



General Certificate of Education

Economics 6141

*ECN6 Government Policy, the National and
International Economy*

Mark Scheme

2006 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.

Advanced Level Economics

January 2006

ECN 6

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 4 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 3. 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 4. 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

<p>1 (a) Using Extract A, compare the changes in world GDP with changes in world exports for the period 1995 to 2002. <i>(4 marks)</i></p>
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Award one mark for each valid point and one mark for supporting reference to the data. Points might include:

- the changes in world exports are much greater than the changes in world GDP;
- the volatility of both sets of data;
- the correlation of world exports of goods and world GDP, e.g. both have their best growth performance in 2000, their worst in 2001;
- the three categories of goods reflect to a large extent the trends in the world totals for exports and GDP.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data without showing any real understanding of what is being described.

A maximum of **2 marks** may be awarded if the candidate does not attempt any comparison.

MAXIMUM FOR PART (a) 4 MARKS

1 (b) **Extract B** (lines 1 and 2) suggests that the pattern of trade is ‘based more significantly on comparative advantage than absolute advantage’. With the help of the data in **Extract B**, explain the distinction between comparative advantage and absolute advantage. (6 marks)

For candidates who:

explain the term ‘pattern of trade’;

1 mark

explain the distinction between comparative and absolute advantage, perhaps through use of a standard definition, e.g. comparative referring to the ability of a country to produce a good or service at a lower opportunity cost than another country; absolute referring to the ability of a country to produce a good or service using fewer resources than another country (**3 marks**); explanation of the significance of opportunity cost, e.g. that countries will benefit from trade if the exchange rate lies between their respective opportunity cost ratios (**2 marks**); the significance to economies of specialisation (**2 marks**);

up to 6 marks

but maximum of 4 if an explanation is given for only one concept

use a numerical and/or graphical example to explain the distinction;

up to 4 marks

identify some of the assumptions of the theory of comparative advantage.

up to 2 marks

MAXIMUM FOR PART (b) 6 MARKS

1 (c) Analyse the possible impact of a ‘significant slowing down of US growth’ (**Extract C**, lines 1 and 2) on the macroeconomic performance of countries such as Canada, Malaysia and Mexico. *(10 marks)*

Candidates are likely to draw ideas from Extract C.

Issues and areas for discussion include:

- the potential impact on economic growth, jobs, the exchange rate, prices, the balance of payments, e.g. countries might expect less inward investment from the US, which might affect job creation, as might the prospect of fewer exports to the US. These factors could have a downward influence on the exchange rate and on the price level in other countries, while their balances of payments could move from surplus to deficit or have worsening deficits;
- a definition/explanation of economic growth;
- an explanation of macroeconomic performance;
- AD;
- the multiplier;
- the dangers of the USA being tempted into protectionists policies;
- the vulnerability of any country dependent on the US market for the sale of a high proportion of the output of a product which forms a major part of its economy;
- the search for alternative markets.

LEVEL 1

The candidate draws briefly from Extract C with little or no analysis and so displays little understanding of the arguments. **1 to 3 marks**

LEVEL 2

One or more indicators of macroeconomic performance are identified. In the lower half of the mark-band, some explanation of the chosen indicators is given. The analysis may be a little confused or incomplete but correct for the most part. In the top half of the band, at least two indicators must be included with a clear explanation and some use of economic terminology and concepts. **4 to 7 marks**

LEVEL 3

At least two indicators of macroeconomic performance are well explained in a well organised answer. Good understanding and sound analytical skills are displayed. Economic terminology and concepts are well used. At the top of the band, there may be reference to recent developments, e.g. the current state of the US economy, the US balance of payments, examples of protectionism, the experience of the UK economy. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

1 (d) **Extract C** (lines 12 and 13) refers to a ‘virtuous circle of trade liberalisation and economic growth’. Evaluate the case **for** and **against** greater free trade in the world today.

(30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could be in terms of: whether or not the benefits are small or large for any one country, the outcome is still preferable to protection; the benefits of free trade for an economy can be transient unless that economy is flexible; whatever the overall benefits, there are bound to be winners and losers.

Issues and areas for discussion include:

- comparative and absolute advantage;
- protectionist policies;
- economic growth;
- employment/unemployment;
- efficiency/competitiveness;
- choice and quality;
- a spur to innovation;
- the balance of payments;
- economies of scale;
- benefits of some of the above to the control of inflation;
- living standards;
- income distribution;
- export-led multiplier;
- furthering an economy’s progress in the globalisation process;
- the role of the WTO.

Also give credit for:

- reference to real world examples;
- diagrams;
- an overall judgement on the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR QUESTION 1: 50 MARKS

SECTION B

Each question carries 50 marks

2 (a) Explain the main causes of economic growth.

(20 marks)

For candidates who:

define economic growth;

up to 2 marks

distinguish actual and trend growth;

up to 2 marks

use diagrams to support their definitions, e.g. PPC, LRAS, trend growth. For each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided (e.g. LRAS), **1 mark** for correct representation of information provided (e.g. a shift of a vertical LRAS or Keynesian version);

up to 3 marks per diagram to a maximum of 6

explain the potential significance of AD, perhaps with reference to monetary and fiscal policy so that higher actual growth is achieved by using more of the country's productive capacity as the multiplier process begins to take effect;

up to 6 marks

explain supply-side causes of economic growth, e.g. the availability of natural resources, investment (the additions to productive capacity), R&D and technological progress, the quantity and quality of labour, education and training. All these will help shift the PPF and the LRAS curves to the right. Depending on causes chosen, candidates might refer to supply-side themes such as incentives, efficiency, productivity, flexibility, mobility of resources, as well as to specific policies such as Labour's New Deal, welfare reform, the significance of direct tax changes.

up to 6 marks per cause explained

Reward reference to recent UK experience and/or that of other economies.

MAXIMUM FOR PART (a) 20 MARKS

2 (b) A recent EU survey reported that income per head was significantly lower in Greece and Portugal than in the Netherlands and Ireland. Evaluate the view that living standards in the Netherlands and Ireland must therefore be higher than those in Greece and Portugal.
(30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could include: whatever its limitations as an adequate measure of living standards, income will be an important determinant of consumption; for income to help determine living standards, goods and services must be available, accessible and in adequate supply; difficulties of making international comparisons; the effectiveness/validity of the various measures of living standards.

Issues and areas for discussion:

- the concept of ‘living standards’;
- the significance of GDP in securing higher living standards;
- calculation of income per head;
- the limitations of this measurement of living standards;
- inflation adjustments;
- the pattern of production in each economy;
- the nature and extent of government spending;
- distribution of income, perhaps with reference to the Lorenz curve and the Gini coefficient;
- other measures of living standards, e.g. HDI (Human Development Index), quality of life indices;
- environmental considerations;
- the way in which increases in GDP are achieved and the impact of these on living standards, e.g. longer working week, reduced leisure opportunities;
- PPP (Purchasing Power Parity);
- accuracy/comprehensiveness of figures, e.g. exclusion of the ‘do-it-yourself’ economy, the informal economy;
- differences in national income accounting.

Also give credit for:

- references to the economies cited and/or other economies;
- use of diagrams;
- an overall judgement.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

3 (a) Explain the possible demand-side **and** supply-side causes of unemployment. (20 marks)

For candidates who:

explain labour market equilibrium/disequilibrium; **up to 3 marks**

explain the measurements of unemployment, e.g. the claimant count and/or the LFS; **up to 3 marks**

explain the concept of natural rate of unemployment; **up to 4 marks**

explain demand-side causes, e.g. macroeconomic policy (e.g. higher interest rates influencing savings, credit based consumption, investment, while tighter fiscal policy might affect the willingness or ability to spend or to invest in the case of higher corporate taxation); the economic cycle; the housing cycle; trends in earnings; **up to 6 marks
per cause
to a maximum of 12**

explain supply-side causes, e.g. an absence of incentives to work (e.g. there may be reference to higher income tax, higher benefits, income and substitution effects, the replacement ratio), inappropriate/inadequate skills, government policy, immobility/inflexibility, welfare dependency **up to 6 marks
per cause
to a maximum of 12**

Give credit for use of diagrams (**3 marks** per diagram to a **maximum of 6**). For each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided (e.g. supply and demand curves), **1 mark** for correct representation of information provided (e.g. some supply-side policies moving the supply curve of labour to the right).

Reward references to the UK and/or other economies.

A maximum of **14 marks** may be awarded if a candidate deals only with demand-side or supply-side factors.

A maximum of **10 marks** may be awarded if no accurate distinction is made between demand-side and supply-side causes.

MAXIMUM FOR PART (a) 20 MARKS

3 (b) Discuss the view that, as an economy approaches full employment, inflation will inevitably accelerate. (30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could include: the significance of the strength/weakness of the supply-side; other causes of inflation existing so that the fall in unemployment may not be the active ingredient; the nature of the authorities' responses to the perceived potential danger.

Issues and areas for discussion include:

- the concept of full employment;
- inflation;
- the potential for conflict between macroeconomic objectives;
- NAIRU;
- the Phillips Curve;
- why there might be an inverse relationship between unemployment trends and inflation trends;
- macroeconomic management;
- the role of the MPC;
- the economic cycle;
- factors conducive to low inflation, e.g. technology, outsourcing, globalisation, productivity;
- deflation;
- rational expectations;
- supply-side policies.

Also give credit for:

- reference to the UK and/or other economies;
- use of diagrams;
- an overall judgement.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 3: 50 MARKS

4 (a) Explain how monetary **and** fiscal policies might be used to increase aggregate demand.
(20 marks)

For candidates who:

explain the nature of monetary policy and fiscal policy, AD, make a distinction between expansionary/contractionary fiscal policies; make reference to these policies in the context of the UK economy;

up to 6 marks

but not all of these would necessarily have to be included to award maximum marks

explain the ways in which monetary policy can impact on AD, e.g. money supply and the transmission mechanism (the connection between changes in the stock of money in the economy and levels of income and output. Increased bank lending can lead to increases in both consumption and investment, then AD, and so to the level of production); interest rates; the exchange rate;

up to 6 marks

per consequence explained to a maximum of 12

explain the ways in which fiscal policy can impact on AD, e.g. budgetary policy and automatic/built-in fiscal stabilisers v active/discretionary, the multiplier effect (e.g. government capital spending on roads, hospitals, schools initiating a multiplier process and hence helping to create jobs/income in construction and then jobs/income elsewhere in the economy); taxation; disposable income.

up to 6 marks

per consequence explained to a maximum of 12

Give credit for use of diagrams (**3 marks** per diagram to a **maximum of 6**). For each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided (e.g. aggregate supply and demand curves), **1 mark** for correct representation of information provided (e.g. lower interest rates shifting the AD curve to the right; the movement of an economy nearer to its PPC as more resources become employed).

A maximum of **10 marks** may be awarded in the case of a candidate whose explanations are correct but has not recognised the use of the word ‘increase’ in the question

A maximum of **14 marks** may be awarded if a candidate deals only with monetary or fiscal policy.

MAXIMUM FOR PART (a) 20 MARKS

4 (b) In recent years in the UK, much greater emphasis has been given to the supply-side effects of fiscal policy. Evaluate the view that fiscal policy is only useful for its impact on the supply side of the UK economy.

(30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could include: the enhanced importance of the MPC's role if the macroeconomic significance of fiscal policy is downgraded by the government; the macroeconomic implications of fiscal policy have to be recognised whatever the emphasis by any one government; the difficulty of isolating and evaluating the contribution of a point of emphasis in a particular policy to economic performance; the problems of fiscal policy, e.g. time-lags, conflicts within fiscal policy; the weakness of the multiplier in an open economy.

Issues and areas for discussion:

- the macroeconomic role of fiscal policy – demand management;
- the possible supply-side functions of fiscal policy, e.g. the quality and quantity of public services, quality of infrastructure, welfare reform, labour market policies, incentives using the tax system;
- microeconomic/macroeconomic distinctions;
- criteria for assessing economic performance;
- the multiplier;
- the role of the MPC in monetary policy;
- the potential impact on macroeconomic indicators of inadequate attention given to the macroeconomic perspectives of fiscal policy and/or to the impact of some of the microeconomic ambitions within fiscal policy, e.g. increased spending to enhance public services causing more public sector inflation;
- the possible consequences of fiscal imbalance.

Also give credit for:

- reference to the UK and/or other economies;
- use of diagrams;
- an overall judgement.

USE THE LEVELS MARKING SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 4: 50 MARKS
