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Mark Scheme (Results)

January 2014

International A Level Economics (6ECA2/01)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

FOR ALL QUESTIONS: No markscheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the markscheme.

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Question Number	Indicative content	Mark
1 (a) (i)	KAA 4 marks Use of data up to 2 marks for any one of the following: • In August 2012 the ILO measurement of UK unemployment was 7.9% • It has remained above 6% since 2009. Up to 2 marks for the following: • It refers to those of working age who are not working (2) • Actively looking for a job and out of work in last four weeks (1) • ready to work in two (1) • Questionnaire/interview (1) • Survey by phone call/paper (1) • Internationally recognised (1) • age 16-64 (1) • Sample (1)	(4)

Question Number	Indicative content	Mark
1 (a) (ii)	KAA 8 marks 2 factors up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each factor. • Fall in UK domestic demand in the recession causing more unemployment generally • Global recession resulting in falling exports such as the Eurozone which is one of our largest markets • Tightening of fiscal policy • Low productivity • Decline in real incomes • UK reliance on service sector which has a low propensity to export • Loss of UK competitiveness e.g. linked to a higher rate of inflation • The minimum wage being too high • Net immigration rates • Exchange rate changes • Structural unemployment • Reduction in availability of credit • Reduction in investment/negative multiplier effect Reward other valid explanations Also award 2 marks for use of extracts 1 or 2 “longest double-dip recession in half a century” Government’s austerity policy was “causing long term damage to the economy” “exports fell sharply” as a result of “slowing global growth” Evaluation 4 marks (1 x 4 or 2 x 2) factors might include • Long term or short term effects • Relative importance each effect • Other factors are more important • Different effects in different industries or parts of the country • Candidates are not expected to know this, but award students fully who correctly point out that the double dip recession did not occur. Q1 2012 figures were revised by the ONS in June 2013 to show 0% growth so there were not two consecutive quarters of negative growth.	(12)

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

Question Number	Indicative content	Mark
1 (a) (iii)	KAA 8 marks 2 costs up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each cost. • Loss of income, credit problems such as house repossession, welfare problems for dependents, poverty issues • Loss of skills and other human capital: hard to get into or back into labour market • Government revenue falls so spending likely to fall, other fiscal issues • Social costs: large numbers of idle workers can have a negative effect on society, for example crime, morale, social disintegration • Opportunity costs: resources could be used elsewhere • Impact of high youth unemployment on the future productivity and competitiveness of the economy • Cost to firms: less consumption leading to firms having to reduce prices, therefore loss of revenue/profit	(8)

Question Number	Indicative content	Mark
1 (b) (i)	KAA 6 marks (up to 4 marks if no data reference) Up to 2 marks for the explanation of each of the 3 elements • Real (adjusted for inflation) • Gross Domestic Product (reference to output) • Growth (increase, or percentage change) Use of data from Figure 1 (2) In 2012 total output is forecast to grow in China by 8.7%, India 7.7%, US 1.5% and to shrink in the Eurozone by 0.5%	(6)

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Question Number	Indicative content	Mark
1 (b) (ii)	KAA 8 marks 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. • Rises in oil prices and relatively inelastic demand and UK is a net importer • World food prices and relatively inelastic demand and UK is a net importer • Inflation relatively high reducing international competitiveness • UK manufacturers' non price competitiveness is too low (e.g. quality of UK goods) • Fall in UK international competitiveness due to relatively low productivity • UK doesn't produce some of the goods we import. • Manufacturing base is so small • Lack of confidence to invest because of the global financial situation • Lack of confidence to invest because of the belief that the exchange rate is temporary. • Recession or slow growth in UK's largest markets (eg Eurozone) • Allow analysis related to increased value of the currency • Allow analysis related to reduction in direct taxes • Reward other valid reasons which may not apply to the UK	(8)

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Question Number	Indicative content	Mark
*1 (b) (iii) QWC i-iii	KAA 8 (max. 4/8 if no diagram) Up to 4 marks for diagram demonstrating leftward shift of AD; correct shifts in line (1), lines labelled (1), axes labelled (1), equilibria labelled (1). Note diagrams where the line shift is incorrect receive no marks. If one line shift is correct and another is wrong then award 2 marks assuming the rest of the diagram is labelled correctly Up to 4 marks for identification of each impact. Award 2 impacts only • Lower incomes • Lower standard of living • Higher unemployment • Loss of skills and capital in domestic industries • Weakening exchange rate making imports more expensive increasing inflation • Increased price competitiveness from weakening currency Evaluation 4 marks (1 x 4 or 2 x 2) • Long run and short run impacts • Relative importance of each impact • Mitigating factors such as Bank of England cutting interest rates or increasing QE and these policies relatively weakening impact on domestic demand or the exchange rate • May be a benefit if deficit caused by importing capital/machinery for exporting industries but banks not lending money out as banks are recapitalising their balance sheet **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 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 impact with or without brief evaluative keywords

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Question Number	Indicative content	Mark
1 (c) QWC i-iii	Up to 6 marks • Identification of low and stable unemployment/full employment as a government objective (2) • Identification of any macroeconomic policy as fiscal, monetary and/or supply side (reward implicit understanding) (2) • Use of data indicating extent of unemployment (2) • AD/AS diagram showing rightward shift in AD and/or AS curve or equivalent verbal analysis of how price level and real output are affected or PPF diagram showing rightward shift in PPF and/or a movement towards PPF (4 marks). Diagram showing AD and/or AS shifts to the right; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction. Explanation of how the policies might reduce the level of unemployment in the UK 12 marks (3 x 4 marks or 2 x 6 marks or 6 + 4 + 2 marks); Fiscal • Fiscal expansion through government spending increasing employment • Reduction in taxation rates through borrowing or policy financed through lowering immediate tax burden increasing AD Monetary • Reduction in interest rates (or increase in money supply) increasing borrowing and reducing debt payments • Reduction in interest rates (or increase in money supply) weakening exchange rate and improving competitiveness • Interest rate & QE can count as separate points Supply Side • Measures to increase incentives such as reduced marginal tax rates; • Reduction in benefits. • Measures to increase competitiveness and productivity through outsourcing and tenders; • Privatisation; • Health care improvements; • Training and education. • Increase price flexibility and signalling in the market (ie reducing the minimum wage) Reward other valid explanations Evaluation 12 marks (3 x 4 marks, OR 2 x 6 marks, OR 6 + 4 + 2 marks) Comments might include reference to • Tax cuts ineffective if used to increase savings or repay debts • Cuts in Bank of England's interest rate ineffective if banks unwilling to lend or if banks do not reduce interest rates to customers • Identification of common elements of both policies e.g. cutting taxes as a demand management policy as well as improvement to incentives • Crowding out • Long term debt payments to repay will reduce future living standards • Time lag for supply side policies • Depends on the elasticity of the AS • Depends on magnitude of multiplier (i.e. increased savings ratio because of lack of confidence leading to lower multiplier) • Relative merits of policies which justifies prioritisation • Other things being equal • Conflict with other macroeconomic objectives	(30)

	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	

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing policies with at least two evaluative points (an evaluation points is worth up to a maximum of 6 marks
Level 3	19-24	2 or 3 convincing policies with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing policies with no evaluative point; 1 or 2 less-convincing policies with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

Question Number	Indicative content	Mark
2 (a) (i)	KAA 4 marks Reward each term up to 2 marks each • Income is a **flow** of money (2) such as wages, interest, dividends etc. (2) (only 1 if unclear about income as a flow- can be implicit) • Wealth is a **stock** of money/value (2) such as savings, a house, shareholdings etc (2) (only 1 if unclear about wealth as a stock- can be implicit)	(4)

Question Number	Indicative content	Mark
2 (a) (ii)	KAA 8 marks Maximum 6 marks for KAA if no data reference Reference to data: UK Private sector investment in the second quarter of 2012 fell by 2.7% on the previous quarter. (2) • Correct representation of the circular flow of income diagram or S+T+M=I+G+X (2) • reduction in investment as a fall in injections (2) • a reduction in the amount of income flowing round the circular flow (2) • A fall in AD(2) • Downward multiplier effect (2) If no mention of circular flow of income, max. 6/8	(8)

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Question Number	Indicative content	Mark
2 (a) (iii)	KAA 8 marks Reference to data 2 marks- house prices are 13% below 2007 level Maximum 6 marks for KAA if no data reference Other 6 marks awarded as follows: identification of negative wealth effect (2); explanation and analysis (4): e.g. fall in confidence; lower consumption; fall or less rapid rise in AD(2); resulting in fall in real output or slower rate of economic growth (2) Fall in prices so easier access for first time buyers/extension of demand. Maximum 4 marks unless developed into macroeconomic perspective. Credit answers analyse wider effects on the economy: e.g. impact on the price level; or for impact on unemployment. Explanation of transmission mechanism through to consumption (2 marks) AD/AS Diagram showing downward shift of AD (2 marks) Credit effect of negative equity Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include: • Houses are a significant component of wealth and affect a large proportion of households in the UK which will therefore have a **major effect** in slowing down the recovery • Significance of elasticity of AS curve • Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship • A fall might have a very large impact (more so than a slow down) and with bankruptcies/defaulting could lead to a large increase in supply and a further fall in house prices (and therefore AD) • Wealth effects take some time to trigger spending changes • Other factors may be more important in generating confidence such as the strength of the global economy's recovery • Regional differences in impact • Benefit to first-time buyers of lower house prices	(12)

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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

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Question Number	Indicative content	Mark
2 (b) (i)	KAA 6 Allow up to 2 marks for accurate definition of inflation OR identification of one reason and a further 4 marks for explanation. Award only one reason. • Redistribution of incomes e.g. those on fixed incomes and creditors • Adverse effects of a rise in interest rates which is likely to follow e.g. negative impact on GDP or employment, reducing consumer spending potential • Erosion of the value of savings/amount lent in real terms • Effect on nominal wages e.g. wage price spiral • Loss of confidence in the UK economy leading to a fall in domestic and inward investment • If above 3% then outside MPC's permitted range and therefore the governor would have to write and open letter to the chancellor with loss of confidence in the MPC and therefore the monetary policy in the UK • Loss of international competitiveness • Allow shoe leather costs/menu costs up to a maximum of 3 (not very significant at 3% CPI) • Do not accept a fall in GDP/unemployment rise unless linked to high inflation issues e.g. interest rates might rise so AD falls so GDP falls	(6)

Question Number	Indicative content	Mark
2 (b) (ii)	KAA 8 2 x 4 marks for identifying a cause and applying it. Award 2 causes only. • "Brent crude oil prices have edged back up above $100 per barrel" (2) increases key factor of production (2) • America's scorching summer has pushed up global corn and wheat prices sharply"(2) increases food prices (2) • service sector inflation as an indication of this,(2) which held steady at 3.3% in June (2) In addition award up to 2 marks for a correctly labelled diagram demonstrating cost push inflation	(8)

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Question Number	Indicative content	Mark
*2 (b) (iii) QWC i-iii	KAA 8 (maximum of 6 marks for KAA if no reference to data) Use of data: lower interest rates than 0.5% and/or further QE beyond £375 bn (2) Leads to an increase (or at least helps to stop them falling so fast) in consumption/investment/AD and therefore increase UK output/reduce unemployment (2) Diagram demonstrating rightward shift of AD and/or AS (4); correct shifts in lines (1), lines labelled (1), axes labelled (1), equilibria labelled (1). Note diagrams where the line shift is incorrect receive no marks. If one line is correct and the other wrong then award 2 marks assuming the rest of the diagram is labelled correctly Evaluation 4 marks (1 x 4 or 2 x 2) • Ineffectiveness of lower interest rates and/or further QE • Banks absorb additional liquidity • Reluctance of banks to lend • Base rate does not reflect bank lending rates • Long run and short run impact • Other determinants of AD or AS counterbalancing effects such as low confidence or fiscal deficit reduction **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 effects with at least one evaluative point
Level 2	5-8	2 convincing effects with no connections, or 1 convincing effects with some good analysis but no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-4	Identification of relevant effects with or without brief evaluative keywords

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Question Number	Indicative content	Mark
*2 (c) QWC i-iii	KAA 18 6 marks (3 x 2 marks) • Definition of the nature of supply side policies(2); o a movement of AS to the right o increase in the factor(s) of production o increase in productivity • AD/AS diagram showing rightward shift in AD and/or AS curve or equivalent verbal analysis of how price level and real output are affected or PPF diagram showing rightward shift in PPF and/or a movement towards PPF (4 marks). Diagram showing AD and/or AS shifts to the right; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction. • Identification of low and stable inflation as a government objective (2) • Use of data: service sector inflation held steady at 3.3% in June 2012, the service sector accounts for 77% of UK GDP (2) Explanation of how the policies might control UK inflation (3 x 4 marks or 2 x 6 marks or 6 + 4 + 2 marks); • Facilitating inward migration • Increase retirement age • Redesigning tax to create the incentive to work more • Redesigning benefits that create the incentive to work more • Improve education and training • Improve health care • Measures to encourage competition • Reduction of trade barriers encouraging cheaper prices • Subsidy/tax break on investment e.g. to encourage use of new technology • Creation of special enterprise zone • Lower corporation tax • Lower red tape • Encouragement of entrepreneurship Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks); Comments might include reference to • Effectiveness of certain policies as some services have few opportunities to increase productivity • Prioritisation of objectives such as fiscal deficit reduction limiting scope • Alternative policies (demand management) • Availability of credit • Impact on budget deficit/size of national debt • Time lag and implementation lags • Other things are not equal – e.g. depends on global economic changes • Conflict between policies • Counter argument **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	(30)

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Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
ai	2	2			4
aii	2	2	4	4	12
aiii	2	2	4		8
bi	4	2			6
bii	2	4	2		8
biii	2	2	4	4	12
c	6	6	6	12	30
Total	20	20	20	20	80
Question 2					
ai	2	2			4
aii	2	2	4		8
aiii	2	2	4	4	12
bi	4	2			6
bii	2	4	2		8
biii	2	2	4	4	12
c	6	6	6	12	30
Total	20	20	20	20	80

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