



Economics Questions By Topic:

National Income (2.4) Mark Scheme

A-Level Edexcel Theme 2

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SECTION A

Question Number	Answer	Mark
1(a)	<p>The only correct answer is D</p> <p><i>A is not correct because exports is an injection into the circular flow of income</i></p> <p><i>B is not correct because government spending is an injection into the circular flow of income</i></p> <p><i>C is not correct because investment is an injection into the circular flow of income</i></p>	(1)

Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Application 2</p> <p>1.5 X 800 billion (1)</p> <p>= 1 200 billion / \$1 200 billion</p> <p>Award two marks for correct answer</p> <p>Award 1 mark if candidate has put \$1 200</p>	(2)

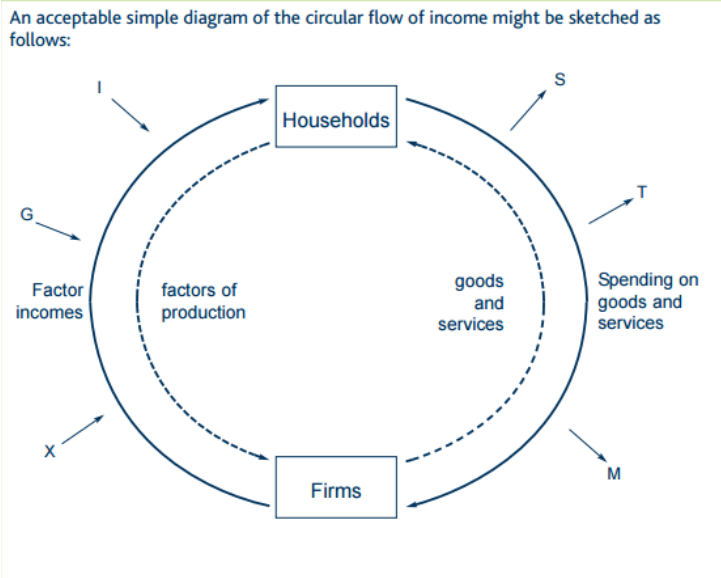
Question Number	Answer	Mark
2 (a)	<p>The only correct answer is C</p> <p><i>A is not correct because it is £115m divided by 1.8</i></p> <p><i>B is not correct because it is the value from the extract</i></p> <p><i>D is not correct because it is £115m doubled</i></p>	(1)

Question Number	Answer	Mark
2 (b)	<p style="text-align: center;">Knowledge 2, Application 1, Analysis 1</p> <p>Knowledge/Understanding: Up to 2 marks for e.g.</p> <ul style="list-style-type: none"> • Multiplier effect is where an initial change in aggregate demand can have a greater final impact on equilibrium national income (1) • Injection of money from investment goes round the circular flow multiple times/knock-on effects/further effects (1) • Understanding of a multiplier formula (1) <p>Application: Up to 1 mark for a relevant example e.g.</p> <ul style="list-style-type: none"> • Construction workers will eat lunch in local cafes • Construction workers will stay in local hotels • New shops means more jobs for local people, they may then spend their money in a local bar • £115m investment • Multiplier value of 1.8 • Final increase in AD of £207m <p>Analysis: Up to 1 mark for e.g.</p> <ul style="list-style-type: none"> • One person's spending is another person's income • Eventually all money is withdrawn/leaked out of the circular flow of income <p>A correct AD/AS diagram showing two shifts in AD out to the right can be awarded 2 marks (1 K, 1App)</p>	(4)

Question Number	Answer	Mark
3(a)	<p style="text-align: center;">Knowledge 1</p> <p>Knowledge/understanding: 1 mark for definition, e.g.</p> <ul style="list-style-type: none"> • Injection is money flowing into the circular flow of income/economy (1) • Comprises of investment, government spending and exports (1) • Injection in this context is government spending / investment (1) 	(1)

Question Number	Answer	Mark
3(b)	<p style="text-align: center;">Application 2</p> <p>Application: 1 mark for appropriate calculation, e.g.</p> <p>£44.1bn : £9.3bn (1)</p> <p>Answer = 4.7 or 4.74</p> <p>Award 2 marks for correct answer Accept between 4.7 and 4.75</p>	(2)

Question Number	Answer	Mark
3(c)	<p>The only correct answer is D</p> <p>A is not correct because a decrease in the marginal propensity to save will increase value of the multiplier</p> <p>B is not correct because a decrease in the marginal propensity to tax will increase value of the multiplier</p> <p>C is not correct because an increase in the marginal propensity to consume will increase the value of the multiplier</p>	(1)

Question Number	Answer	Mark
4	<p style="text-align: center;">Knowledge 2, Application 1, Analysis 1</p> <p>Knowledge/understanding:</p> <p>1 mark for identifying an effect on the circular flow of income.</p> <p>1 mark for any specific reference to injections (I, G, X) and/or withdrawals (S, T, M).</p> <p>1 mark for any specific reference to flows between households and firms.</p> <p>Candidates may achieve these marks using a diagram.</p> <p>Application: 1 mark for reference to the chart, e.g. unemployment has fallen.</p> <p>Analysis: 1 mark for linked development, explaining link between unemployment and circular flow.</p> <p>For example:</p> <p>Unemployment fell by three percentage points resulting in rising consumption and investment (1) and further rounds of increases in disposable income (1) however household may also spend more on imports (1).</p> <div style="text-align: center;"> <p>An acceptable simple diagram of the circular flow of income might be sketched as follows:</p>  <p>The diagram illustrates the circular flow of income between Households and Firms. It features two concentric circles. The inner circle represents the flow of 'factors of production' from Households to Firms, and 'goods and services' from Firms to Households. The outer circle represents the flow of money. Injections (I, G, X) enter the system from the left, and withdrawals (S, T, M) exit from the right. Households and Firms are labeled in boxes at the top and bottom of the diagram respectively.</p> </div>	(4)

Question Number	Answer	Mark
5(a)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: 1 mark for identifying one reason; 1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> • The decrease in the mps reflects a rise in the marginal propensity to consume (1) due to rising consumer confidence (1) • Decrease in mps due to rise in marginal propensity to tax (1) to reduce the budget deficit. (1) • Low interest rates (1) reducing the incentive to save/lower rate of return (1) 	(2)

Question Number	Answer	Mark
5(b)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: 1 mark for identifying the effect on the value of the multiplier; 1 mark for the linked development on the size of the multiplier, e.g.</p> <ul style="list-style-type: none"> • The value of the multiplier is likely to increase (1), due a decrease in withdrawals (1). 	(2)

Question Number	Answer	Mark
5(c)	D	(1)

Question Number	Answer	Mark
6	D	(1)

Question Number	Answer	Mark
7 (a)	<p style="text-align: center;">Knowledge 1</p> <p>Knowledge/understanding 1 mark for definition, e.g. total spending on goods and services.</p>	(1)

Question Number	Answer	Mark
7 (b)	C	(1)

Question Number	Answer	Mark
7 (c)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding 1 Mark for definition, e.g.</p> <ul style="list-style-type: none"> • Money flows around the economy between consumers/households and firms (1). <p>1 Mark for identification of features, e.g.</p> <ul style="list-style-type: none"> • There are also withdrawals from the circular flow • Injections also include government spending, exports • Withdrawals are taxation, savings, imports • Consumption and income flows as financial flows for factors of production and goods and services. <p>Also award marks (1+1) if illustrated in diagram form.</p>	(2)

Question Number	Answer	Mark
8	<p style="text-align: center;">Knowledge 1, Application 2</p> <p>Knowledge 1 mark for correct multiplier formula, e.g.</p> <ul style="list-style-type: none"> • Multiplier = $1 / (1-MPC)$ (1) <p>Application 2 marks for use of data in calculation, e.g.</p> <ul style="list-style-type: none"> • Multiplier = $1 / 0.5 = 2$ (1) • £15 billion x 2 = £30 billion (1) <p>If answer given is £30 billion, award 3 marks.</p>	(3)

END OF SECTION A

SECTION B

Question Number	Answer	Mark
9	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Knowledge/understanding 2 marks for, e.g.</p> <ul style="list-style-type: none"> • Definition/understanding of the multiplier (1) • Identification of factors which can cause the multiplier to rise (1+1) <p>Application 1 mark for each data reference from Figure 2 or linked application (1+1), e.g.</p> <ul style="list-style-type: none"> • savings ratio decreased from 11.5% in Q1 of 2010 (1) • to approximately 5.7% in Q1 of 2016 (1) • Use of multiplier formula (2) • application by means of simple numerical example (up to 2 marks) <p>Analysis 1 mark for linked development of each factor (1+1), e.g.</p> <ul style="list-style-type: none"> • A fall in withdrawals from circular flow of income will lead to a rise in the value of the multiplier (1) • An increase in mpc will cause the value of the multiplier to rise (1) 	(6)

Question Number	Answer	Mark
10 (a)	<p style="text-align: center;">Knowledge 2, Application 2</p> <p>Knowledge 2 marks for, e.g.</p> <ul style="list-style-type: none"> • Income is money received as payment for work (1) • Real means adjusted for inflation/purchasing power of income (1) <p>Application 2 marks for, e.g.</p> <ul style="list-style-type: none"> • Real income has fallen (1) • From approximately £675 in 2008 to £615 in 2013 (1) 	(4)

Question Number	Indicative content	Mark
10 (b)	<p>Knowledge 2, Application 2, Analysis 2</p> <ul style="list-style-type: none"> • Lower incomes means lower consumption • Consumer confidence falls • Aggregate demand therefore falls • Fall in standard of living • Falling demand for firms means lower profits; rising unemployment • Less ability to save & possible consequences of this, e.g. mortgage deposit; confidence <p>Candidates may illustrate this with an accurate AD/AS diagram showing AD decreasing</p>	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
10 (b) continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Depends on other factors in the economy, such as government spending or demand for exports • Changes in benefits and/or tax allowances may offset fall in real income • Only short-term fall (Figure 1 shows slight increase in 2013) • Inflation falling recently, improving likelihood of real income rises • Could be due to firms keeping wages low rather than making redundancies, thus people's standard of living higher than it would be if they lost their job 	(4)

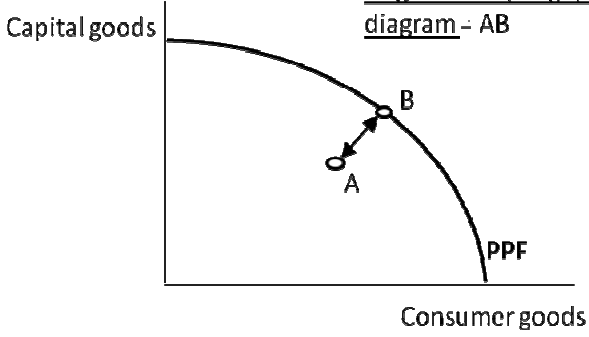
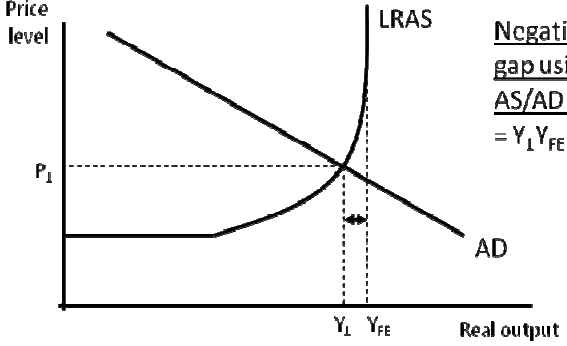
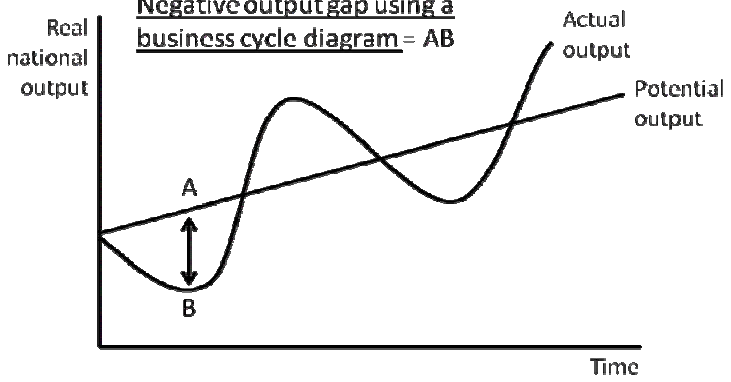
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
11	<p>KAA 6 marks</p> <p>Up to 2 marks for definitions (reward implicit understanding or correctly labelled diagram):</p> <ul style="list-style-type: none"> • Government spending is greater than the revenue (accept tax) it receives (2) • Define the circular flow of income as a model of the economy which shows the movement of goods and services between households and firms, and their corresponding payments in money terms (2) • If the candidate's answer simply states that injections are $I+G+X$ and withdrawals are $S+T+M$ then award 2 marks. <p>Up to 4 marks for explanation of the reasoning</p> <ul style="list-style-type: none"> • The budget deficit is a net injection (2) and so therefore more money is flowing around the circular flow/AD increases (2) • The effect of a reduction in the deficit would be a reduction in net injections (2), which would mean that total spending in the economy would fall and so AD would fall. (2) 	(6)

Question Number	Indicative content	Mark
12	<p>KAA 8 marks</p> <p>Definition of multiplier (2); the number of times a rise in national incomes exceeds the rise in injections that cause it. It measures the subsequent effects when an injection or withdrawal changes. Accept formula $1/(1-m.p.c.)$ or $1/m.p.w.$ or $1/(m.p.s.+m.p.m.+m.p.t.)$</p> <p>Maximum 6 marks for KAA if no multiplier reference</p> <p>Other 6 marks for one or more of the following (maximum 4 marks if no reference to output/growth):</p> <ul style="list-style-type: none"> • Increase in C as people spend money in the UK on tickets and food and merchandise and therefore AD and real output rises • Increase in exports as tourists spend money on tickets and holidays in the UK and therefore AD and real output rises • Impact on employment: boost to construction industry; higher wages for construction workers; <p>Reward up to 2 marks for a relevant diagram which helps explain the transmission mechanism</p> <p>Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include:</p> <ul style="list-style-type: none"> • Size of the multiplier will have an impact on the increase in economic growth • Significance of elasticity of AS curve on growth in output • Consumption is likely to have had a larger effect than exports on AD and therefore on growth in output • Regional differences in impact (i.e. most of the events of the Olympics and Jubilee were held in London) • Short-term/long term- impacts • One-off events unlikely to cause sustained growth • Extract: 'confidence is fragile'. 	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing impacts with at least one evaluative point
Level 2	5-8	2 convincing impacts with no connections, or 1 convincing impact with some good analysis but no evaluative point; 1 or 2 less-convincing impacts with some evaluation
Level 1	1-4	Identification of relevant impacts with or without brief evaluative keywords

Question Number	Answer	Mark
13(a)	<p>Up to 6 marks for the following:</p> <ul style="list-style-type: none"> • Definition of multiplier (2): the number of times a rise in national income exceeds the rise in injections that caused it / it measures the knock-on effects when an injection or withdrawal changes / the idea that one person's expenditure becomes another person's income. • Withdrawals/leakages from the circular flow fall OR the marginal propensity to save/withdraw falls (2) • Consumption is likely to rise OR the marginal propensity to consume is likely to rise (2) • The size of the multiplier increases (2) <p>Reference to Data (up to 2 marks): 'savings ratio has fallen (1) use of correct figures (1) e.g. it is forecast to fall (1) below 7% from 2011 onwards (1)</p>	(8)

Question Number	Answer	Mark
<p>13(b) *</p>	<p>KAA 8</p> <p>Up to 2 marks for: Definition OR diagram illustrating the output gap:</p> <ul style="list-style-type: none"> • A measure of the difference between actual and potential (or trend) growth/output/GDP (2) • The potential output is where the economy is at full capacity whereas the actual level of real GDP is at the intersection of AD and AS below that (2) • Appropriate diagram (AS/AD, PPF, or business cycle showing actual and potential growth/output/GDP (2) <p>e.g.</p> <p style="text-align: center;"><u>Negative output gap using a PPF diagram - AB</u></p>  <p style="text-align: center;"><u>Negative output gap using an AS/AD diagram = $Y_L Y_{FE}$</u></p>  <p style="text-align: center;"><u>Negative output gap using a business cycle diagram = AB</u></p> 	

Up to 8 marks for:
 Two consequences identified (2 marks each) and explained (2 marks each)
 Award **two** consequences only

Accept changes in:

- Unemployment
- Real GDP
- Real incomes/levels of consumption/ standard of living
- Confidence
- Investment
- Government budget balance
- International competitiveness
- Trade balance

NB Answers must relate to the post 2009 situation, i.e. be in the context of a negative output gap, although credit answers which discuss the positive consequences of a decrease in the size of the negative output gap. **Do not credit answers which solely state that the size of the negative output gap has/will increased since 2009.**

Data reference (2 marks): identification of a negative output gap (1), use of figures showing size of output gap (1), e.g. there was a negative output gap (1) of approx. 3% in late 2010 (1).

Evaluation - 4 marks (1 x 4 or 2 x 2) factors might include:

- Magnitude of different consequences
- Short term and long term consequences
- Vicious cycle/spiral
- Although the output gap is negative, it has been decreasing in size since mid-2009
- Extract 1 predicts a continuing current account deficit, rather than an improving balance
- Forecast may be wrong

Quality of written communications will be assessed in this question based on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economic vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

(12)

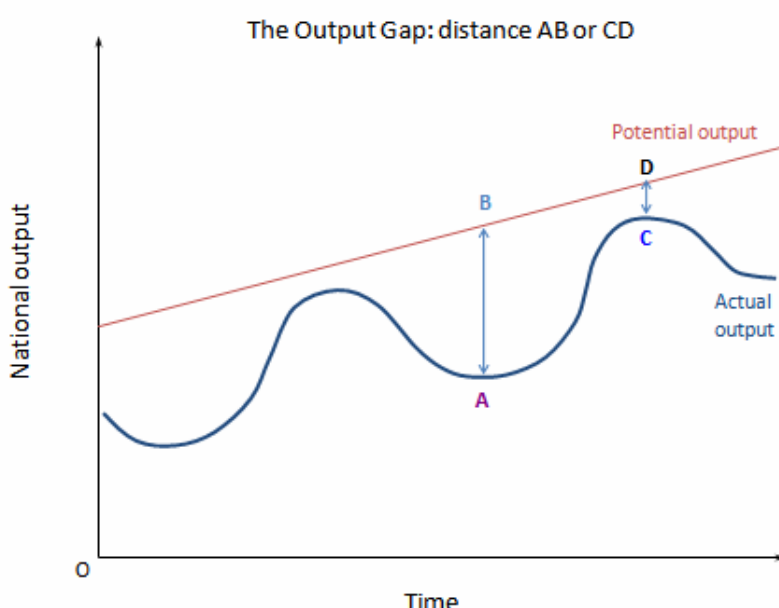
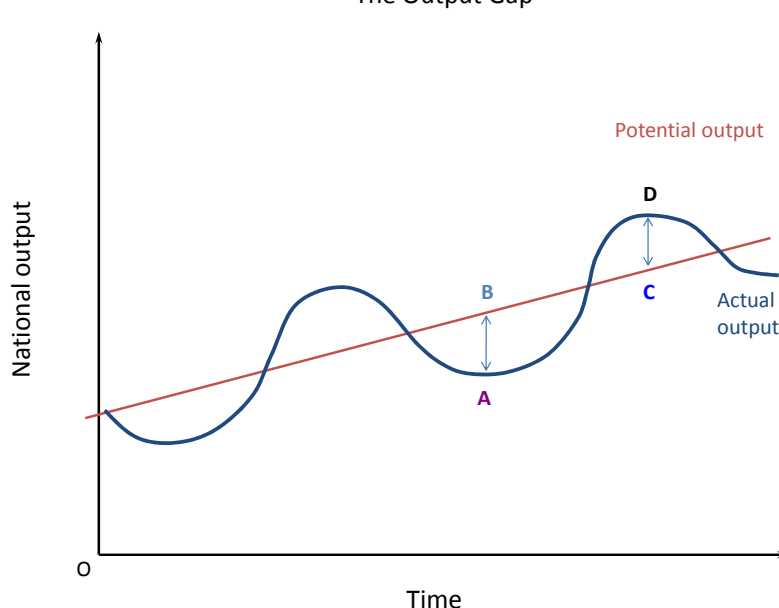
Level	Mark	Descriptor
Level 3	9-12	2 convincing consequences with at least one evaluative point
Level 2	5-8	2 convincing consequences with no connections, or 1 convincing consequences with some good analysis but no evaluative point; 1 or 2 less-convincing consequences with some evaluation
Level 1	1-4	Identification of relevant consequences with or without brief evaluative keywords

Question Number	Indicative Content	Mark
14(a)	<p>KAA 4 marks</p> <p>Explanation 2 marks. Real income is the value after the effects of inflation have been removed. Accept also reference to the real income's internal purchasing power being identified but not with nominal incomes.</p> <p>Use of data 2 marks</p> <ul style="list-style-type: none"> • Real household disposable income falling by 0.8% in 2010 • Nominal wage growth edged up with average earnings rising 2.3 % whereas CPI inflation was 4.0% in the year to January 2011 	(4)

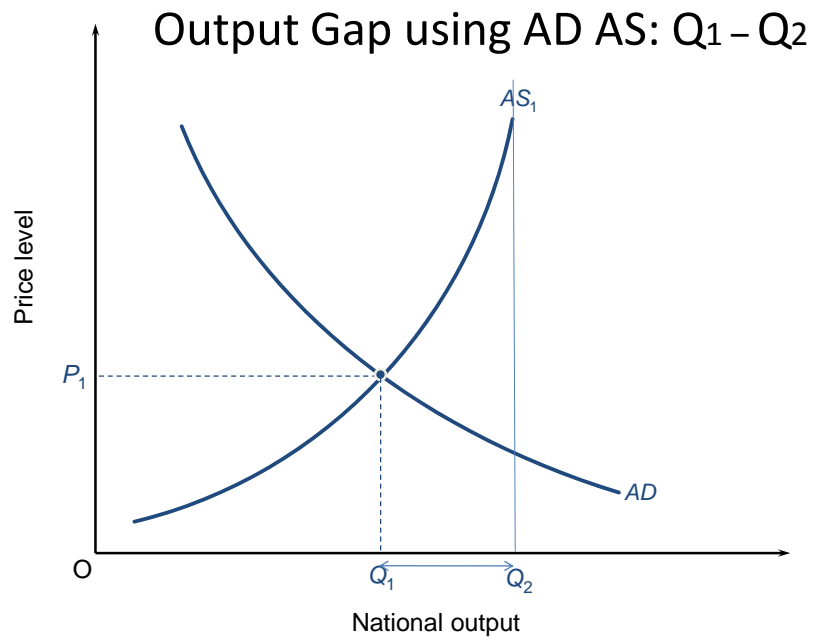
Question Number	Indicative Content	Mark
14(b)	<p>KAA 8 marks</p> <p>2 causes up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each cause.</p> <ul style="list-style-type: none"> • Weak aggregate demand maintaining unemployment • Cuts to public sector employment • Decline in manufacturing sector employment • Rising unemployment, highest in North-East of England • Lower productivity increases in UK than in other countries • Falling value of the £ • Inflation • Low union power - unable to keep pace with inflation • Increase in income tax • Reduction in welfare benefits <p>Reward other valid explanations</p> <p>Also reward use of data to support explanation up to 2 marks:</p> <ul style="list-style-type: none"> • Real household disposable income falling by 0.8% in 2010 • Nominal wage growth edged up with average earnings rising 2.3% whereas CPI inflation was 4.0% in the year to January 2011 	(8)

Question Number	Indicative Content	Mark
15	<p>KAA 4 marks</p> <p>Explanation up to 2 marks that the value of imports (withdrawal) is greater than the value of exports (injection). Accept reference to outflows of money being greater than inflows.</p> <p>Use of data up to 2 marks e.g. current account balance £-36.4 billion or current account balance -2.5% of GDP for 2010 (2 marks)</p>	(4)

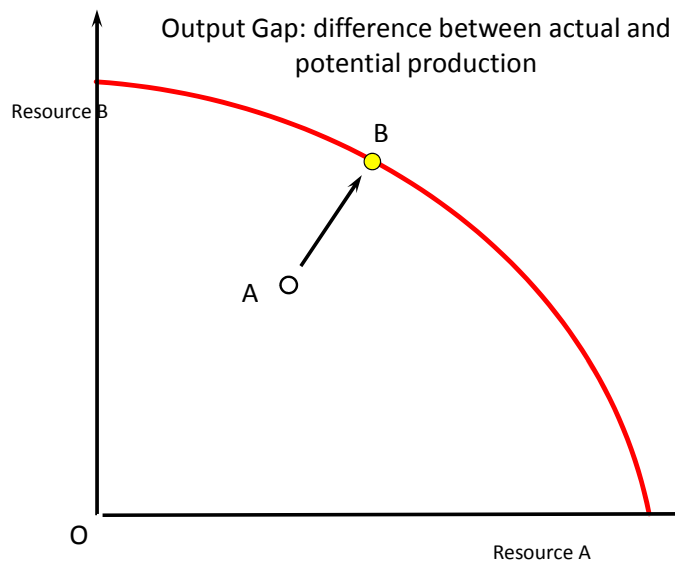
Question Number	Answer	Mark
16	<p>CAA 8</p> <p>Up to 2 marks for use of data in Extract 1.e.g. huge budget deficit is to be reduced in real terms by 3% by 2014-15</p> <p>Up to 2 marks for the following</p> <ul style="list-style-type: none"> • definition of the circular flow of income as a model of the economy which shows the movement of goods and services between households and firms, and their corresponding payments in money terms (2 marks) • OR diagrammatic representation of circular flow of income (2 marks) • OR If the candidate's answer only states that injections are $I+G+X$ and withdrawals are $S+T+M$ then award (2 marks). <p>Up to 4 marks for explanation of the reasoning: e.g.</p> <ul style="list-style-type: none"> • A reduction in the budget deficit is a reduction in net injections (2) • which results in a reduction in the total spending in the economy/money flowing around the circular flow (2) 	(8)

Question Number	Answer	Mark
17	<p>A measure of the difference between actual and potential (or trend) growth/output/GDP. Reward explanations of both positive and negative output gaps. (2 marks).</p> <p>Allow up to 2 marks for written explanation OR an appropriate diagram (AS/AD, PPF, Business Cycle showing trend or potential and actual) showing actual and potential growth/output/GDP.</p> <div style="text-align: center;"> <p>The Output Gap: distance AB or CD</p>  </div> <div style="text-align: center;"> <p>The Output Gap</p>  </div>	(4)

continued on next page



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Reference: data or extract (2 marks)

Question Number	Answer	Mark
18	Withdrawal - explanation, for example money is flowing out. (2 marks) Use of data -10.2% of GDP to support this. (2 marks)	(4)

END OF SECTION B