



General Certificate of Education

Economics 6141

ECN6 Government Policy, the National and International Economy

Mark Scheme

2008 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 2008****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 (a) Using **Extract A**, compare the changes in the prices of utilities with the other price changes shown for the period January 2005 to January 2006. (4 marks)

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

- the utilities show the greatest price changes of all the goods and services shown
- the price changes for the utilities were all positive, but mostly negative for the other goods shown
- the gas utility shows the greatest price increase of all the goods and services shown, footwear the greatest price reduction
- of all the data, the price changes of the utilities show the greatest contrasts with the CPI, with food and non-alcoholic drink the nearest to it
- The percentage point range between the gas utility (with the highest price increase) and footwear (with the biggest price fall) is 20 percentage points

Award up to **2 marks** if there is no use of statistics.

A maximum of **1 mark** may be awarded if a candidate simply trawls through the data without any attempt at comparison.

Award up to **3 marks** where there is evidence of an overview having been taken with supporting data, even though part of the answer gives an impression of a trawl through the data.

MAXIMUM FOR PART (a): 4 MARKS

1(b) **Extract C** (line 2) refers to ‘a new world in which inflation, overall, would be extremely low’. Explain **two** possible causes of a low rate of inflation. (6 marks)

For candidates who:

define inflation and/or a ‘low rate of inflation’

1 mark

explain causes of a low rate of inflation, eg:

- the impact of globalisation (1 mark), making the need for price competitiveness more urgent (1 mark), by cutting costs and raising productivity (1 mark), to be able to improve export performance and effectively challenge imports (1 mark)

- the impact of technology on production processes

-the information revolution

- flexibility in the labour market

- effective demand management

- a sustained improvement in labour productivity

- falling expectations of future inflation

- cheap manufactured goods from China and similar low-cost economies

- the ‘weightless’ economy

up to 4 marks per cause explained

up to 2 marks per diagram (axes and curves correctly labelled (1), appropriate information according to candidate’s explanation (1)), to a maximum of 3 marks

MAXIMUM FOR PART (b): 6 MARKS

- 1(c) **Extract B** is concerned with the use of indices to measure inflation. Analyse the way in which inflation indices, such as the CPI and RPI, are constructed **and** their accuracy as measures of inflation for every household in an economy over time. (10 marks)

Issues and areas for discussion include:

- a definition of inflation
- a definition of an index, e.g. a weighted average of price changes based on average levels of spending on a wide range of consumer goods and services
- index numbers and base years
- CPI and RPI, perhaps with some comparison of the two
- Pensioner prices index, RPIX, RPIY
- the notion of a 'basket' of goods and services
- the concept of the 'average family'
- the system of weighted averages
- the Family Expenditure Survey
- price relatives
- index number formula:
$$\frac{(\text{price relative} \times \text{weights})}{\text{Weights}}$$
- the difficulty of determining the 'average' family
- the difficulty of deciding on an appropriate 'basket' of goods and services
- the high-income household
- the retired person's expenditure perhaps weighted towards necessities such as heating, lighting and food
- the spending habits of some households are in some contrast to any notion of 'average', e.g. the heavy smoker, high housing costs (RPI)

Level 1

Candidates simply copy from the extract and show little, if any, knowledge of indices beyond the material in the extract. **1 to 3 marks**

Level 2

Some awareness is shown of inflation indices beyond the information outlined in the extract. At the lower end of the mark range the candidate may be able to elaborate on such basic principles as the 'basket' and weights but knowledge may be incomplete or inaccurate at times. A brief, vague reference is made to one aspect of the 'accuracy' issue. For the higher marks, some attempt is made to explain the process of constructing an index with some use of economic terminology, with at least one aspect of the 'accuracy' issue well considered. **4 to 7 marks**

Level 3

A competent analysis of the various aspects of the construction of indices is displayed, with sound use of appropriate terminology and good consideration of **two** aspects of the 'accuracy' issue. There may be some attempt to distinguish the RPI from the CPI, to provide a numerical example to aid the explanation of construction, and to refer to the inflation experiences of the UK economy, but not all of these would need to be in evidence in order to award a mark within this level. **8 to 10 marks**

MAXIMUM FOR PART (c): 10 MARKS

- 1(d) According to the Office for National Statistics (ONS) the annual average rate of UK inflation, as measured by the CPI, for the period 2001 to 2006 was 1.6%. Evaluate the significance of this low rate of inflation for the performance of the UK economy in recent years. *(30 marks)*

Candidates may choose to put this low rate of inflation into historical context before discussing how we might gauge performance of the UK economy and go on to analyse and evaluate the significance of the low rate of inflation in the context of other contributory factors.

To score more than **24 marks**, candidates must make reference to the UK economy.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include the comment that the significance may depend on how it compares to the rates of inflation amongst our trading partners; whether it is likely to persist; how it has been achieved; how immune it is from demand-side or supply-side shocks; whether it serves to complement other aspects of the economy, e.g. an improving productivity trend, good non-price competitiveness, a favourable exchange rate.

Issues and areas for discussion include:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- a definition of inflation
- CPI/RPI comparison (the RPI likely to paint a less favourable picture)
- the criteria by which the 'performance of the UK economy' is measured
- low inflation and economic growth
- low inflation and increased employment and wage-earnings trends
- low inflation and the balance of payments
- avoidance of instability leading to recession
- lower expectations
- how it has been achieved: demand-side and supply-side references
- the role of the MPC and the inflation target
- international comparisons
- linkages with non-price competitiveness
- whether the 'cost' of achieving low inflation has been too high, e.g. damage to manufacturing
- the prospect of deflation
- potential threats to price stability
- the relationship to other factors determining success, e.g. resource mobility/ flexibility, international economic conditions
- the experience of the UK economy
- UK inflation in the context of international comparison
- temporary or permanent, degree of immunity from shocks
- its complementarity with other aspects of the macroeconomy

Also give credit for:

- reference to the data
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (d): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

2(a) Explain the concept of economic growth **and** how it can affect the standard of living of a country. *(20 marks)*

For candidates who:

define economic growth

up to 2 marks

explain the distinction between actual growth and trend growth and/or any other relevant discussion

up to 4 marks per point explained

use diagrams to further explain the concept

up to 2 marks per diagram (axes and curves correctly labelled (1), appropriate information according to candidate's explanation (1)), to a maximum of 6 marks

explain the concept of 'the standard of living'

up to 4 marks

relate economic growth to the standard of living, eg:

- referring to income per head and material well-being;
- linking economic growth to the development of the economy (for example, a welfare state, a health service, transport and communications infra-structure);
- economic growth and full employment
- environmental damage;
- quality of life issues.

up to 6 marks per factor explained

Reward references to the UK economy.

Award a maximum of **10 marks** if the candidate does not go beyond the explanation of the concept to discuss the standard of living or refers only to the living standards aspect of the question.

MAXIMUM FOR PART (a): 20 MARKS

2(b) Evaluate the extent to which government economic policy may have influenced the rate of growth of the UK economy in recent years. (30 marks)

It is anticipated that candidates will review the ways in which governments can help influence the rate of growth and then discuss other relevant factors before arriving at a final conclusion on the issue.

To score more than **24 marks**, candidates must make reference to the UK economy.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include a discussion of government possibly being in a no-win situation as objectives come into conflict, i.e. that a policy initially favouring growth then begins to damage growth prospects; an appraisal of non-government factors which have promoted growth; that any policy may become irrelevant if international economic conditions deteriorate.

Issues and areas for discussion:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- concept of the rate of growth
- the Keynesian view (e.g. the authorities' management of AD may help to achieve economic growth to the extent thought desirable) v Classical (e.g. government intervention reduces competitiveness and so slows the growth process)
- supply-side policies
- environmental issues as a constraint on growth
- the priority given to the control of inflation
- the role of the MPC
- the possible impact of the expansion of the public sector: expansion of AD v the potential for inflation and crowding out
- promotion of globalisation
- government encouragement to inward investment
- possible beneficial effects of overseas development aid
- economic migration
- infra-structure development in its widest sense
- exchange rate policy
- boom-bust threat
- a possible no-win situation for the government as objectives are seen to conflict
- non-government factors influencing growth
- the relevance of international economic conditions

Also give credit for:

- references to other economies
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

3(a) Explain how fiscal policy might be used to achieve government objectives, such as low unemployment, higher productivity and environmental protection. (20 marks)

For candidates who:

define fiscal policy

up to 3 marks

explain the general meaning of 'government objectives', e.g. making markets work better, improving public service performance, influencing the macroeconomy. Do not credit the simple statement of low unemployment, higher productivity and environmental protection.

up to 3 marks

explain how public expenditure can help achieve government objectives, eg:

- labour market policies to increase mobility/flexibility/productivity
- provision of merit goods to enhance positive externalities
- provision of public goods to ensure supply where markets do not exist
- welfare expansion to help achieve income redistribution/reduction of poverty
- education and training helping to improve labour productivity
- by initiating a multiplier effect, AD can be raised, so helping employment
- subsidies to encourage 'greener' technology

up to 4 marks per factor explained to a maximum of 12

explain how taxation can help achieve government objectives, eg:

- changes to direct taxation to influence the work/leisure decision or enterprise issues
- changes to influence disposable income and hence spending power
- changes to indirect taxation to alter the pattern of consumption
- targeted tax allowances to encourage sectoral investment
- indirect tax to help deal with (internalise) negative externalities
- use of taxation to influence activity in individual markets, eg housing and holidays

up to 4 marks per factor explained to a maximum of 12

explain how a given fiscal stance can achieve government objectives, eg:

- a budget surplus to reduce the crowding-out felt in specific sectors and so help increase the private sector contribution to economic performance
- a tighter fiscal policy benefiting interest rate levels helping to boost the mortgage and housing markets, with implications for the macroeconomy
- a deficit/surplus to influence AD and hence unemployment, prices and actual growth

up to 6 marks

use diagrams to help their explanation

up to 2 marks per diagram

(axes and curves correctly labelled (1), appropriate information according to candidate's explanation (1)), to a maximum of 6 marks

Reward references to the UK economy.

Candidates who deal with only taxation or public expenditure should be limited to **14 marks**.

MAXIMUM FOR PART (a): 20 MARKS

3(b) In recent years, the 'Golden Rule' in UK fiscal policy has required a balanced budget to be achieved over the economic cycle. Evaluate the possible macroeconomic consequences for the UK economy of such a requirement. (30 marks)

It is anticipated that candidates will outline the nature of UK fiscal policy and perhaps contrast the consequences of balance with persistent surpluses/deficits.

To score more than **24 marks**, candidates must make reference to the UK economy.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include a discussion around the fiscal position from which balance was achieved; the significance of how long the strategy persists; the condition of the economy as it is achieved; the significance of any cycle containing years of both deficit and surplus; whether such a policy instils confidence amongst consumers and in the business world or the reverse.

Issues and areas for discussion:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- fiscal policy outlined
- the nature of an economic cycle
- criteria for assessing macroeconomic consequences
- the Golden Rule
- the overall Code for Fiscal Stability
- the Budget
- the concept of balance and the contrasting situations
- balanced budget multiplier (not required by the A2 specification)
- the perception of balance as a force for economic stability with potential impacts on the private sector and inward investment
- the counter view of the perceived benefits of persistent deficits or surpluses
- potential impact on interest rates
- potential impact on inflation
- how balance is achieved – tax increases and/or public spending cuts
- response from MPC
- impact on AD
- the potential overall impact on the supply side of the economy
- the starting position for the achievement of balance, with the possibility of a new policy providing an economic shock
- the persistence or otherwise of the strategy
- the existing condition of the economy
- how appropriate the policy is in the global context
- the appropriateness of individual years of deficit or surplus as they appear within the cycle
- the impact on consumer and business confidence
- reference to UK experience

Also give credit for:

- reference to other economies
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

4(a) Explain the factors which may help to determine an economy's export performance.
(20 marks)

For candidates who:

explain 'export performance' (e.g. in value and volume terms) perhaps in the context of the balance of payments on current account **up to 4 marks**

explain factors determining export performance, eg:

- the rate of inflation in an international context
- non-price competitiveness
- the exchange rate
- international economic conditions
- the rate of growth of productivity in an international context
- degree of exploitation of comparative advantage
- extent of protectionism
- government support for the export sector
- within a customs union, the possibility, as in the EU, of the existence and development of a single market and/or a single currency, potentially allowing members to develop their export sectors
- supply-side reforms in general

up to 8 marks per determinant explained

use diagrams to help their explanation

up to 2 marks per diagram (axes and curves correctly labelled (1), appropriate information according to candidate's explanation (1)), to a maximum of 6 marks

Reward references to the UK economy and/or other economies.

MAXIMUM FOR PART (a): 20 MARKS

4(b) 'The tariffs imposed by the EU (European Union) on imports of shoes from the Far East are likely to put £5 on almost every pair of shoes sold for £40 in Britain, but will protect Italian shoemakers.'

Source: © *The Sunday Times*, 9 April 2006

Evaluate the economic consequences for members of a customs union, such as the EU, of the protectionist policies it adopts towards the rest of the world.

(30 marks)

It is anticipated that candidates will answer the question in the context of the EU and be able to analyse and evaluate the consequences of protectionist policies for members of the EU. References to the EU in particular, rather than to customs unions collectively, is not, however, a requirement of a good answer.

To score more than **24 marks**, candidates must show an understanding of the nature of customs unions, rather than just outline the arguments for an against protectionist policies within a discussion of the consequences of such policies.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include a discussion of how severe the protectionism is, perhaps in an historical context; the extent of retaliation; the importance of external trade to the customs union; that the effects could vary significantly from country to country; the significance of the policies of customs unions elsewhere in the world.

Issues and areas for discussion:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- the nature of a customs union
- examples of customs unions
- particular reference to the EU as a customs union
- customs unions v free trade areas
- the common external tariff policy of a customs union
- other examples of protectionism, e.g. export subsidies, quotas
- the impact on the cost-of-living
- protectionism as an impediment to the development of comparative advantage
- trade diversion
- trade creation
- the potential for retaliation should the protectionism become more severe
- comparative and absolute advantages
- the impact on economic growth within the customs union and world growth
- the impact on employment
- the impact on the balance of payments
- the impact on the cost of inputs and hence potentially on inflation
- the impact on efficiency
- the infant-industry argument
- inward investment
- the impact on the industrial structure of the EU or on the structure of individual members
- protection against goods and services emanating from 'cheap labour' economies
- dumping

- a tool for influencing the environmental policies of other countries (a Uruguay Round issue), so helping the progress/acceptance of such policies within the customs union in question
- impact on the economic development of other nations and hence maintaining the reliance of LDCs on aid and loans given by the customs union in question rather than trade
- retaliation and the heightened likelihood of trade wars between blocs
- the degree of severity of the protectionist policies
- the importance of external trade to the customs union
- the policies of other customs unions
- the variations in impact across the membership of the customs union
- GATT/WTO

Also give credit for:

- references to the experiences of the UK and/or other members of the EU
- reference to real world customs unions
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS