



General Certificate of Education

Economics 5141

ECN2 The National Economy

Mark Scheme

2005 examination – June series

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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

AQA Advanced Subsidiary Economics

June 2005

ECN2/1

This component is an objective test for which the following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1.	D	9.	A
2.	B	10.	A
3.	C	11.	D
4.	C	12.	A
5.	D	13.	C
6.	C	14.	B
7.	D	15.	B
8.	A		

Advanced Subsidiary Economics**June 2005****ECN2/2****Mark Scheme****General Instructions**

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (c) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE ‘LEVELS’ MARK SCHEME

Levels of Response Mark Band Descriptors

In part (c) 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’. It is not necessary that the candidate identifies a wide range of issues. As indicated below, the Quality of Written Communication used should be taken into account when awarding the marks.

Level 1

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. A poorly organised response which generally 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 3 marks

Mid-Point: 2 marks

Level 2

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. There may be some attempt to present alternative points of view but any attempt at evaluation is superficial. The answer is likely to be poorly organised and is unlikely to have a clear structure. 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.

4 to 6 marks

Mid-Point: 5 marks

Level 3

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. There will be some attempt to present alternative views 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.

7 to 10 marks

Mid-Point: 9 marks

Level 4

Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments 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 usually clearly expressed. Appropriate use is made of relevant economic terminology.

11 to 13 marks

Mid-Point: 12 marks

Level 5

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help 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 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.

14 to 15 marks

Mid-Point: 15 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.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

EITHER

1 ECONOMIC GROWTH

Total for this question: 25 marks

1 (a) Using **Extract A**, describe the main changes in UK real GDP for the period 1993 to 2003.
(4 marks)

Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data):

- the volatile growth performance of the UK economy
- the contrast between the strong growth years of 1994 and 2000 and the poorer performing years of 1993 and 2001/02
- positive growth throughout the period
- the economy settling to around 3% in the second half of the 1990s
- the steep rise in the growth rate 1993/4 in contrast to the steep fall in the growth rate 2000/2001
- the growth rate is higher at the end of the period than it is at the beginning
- any other valid point

A maximum of **2 marks** may be awarded if there is no use of statistics to support points made or if the candidate simply trawls through the data.

1 mark if a candidate refers throughout the answer to falling output rather than a fall in the rate of growth of output.

If a candidate makes some relevant points but there is also evidence of confusion between levels of GDP and the rate of change of GDP **maximum 3 marks**.

MAXIMUM FOR PART (a) 4 MARKS

1 (b) With the help of an aggregate demand/aggregate supply (AD/AS) diagram, briefly explain the possible consequences for the UK price level and UK real output of a “rise in interest rates” (Extract B, line 2). (6 marks)

For candidates who:

show on an AD/AS diagram

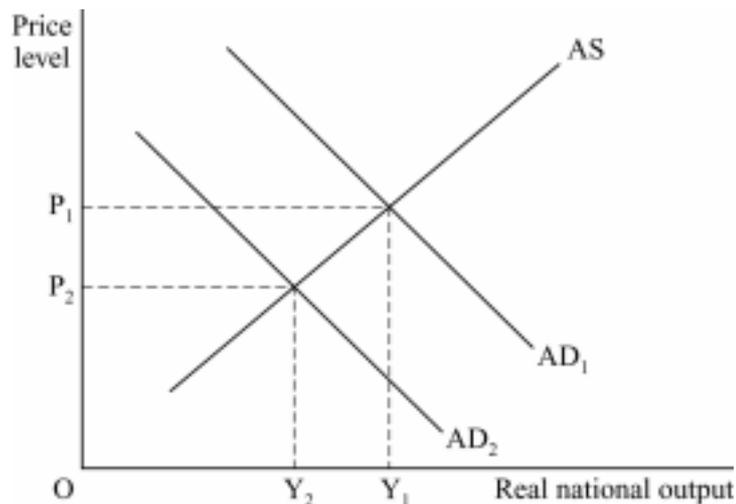
- the coordinates for equilibrium positions **1 mark**
- correctly labelled curves (AD/AS) **1 mark**
- correctly labelled axes (price level/real output) **1 mark**
- a leftward shift of the AD curve **1 mark**

A diagram showing a LRAS curve is equally acceptable.

If a leftward shift of the AS curve is shown instead of a shift in the AD curve. **1 mark**

If both shifts in AD and AS are correctly shown, the candidate should still be awarded only **1 mark**.

Award a maximum of **2 marks** for a diagram which, although accurately labelled, shows an incorrect shift of the AD (or AS) curve.



A maximum of **4 marks** for the diagram.

For candidates who:

- define AD and/or AS **1 mark**
- explain interest rates in terms of their central position in monetary policy and/or as the price of loans and/or the reward to lenders **1 mark**
- make a statement referring to a rise in interest rates causing a fall in AD and therefore leading to a lower price level and lower real output without explaining how these might come about **1 mark**
- explain the potential link between a rise in interest rates and a change in the rate of increase of the price level, eg a rise in interest rates causing credit to become more expensive (1 mark), reducing consumer demand (1 mark), leading to less pressure on prices and hence a lower rate of inflation (1 mark) **up to 3 marks**

explain the potential link between a rise in interest rates and the fall in real output, eg a rise in interest rates causing borrowing to become more expensive (1 mark), discouraging borrowing for investment (1 mark), leading to reductions in real output (1mark). Alternatively, a candidate may link a rise in interest rates to an appreciation of the exchange rate (1 mark), causing a lower demand for UK exports and increased imports displacing domestic supply (1 mark), so leading to lower real domestic output (1 mark)

up to 3 marks

A maximum of **4 marks** for a written explanation. While reference to the data should be given credit, a candidate who does not go beyond simply copying from Extract B should be awarded a maximum of **1 mark**.

A maximum of **3 marks** for a diagram with no written explanation, or for a written explanation without a relevant diagram.

MAXIMUM FOR PART (b) 6 MARKS

1 (c) Using the data and your economic knowledge, evaluate the importance of aggregate demand in bringing about an increase in the rate of growth of the UK economy. (15 marks)

The data offer some guidance on what could be discussed eg the impact of taxation on consumption, investment as a component of AD, the rate of growth of demand in the world economy, but also a need to consider supply-side issues such as productivity and the size of the workforce. It is expected that candidates will be able to develop these and other issues, with some evaluative comments, to arrive at an appropriate conclusion. It may be that some references in a candidate's answer to part (b) would be relevant here but greater depth would be expected in part (c).

Evaluation

Candidates will need to demonstrate that they are able to evaluate issues and arguments if they are to be awarded **more than 7 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *In the context of this question they might, for example, consider the relative effectiveness of different AD policies, discuss AD policies in relation to being able to sustain growth, consider AS policies but link them to the need for a favourable economic climate.*

Candidates should not be awarded above **Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward the more implicit evaluation i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 marks or more)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented.

Candidates should not be awarded more than **12 marks** if there is no explicit reference to the data.

Issues and areas for discussion:

- the potential impact of AD policies on macroeconomic indicators
- the multiplier effect
- varying impact of AD policies on the different components of AD
- potential impact of the global economy
- limitations of AD policies
- significance of supply-side policies, eg flexibility, mobility, incentives
- examples of supply-side policies
- relationship between AD and AS policies
- economic growth
- GDP
- the distinction between actual and potential growth
- trend growth
- output gaps
- definition of AD
- components of AD
- policies to influence AD

Give credit for

- reference to UK and/or other economies
- use of diagrams
- use of data
- an overview of the issues raised; a final judgement

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (c) 15 MARKS
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OR

2 EXCHANGE RATES

Total for this question: 25 marks

2 (a) Using **Extract D**, describe the main changes in the dollar (\$) value of the euro (€) for the period 1999 to 2003. *(4 marks)*

Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data):

- the volatility of the \$/€ exchange rate over the period
- the upward trend in the value of the \$ in relation to the € (the € downward trend in relation to the \$) 1999-2000
- the downward trend in the value of the \$ in relation to the € (the upward trend of the € in relation to the \$) 2002-2003
- the high values of the \$ against the €, 2000/2001, and its lowest levels against the € in 2003
- the \$ value of the € remained below \$1 for much of the period 2000-2002
- the \$ value of the € is higher at the end of the period than it is at the beginning
- any other valid point

A maximum of **2 marks** may be awarded if there is no use of data to support the points made or if the candidate simply trawls through the data.

A maximum of **1 mark** if there is a reverse interpretation of the data.

MAXIMUM FOR PART (a) 4 MARKS

2 (b) With the help of an aggregate demand/aggregate supply (AD/AS) diagram, briefly explain the possible consequences for the US price level and US real output of a decision to “manage aggregate demand” (**Extract E**, lines 4–5) to help correct a current account deficit. (6 marks)

For candidates who:

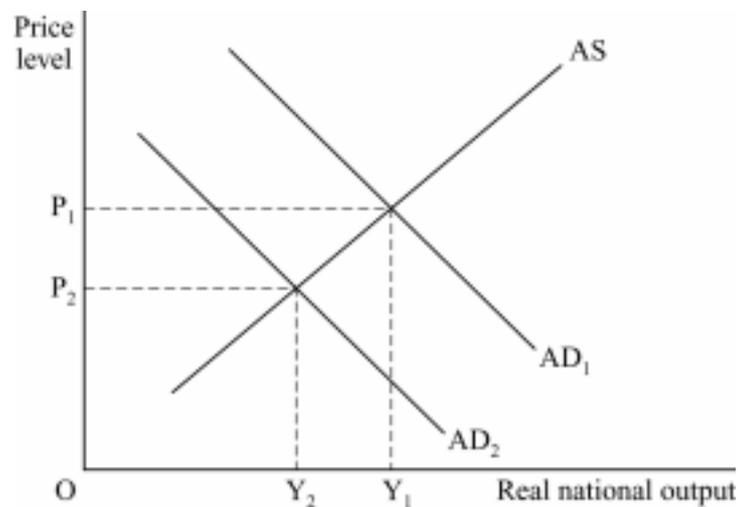
show on an AD/AS diagram

- the coordinates for equilibrium positions
- correctly labelled curves (AD/AS)
- correctly labelled axes (price level/real output)
- a leftward shift of the AD curve

- 1 mark**
- 1 mark**
- 1 mark**
- 1 mark**

A diagram showing a LRAS curve is equally acceptable.

Award a maximum of **2 marks** for a diagram which, although accurately labelled, shows an incorrect shift of the AD curve.



For candidates who:

define the term AD and/or AS

1 mark

explain the term ‘current account deficit’

1 mark

make a statement which interprets the process of managing demand as a fall in AD, therefore leading to a lower price level and lower real output, but without explaining how these might come about

1 mark

who explain the potential link between AD and the price level, eg demand management leading to less pressure on resources and final output (1 mark), suppliers deciding to cut prices to try to stimulate demand (1 mark), both of which feed through to a reduction in the price level (1 mark)

up to 3 marks

who explain the potential link between AD and real output, eg less pressure of demand, producers facing greater difficulties in selling what is being produced (1 mark), stocks begin to build up (1 mark), cut-backs in production follow (reductions in production shifts, less overtime, lay-offs of labour) (1mark)

up to 3 marks

Note for examiners: A candidate might argue for, and show, a shift to the right of AD, reasoning that domestic deflation improves competitiveness of exports and reduces demand for imports, which will lead to a rise in AD. However, we are looking for, and awarding marks to, an explanation and diagram referring to the impact of the initial deflation as demand-management commences, which only then might bring about the improvement in the trade balances. This requirement in the candidate's answer reflects the point being made in Extract E.

A maximum of **4 marks** for a written explanation. While reference to the data should be given credit, a candidate who does not go beyond simply copying from Extract E should be awarded a maximum of **1 mark**.

A maximum of **3 marks** for a diagram with no written explanation, or for a written explanation without a relevant diagram.

MAXIMUM FOR PART (b) 6 MARKS

- 2 (c) Using the data and your economic knowledge, evaluate the consequences for an economy such as the USA of a fall in the exchange rate of its currency against the currencies of its major trading partners. (15 marks)

The data offers some guidance on what could be discussed, eg the impact on export and import performance, the consequences for inflation and the balance of payments on current account. It is expected that candidates will be able to develop these and other issues, with some evaluative comments to arrive at an appropriate conclusion.

Evaluation

Candidates will need to demonstrate that they are able to evaluate issues and arguments if they are to be awarded **more than 7 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *In the context of this question, they might, for example, discuss the importance of knowing the extent of the fall in the currency's value, the significance of trade and investment flows to the country in question, the strength/weakness of the economy at the time of the depreciation, the varying significance of the fall across sectors of the economy, the type of imports, eg of raw materials and energy, for which changes in the exchange rate might have inflationary consequences as the currency depreciates*

Candidates should not be awarded above **Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward the more implicit evaluation i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 marks or more)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented.

Candidates should be awarded a maximum of **12 marks** if there is no reference to the data.

Issues and areas for discussion:

- export prices and the flow of exports
- import prices and the flow of imports
- degree of linkage of trade sector with the domestic economy
- the prospects of greater capacity utilisation
- the impact on economic growth
- the possible consequences for inflation
- the impact on employment/unemployment
- the effects on the various components of AD
- changes in investment flows
- the likely impact on incomes
- sectoral impact, eg manufacturing v non-tradable services
- elasticity conditions (although this is an A2 topic, candidates might identify a linkage between price changes and changes in demand)
- impact on confidence with consequences for trading and investment decisions
- significance for domestic economic policy
- the balance of payments on current account
- exchange rates
- possibility of official intervention (note that this is an A2 topic)

Credit should be given for:

- reference to data
- use of diagrams
- reference to economies such as the USA, UK and the recent performance of their currencies
- an overview of the issues raised; a final judgement

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (c) 15 MARKS
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