

Version 1.0



General Certificate of Education June 2010

Economics

ECON2

The National Economy

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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June 2010**ECON2****Advance Subsidiary Economics Unit 2****Section A: Objective Test (ECON2/1)**

The following list indicates the correct answers used in marking the candidates' responses.

1.	B	9.	D	17.	B
2.	D	10.	A	18.	B
3.	C	11.	D	19.	C
4.	A	12.	A	20.	C
5.	B	13.	C	21.	A
6.	D	14.	D	22.	B
7.	C	15.	B	23.	C
8.	A	16.	D	24.	C
				25.	B

Section B: Data Response (ECON2/2)
THE LEVELS MARK SCHEME FOR AS
Level Descriptions

In parts **04** and **08** of the data response questions, approximately half the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 13 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. It is not necessary for the answer to identify a wide range of issues to score the top mark. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. There might be some evidence of organisation in the answer but generally it fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

0 to 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused and analysis will therefore be very limited. There may be some attempt to present alternative points of view but any attempt at evaluation is limited or superficial. There is some logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

7 to 11 marks

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated and there is some evidence that the candidate can analyse issues. There will be some attempt to present alternative points of view and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand, but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Some appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

22 to 25 marks

Mid-Point 24 marks

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

EITHER

26 INVESTMENT IN THE UK

0 1	Define the term 'investment' (Extract B , line 5).	(5 marks)
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<p>For an acceptable definition, eg</p> <ul style="list-style-type: none"> • the increase in the stock of capital during a given time period • the addition to the capital stock of the economy • the purchase of goods that are used to produce other goods such as plant, machinery and buildings • spending by firms on buildings, machinery and training 	5 marks
<p>Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'investment' even if the definition isn't exactly the same as the acceptable examples quoted above.</p>	

If the definition is incomplete, marks may be broken down, for example as follows:

The purchase of goods used to produce other goods, but do not give full marks for such a statement if they include incorrect examples, eg land, labour	4 marks
For stating that investment is gross domestic fixed capital formation	2 marks
For stating that investment is an injection into the circular flow of income OR for stating that investment is a component of aggregate demand	2 marks
For providing any one example of investment spending, eg plant, machinery, buildings, infrastructure	2 marks
Investment in human capital, eg education and training	2 marks
For stating that investment can involve an increase in the holdings of stock and/or inventories and/or work in progress	2 marks
Distinguishing between gross and net investment (ie depreciation or capital consumption)	2 marks
For stating that investment is undertaken to expand capacity or improve productivity	2 marks

No marks should be awarded to candidates who confuse investment and savings. For example, if a candidate just identifies types of *financial investment* such as buying stocks and shares no marks should be given.

This mark scheme does not allow examiners to award 1 mark for a point. Examiners must award 0, 2 or 4 marks for each point made by the candidate.

MAXIMUM FOR PART 0 1: 5 MARKS

0 2 Using **Extract A**, identify **two** main features of the changes in business investment that occurred during the period 1990 to 2008. *(8 marks)*

Award up to 4 marks each for each point made:

Identifies a valid feature Makes accurate use of the data to support the feature identified Unit of measurement given accurately	4 marks
Identifies a valid feature Makes use of the data to support the feature identified However, no unit of measurement is given and/or the unit of measurement is used/applied inaccurately	3 marks
Identifies a feature No use of correct data to support the feature identified	2 marks

If a candidate confuses levels of investment with the % change, 2 marks can be awarded for an otherwise valid feature supported by the data. If there is no data or the data is incorrect, award one mark for the feature.

If a candidate identifies more than two main features, reward the best two.

The valid points include:

- The change in investment is approximately +3% at the start of the period but is 0% at the end of the period
- Investment growth is positive for most of the period (1994 to 2001 and 2004 to 2008) but that there are some periods when investment is falling (1990 to 1993 and/or some quarters between 2002 and 2004)
- Investment spending is volatile or subject to large fluctuations in its rate of growth (the range of fluctuation is -11% to +22%)
- Between 1990 and 1999 the fluctuations were greater than in the period 2000. During the 1990s the fluctuations ranged from -11% to +22% whereas after 2000 the range was from -6% to +13% approximately.
- The percentage change in investment is at its lowest in 1992, around -11%
- The percentage change in investment reaches a peak of around 22% in 1998
- Between 1992 and 1998 there is a period where the percentage change in investment shows a persistent increase (-11% to 22%)

MAXIMUM FOR PART 0 2: 8 MARKS

0 3 **Extract B** (lines 7-8) suggests that ‘companies are looking to cut costs and scale back plans for new investment’.

Explain **two** factors that are likely to cause a fall in investment spending.
(12 marks)

For relevant definitions, eg the accelerator, credit crunch	up to 2 marks
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Award up to 8 marks for each of the following factors identified and explained. 2 marks should be awarded for identifying the factor and up to a further 6 marks for explaining why it might lead to a fall in investment.	
Recession (2) means that consumer spending (or aggregate demand) falls (2) , hence firms will have less need to increase capacity (2) , their profits are likely to be falling (2) and so they are likely to cut back on investment to ensure their survival (2)	Up to 8 marks
Credit crunch/restrictions on the availability of funding from the financial sector	Up to 8 marks
The impact of higher interest rates, possibly but not necessarily linked to the MEC	Up to 8 marks
Rising cost of capital goods that reduces the expected rate of return on investment	Up to 8 marks
The degree of spare capacity, eg if there is a lot of spare capacity, there is less need for firms to invest to meet a growth in demand	Up to 8 marks
Changes in technology, eg if the pace of technological change slows then there is less need to invest in new processes and products	Up to 8 marks
Government policy, eg higher rates of corporation tax, cuts in investment subsidies and allowances, more regulation on business	Up to 8 marks

Marks can also be awarded for the following but if the candidate has identified ‘the recession’ as a reason for falling investment, don’t give credit twice for repetitive explanations.	
Expectations/uncertainty about the future prospects for the economy, eg uncertainty regarding future sales growth, costs and profitability	Up to 8 marks
The accelerator theory of investment	Up to 8 marks
The profitability of companies, perhaps recognising that profits are often the main source of finance for new investment	Up to 8 marks

Award up to 4 additional marks for the use of relevant diagrams that help to explain factors that influence investment, eg an MEC diagram showing the link between interest rates and planned investment.	2 marks for labelling axes/curves, 2 marks for information shown
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If a candidate identifies more than two reasons, award the marks based upon the best two explanations.

If only one reason is identified, up to 10 marks can be awarded.

MAXIMUM FOR PART 03: 12 MARKS

0 4 Extract C (lines 4-5) indicates that ‘investment is expected to fall rapidly in 2009’.

Assess the consequences for the UK economy of a significant fall in investment spending. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Level 5	<i>Good analysis and evaluation</i>	22 to 25 marks <i>Mid-Point 24 marks</i>
Level 4	<i>Good analysis but limited evaluation</i>	17 to 21 marks <i>Mid-Point 19 marks</i>
Level 3	<i>An adequate answer with some correct analysis but very limited evaluation</i>	12 to 16 marks <i>Mid-Point 14 marks</i>
Level 2	<i>A poor answer but some understanding is shown</i>	7 to 11 marks <i>Mid-Point 9 marks</i>
Level 1	<i>A very weak answer</i>	0 to 6 marks <i>Mid-Point 4 marks</i>

Introduction	<ul style="list-style-type: none"> • definitions of investment, capital etc. • the main indicators of macroeconomic performance • recognising that investment is likely to have both demand-side and supply-side consequences
Developing the response to the question (Analysis)	<ul style="list-style-type: none"> • the impact of a fall in investment on aggregate demand • the multiplier effect of a fall in investment • the effect on productive capacity • other supply-side consequences such as the impact on efficiency and the development of new products • the effects on economic growth • the possible effects on employment and unemployment • the possible effects on the current account balance • the effects on inflation • taxation and the budget balance • the effects on other indicators of economic performance such as productivity and competitiveness
Evaluation	<p><i>When discussing the above, candidates can gain credit for evaluation if they recognise that a fall in investment can have both favourable and unfavourable effects on the economy, eg it may reduce economic growth and increase unemployment but ease inflationary pressures if the economy is suffering from excess demand. Marks for evaluation might also come from discussing the following:</i></p> <ul style="list-style-type: none"> • the way in which the consequences of the fall in investment depends on the current state of the economy, eg the size of the output gap • the significance of the size of the multiplier • the extent to which investment falls and what happens to the other components of aggregate demand • how a fall in investment might lead to demand-deficient (cyclical) unemployment but might lead to a reduction in structural/technological unemployment

	<ul style="list-style-type: none">• the difference between short-run effects (mainly on aggregate demand) and long-run effects (on underlying economic growth, productivity, efficiency, the development of new products) might be discussed.• other factors that might affect the significance of a reduction in investment for the performance of the UK economy, eg what is happening in the rest of the world and the growth of foreign competition.• evidence from the recent performance of the UK economy to support arguments presented• a conclusion that attempts to bring together the arguments presented and to assess the significance of the fall in investment for the United Kingdom economy.
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USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 0 4: 25 MARKS

OR

27 ECONOMIES IN RECESSION

0 5 Define the term 'exchange rate' (**Extract G**, line 8).

(5 marks)

For an acceptable definition, eg

- the amount of the domestic currency needed to buy a given amount of foreign currency
- how many dollars/euro can be purchased with a pound
- it measures the price/value of one currency in terms of another currency

5 marks

Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'exchange rate' even if the definition isn't exactly the same as the acceptable examples quoted above.

If the definition is incomplete, marks may be broken down, for example as follows:

For quoting a numerical example, e.g. £1 = \$2	2 marks
For stating that the exchange rate affects the price of exports and imports	2 marks
For stating that the exchange rate measures the rate at which two products can be exchanged	2 marks
For stating one or more types of exchange rate system, eg floating	2 marks

No marks should be awarded to candidates who confuse a fall in the exchange rate with inflation (ie the internal purchasing power of a currency).

This mark scheme does not allow examiners to award 1 mark for a point. Examiners must award 0, 2 or 4 marks for each point made by the candidate.

MAXIMUM FOR PART 0 5: 5 MARKS

0 6 Using **Extract D**, identify **two** main features of the quarterly changes in real GDP that occurred between 2003 and 2008. *(8 marks)*

Award up to 4 marks each for each point made:

Identifies a valid feature Makes accurate use of the data to support the feature identified Unit of measurement given accurately	4 marks
Identifies a valid feature Makes use of the data to support the feature identified However, no unit of measurement is given and/or the unit of measurement is used/applied inaccurately	3 marks
Identifies a feature No use of correct data to support the feature identified	2 marks

If a candidate confuses levels of GDP with the growth of GDP, 2 marks can be awarded for an otherwise valid feature supported by the data. If there is no data or the data is incorrect, award one mark for the feature.

If a candidate identifies more than two main features, reward the best two.

The valid points include:

- The quarterly growth in real GDP was higher at the start of the period than at the end of the period (0.9% in the second quarter of 2003 and -0.5% in the third quarter of 2008)
- For every quarter from second quarter of 2003 to the first quarter of 2008, the quarterly growth rate was positive (ranging from a percentage change of around 0.2% in the third quarter of 2004 to just over 1.0% in the first quarter of 2006)
- The quarterly change in real GDP was only negative in one quarter (it fell by around 0.5% in the third quarter of 2008)
- The highest quarterly change in real GDP was in the first quarter of 2006 (a quarterly growth rate of approximately 1%)
- For most of the period (up until the second quarter of 2008) the fluctuations in the quarterly growth rates were modest (over this period the **range** for the quarter on quarter rate of growth was approximately 0.8%)

MAXIMUM FOR PART 0 6: 8 MARKS

07 **Extract F** (lines 1-2) states that ‘the economies of most major OECD countries were in recession in the third quarter of 2008’.

Explain **two** factors that may cause an economy to go into recession. (12 marks)

For relevant definitions, eg recession (could be illustrated through a diagram), multiplier	up to 2 marks
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Award up to 8 marks for each of the following factors identified and explained. 2 marks should be awarded for identifying the factor and up to a further 6 marks for explaining why it might lead to a recession.

A fall in consumer confidence (or confidence generally) (2) means that consumption (or aggregate demand) will fall (2), hence firms will experience a rise in stocks (2), they will cut production (2) and reduce employment (2)	Up to 8 marks
A credit crunch/problems in financial markets	Up to 8 marks
A collapse in the housing market	Up to 8 marks
Rising world oil and commodity prices	Up to 8 marks
A recession in overseas export markets	Up to 8 marks
A significant fall in any other component of aggregate demand, ie investment or government spending	Up to 8 marks

As part of their explanations, candidates might include discussion of the multiplier, or possibly accelerator, effects. Provided the explanations are correct, this should be well rewarded. It is also possible that a candidate might identify the **multiplier** and/or the **accelerator** as a factor causing a recession. This is acceptable and **up to 8 marks** can be awarded for each.

Do not give marks for ‘rising unemployment’ as a reason why economies go into recession. However, if the candidate goes on to state that this will reduce consumption/aggregate demand and hence output etc, marks can be awarded for these developments provided they have not been credited as the ‘other factor’ that the candidate identified as a cause of a recession.

Award up to additional 4 marks for the use of relevant diagrams, eg an AD/AS diagram showing a demand-side or a supply-side shock	2 marks for labelling axes/curves, 2 marks for information shown
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If a candidate identifies more than two reasons award the marks based upon the best two explanations.

If only one reason is identified, up to 10 marks can be awarded.

MAXIMUM FOR PART 07: 12 MARKS

0 8 Assess the various policies that could be used to help an economy, such as that of the UK. to recover from recession. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Level 5	<i>Good analysis and evaluation</i>	22 to 25 marks <i>Mid-Point 24 marks</i>
Level 4	<i>Good analysis but limited evaluation</i>	17 to 21 marks <i>Mid-Point 19 marks</i>
Level 3	<i>An adequate answer with some correct analysis but very limited evaluation</i>	12 to 16 marks <i>Mid-Point 14 marks</i>
Level 2	<i>A poor answer but some understanding is shown</i>	7 to 11 marks <i>Mid-Point 9 marks</i>
Level 1	<i>A very weak answer</i>	0 to 6 marks <i>Mid-Point 4 marks</i>

Introduction	<ul style="list-style-type: none"> • the characteristics of a recession • identification and description of monetary, fiscal and supply side policies
Developing the response to the question (analysis)	<ul style="list-style-type: none"> • the use of interest rates to stimulate demand • measures to make credit more easily available (and possibly expand the money supply) • the impact of facilitating a fall in the exchange rate • although this is not an AS topic, some candidates might refer to specific monetary policy measures such as open market operations and quantitative easing • cutting taxes, increasing government spending and increasing the budget deficit • supply-side measures such as retraining programmes, better job information services • direct support for companies in financial difficulty • other specific measures that the UK and other governments have employed to try to aid recovery from recession • co-ordinated stimulus at an international level from various governments
Evaluation	<p><i>When discussing the above, candidates can gain credit for evaluation if they attempt to compare the effectiveness of the different policy options and/or discuss whether or not an effective policy response might require a combination of policies and/or co-ordinated action by a group of countries. Marks for evaluation might come from discussing the following:</i></p> <ul style="list-style-type: none"> • the problem of time-lags • the difference between the short run versus long run effects • fiscal measures are likely to involve growing budget deficits and rising government debt • increasing government spending directly boosts aggregate demand • tax cuts may do little to stimulate spending • lack of consumer and producer confidence may reduce the effectiveness of all measure

	<ul style="list-style-type: none">• lower interest rates may do little to stimulate spending in a serious recession• lower interest rates help borrowers but not people who rely on income from savings• cuts in Bank Rate may not get passed on to borrowers• lower interest rates may need to be reinforced by measures to make credit more readily available• the benefits of a fall in the exchange rate may be negated by falling demand in overseas markets and will reduce living standards• supply-side measures may be of little help when there is a very low level of demand• measures that involve a substantial boost in aggregate demand may be very difficult to reverse and could lead to inflationary problems in the future• if the recession leads to deflation, attempts to stimulate demand may be ineffective• the relative merits of fiscal, monetary and supply-side policies• a discussion of the merits of using a combination of policies and/or the need for a co-ordinated, international response• other factors that might determine the effectiveness of individual policies or a combination of policies, e.g. what is happening in the rest of the world, confidence, the stability of financial markets• evidence concerning the effectiveness of the policies employed by the authorities in the UK and other countries• a conclusion that attempts to bring together the arguments presented and to assess the effectiveness of the different policies considered.
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**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 08: 25 MARKS