

**Economics**

Advanced Subsidiary GCE

Unit **F582**: The National and International Economy

**Mark Scheme for January 2013**

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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.

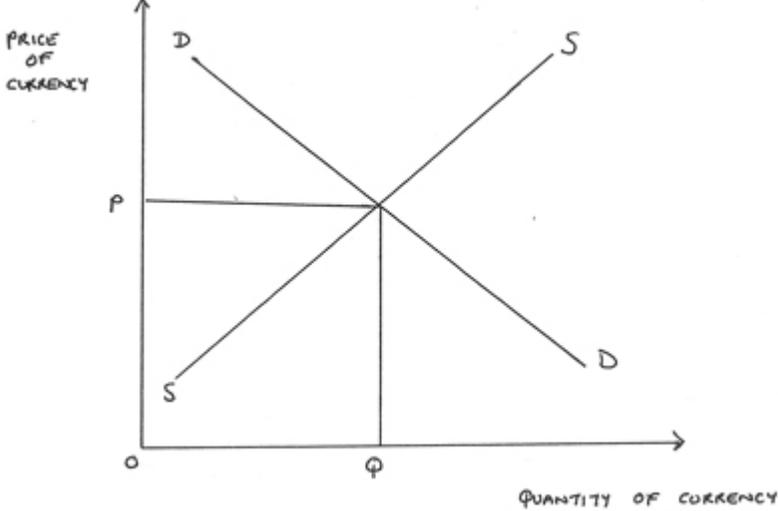
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## Annotations

Annotation	Meaning
	Tick
	Cross
	Unclear
	Benefit of doubt
	Comment
	Effective evaluation
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too vague
	Repeat

Question	Answer	Marks	Guidance
1 (a)	One mark for a change/rise/fall in the price level.	1	No mark for a reference to price.
(b)	One mark for it will shift it to the right/shift outwards. One mark for net exports is a component of aggregate demand.	2	Accept for the first mark, a diagram showing AD shifting to the right. Accept for the second mark $AD = C+I+G+(X-M)$ .
2 (a)	Two marks for US\$10m. One mark for correct working i.e. US \$490m –US \$480m or just 10 or -10m.	2	Allow two marks for 10m.
(b) (i)	Two marks for expenditure on imports may exceed revenue from exports or higher expenditure on imports may reduce a trade surplus or cause a trade deficit.  One mark for imports may be greater than exports or net exports may fall or expenditure on imports may rise or more money may leave the country than enter it. One mark for China is Sudan's major source of imports. One mark for the trade balance (net exports) is part of the current account. One mark for a reduction in trade surplus/trade balance or move to a trade deficit may increase a current account deficit.	2	
	(ii) <ul style="list-style-type: none"> <li>• The quantity of imports may rise but expenditure on imports may fall.</li> <li>• Exports may increase by more than imports from China.</li> <li>• Imports from other countries may fall.</li> <li>• Imports of raw materials/capital goods may lead to higher exports.</li> <li>• Another section of the current account may experience a larger surplus/reduction in deficit.</li> </ul>	4	Allow up to three marks for a point well made eg: <ul style="list-style-type: none"> <li>- More imports may be purchased but if the price of imports has fallen, expenditure may have decreased.</li> <li>- The balance of trade may move to a surplus or a larger surplus if exports to China increase by more than imports from China.</li> <li>- Imports of raw materials/capital goods may be used to produce products which are exported or replace imports.</li> <li>- The income or current transfers balance may move from a deficit to a surplus/larger surplus/smaller deficit.</li> <li>- Exports to e.g. Japan, Indonesia or India may rise and so offset the rise in imports from China.</li> <li>- Imports from e.g. Saudi Arabia, Egypt, India or UAE may fall and so offset the rise in imports from China.</li> </ul>

Question	Answer	Marks	Guidance
<p>3 (a)</p>	 <p>One mark for correct labelling of axes – quantity (of currency) and price (of currency).            One mark for correct labelling of demand and supply curves.            One mark for equilibrium shown – with lines and P/ER and Q or e at point of intersection.            One mark for stating that the exchange rate is determined by the demand for and supply of the currency/reference to both demand and supply affecting price.</p>	<p>4</p>	<p>Accept 'exchange rate' on vertical axis.</p> <p>Note: no marks for AD/AS approach in terms of the D and S mark and equilibrium mark.</p>
<p>(b)</p>	<p>One mark for it fell.            One mark for recognising more of the Sudanese currency had to be exchanged to purchase one US\$/fewer units of US currency had to be exchanged to purchase one Sudanese pound.            One mark for it fell by US\$0.06.</p>	<p>2</p>	<p>No marks for it rose in value.</p>

Question	Answer	Marks	Guidance
4 (a)	<p>One mark for each correct identification up to a maximum of two identifications ie high levels of illiteracy, inflation, a fall in aggregate demand, lack of infrastructure, decrease in aggregate supply.</p> <p>Up to two marks each for each correct explanation e.g.:</p> <ul style="list-style-type: none"> <li>• Employers may not be willing to employ people who lack the ability to read and write/demand for these workers may be low (one mark). Such workers may not be able to carry out the tasks required/have low productivity or skills (one mark) will cause occupational immobility (one mark) will result in structural unemployment (one mark).</li> <li>• Inflation may reduce international competitiveness which will reduce demand for the country's products (one mark). A decrease in net exports may mean that fewer workers are required (one mark) may discourage investment (one mark).</li> <li>• A fall in aggregate demand involves a widespread decrease in demand for products (one mark). This may result in firms reducing their output (one mark). This will cause demand for labour in industries throughout the economy to decline (one mark) will result in cyclical/demand-deficient unemployment (one mark).</li> <li>• Lack of infrastructure may discourage FDI (one mark). Fewer MNCs reduce job opportunities (one mark). It may discourage domestic firms setting up/expanding (one mark) will raise firms' costs of production (one mark) lower output will reduce job opportunities (one mark). It may reduce geographical mobility (one mark) leading to regional/structural unemployment (one mark).</li> <li>• A decrease in AS (SRAS) will reduce output (one mark), lower output may require fewer workers (one mark). It may have occurred as a result of a decrease in investment (one mark). Fewer capital goods would require fewer workers to operate machinery etc. (one mark).</li> </ul>	6	<p>For illiteracy, accept lack of education/low level of education.</p> <p>Accept rise in income tax, reducing the growth of the money supply and deregulating some industries.</p>

Question	Answer	Marks	Guidance
(b)	<p>Up to three marks for analysis:</p> <ul style="list-style-type: none"> <li>• A fall in unemployment may mean more people are in work.</li> <li>• Lower unemployment may increase output/real GDP/incomes.</li> <li>• Rise in consumer expenditure.</li> <li>• May increase investment.</li> <li>• May increase tax revenue leading to higher government spending.</li> <li>• Higher C, I or G may increase AD.</li> <li>• Higher AD may increase output/real GDP.</li> <li>• A rise in real GDP is an increase in economic growth.</li> <li>• Fuller use is made of existing resources/capacity.</li> <li>• Lower unemployment may enable the government to switch its spending that may increase labour productivity/skills.</li> </ul> <p>Up to three marks for evaluation.</p> <ul style="list-style-type: none"> <li>• A fall in the unemployment rate does not necessarily mean more people are employed.</li> <li>• There are a number of reasons why people may stop being unemployed including retiring, entering education and emigrating.</li> <li>• Consumer expenditure may not rise despite high income if consumer confidence is low/saving may rise.</li> <li>• Imports may increase – raising employment abroad.</li> <li>• Lower unemployment may generate a multiplier effect, causing AD to rise by more than the initial change.</li> <li>• Depends on the size of the fall.</li> <li>• Depends on the duration of the fall.</li> <li>• Lower unemployment does not increase potential economic growth/long run economic growth unless it reduces the full employment level of unemployment.</li> <li>• If the fall in unemployment moves the economy closer to full employment it may have more impact on P than on Y.</li> </ul>	6	<p> to indicate analytical marks.</p> <p> to indicate evaluation marks.</p> <p>Evaluation marks can only be awarded if there is underlying analysis focused on the question i.e. a fall in unemployment linked to economic growth.</p> <p>Allow up to three marks for one evaluative point well made.</p> <p>No marks if a candidate states that the economy is at full capacity and so lower unemployment cannot cause growth. But accept if a candidate states that the economy is close to full capacity, the impact on growth may be less than the impact on inflation.</p> <p>Note: maximum of one evaluative mark for: depends on size as a small fall may not have much of an impact. Similarly a maximum of one evaluative mark for: depends on the duration as if it is only for a short time, it will not have much impact.</p>

Question	Answer	Marks	Guidance
5 (a)	<ul style="list-style-type: none"> <li>• Measured by the consumer prices index/retail price index.</li> <li>• A base year is selected.</li> <li>• A survey is carried out, such as The Expenditure and Food Survey, a Family or Household Expenditure Survey.</li> <li>• A basket of goods and services used/a representative selection of items used.</li> <li>• There is recognition that there are some differences in the items included in CPI and RPI.</li> <li>• These products are put into different categories.</li> <li>• Weights are attached to items.</li> <li>• Weights are based on items' importance in people's expenditure.</li> <li>• Weights/items are changed each year.</li> <li>• Prices are checked in a range of outlets.</li> <li>• Price changes are compared over time.</li> <li>• Weights are multiplied by price changes.</li> <li>• The weighted price changes are then totalled to calculate the inflation rate.</li> </ul>	5	

Question	Answer	Marks	Guidance
(b)	Two marks for 12%. One mark for correct working $14.4/120 \times 100$ or 12.	2	
(c)	<p>Up to three marks for analysing why an increase in income tax may reduce the country's inflation rate.</p> <ul style="list-style-type: none"> <li>• Lower disposable income or less to spend.</li> <li>• Consumer expenditure may fall.</li> <li>• Aggregate demand may fall (may be shown on a diagram).</li> <li>• Demand-pull inflation may fall (may be shown on a diagram).</li> <li>• Higher tax revenue may take spending out of circulation if not matched by a rise in government spending.</li> </ul> <p>Up to three marks for evaluation.</p> <ul style="list-style-type: none"> <li>• Consumers may keep spending unchanged if they are confident about the future and instead cut back on saving.</li> <li>• Inflation may be caused by factors other than a rise in income tax.</li> <li>• Higher income tax may stimulate wage claims and higher wages may contribute to cost-push inflation.</li> <li>• There may be tax evasion.</li> <li>• The impact will be influenced by the current level of economic activity.</li> <li>• The effect will depend on the size of the rise in income tax.</li> <li>• The effect will depend on the duration of the rise in income tax.</li> <li>• Time lag.</li> <li>• The impact will vary across different income levels.</li> <li>• Another/other component(s) of AD may change offsetting the fall in AD.</li> </ul>	6	<p> to indicate analytical marks.</p> <p> to indicate evaluation marks.</p> <p>Evaluation marks can only be awarded if there is underlying analysis focused on the question i.e. the link between an increase in income tax and its possible effect on inflation.</p> <p>Allow up to three marks for one evaluative point well made.</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
6			<p>This question requires a discussion of how a decrease in aggregate supply may influence national economic performance.</p> <p>Answers may consider the size of the decrease in aggregate supply, the initial level of economic activity and the possible adverse effects it may have.</p> <p><b>L4 For a discussion of whether a decrease in aggregate supply is always harmful to national economic performance. (13–18)</b></p> <p>Answers should evaluate whether a decrease in aggregate supply is always harmful.</p> <p>Examples of possible L4 answers:</p> <ul style="list-style-type: none"> <li>• A conclusion that it is generally harmful as it is likely to have an adverse effect on the government's macroeconomic objectives.</li> <li>• A recognition that it is likely to be harmful and this is why governments' supply-side policy measures always seek to increase aggregate supply and do not try to reduce it.</li> <li>• It is important for AS to increase to keep up with increases in aggregate demand.</li> <li>• The effect of a decrease in AS will partly depend on the cause. A decrease in investment will be particularly harmful as it will also decrease aggregate demand.</li> <li>• A fall due to e.g. a rise in the school leaving age/numbers in HE may later increase AS.</li> <li>• The effect will be influenced by the size and duration of the decrease. A larger, long run decrease will have a larger impact.</li> </ul>	18	<p>A decrease in aggregate supply involves a leftward shift of the AS curve. The potential output of the economy would decline. Such a decline may contribute to cost-push inflation, a fall in real GDP and may reduce international competitiveness.</p> <p>A decrease in aggregate supply is usually assumed to be harmful to an economy as it reduces its ability to achieve its macroeconomic objectives.</p>	<p>Note: a maximum of 4 marks for an answer discussing the effects of an increase in AS.</p> <p>Note: Evaluation must be supported by relevant analysis.</p> <p>For 16–18 marks the discussion must</p> <ul style="list-style-type: none"> <li>• come to a supported judgement/s e.g. yes it is likely to be harmful as it will hinder a government's ability to achieve its macroeconomic objectives and governments aim to increase AS rather than reduce it/ if there is considerable spare capacity in the economy may not be harmful in the short run but will still be harmful in the long run/a fall due to e.g. a decrease in investment will be more harmful than a fall due to a temporary decline in the labour force.</li> <li>• be based on strong analysis.</li> </ul>

Question			Answer	Marks	Guidance	
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			<ul style="list-style-type: none"> <li>The effect on unemployment is uncertain as there may be a difference in the number and rate of the unemployed.</li> <li>The effect will depend on the initial level of economic activity. If there is initially considerable spare capacity, the effect will be less harmful than if the economy is operating at full capacity.</li> </ul> <p>For 16–18 marks, there must be a supported judgement based on the preceding analysis and it should reflect the strength of the analysis and evaluation.</p> <p>For 13–15 marks, there must be a discussion of the influencing factors and it must be based on the preceding analysis.</p> <p>Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few if any errors of spelling, punctuation and grammar.</p>			<p>For 13–15 marks the discussion:</p> <ul style="list-style-type: none"> <li>may mention that the effect will depend on the cause, the size and duration of the change and will depend on the initial level of economic activity</li> <li>must be based on the preceding analysis.</li> </ul> <p>The analysis must focus on the actual question set.</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p><b>L3 For an analysis of how a decrease in aggregate supply may affect national economic performance. (9–12)</b></p> <p>Answers should analyse how a decrease in aggregate supply may harm national economic performance e.g.:</p> <ul style="list-style-type: none"> <li>• The inclusion of an AD/AS diagram showing how it may affect an economy with some written explanation of the effect of the change in the price level and output/real GDP on macroeconomic performance.</li> <li>• A reduction in productive capacity will result in greater competition for resources and so generate cost-push inflation.</li> <li>• Lower AS may reduce real GDP/growth of real GDP and so lead to a recession/fall in economic growth and raise unemployment.</li> <li>• Lower output may decrease employment in the long run especially if fewer capital goods result in fewer workers being needed to operate them.</li> <li>• A reduction in AS may raise the relative price of exports and so increase a current account deficit.</li> <li>• A decrease in AS resulting from a decrease in labour productivity may reduce net exports due to a fall in their quality and/or rise in their price.</li> </ul> <p>For 11–12 marks there is likely to be a number of underdeveloped analytical points or a couple of analytical points which are well developed.</p> <p>For 9–10 marks, there is likely to be only one/two undeveloped analytical points or one analytical point which is somewhat developed.</p>			<p>For 11–12 marks, there should be developed analysis on the effect of national economic performance.</p> <p>For 9–10 marks, there should be some analysis on the effect of national economic performance</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>Relatively straightforward ideas have been expressed with clarity and fluency. Analysis is generally relevant, although some of it may stray from the point. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.</p> <p><b>L2 For an application of knowledge and understanding of how a decrease in aggregate supply may affect national economic performance. (5–8)</b></p> <p>Answers should recognise how a decrease in aggregate supply may affect national economic performance e.g.:</p> <ul style="list-style-type: none"> <li>• Lower AS may cause inflation</li> <li>• Lower AS may reduce real GDP/national output</li> <li>• Lower AS may reduce employment/increase unemployment/reduce unemployment.</li> <li>• Lower AS may increase a current account deficit</li> <li>• A diagram with identification of changes.</li> </ul> <p>For 7–8 marks, the answer should recognise the effect of a decrease in aggregate supply on three or more macroeconomic objectives.</p> <p>For 5–6 marks, answers may recognise the effect of a decrease in AS on one or two objectives.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.</p>			<p>8 marks for recognising the effect on four macroeconomic objectives or for providing a hint of explanation.</p> <p>7 marks for recognising the effect on three macroeconomic objectives.</p> <p>6 marks for recognising the effects on two objectives.</p> <p>5 marks for recognising the effects on one objective.</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p><b>L1 For knowledge and understanding of aggregate supply and national economic performance. (1–4)</b></p> <p>These answers should show some awareness of the terms or limited understanding of changes e.g.:</p> <ul style="list-style-type: none"> <li>• AS is the total amount that producers in an economy are willing and able to supply at a given price level.</li> <li>• National economic performance covers economic growth, unemployment, inflation and the current account of the balance of payments.</li> </ul> <p>For 3–4 marks there will be knowledge and understanding of both aggregate supply and national economic performance.</p> <p>For 1–2 marks there will be knowledge and understanding of just one of the terms.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.</p>			

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