



ASSESSMENT and  
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# Mark scheme

# June 2002

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## GCE

## Economics

## Unit ECN6

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ECN6

## Advanced Subsidiary Economics

### 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 57 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 56. 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 also shown on page 57. 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 are likely to be poor. There is very little use of specialist vocabulary. **0 to 5 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. **6 to 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. **11 to 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. **18 to 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. **25 to 30 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 format 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.

**1****Total for this question: 50 marks**

1 (a) Explain what is meant by the phrase “the outlook for growth has weakened” (subheading, **Extract A**).  
(4 marks)

**For candidates who explain:**

what is meant by economic growth either in terms of the percentage increase in real national income **or** the rate of growth of productive capacity

**Up to 2 marks**

that the phrase implies that the OECD expects that the rate of growth will be lower than previously forecast

**Up to 2 marks****Max 4 marks**

1 (b) Compare the actual and the projected performance of the United States and European Union economies between 2000 and 2002, as shown in **Table 1**. (6 marks)

Candidates can gain **up to 2 marks each** for comparing growth, inflation, unemployment and the current account balance.

They can also be awarded **up to 2 marks** for an overall comparison of the performance of the two economies.

**Issues that might be considered are:**

**Real GDP growth:** Over the whole period the growth in the US was expected to be higher but it was also expected to be more volatile.

**Inflation:** Lower in the European Union than in the US for the first two years, but it was expected to be higher in 2002. The differences in the rates of inflation are not very significant.

**Unemployment:** Significantly higher in the European Union than the US over the whole of the period. However, unemployment is expected to rise in the US but continue falling in the European Union.

**Current account balance:** Deficit in both the US and the European Union. The deficit is only a small proportion of GDP in the European Union but is a high percentage of US GDP and is only expected to fall very slightly.

A **maximum of 4 marks** should be awarded if there is no attempt to compare the performance of the two ‘economies’ (i.e. only a description of each is attempted).

**Max 6 marks**

1 (c) Discuss the relationships between economic growth, productivity and unemployment. (10 marks)

**Issues and areas for discussion include:**

- meaning of the term *productivity*
- likely causes of rising productivity
- why rising productivity leads to higher underlying growth (i.e. increase in productive capacity)
- why rising productivity may lead to job losses (particularly in industries where demand is not growing)
- why rising productivity may create employment (e.g. improves competitiveness)
- difference between the actual and underlying rate of growth
- low actual growth (due to inadequate growth in real AD) leading to rising unemployment
- high rates of underlying growth may be associated with structural unemployment as the economy has to cope with a more rapid rate of change

Even if candidates do not fully understand the difference between actual and underlying growth, they should be rewarded for any reasonable discussion of the link between growth and unemployment. Most candidates who do not understand the difference are likely to assume that high growth means increasing output and rising AD leading to lots of jobs being created.

**Level 1**

Some understanding of the relationship between ‘productivity and growth’ or ‘productivity and unemployment’ or ‘growth and unemployment’.

**1 to 3 marks**

**Level 2**

At the bottom of this level candidates will be able to analyse and explain a plausible relationship between at least one of the following: ‘productivity and growth’ or ‘productivity and unemployment’ or ‘growth and unemployment’. At the top of this level at least two of the relationships will be clearly explained.

**4 to 7 marks**

**Level 3**

Sound analysis of possible relationships between growth, productivity and unemployment. An appreciation of alternative points of view is shown and/or the candidate recognises that the nature of the relationship may depend on the circumstances. Well organised and clearly expressed.

**8 to 10 marks**

**Max 10 marks**

1 (d) Assess the likely costs and benefits of product and labour market reforms for the countries of the European Union. (30 marks)

To achieve **Level 4** or above the candidate must attempt to **assess** both the costs **and** benefits of product **and** labour market reforms as well as show sound analytical ability.

To achieve **more than 18 marks** candidates must demonstrate their ability to evaluate the various product and labour market reforms that might be adopted by countries in the EU.

**Issues and areas for discussion include:**

- the nature of labour and product market reforms illustrated by examples
- the European Union as a single market and the associated cost and benefits
- the view that the European Union is over-regulated, protectionist and over-taxed
- comparisons with the United States
- high levels of unemployment and relatively low growth during the 1990s (compared to the United States)
- the importance of labour mobility
- the importance of incentives to work and enterprise
- changes in the nature of work require a more flexible labour market
- the significance of the globalisation of the world economy
- benefits of extending competition in product markets
- de-regulation of labour and product markets may encourage inward investment
- the importance of labour and product market flexibility for members of the European single currency (e.g. to cope with asymmetric shocks)
- labour market reforms and job security
- weak labour laws may mean that multinational companies may take advantage of the situation, e.g. in times of difficulty they may lay off workers in places where the costs of redundancy are lowest.
- flexible labour markets and inequalities
- de-regulation of product markets may lead to negative externalities
- moves to greater competition and less control may have a particularly adverse effect on some regions and sectors of the European Union

A **max of 20 marks** should be awarded if the candidate only deals with **either** the product **or** labour market.

**USE THE LEVELS MARK SCHEME ON PAGE 56**

**Max 30 marks**

**TOTAL FOR QUESTION 1: 50 MARKS**

2 (a) Explain the causes of inflation.

(20 marks)

**For candidates who:**

define inflation

**Up to 2 marks**

explain various measures of inflation, e.g. RPI, RPX, HICP, etc

**Up to 2 marks**

explain the nature of the demand based inflationary process

**Up to 6 marks**

use an AD/AS diagram(s) to illustrate how excess aggregate demand can cause inflation

**Up to 2 marks**

explain the process through which rising costs can lead to inflation

**Up to 6 marks**

use an AD/AS diagram(s) to illustrate how rising costs can lead to inflation

**Up to 2 marks**

explain the monetarist view of the causes of inflation including the quantity theory of money (e.g.  $MV = PT$ )

**Up to 6 marks**

explain the role of expectations in causing and sustaining inflation

**Up to 4 marks**

explain how a depreciating exchange rate can add to inflationary pressures (e.g. increased AD, higher import costs and a lack of discipline upon economic agents)

**Up to 4 marks**

**Max 20 marks**

2 (b) Assess the contribution that the Monetary Policy Committee of the Bank of England has made to the control of inflation in the United Kingdom. (30 marks)

To answer this question candidates will need to demonstrate that they understand the way in which the Monetary Policy Committee uses interest rates to try to control inflation. They should use their knowledge of recent trends in inflation in the United Kingdom to help them assess the effectiveness of the Monetary Policy Committee in helping to control inflation. In addition, they should show that they are aware of other factors that have affected the rate of inflation in the United Kingdom since 1997. Good candidates will show that they are able to assess how significant the actions of the Monetary Policy Committee have been compared to other factors.

**Issues and areas for discussion include:**

- the inflation target (i.e. RPIX = 2.5%)
- Inflation in the United Kingdom since 1997 (and perhaps before 1997)
- the role of interest rates in controlling inflation (i.e. in managing aggregate demand)
- the importance of keeping the growth of demand in line with the trend rate of growth of output plus the inflation target.
- the range of indicators that MPC takes into account when setting interest rates (e.g. the rate of growth in the components of AD, the size of the output gap, the rate of wages increase, oil and commodity prices, the exchange rate, the state of the housing market, monetary conditions, etc ...)
- pre-emptive action by the MPC
- the role of the MPC and its actions in influencing inflationary expectations and hence its ability to achieve the inflation target

Other factors that might have affected inflation over the period that **might** be considered to have little to do with the MPC:

- relatively low inflation in the rest of the world
- globalisation and increased international competition
- technological change that increases productivity and reduces cost
- the role of the Internet as a vehicle for increasing international competition
- the creation of the European Single Market
- the strength of the pound (some may well argue that it is an integral part of the policy of the MPC)
- the cautious fiscal policy in the early years of the Labour Government
- supply side reforms that have increased the flexibility of labour markets and the efficiency of product markets
- the effectiveness of regulation in the United Kingdom, e.g. in energy and other markets

As indicated in the pre-amble to this section of the mark scheme, candidates should be rewarded for their ability to evaluate the contribution that the MPC has made to controlling inflation. To do this, they will need to discuss recent trends in inflation and other factors that may have affected inflation in the United Kingdom.

Answers that do not include any evaluation **cannot** be awarded **more than 18 marks**.

**USE THE LEVELS MARK SCHEME ON PAGE 56**

**Max 30 marks**

**TOTAL FOR QUESTION 2: 50 MARKS**

3 (a) Explain how fiscal policy can be used to influence both the level **and** the pattern of economic activity.  
(20 marks)

**For candidates who:**

explain what is meant by the level of economic activity **Up to 2 marks**

explain what is meant by the pattern of economic activity **Up to 2 marks**

explain that fiscal policy involves the use of taxation and public expenditure **Up to 2 marks**

explain what is meant by a budget deficit and budget surplus (or equivalent terms such as the PSNCR) **Up to 2 marks**

explain other features of fiscal policy e.g. automatic stabilisers, discretionary fiscal policy **Up to 2 marks**

explain how fiscal policy can be used to influence aggregate demand **Up to 6 marks**

explain the possible multiplier effects of fiscal policy **Up to 4 marks**

explain how changes in the level of aggregate demand affect the level of economic activity **Up to 4 marks**

use AD/AS diagrams to illustrate how changes in AD affect economic activity **Up to 2 marks**

explain how fiscal policy can be used to influence the supply side performance of the economy and hence influence the level of economic activity in the long run **Up to 6 marks**

explain how taxation can be used to influence the pattern of economic activity (candidates who use examples to illustrate their answers should be rewarded) **Up to 6 marks**

explain how government expenditure can be used to influence the pattern of economic activity (candidates who use examples to illustrate their answers should be rewarded) **Up to 6 marks**

Candidates who only consider how fiscal policy can influence **either** the level of economic activity **or** the pattern of economic activity should be awarded a **maximum of 14 marks**.

**Max 20 marks**

3 (b) Discuss the view that the government should always attempt to balance its budget. (30 marks)

To provide a good answer to this question, candidates will need to show that they understand the case for and against balancing the budget **and** show that they can evaluate the merits of the various arguments. They should also be rewarded for discussing the issues in relation to the experience of the United Kingdom economy.

Answers that do not include any evaluation **cannot** be awarded **more than 18 marks**.

**Issues and areas for discussion:**

- what is meant by ‘balancing the budget’?
- aiming for a balanced budget every year compared to ‘balancing the budget over the economic cycle’
- cyclical and structural deficits
- the Government’s code for fiscal stability
- borrowing to invest as opposed to financing current expenditure
- how changes in economic activity affect the budget balance
- why a serious recession might make it very difficult for the government to balance the budget
- the automatic stabilising effect of fiscal policy and an assessment of its significance for attempts to balance the budget
- discretionary fiscal policy and an assessment of the use of fiscal policy to influence aggregate demand
- is it better to rely on monetary policy to stabilise aggregate demand?
- the inter-relationship between monetary and fiscal policy, e.g. a large fiscal deficit may result in the Monetary Policy Committee increasing interest rates
- budgets, deficits, the money supply and inflation
- the crowding-out effect
- pump-priming and crowding-in effects
- an assessment of the effectiveness of fiscal policy as a means of influencing aggregate demand
- the budget balance and the national debt
- the servicing costs of the national debt; does a large budget deficit lead to a higher tax burden in the future? etc...
- the view that taxation should be used to finance public expenditure and not to influence aggregate demand
- an overall assessment of the case for and against aiming to balance the budget

**USE THE LEVELS MARK SCHEME ON PAGE 56**

**Max 30 marks**

**TOTAL FOR QUESTION 3: 50 MARKS**

4 (a) Explain the benefits of international trade.

(20 marks)

**For candidates who:**

state that many of the benefits of international trade can be explained by the principle of comparative advantage **1 mark**

outline the assumptions upon which the model is based (at least four assumptions needed for both marks) **Up to 2 marks**

explain what is meant by absolute advantage **Up to 2 marks**

explain what is meant by comparative advantage **Up to 2 marks**

state that it is comparative advantage that determines whether or not there are potential benefits from trade **1 mark**

state that trade will be mutually beneficial provided the terms of trade lie between the domestic opportunity cost ratios **1 mark**

provide a suitable numerical example where the opportunity cost ratios differ (only award **1 mark** if each country has an absolute advantage in one of the products) **Up to 2 marks**

choose a suitable term of trade **1 mark**

use the numerical example to explain the benefits of trade **Up to 4 marks**

**OR** Candidates can be awarded **up to 4 marks** for a more general account of the principle of comparative advantage.

**Other benefits of international trade:**

explain that trade leads to specialisation, which can in turn lead to economies of scale (or increasing returns to scale) **Up to 4 marks**

explain that international trade increases competition and why competition may be beneficial **Up to 4 marks**

explain why it is often argued that the growth in world trade has helped to reduce inequalities of income between and within nations **Up to 2 marks**

explain that international trade reduces the potential for exploitation of consumers by domestic monopolies **Up to 2 marks**

explain that international trade increases choice and variety and allows some countries to obtain products that would not otherwise be available to them **Up to 2 marks**

explain that international trade can allow countries to obtain imports when domestic supplies are scarce **Up to 2 marks**

explain that consumers can benefit from lower prices **Up to 2 marks**

Candidates who use examples to illustrate any of the above points should be rewarded for doing so. Political and other non-economic arguments should **not** be rewarded.

**Max 20 marks**

4 (b) Assess the arguments **for** and **against** encouraging developing countries to protect their economies from foreign competition by imposing restrictions on the imports of manufactured products from developed countries. *(30 marks)*

Candidates need to show that they understand the various arguments that are used to justify protection and be able to assess the strengths and weaknesses of these arguments. They should also take an overview of the general case for and against the adoption of protectionist policies. The best answers will discuss the issues in the context of trade between developing and developed countries.

Answers that do not include any evaluation **cannot** be awarded **more than 18 marks**.

**Issues and areas for discussion:**

- types of protectionist policy, e.g. tariffs, quotas, hidden restrictions, etc ...
- differences between developed and developing countries

The following arguments are sometimes given as reasons for protecting industry in developing countries. Good candidates will be able to analyse and evaluate the arguments, some of which cannot be justified on economic grounds.

- the infant industry argument, e.g. time to allow the firm to grow and gain economies of scale
- to encourage ‘learning by doing’
- the need to diversify production and move away from dependence on primary products
- protection from unfair competition, e.g. dumping
- protecting employment
- protectionism may encourage inward investment by MNCs who wish to avoid being charged tariffs on their products
- tariffs as a source of revenue
- to conserve foreign exchange that can be used to purchase items that are essential for long term development
- to reduce a balance of payments deficit.

Arguments against protectionist policies include:

- eliminates the mutual benefits that are illustrated by the principle of comparative advantage
- protectionism eliminates the competition that provides the stimulus to greater efficiency and long term prosperity
- domestic consumers are obliged to pay higher prices, reducing living standards
- protectionism may act as a deterrent to inward investment by MNCs who might be worried about any form of restriction imposed by the governments of developing countries
- the possibility of retaliation

Candidates may wish to assess both the positive and negative contribution that protectionism makes to the development of the poorer countries in the world. Some may point out the benefit that many of the ‘more globalised’ developing countries have derived from trade liberalisation during the past 20 years (eg more rapid growth and higher living standards).

Candidates who discuss the effects of increased protection by developing countries on the economies of the developed countries should also be rewarded.

**USE THE LEVELS MARK SCHEME ON PAGE 56**

**Max 30 marks**

**TOTAL FOR QUESTION 4: 50 MARKS**