Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2019

Economics

Assessment Unit AS 2

assessing

Managing the National Economy

[SEC21]

THURSDAY 16 MAY, MORNING

MARK
SCHEME

General Marking Instructions

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

Quality of candidates' responses

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

Flexibility in marking

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

Positive marking

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

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

Levels of response

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

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

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

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

Marking calculations

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

Quality of written communication

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

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

Level 1: Quality of written communication is limited.
Level 2: Quality of written communication is satisfactory.
Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:
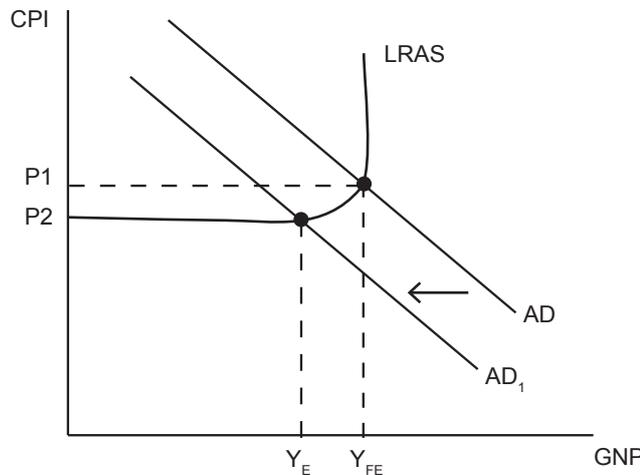
Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

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

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

1 (a) For identification of 2013 as the base year [1]

   (b) For calculation of the annual rate of inflation as 3.29% [2]
   For correct methodology but error in calculation [1]   [2]   3

2 For correct calculation of €1 = $1.17 [2]
   For correct methodology but error in calculation [1]   [2]   2

3 For fully labelled diagram showing 2 separate Lorenz curves – with the curve for
   the USA lying below the curve for Germany [4]
   Up to [2] marks for a partially labelled diagram or a diagram with curves in
   reverse order

     [4]   4

4 (a) For calculation of GDP at market prices as $14.59bn [2]
   For correct methodology but error in calculation [1]   [2]

   (b) Up to [2] for clear explanation that GDP at factor cost is equal to GDP at
   market prices minus indirect taxes plus subsidies.   [2]

   (c) The data suggests that the economy has a deficit on the balance of trade in
   goods and services of $0.5bn
   For stating that the country has a deficit or that net exports is negative [1]
   For calculation of deficit as $0.5bn [1]   [2]   6

5 (a) For calculation of Net Primary Income (NPIA) as £11,313mn [2]
   For correct methodology but error in calculation [1]   [2]

   (b) For calculation of quarterly GDP per capita as £7,357 [2]
   For correct methodology but error in calculation [1]   [2]   4

AVAILABLE MARKS

6 An increase in the Bank of England base rate is likely to have a negative impact on consumption, investment and net external demand and as a result lead to a reduction in AD. This reduction in AD is likely to reduce inflationary pressures, however may have a negative impact on GDP and employment levels

Level 1 ([1]–[2])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

Level 2 ([3]–[4])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

Level 3 ([5]–[6])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [6]

6

7 **(a)** • for identification of inverse relationship between unemployment and employment [1]
   • for accurate description of trends in employment with appropriate manipulation of data [2]
     – employment rate was 73% in 2008
     – fell to a low of 70% in late 2011
     – increased up to 75% by June 2017

   • for accurate description of trends in unemployment with appropriate manipulation of data [2]
     – unemployment rate was approx. 5.2% in 2008
     – reached a high of approx. 8.5% in early 2012
     – fell to a low of 4.5% in June 2017   [5]

(b) A budget deficit occurs when government spending exceeds the revenue it receives from tax in any given time period. A fall in unemployment will help reduce the budget deficit since it will reduce the amount of money the government needs to pay out in unemployment related benefits. At the same time the government will receive higher levels of national insurance and income tax from the newly employed. Indirect tax receipts also increase since the newly employed have higher disposable income and hence spend more money.

Level 1 ([1]–[2])
A basic response provides an answer that demonstrates:
• Basic knowledge and understanding of relevant terminology, concepts, principles and models.
• Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
• Basic analysis; may lack focus.
• A low quality of written communication.

Level 2 ([3]–[4])
A good response provides an answer that demonstrates:
• Good knowledge and understanding of relevant terminology, concepts, principles and models.
• Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
• Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
• A good quality of written communication.

Level 3 ([5]–[6])
An excellent response provides an answer that demonstrates:
• Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
• Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.   [6]

(c) A fall in the value of the pound against the euro impacts on inflation in a number of different ways. Firstly by making imported goods more expensive it increases the cost of the CPI basket of goods and hence impacts directly on the inflation rate. Secondly by making UK goods more competitive it increases aggregate demand and so heightens demand pull pressures. Thirdly by increasing the cost of imported raw materials such as oil it creates cost push pressures in the economy. This increase in inflation will ceteris paribus reduce real wages.

Issues, analysis and areas for discussion include:

• Explanation of inflation and how it is measured
• Explanation of how real wages are calculated
• Impact of fall in ER on CPI
• Impact of fall in ER on AD and hence demand pull inflation
• Impact of fall in ER on cost of raw materials and hence on cost push inflation
• Impact of inflation on household purchasing power
• Relevant examples
• Relevant diagrams

Level 1 ([1]–[3])
A basic response provides an answer that demonstrates:
• Basic knowledge and understanding of relevant terminology, concepts, principles and models.
• Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
• Basic analysis; may lack focus.
• A low quality of written communication.

Level 2 ([4]–[6])
A good response provides an answer that demonstrates:
• Good knowledge and understanding of relevant terminology, concepts, principles and models.
• Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
• Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
• A good quality of written communication.

Level 3 ([7]–[9])
An excellent response provides an answer that demonstrates:
• Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
• Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
• Excellent, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
• An excellent quality of written communication. [9]

(d) Critics of unemployment statistics argue that they hide the true level of joblessness and hence paint a rosier picture of the economy than that which really exists. They argue that the government should focus on other labour market statistics such as economic inactivity and underemployment and should make decreasing both their key economic priority. However others argue that economic inactivity is not **always** a negative thing for an economy – for example people in full time education.

Issues, analysis and areas for discussion include:

- Impact of zero hours contracts on official unemployment figures
- Reference to underemployment and economic inactivity
- Reference to causes of under-employment and economic inactivity
- Reference to impact of under-employment and economic inactivity on areas such as economic growth, productivity, government finances, social cohesion etc
- Reference to effectiveness or otherwise of government policies to reduce underemployment and economic inactivity
- Reference to relative importance of alternative economic objectives – reducing inflation, reducing inequality etc
- Appropriate examples
- Appropriate diagrams

Level 1 ([1]–[5])
A basic response provides an answer that demonstrates:
- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question. Some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

Level 2 ([6]–[10])
A good response provides an answer that demonstrates:
- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; where relevant, some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

Level 3 ([11]–[15])
An excellent response provides an answer that demonstrates:
- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.

- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [15]

8 A growing number of economists are arguing that it is time for the UK government to abandon the austerity project and loosen the purse string in an attempt to boost the sluggish UK economic recovery. They argue that austerity has hindered the economic recovery and has had devastating effects on public services and social cohesion. However others on the political right argue that austerity was necessary to get the government finances into shape and loosening the purse string now would undo all the benefits that have been gained.

Issues, analysis and areas for discussion include:

- Impact of austerity on public services
- Impact of austerity on equality and social cohesion
- Impact of austerity on AD and hence employment and growth
- Effectiveness or otherwise of monetary policy in current climate–
  – liquidity trap,
  – reduced impact of interest rates changes when rates are already so low
  – asset price bubbles,
  – wealth inequality etc
- Impact of an expansion in government spending on AD and AS – particularly if spending is primarily on infrastructure projects
- Impact of increased spending on the budget deficit and national debt and hence on UK interest rates
- Effectiveness or otherwise of fiscal policy in stimulating the economy- crowding out, inefficiency, time lags etc
- Appropriate examples – including historical or from other countries
- Appropriate diagrams

Level 1 ([1]–[7])
A basic response provides an answer that demonstrates:
- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

Level 2 ([8]–[14])
A good response provides an answer that demonstrates:
- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.

- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

Level 3 ([15]–[20])
An excellent response provides an answer that demonstrates:
- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [20]

20

9 National income statistics (**GNP/GDP**) still tend to be the main data source used to make judgements of economic performance of a country over time or with other countries. However doubts have been expressed about the legitimacy of using national income statistics for this purpose. Indeed even on the day he launched GDP as an economic indicator economist Kuznets warned that the *"welfare of a nation can scarcely be inferred from a measurement of national income"*. These problems associated with GDP figures have led to calls for the government to cease measuring GDP and to develop an alternative economic indicator, which more accurately reflect the true state of the economy.

However the alternative measures that have been proposed thus far are not without their own problems, with each coming in for strong criticism that they are normative and use non-statistical judgements. Without conclusive proof that alternative measures are any more accurate in measuring economic performance and living standards than traditional methods, GDP is likely to remain as the principle means of comparing the economic performance of countries for the foreseeable future. However it is likely to be increasingly supplemented by other quality of life indicators to give a truer picture of economic welfare.

Issues, analysis and areas for discussion include:

- GDP statistics tend to be **inaccurate** due to the sheer size and complexity of the process of collecting so much information from so many sources. The fact that the statistics are frequently revised to take account of omissions and errors illustrates this point.
- A good deal of economic activity is hidden due to attempts by businesses and workers to avoid taxes. It has been estimated that the **black economy** in the UK accounts for between 10 and 15% of GDP whereas in Greece it may account for over 30% of GDP.
- National income statistics do not take into account those goods, which are **not traded**. For example growing your own vegetables or painting your own house are not included yet paying someone else to do this for you would be included.
- In the **service sector** the value of the service is calculated as the cost of providing the service however this may not reflect the true value of the service. If the same level of education can be provided at lower cost the figures will make it look as if economic welfare has actually fallen.

- GDP statistics include expenditure on items, which do not necessarily reflect living standards or economic welfare. Increased spending on defence will increase GDP but will it increase economic welfare?
- National income figures take no account of the **quality** of goods and services.
- No account is taken of the negative (or positive) **externalities** that result from economic activity, e.g. increased expenditure on petrol may lead to increased pollution.
- GDP figures give no indication of the **distribution of income**. A country's GDP may have increased but if this increase in income applies only to the very few, then economic welfare may not have increased greatly.
- Issues related to the effectiveness of alternative economic indicators
- Appropriate examples of alternative indicators or measures

Level 1 ([1]–[7])
A basic response provides an answer that demonstrates:
- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

Level 2 ([8]–[14])
A good response provides an answer that demonstrates:
- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

Level 3 ([15]–[20])
An excellent response provides an answer that demonstrates:
- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [20]

AVAILABLE MARKS
20
Total **80**