2 less-convincing policies 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 4 marks</p> <p>13.36% award 4 marks for anything between 13% and 13.4% without a % sign award 3 marks</p> <p>Award 3 marks for anything between 13.5% and 14% without a % sign award 2 marks</p> <p><math>((\text{New} - \text{Original})/\text{Original}) \times 100</math> or equivalent (1 mark) or <math>((123 - 108.5)/108.5) \times 100</math> (2 marks)</p> <p>Award 1 mark if relevant CPI figures are identified as 108.5 and 123</p>	(4)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8 marks</p> <p>Award two reasons (2 x 4 marks) 2 marks for identifying each reason and up to 2 marks explaining each reason.</p> <ul style="list-style-type: none"> <li>• Help reduce inequality as inflation damages those on fixed incomes</li> <li>• Other widening of income gaps</li> <li>• To slow the erosion of real incomes</li> <li>• Maintain international competitiveness</li> <li>• Helps price signalling and the efficient functioning of a market</li> <li>• Increased confidence in government control of economy</li> <li>• Avoids the dangers of hyperinflation and/or deflation at the target is set at +2.0%</li> <li>• To maintain value of savings</li> <li>• To encourage long-term planning/investment by firms</li> <li>• Avoid inefficiencies in the economy such as shoe leather costs and/or menu costs</li> </ul>	(8)

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8 marks 2 factors up to 4 marks each 2 marks for the identification and 2 marks for the explanation of each factor.</p> <p>Cost push inflation or increasing the cost of factors of production</p> <ul style="list-style-type: none"> <li>• Weakening exchange rates leading to the increased cost of imported components</li> <li>• Rising price of oil which is used by most businesses either directly or indirectly and the UK is a net importer</li> <li>• Rising price of food as the UK is a net importer of food</li> <li>• Tax increases such as VAT which will generate an increase in prices of most goods</li> </ul> <p>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include</p> <ul style="list-style-type: none"> <li>• Fixed contracts limit impact of exchange rate depreciation</li> <li>• PED for imports</li> <li>• Magnitude of each factor</li> <li>• Likely persistence of each factor</li> <li>• Importance of each factor</li> <li>• Impact on different groups</li> </ul>	(12)

Level	Mark	Descriptor
Level 3	9-12	1 convincing cause fully explained with at least one evaluative point
Level 2	5-8	1 convincing cause fully explained with no data, or 1 convincing cause with some good analysis but no evaluative point; 1 or 2 causes with some evaluation
Level 1	1-4	Identification of relevant cause with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (i)	<p>KAA 6 marks</p> <p>Up to 6 marks for the explanation</p> <ul style="list-style-type: none"> <li>• Definition of standard of living: e.g. measure of welfare of people living in an economy (2)</li> <li>• <u>Real</u> Gross National Income (accept Gross National Product and Gross Domestic Product) (2) per household or capita/head (2).</li> <li>• Average household income in the UK fell by 2.4% over the period 2008-9 and 2010-11 (2)</li> <li>• Reward other relevant measures such as HDI (2) made up of health, education, and economic growth/income (2). Health measures such as life expectancy at birth (2) and education measures such as number of years of schooling (2). Income measures such as GDP per capita or GNI per capita (2)</li> </ul>	(6)

Question Number	Indicative content	Mark
(b) (ii)	<p>KAA 8 marks</p> <p>2 causes up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each cause.</p> <ul style="list-style-type: none"> <li>• Incomes not keeping pace with inflation</li> <li>• Increased unemployment</li> <li>• Increased youth unemployment</li> <li>• Increased tuition fees at university</li> <li>• Cuts to unemployment and other state benefits</li> <li>• Increased housing costs</li> <li>• Cuts in training</li> </ul> <p>Reward use of data from Extract 1 (2)</p> <ul style="list-style-type: none"> <li>• The median household disposable income for those in their 20s fell 6.3 per cent between 2008-09 and 2010-11. If housing costs are included, the fall was even larger, at 9 per cent.</li> </ul>	(8)

Question Number	Indicative content	Mark
* (b) (iii) QWC i-iii	<p>KAA 8</p> <p>Up to 8 marks (2 x 4 marks) for explanation of policies. Award up to 4 marks for each policy &amp; explanation</p> <ul style="list-style-type: none"> <li>• Increase government expenditure e.g. on training programs</li> <li>• Cuts in university tuition fees and/or bursaries for university courses</li> <li>• Increase benefits above 1% cap</li> <li>• Housing policies (mortgage relief, key worker subsidies)</li> <li>• Increased income tax threshold, cut national insurance contributions</li> <li>• Relaxation of austerity measures relaxed</li> <li>• Lower indirect taxes (e.g. VAT), assuming higher propensity to spend in young people</li> <li>• Cut in income tax rate e.g. reintroduction of 10% tax band</li> <li>• Lower corporation tax leading to increased investment, lower unemployment</li> </ul> <p>Maximum of 4 marks for listing policies with no explanation.</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> <li>• Conflict with other objectives such as reducing the budget deficit and also the national debt (can award conflicts with different objectives)</li> <li>• Raising benefits might decrease living standards in the long run if it provides less incentive to find work</li> <li>• Long run and short run impacts</li> <li>• Relative importance of the policies</li> <li>• Likely effectiveness of the policies</li> <li>• Mitigating factors</li> <li>• Counter argument</li> </ul> <p><b>Quality of written communications 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 economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(12)

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

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>Up to 6 marks</p> <ul style="list-style-type: none"> <li>• Identification of a macroeconomic objective (maximum 2 marks) <ul style="list-style-type: none"> <li>○ Economic Growth</li> <li>○ Low and stable inflation</li> <li>○ Reduction in unemployment</li> <li>○ Reduction of the deficit on the current account of the balance of payments</li> </ul> </li> <li>Accept <ul style="list-style-type: none"> <li>○ Reduction of the national debt or balancing the budget</li> <li>○ Making the distribution of income more equal</li> <li>○ Protection of the environment</li> </ul> </li> <li>• Define monetary policy (2)</li> <li>• Diagram showing AD shift and/or AS shift consistent with analysis; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift inconsistent with analysis.</li> </ul> <p>Explanation of how the monetary policies might help achieve government objectives 12 marks (3 x 4 marks or 2 x 6 marks); Marks could be obtained as follows: Link between interest rates and an objective (2) and transmission mechanism explained (2/4). Must be link between monetary policy and objective.</p> <ul style="list-style-type: none"> <li>• Fiscal Policy constrained by austerity promises because of national debt</li> <li>• MPC remains independent with control of interest rates and free of political interference. This helped prevent inflation named target has been clear 2% inflation (+/- 1%) and transparency and openness maintained (open letters to chancellor from 2007) These led to reduced inflationary expectations which is self-fulfilling to some extent. This helps growth, reduce the balance of payments deficit, unemployment and price stability</li> <li>• An increase in interest rates designed to reduce rate of inflation; lower AD improving export price competitiveness</li> <li>• Low interest rates and/or quantitative easing help prevent deflation, high unemployment and low growth</li> <li>• Maintained financial stability in the banking sector helping growth and reduce unemployment and improve price stability</li> <li>• Low interest rates and/or quantitative easing encourage investment, growth, reduce the deficit on the current account of the balance of payments and reduce unemployment</li> <li>• Low interest rates and/or quantitative easing encourage consumption and growth and reduce unemployment</li> </ul>	(30)

	<p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks); Fluctuating state of the economy had inevitable effect on inflation</p> <ul style="list-style-type: none"> <li>• Fluctuating state of the economy had inevitable effect on inflation</li> <li>• Inflation in the recession has been caused by cost push inflation outside the Bank of England's control</li> <li>• Looking at Figure 1, out of tolerance but not out of control</li> <li>• Changed target to CPI which was more stable than RPI possibly because of absence of volatile housing market and mortgage interest payments</li> <li>• Financial stability to some extent has taken priority and the MPC has had loose monetary policy while fiscal policy remained tight</li> <li>• Uncertainty of effect of Quantitative Easing</li> <li>• Vicious cycle of deflation was avoided in 2009</li> <li>• Other factors such as cheap imports in the early 2000s</li> <li>• Weak unions have prevented the wage-price spiral</li> <li>• Other issues were neglected such as exchange rate stability to promote trade</li> <li>• Conflicts of objectives</li> </ul> <p><b>Quality of written communications 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 economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	
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Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing effects with at least two evaluative points (an evaluation points is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing effects with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing effects with no evaluative point; 1 or 2 less-convincing points with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords







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