



General Certificate of Education

Economics ECN6

Unit 6 Government Policy, the National and International Economy

Mark Scheme

2007 examination - January 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.

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Advanced Level Economics

January 2007

ECN6

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:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. 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 parts (c) and (d) of the data response question and part (b) of the essay 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

Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. 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 specialist vocabulary.

0 to 6 marks (*Mid-Point: 3 marks*)

Level 2

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 12 marks (*Mid-Point: 10 marks*)

Level 3

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. 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. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks (*Mid-Point: 17 marks*)

Level 4

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. 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. A wide range of specialist vocabulary is used with facility.

21 to 26 marks (*Mid-Point: 24 marks*)

Level 5

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

27 to 30 marks (*Mid-Point: 29 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 Question 1 (d) and part (b) of the essay 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 an 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.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

SECTION A

1

Total for this question: 50 marks

1 (a) Using **Extract A**, compare the changes in the rate of unemployment with the changes in the rate of inflation for the period 1981 to 2005. *(4 marks)*

Award up to 2 marks for each point (one mark for identification and one mark for reference to the data). For example:

Inflation shows a more significant fall than unemployment

An inverse relationship is clearly shown on three occasions

Both inflation and unemployment are at their lowest levels in the period 1997 to 2005

At their highest, inflation reaches 13%, unemployment 11%

The lowest rate of inflation is 2%, unemployment under 3 – 4%

The wide divergence seen between unemployment and inflation in the early 1990s closes significantly by 2005

Award a maximum of **1 mark** if the candidate simply trawls through the data with no attempt at comparison.

Award a maximum of **2 marks** if there is no use of statistics.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

MAXIMUM FOR PART (a) 4 MARKS

1 (b) **Extract B** (lines 1 to 3) refers to demand-side and supply-side causes of unemployment. Explain one demand-side cause **and** one supply-side cause of unemployment. (6 marks)

For candidates who:

define unemployment

1 mark

explain one demand-side cause of unemployment, eg:

- tighter monetary policy. Candidates might refer to the role of the MPC decision-making, the impact of high interest rates on credit, saving, investment and hence on AD, leading to potential damage to economic growth and jobs
- increases in taxation
- world recession or downswing, or such an occurrence amongst some of a country's major trading partners
- a slowdown or fall in the rate of growth of earnings
- an appreciation in the exchange rate (which could legitimately also be included in any reference to monetary policy)
- international globalisation/competition
- a fall in consumer confidence

up to 4 marks

explain one supply-side cause of unemployment, eg:

- higher oil prices. Candidates might refer to the impact on costs of production, the consequent impact on AS, inflation, confidence and hence potential damage to employment
- the impact of higher welfare benefits on voluntary unemployment
- taxation and a greater regulatory burden raising costs
- new technology/investment in labour-displacing capital equipment
- uncompetitive wage rates/outsourcing/high labour costs
- occupational and geographical immobility

up to 4 marks

Award up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **3 marks**,

Award a maximum of **4 marks** if the candidate refers only to the demand side or supply side.

Award a maximum of **2 marks** if the candidate offers no explanation of points raised.

MAXIMUM FOR PART (b) 6 MARKS

1 (c) **Extract B** (line 12) suggests that inflation ‘can present problems for the macroeconomy’. Analyse the possible effects of a sustained rise in the rate of inflation. (10 marks)

Issues and areas for discussion include:

- definition/explanation of inflation
- measurement of inflation
- the notion of a sustained rise in inflation
- UK experience of inflation

- export competitiveness
- an arbitrary distribution of income
- shoe leather costs
- menu costs
- impact on business and consumer confidence
- expectations
- tighter monetary policy
- Phillips curve

Candidates should be rewarded for accurate and relevant diagrams to support their answer.

LEVEL 1

The candidate has a vague idea about inflation, mentions briefly a few effects of inflation, but cannot provide a fuller explanation or analysis **1 to 3 marks**

LEVEL 2

At least **two** effects are well explained/analysed for the most part. There may be some confusion and misunderstanding at the lower end of the mark range which is not evident in the top half of the mark range. For the higher marks there needs to be some evidence of economic terminology, with little confusion in the analysis. **4 to 7 marks**

LEVEL 3

At least **two** effects are explained in a coherent and precise way with reference to economic concepts and good use of economic terminology. At the top of the mark range there **may** be relevant references to the UK economy and/or other economies. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

1 (d) Using the data and your economic knowledge, evaluate the possible effects of falling unemployment on individuals **and** on the performance of an economy.
(30 marks)

It is expected that candidates will deal with individuals and the economy in turn, probably with some reference to the UK economy and/or other economies. There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the data.

Evaluation could be that *the impact of falling unemployment on the individual may depend on where the fall is most noticeable; the welfare state may have 'cushioned' the individual against the worst effects of his/her unemployment; the positive effects (eg encouraging labour's mobility and flexibility) may or may not compensate for the negative impact when unemployed (eg lower morale and reduced self-confidence); how secure newly-found jobs prove to be. In the economy as a whole, the resulting level of unemployment once the fall ends, the rate of change of unemployment, and over what time period the fall takes place may be significant evaluative factors; also, although falling unemployment is seen in a positive light, it may be harmful to price stability and hence competitiveness. **Where** falling unemployment most strongly occurs may have some significance.*

Issues and areas for discussion:

- types of unemployment
- measurement of unemployment
- significance of the rate of change of unemployment
- national or regional reductions

For the individual:

- the changing attitude towards training/retraining
- the changing attitude towards occupational and geographical mobility
- the impact on income and living standards
- the impact on wage costs and hence on future attraction of labour to employers
- morale, motivation and productivity
- the welfare benefit/wage comparison

For the economy:

- the impact on inflation (perhaps with reference to the Phillips Curve) and, potentially, competitiveness
- tax revenue
- reduced welfare spending and implications for other types of spending and taxation
- AD
- economic growth
- regional impact

Other equally valid points may be discussed and should be given credit. Also give credit for:

- reference to the data, noting the constraint above
- reference to the UK and/or other economies
- an overall judgement on the issues raised

Candidates should be rewarded for relevant and accurate diagrams.

A maximum of **20 marks** if only the effects on the individual or on an economy are discussed.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR QUESTION 1: 50 MARKS

SECTION B

Total for this question: 50 marks

2 The 2005 Budget Statement has forecast that, for the period 2004 to 2010, the average annual borrowing by the UK government (the Public Sector Net Cash Requirement or PSNCR) would be £26 billion.

(a) Explain the likely economic reasons for government borrowing. (20 marks)

For candidates who:

- define PSNCR perhaps with reference to budget imbalance, National Debt (although the latter is not in the specification), put government borrowing into the context of fiscal policy as a whole
- make reference to recent/current UK fiscal policy
- explain the various ways of analysing spending, eg capital/current/transfer; demand led/supply led; by programme or department
- explain the various ways of analysing taxation, eg direct/indirect; progressive/regressive/proportional
- explain the need for borrowing in terms of a desire to increase spending without raising taxation, or in order to limit tax increases, or a desire to cut spending but to cut taxes further

up to 3 marks per point explained to a maximum of 8 marks

explain reasons for changes in government spending, eg:

cyclical/stability reasons – candidates may refer to the trade cycle, changing levels of spending in total but also as regards types of spending, the multiplier effect, AD (perhaps with use of diagrams)

to influence the rate of economic growth

income redistribution/anti-poverty policies

changes in the level of provision of merit/public goods

changes to policies towards negative externalities, eg environmental policy

changes to the rolling programmes of capital expenditure

up to 5 marks per reason explained

explain reasons for changes to the level of taxation, eg:

to influence AD, eg candidates might refer to cuts in income tax, so raising disposable income, which in turn may stimulate business investment and the multiplier process

to influence AS

to influence the distribution of income

to influence the flow of FDI

to attempt to alter the pattern of consumption **up to 5 marks per reason explained**

Award up to **2 marks** per relevant diagram (1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **6 marks**.

Award a maximum of **14 marks** if only spending or taxation is referred to.

MAXIMUM FOR PART (a) 20 MARKS

2 (b) Evaluate the possible problems for the UK economy of increased government borrowing. (30 marks)

It is expected that strong candidates may have an awareness of the debate amongst both politicians and economists concerning the potential impact of government borrowing. It is anticipated that candidates will be able to provide a balanced answer against this background.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy

There must be evaluation for a candidate to score **19 marks** or more. This could be in terms of *discussing the impact against the background of fiscal policy in the years leading up to 2004; if fiscal expansion is a potential cause of inflation, a consideration of other inflationary forces, if any, in evidence in the economy; if the borrowing is a possible cause of higher interest rates, whether or not there are any other causes of higher interest rates in evidence; the reaction by the Monetary Policy Committee (MPC) if it holds a view on the potential impact of the deficits.*

Issues and areas for discussion:

- an outline of fiscal policy
- public spending
- budgetary imbalance (cyclical v structural deficits)
- PSNCR
- recent UK experience
- sources of borrowing
- fiscal expansion in the context of the UK economic cycle or cycles in other parts of the world
- higher government spending and/or tax cuts as causes
- future spending cuts/tax increases if borrowing becomes perceived as unsustainable
- impact on AD and hence different aspects of economic performance
- the multiplier
- impact on inflation
- the sustainability of any economic growth achieved
- crowding out
- pressure on interest rates
- impact on money supply
- impact on the National Debt
- implications for the Code for Fiscal Stability
- implications for any shadowing of the Growth and Stability Pact
- possible response by MPC
- assessment in terms of **how** additional funds are being spent
- impact on household and business confidence

Also give credit for:

- use of diagrams
- an attempt at a final judgement

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

3 (a) Explain the possible causes of economic growth.

(20 marks)

For candidates who:

- define/explain economic growth, perhaps with reference to GDP and/or to increases in the productive capacity of the economy
- distinguish short run growth from the long run trend rate of economic growth
- make reference to recent UK economic growth performance
- make reference to the growth experiences of other economics, eg China and India
up to 3 marks per point explained to a maximum of 8 marks

explain causes of economic growth, eg:

- investment, perhaps with reference to new technology, improved capital equipment, thus raising the potential for productivity improvements to enhance competitiveness and increase output
- R&D
- training and education
- productivity improvements
- the significance of AD, perhaps looking at specific components such as exports, considering the role of government/Bank of England in influencing AD
- availability of, and increase in, natural resources
- additional human resources, perhaps with reference to recent UK immigration
- the opportunities afforded by a free enterprise economy

**1 mark for identification of a cause
and up to a further 6 marks for explanation**

use diagrams to support their explanations

up to 2 marks per relevant diagram

(1 mark for appropriate information included, eg a rightward shift of the PPF, and 1 mark for largely complete and correct labelling of axes/curves) **to a maximum of 6 marks**

MAXIMUM FOR PART (a) 20 MARKS

3 (b) In recent years, eastern European countries, such as Poland, have joined the European Union (EU). New markets and business locations are developing, with resource mobility, including labour, increasing. This expansion of the EU has therefore brought opportunities for growth, jobs and investment to the UK.

Evaluate the possible impact of this expansion of the EU on UK economic performance. (30 marks)

It is anticipated that candidates might provide a brief background to the enlargement, especially if they have been studying the EU for paper EC4W. However, this is **not** a requirement for higher level marks. It is expected, however, that the better candidates will attempt to define or explain the term 'economic performance'.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

There must be evaluation for a candidate to be able to achieve **19 marks** or more. Evaluation could be in terms of *discussing whether integration has yet gone far enough to have much impact in the immediate future; whether the impact is more limited for the UK than it might be for those member countries which have adopted the euro; how competitive the UK is when compared to other EU members; given that we are a service-based economy to a large extent, the possibility that the impact will be limited until there is a single market in services; the extent to which the UK will welcome immigrants from the new member countries; the level of enthusiasm in the UK business world to respond to new challenges; the possible significance of the retarded economic development of some of these countries*

Issues and areas for discussion:

- economic performance
- economic growth
- inflation
- balance of payments
- employment/unemployment
- competitiveness
- EU integration
- Single European Market (SEM)
- Single European Currency (SEC)
- labour supply/migration
- outsourcing
- relocation
- investment
- increased competition
- economies of scale
- the UK as a service-based economy
- the potential impact on UK manufacturing
- the potential impact on UK productivity trends and the productivity gap
- the issue in the context of globalisation
- the significance of the EU as a trading bloc
- changing patterns of trade

Also give credit for:

- use of diagrams to aid the analysis
- a final judgement or assessment

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 3: 50 MARKS

4 (a) Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world. (20 marks)

For candidates who:

- explain the significance of trade to the UK economy
 - define/explain the term 'pattern of trade', eg the relative importance of different areas of the world or individual countries for the UK as far as trade is concerned
 - explain pattern in terms of products traded
 - make reference to the actual pattern of trade between the UK and the rest of the world
- up to 3 marks per explanation
to a maximum of 8 marks**

explain comparative advantage and how changes in comparative advantage might be significant **up to 6 marks**

give a numerical example of comparative advantage to help explain how a change might be significant **up to 6 marks**

explain other possible reasons for changes in the pattern of trade, eg:

- changes in absolute advantage
- changes in protectionist/free trade policies in other countries
- exchange rate changes
- creation/development of trade blocs, perhaps with reference to trade diversion/trade creation
- changing expertise/reputation and other non-monetary changes in competitiveness, eg quality of product or service, the quality of after-sales services
- the potential for change in government policies towards exports, eg credit guarantees, subsidies
- the evolving enthusiasm (or lack of it) for globalisation
- discovery/exploitation of natural resources/changing needs for such resources
- terms of trade (but this is not an A2 topic)

**1 mark for identification of a reason and
up to a further 6 marks per cause explained**

While it might be anticipated that comparative advantage will form a central part of many answers, a maximum of **14 marks** may be awarded if the answer does not go beyond comparative advantage, i.e. in effect the candidate is confining their answer to a single cause of change.

MAXIMUM FOR PART (a) 20 MARKS

4 (b) In the years 2000 to 2004, the annual average balance of payments deficit on current account for the UK was £22 billion.

Evaluate the measures which may be taken to deal with a balance of payments deficit on current account. (30 marks)

It is anticipated that candidates will show an awareness of the continuing weakness in UK external performance and briefly explain why it persists, one of which may be stated as the limited or belated response to changing trade patterns, in order to link with part (a).

There must be evidence of evaluation for a candidate to be awarded **19 marks** or more. Evaluation could be in terms of *whether or not a particular measure is seen as a short term expedient or an attempt at a long term solution; whether it is necessary to take any action given that the deficit may have no, or limited, impact on other aspects of economic performance; some options may not be feasible in a modern context, eg devaluation, protectionism (given the work of GATT and the WTO since the mid-90s); a consideration of whether or not the problem is best left to the currency markets to sort out.*

Issues and areas for discussion:

- the structure of the balance of payments
- surplus or deficit on current account
- the notion of 'balance'
- causes of deficits

- the significance of the capital account
- the use of official reserves
- exchange rate manipulation
- reductions in interest rates potentially affecting the exchange rate
- reductions in AD to stem the flow of imports/divert production to the export sector
- protectionism
- government role in export promotion
- supply-side improvements which might begin to provide a solution to the weakness, which might include reference to such factors as:
 - competitiveness/unit labour costs
 - productivity
 - technology
 - resource reallocation
 - investment
 - industrial relations
- free floating as a contrast to intervention

Also give credit for:

- use of diagrams to aid the analysis
- reference to the UK and/or other economies
- a final judgement or assessment

USE THE LEVELS MARKING SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 4: 50 MARKS