

Mark Scheme for June 2012

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Own figure rule
	Noted but no credit given
	Too vague
	Tick
	Omission mark
	Effective evaluation

Quality of Written Communication**Level 4:**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be few, if any, errors of spelling, punctuation and grammar.

Level 3:

Relatively straight forward ideas have been expressed with some clarity and fluency. There may be some errors of spelling, punctuation and grammar, but these are unlikely to be obtrusive or obscure meaning.

Level 2:

Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, which may be noticeable and obtrusive.

Level 1:

May be in the form of a list. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, of which some may be noticeable and obtrusive.

Question		Answer	Marks	Guidance
1	(a)	Excise duty Value added tax	2	One mark for each correct identification, up to a maximum of two identifications. Use ticks and crosses. Where more than two candidate ticks, mark the first two only.
	(b)	(i) A negative externality is an adverse effect (1) on a third party (1) (of an economic activity). Do not award for 'negative effect' as this is in the question.	2	Up to two marks. One mark for some understanding, eg 'a bad effect' and one mark for an example unrelated to car travel. [No marks for car travel example, as this is in part (ii)]. Two marks for clear explanation such as that opposite (without example). Use ticks.
		(ii) Two such as air pollution, noise pollution, congestion, accidents/injury/road deaths.	2	One mark for each correct identification up to a maximum of two identifications. Use ticks and crosses.
	(c)	For each policy, one mark for identification plus up to two marks for explanation of how it works and/or the effectiveness of the policy. Policies could include: <ul style="list-style-type: none"> • road tolls • congestion charge • vehicle excise duties (road tax) • subsidies for public transport • increased tax on cars • regulation, eg bus only lanes, car free areas • advertising campaign for "green" methods of transport. Allow up to two marks for rise in income tax if well reasoned in relation to reducing car travel. Allow import duties on cars/quotas on imports.	6	One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks for each of two explanations. Eg road tolls (1) put up the price of a car journey (1) so as price rises the demand is likely to fall (1) Eg subsidies for buses (1) would make bus travel cheaper (1), so more people would travel by bus instead of using cars (1). Eg road tax (1) makes car ownership more expensive (1) so some people sell their cars, reducing car travel (1). [NB explanation only valid if car ownership is reduced as it does not affect journey cost] Accept other realistic policies. Do not accept a rise in interest rates. Use ticks.

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Indicative content: tax will raise the price of journeys and so demand will fall. However the demand for petrol may be very inelastic so this may not be effective. Demand is inelastic as people consider car travel a necessity to go to work. The price and availability and reliability of public transport will affect how much demand for petrol changes.</p> <p>If people have spent a lot of money on the car, insurance, road tax, etc then they may as well use it even when the price of petrol rises.</p> <p>People may need an incentive to use public transport, so cheaper bus and train fares through subsidies may be better. The quality of public transport could be relevant, eg frequency, comfort of buses, trains.</p> <p>Availability is another factor, eg people in rural areas.</p>	8	<p>Level 4 marks should be awarded for a justified conclusion. This may have an evaluative contrast with other policies, eg demand is inelastic so other methods would be required as well such as subsidies on buses to make them cheaper/more reliable. Road tolls would be better to cut journeys on congested routes.</p> <p>Level 3 should be awarded for consideration of PED eg demand is price inelastic as petrol is considered a necessity to drive to work, so the method is not effective. Also Level 3 for analysis of relevant alternative policies eg those chosen in part (c). Award Level 3 for accurate consideration of the tax as a regressive measure.</p> <p>Level 2 eg tax increases price and reduces demand; however, people may still have to drive to work as they have no alternative form of travel.</p> <p>Level 1 eg high tax puts the price up which reduces the demand for petrol / travel.</p>	<p>Level 4: 7 – 8 marks – candidate analyses and evaluates the effectiveness of high tax on petrol.</p> <p>Level 3: 5 – 6 marks – candidate analyses the effectiveness of high tax on petrol.</p> <p>Level 2: 3 – 4 marks – candidate shows understanding of effects of higher taxes in the context.</p> <p>Level 1: 1 - 2 marks – candidate shows knowledge of effects of higher taxes. Use ticks. Annotate level in answer.</p>
		Question total	20		

Question		Answer	Marks	Guidance
2	(a)	£1 £10 000	2	One mark for each correct identification, up to a maximum of two identifications. Accept 'over £10 000' and £10,001. Use ticks.
	(b)	<p>One mark for identification of factor and one mark for clear explanation with or without using the data in Fig. 2.</p> <p>Factors can only include:</p> <ul style="list-style-type: none"> • minimum deposit required • amount of money in the account • instant access v fixed term • Internet account or other. <p>Do not accept whether the interest is taxed or not. Do not accept inflation. Do not accept competition between banks.</p>	4	<p>One mark for each correct identification, up to a maximum of two identifications plus a further one mark for each of two explanations.</p> <p>Eg some accounts require more savings than others (1). You only have to put £1 in the eSaver account but £10 000 in the two year bond (1).</p> <p>Eg access to your money (1). You can take money out of the e saver any time but have to leave it in the bond for 2 years (1).</p> <p>Eg amount saved (1). In the ISA account you get more interest if you save over £9000 (1).</p> <p>Eg internet accounts have low costs (1) so could pay a higher rate of interest (1).</p> <p>Use ticks.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(c)	<p>Indicative content: Saving will be more rewarding for consumers so they may consume less. Borrowing is more expensive for consumers. In the UK, consumers finance a lot of spending by using credit, especially for expensive durable goods like cars, appliances and so on. As the credit becomes more expensive they may spend less. Millions of households have mortgages, and have to pay interest on these loans each month. As the monthly payments rise with a rise in interest rates, their disposable incomes and spending fall.</p> <p>Firms borrow to finance investment expenditure. As this becomes more expensive with higher interest rates, they reduce their investment spending. The £ is likely to rise in value which makes exports less competitive and less are sold.</p> <p>As total demand falls there is less pressure on prices.</p>	6	<p>A Level 2 mark will contain some analysis as shown in the indicative content, eg analyses how disposable incomes are affected by a rise in mortgage interest rates, analyses why lower spending (AD) puts less pressure on demand-pull inflation. Note that candidates are unlikely to include exchange rate effects and this is not expected, but reward where present.</p> <p>At Level 1, mark on a tick for points made basis, up to three marks. Eg as rates rise, the cost of borrowing rises so consumers will borrow less [1]. Also people will save more as saving is more rewarding [1]. Therefore consumers reduce their spending/demand [1].</p> <p>Also give definition marks in Level 1.</p>	<p>Level 2: 4 – 6 marks – candidate analyses how a rise in interest rates affects total spending in the UK economy.</p> <p>Level 1: 1 – 3 marks – candidate demonstrates understanding of the effects of rising interest rates in context of UK economy, including the fact that total demand/spending is likely to fall.</p> <p>Annotate level in answer. Use ticks.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Indicative content</p> <p>Harmful effects of inflation include:</p> <ul style="list-style-type: none"> • shoe leather costs • menu costs • unfair redistribution of income • labour market problems • unemployment • balance of payments problems • the danger of hyperinflation <p>Some people gain:</p> <ul style="list-style-type: none"> • Owners of appreciating assets, eg houses • Debtors <p>A low rate of inflation could be beneficial eg UK's target of 2%:</p> <ul style="list-style-type: none"> • more flexible than zero inflation, easier for relative prices and wages to adjust • may provide incentive to firms. 	8	<p>For Level 4, a valid conclusion is drawn. A good Level 4 answer may consider the problems of high inflation but conclude why a low rate is beneficial, eg UK's 2% target. May make a comparative judgement with other countries.</p> <p>For Level 3, analysis is required, eg how exports and imports are affected, how income redistribution happens, how a wage-price spiral could lead to hyperinflation, how a low rate could stimulate the economy.</p> <p>For Level 2, problems are explained in context, eg UK goods are relatively more expensive so less are sold and unemployment goes up, eg danger of hyperinflation. May recognise that low inflation is desirable.</p> <p>For Level 1, problems of inflation are recognised, eg as prices rise, poor people cannot afford as much. Give definition mark in L1 if not given in part (c).</p>	<p>Level 4: 7 – 8 marks – candidate evaluates the impact on the economy of inflation.</p> <p>Level 3: 5 – 6 marks – candidate analyses the effects of inflation.</p> <p>Level 2: 3 – 4 marks – candidate understands some effects of inflation in the context.</p> <p>Level 1: 1 – 2 marks – candidate shows understanding of an effect of inflation.</p> <p>Annotate level in answer. Use ticks.</p>
Question total			20		

Question			Answer	Marks	Guidance
3	(a)	(i)	Tax revenue is less than government spending	1	One mark for correct tick. Where more than one tick, no mark. Use ticks and crosses.
		(ii)	2009/10	1	Must give the (fiscal) year as in Fig. 3, ie do not accept 2009 or 2010. Use ticks and crosses.
	(b)		<p>Indicative content The four main areas are social protection, health, education and defence. Award for components of these, eg pensions, schools, hospitals.</p> <p>Award any reasonable answer.</p>	4	<p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two appropriate reasons.</p> <p>Eg Social protection – it provides benefits to make sure everyone has a basic minimum standard of living.</p> <p>Eg health/NHS – so everyone can be treated when ill, even if poor</p> <p>Eg education / training – so all are given an opportunity to learn regardless of income / so the economy gains from a better workforce,</p> <p>Eg defence – to protect the country from possible enemies Reward answers which refer to public or merit goods.</p> <p>Avoid duplication. Use ticks.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(c)	<p>Indicative content Deficit will raise total spending (aggregate demand) and be likely to contribute to an increase in output and thus employment, and reduce unemployment. Reward references to how the multiplier effect works.</p> <p>NB Also reward references to the need to cut the deficit which can lead to job losses especially in the public sector. Reward those who show understanding of the UK position in recent times with regard to recession and recovery. Cuts in benefits could encourage employment.</p> <p>Allow the argument that the deficit could lead to inflation, which in turn causes unemployment.</p>	6	<p>Eg Level 2 answer: The deficit will increase govt. spending in the economy. This is likely to lead to more output. More workers will be needed to produce extra output so employment will rise and unemployment fall. Tax reductions would raise disposable incomes with similar effects. The newly employed workers will have higher incomes, so they spend more and yet more workers are needed. This is a multiplier effect and unemployment falls further.(6)</p> <p>Eg Level 1 answer: The government spends a lot of money so it is likely to increase growth and employment eg the government could employ more doctors and nurses (3). Give unemployment definition mark in Level 1. [Do not give definition mark for budget deficit as this is part (a) (i)].</p>	<p>Level 2: 4 - 6 marks – candidate analyses and/or evaluates how the budget deficit (or measures to reduce it) affects unemployment.</p> <p>Level 1: 1 - 3 marks – candidate demonstrates understanding of how the budget deficit (or measures to reduce it) affects unemployment.</p> <p>Annotate level in answer. Use ticks.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Indicative content Issues include effects on income distribution, effects on incentives, effects on employment, demographic trends.</p> <p>Specific spending cuts and tax rises can be recommended, eg raise income tax on high incomes to aid redistribution, raise duties to reduce negative externalities.</p> <p>NB Candidates can recommend a combination of the two courses of action, eg raising indirect taxes and cutting defence spending.</p> <p>See guidance for more detail.</p>	8	<p>For Level 4 some evaluation is required and a conclusion drawn. Recommendations must be justified in light of the analysis for a level 4 mark.</p> <p>For Level 3 some analysis is required,; eg effect of the measures on unemployment are analysed. eg cutting some benefits could raise incentives to work while direct tax rises could reduce them. Other supply side issues may be raised. Eg the nature of the taxes raised can be considered (progressive v regressive).</p> <p>Level 2 eg tax rises reduce disposable incomes and living standards, while cuts in eg health care also reduce living standards.</p> <p>Level 1 eg may recognise the hardship caused to citizens from certain spending cuts eg benefits, or of tax rises eg income tax on lower income earners.</p>	<p>Level 4: 7 – 8 marks – candidate evaluates whether lower spending or higher taxes is the best course of action.</p> <p>Level 3: 5 – 6 marks – candidate analyses whether lower spending or higher taxes is the best course of action</p> <p>Level 2: 3 – 4 marks – candidate shows some understanding of the issues in the context</p> <p>Level 1: 1 – 2 marks – candidate shows some knowledge of an effect of lower spending and/or higher taxes</p> <p>Annotate level in answer. Use ticks.</p>
		Question total	20		
		Paper total	60		

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