



General Certificate of Education

Economics 5141

ECN2 The National Economy

Mark Scheme

2006 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.

Advanced Subsidiary Economics

June 2006

ECN2/1

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

KEY LIST

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

Advanced Subsidiary Economics**June 2006****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 UK TRADE

Total for this question: 25 marks

1 (a) Using Extract A , compare the changes in UK exports and imports of goods for the period August 2003 to June 2004. <i>(4 marks)</i>
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Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data). For example:

while imports rise from £19bn to £20.5bn, exports remain fairly stable at between £15bn and £16bn for most of the period.

both exports and imports show some increase in value from August to December

in the December/February period there is a fall in both imports and exports of £1bn (approx)

between January and June there is a modest rise of £0.5bn in the value of imports and £1bn in exports

given the trends in imports and exports, the deficit in the trade in goods widens from (approx) £3.5bn in August 2003 to £5bn in June 2004

any other valid comparison

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

A maximum of **3 marks** may be awarded if there is some evidence of an overview even though part of the answer is something of a trawl.

A maximum of **1 mark** may be awarded if there is no attempt at comparison

Accept close approximations in any decimal place figures quoted.

MAXIMUM FOR PART (a): 4 MARKS

- 1 (b) Explain why a fall in the exchange rate of the pound sterling is ‘needed for an improved balance of payments on current account, as well as for growth and jobs’ (**Extract B**, lines 7-8). (6 marks)

For candidates who:

define/explain the term ‘exchange rate’, economic growth, balance of payments/
balance of payments on current account, a deficit on current account.

1 mark per definition up to a maximum of 2 marks

explain the potential impact of a fall in the exchange rate on export prices and import prices, perhaps with a numerical example. So a candidate might produce an example of a realistic change in the £’s exchange rate with the dollar or euro (1 mark), relate it to the price of a chosen UK good being exported/foreign good being imported (1 mark), and illustrate using simple arithmetic how total revenue might change for an exporter /importer (2 marks), and then relate this to the balance of payments (1 mark). Reward the use of supply and demand diagrams/AD-AS diagrams, and/or reference to UK or other economies (up to 2 marks within the possible 5 marks)

up to 5 marks

explain the potential impact of a fall in the exchange rate on growth and employment, perhaps with reference to GDP (1 mark), the export led multiplier (1 mark), the reduced inflow of dearer imports (1 mark), the increased opportunities for domestic businesses given the potential developments in both exports and imports (2 marks). Reward the use of supply and demand diagrams/AD-AS diagrams, and/or reference to UK or other economies (up to 2 marks within the possible 5 but not to be awarded if the diagram in this part simply repeats that in the earlier part of the answer)

up to 5 marks

explain the potential significance of elasticity conditions (although this is an A2 topic as far as exchange rates are concerned)

up to 3 marks

While reference to the data should be given due credit, candidates who do not go beyond merely copying from the data should be awarded a maximum of **1 mark**.

A candidate can be rewarded a maximum of **5 marks** if he/she explains the impact on either the balance of payments or growth and jobs.

MAXIMUM FOR PART (b): 6 MARKS

- 1 (c) Using the data and your economic knowledge, evaluate the effects on the UK trade balance in goods and services of ‘further improvements to the supply side of the economy’ (**Extract B**, lines 12-13). (15 marks)

The data offer some guidance on what could be discussed and it is expected that candidates will be able to develop these points, 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 whether supply-side improvements are necessarily relevant to the export sector, whether or not they can have any impact on imports, whether they can impact on the important service trade which could then more strongly counteract the weakness in the trade in goods, and acknowledge that any improvement might simply lead to a reduction in the size of the deficit rather than moving the trade in goods into surplus; there will inevitably be a need to consider, and perhaps control, AD; the possibility of time lags as far as supply and demand are concerned.*

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint, there is scope to award 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 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 explicit reference to the data

Issues and areas for discussion:

- the structure of the balance of payments on current account so that the trade balance can be put into context
- possible causes of deficits
- supply-side policies or issues
- a comparison of the impact of supply-side improvements on the trade in goods and in services
- the relevance of the exchange rate
- the relevance of supply-side issues to imports as opposed to exports
- the significance of EU/international economic conditions
- the significance of the UK economic climate
- the relevance of the supply-side conditions to the UK’s trading partners
- demand-side issues
- the relevance of the fact that much of UK’s manufacturing capacity has been destroyed

Also give credit for:

- use of diagrams
- references to the data and/or to the UK or other economies
- 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.

OR

2 UK INFLATION

Total for this question: 25 marks

2 (a) Using **Extract C**, compare the UK rate of inflation for goods with the UK rate of inflation for services over the period 1999 to 2004. *(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). For example:

both inflation in goods and in services shows some volatility over the period

the rate of inflation is always positive in services, but negative for brief intervals in the goods sector, i.e. inflation becomes deflation

the rate of inflation in services is always higher than that for goods which tends to hover around zero

the rate of inflation in services varies from 3.5% at the beginning of the period to 3.3% at the end, and for goods, 1.5% to 0.5%

the peak rate of inflation in services was 4.8% in 2002/03 and for goods, 1.5% in 1999

when the goods sector sees its severest deflation (-1.5%), the rate of inflation in services is 4 - 5%

Although not true throughout the period, a broadly inverse relationship can be identified, eg in 1999 inflation in services rose from 3.5% to 4.2% while inflation in the goods sector fell from 1.5% to 0.5%.

any other valid comparison

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

A maximum of **3 marks** may be awarded if there is some evidence of an overview even though part of the answer is something of a trawl.

A maximum of **1 mark** may be awarded if there is no attempt at comparison

Accept close approximations in any decimal place figures quoted.

MAXIMUM FOR PART (a): 4 MARKS

2 (b) Explain how ‘increases in productivity **and** strong competition amongst suppliers’ might cause deflation in goods markets (**Extract E**, lines 4-5). (6 marks)

For candidates who:

define deflation, the goods market, strong competition, productivity

1 mark for each definition to a maximum of 2 marks

explain how national/international competition between suppliers can bring about falling prices, eg causing a driving down of costs in order to try to guarantee success in the market place (1 mark), stimulating R&D and innovation (1 mark), stimulating a search for productivity gains (1 mark), supplier awareness that consumers are often better informed on prices (1 mark). Reward the use of supply and demand diagrams/AD-AS diagrams and/or reference to the UK or other economies (up to 2 marks within the possible 4).

up to 4 marks

explain how productivity will result in lower unit costs which can be passed on to consumers, eg explaining how productivity has been improved by greater division of labour so reducing unit labour costs (1 mark), the increased application of technology has made labour and/or capital more productive, so reducing unit labour/capital costs (1 mark), motivational policies have stimulated labour productivity and so reduced unit labour costs (1 mark), so that overall, total costs divided by output will show a decrease (1 mark). Reward the use of supply and demand diagrams/AD-AS diagrams and/or reference to the UK or other economies (up to 2 marks within the possible 4 but not to be awarded if an earlier diagram is merely repeated in this part of the answer).

up to 4 marks

explain any other possible cause of falling prices, eg recession or threat of recession nationally or in other parts of the world

up to 2 marks

While reference to the data should be given due credit, candidates who do not go beyond merely copying from the data should be awarded a maximum of **1 mark**.

If a candidate does not make reference to both productivity and strong competition award a maximum of **5 marks**.

MAXIMUM FOR PART (b): 6 MARKS

2 (c) Using the data and your economic knowledge, evaluate the extent to which changes in costs explain the trends in UK inflation in recent years. (15 marks)

The data offer some guidance on what could be discussed and it is expected that candidates will be able to develop these points, 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, candidates could discuss the difficulty in determining the relative importance of the causes of inflation at any one time, the various types of costs may be of differing relative importance over time, higher/lower costs may not be passed on to consumers, the distinction between total costs and unit costs may be important to consider, the importance of expectations whatever the prime cause of inflation happens to be; reference made to Extract C and the rise in inflation in the goods sector.*

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint, there is scope to award 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 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 explicit reference to the data

Issues and areas for discussion:

- definition of inflation
- cost-push v demand-pull
- the importance of expectations
- types of costs
- variations in relative importance of causes over time
- elasticity conditions in markets as costs and prices rise
- the various pressures leading to lower, rather than higher, unit costs
- a comparison of the cost issues in goods and in services
- the influence of AD
- the role of the MPC
- interest rates
- credit
- the influence of the housing market
- the total cost/unit cost distinction related to productivity
- globalisation
- technical progress
- increasing competition
- supply-side policies

Also give credit for:

- use of diagrams
- references to the data and/or to the UK or other economies
- 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

TOTAL FOR THIS QUESTION: 25 MARKS