

GCSE

Economics

Unit **A592**: How the Economy Works

General Certificate of Secondary Education

Mark Scheme for June 2014

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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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Please annotate **every** response, even if no credit is given. (Do not use EE). All non-levels Qs, the number of ticks must match the mark awarded. For levels Qs the highest level must be annotated e.g. L3. For answers given L4, also annotate where L3 is within that answer. Use ticks on levels answers if this aids your marking. **The number of ticks must never exceed the number of marks awarded.**

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Unclear
	Benefit of doubt
	Effective evaluation
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Own figure rule
	Noted but no credit given
	Too vague
	Omission

Highlighting is also available to highlight any particular points on the script.

'BP' to be inserted on every blank page (pages 14 & 15), and 'SEEN' in every question space where NR is the mark.

1. **Subject-specific Marking Instructions**

Some questions have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (d) of each question.

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 to be obtrusive or obscure marking.

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:

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)	It rose (1) by about 1 million (1) or from 1.6m to 2.65m (1)	2	Up to two marks. One mark for the correct identification of unemployment rising and one mark for a specific reference to the data. (Allow figures which are out slightly). NB do not reward where m(illion) is missing, do not reward 1.1% e.g. rose by 1.1% to 2.6 = 1 mark only (for rose).
	(b)	(i) Claimant count (1) Labour force survey (1)	2	One mark for each correct identification up to a maximum of two identifications. (Do not allow ILO or descriptions e.g. those claiming JSA)
		(ii) <ul style="list-style-type: none"> Some jobs are seasonal, e.g. in tourism, farming When it is out of season, the workers lose their jobs <p>Exemplar response: This is cause by seasonal workers, e.g. fruit pickers (1) not being employed at other times of year (1).</p>	2	Up to two marks. One mark for some understanding. One mark for general definition of unemployment. Give both marks for a clear explanation, which may include an example if this aids the candidate's answer. If the explanation focuses on seasonal employment, but the unemployment is implicit, award both marks.
	(c)	<ul style="list-style-type: none"> Fiscal policy Monetary / Interest rate policy Supply-side policies <p>Exemplar responses Fiscal policy (1) by operating a budget deficit (1) which increases spending and output, needing more workers (1).</p> <p>Lowering interest rates (1) so people save less/borrow more (1) which increases spending and output, needing more workers (1)</p> <p>Supply-side policies (1) such as education and training (1) which make people more skilled and able to do jobs (1).</p>	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. Policies could include: fiscal policy, budget deficit or components of it, i.e. accept lower taxes, higher government spending, subsidies to firms. Accept 2 separate fiscal measures. Monetary policy lowering interest rates. Accept 'supply-side policies' for an identification mark, or a specific supply-side policy, such as retraining, increasing incentives to work by making benefits less generous / by cutting direct taxes. Accept 2 separate S-side policies. Accept raising NMW to increase incentive to work.

					<p>NB Where more than 2 policies given, reward the best two. Put SEEN on the extra policies.</p> <p>NB If the policy named is not the policy explained, give marks for the explanation, but not for the identification; e.g. subsidy is not a supply side policy. Put SEEN on that which is not rewarded.</p>
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Question		Answer	Marks	Guidance	
				Content	Levels of Response
	(d)	<p>Indicative content:</p> <ul style="list-style-type: none"> waste of human resources/output lower than it could be costly to taxpayers – more benefits, less tax receipts, larger budget deficit some workers may become unemployable – excluded from workforce lower living standards for unemployed and their families regional problems social problems – more crime, etc. Frictional unemployment can be beneficial Unemployment helps price stability <p>Exemplar response: Unemployment is a problem because people have lower incomes and living standards (L1). It costs the government more in benefits and there is likely to be a budget deficit (L2). Unemployment could lead to more unemployment, as spending falls and there is a reverse multiplier effect (L3). However, if the economy is close to full capacity, then some unemployment may be required to reduce aggregate demand and keep the rate of inflation down.(L4).</p>	8	<p>At Level 4 there will be some evaluative comment/a judgement made. This could be in relation to the state of the economy e.g. in a boom unemployment required as inflation may need to be controlled, or the type of unemployment (e.g. reason given why frictional may be beneficial). Comment on the actual level or rate of unemployment may also be evaluative, provided it is backed up with justification.</p> <p>At Level 3 a clear analysis of some of the problems/consequences (in answer column) is present.</p> <p>At Level 2 some problems/consequences of unemployment are explained.</p> <p>At Level 1 some knowledge of the problems/consequences of unemployment is shown. Allow L1 mark for definition of unemployment.</p>	<p>Level 4: 7-8 marks Candidate evaluates the problems of unemployment and justifies whether unemployment is always a problem.</p> <p>Level 3: 5-6 marks Candidate analyses the problems of unemployment</p> <p>Level 2: 3-4 marks Candidate applies knowledge of problems of unemployment.</p> <p>Level 1: 1-2 marks Candidate demonstrates some knowledge of problems of unemployment.</p> <p><i>Quality of Written Communication</i> is assessed on this question. Please see page 6 for guidelines.</p>

Question		Answer	Marks	Guidance
2	(a)	5.0% – 0.5% = 4.5%	2	Up to two marks. One mark for method with correct figures, two marks for correct answer. 4.5% alone = 2 marks (allow 4.5)
	(b)	<p>Relevant factors include:</p> <ul style="list-style-type: none"> • risk/credit rating • security/collateral • type of lender • type of loan • competition between lenders <p>Exemplar responses:</p> <p>The greater the risk to the lender (1) the higher the interest rate (1).</p> <p>The lower the credit rating of the borrower (1), the higher the interest rate (1).</p> <p>The more security, e.g. house for a mortgage (1), the lower the interest rate (1).</p> <p>The type of lender (1) as a bank will charge lower interested than a 'loan shark'/payday lender' (1).</p> <p>The type of loan (1) e.g. interest rates on credit cards are much higher than mortgage rates (1).</p> <p>If there is more competition between banks (1) the interest on loans may fall to attract borrowers (1).</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>Ensure that there are two separate factors for three or four marks.</p> <p>Allow larger companies may get cheaper loans for 1 BOD mark only.</p> <p>Do not allow size or length of loan, or inflation.</p>

Question		Answer	Marks	Guidance
	(c) (i)	Savers would not benefit (1) as interest rates have fallen and remained low (1) OR as the reward for saving has fallen/remains low (mark 2)	2	One mark for each explanatory point up to a maximum of two such points. One mark for not benefitted One mark for reason
	(ii)	The trend shows interest rates falling and staying very low (no marks for this). This would: <ul style="list-style-type: none"> discourage saving encourage consumer to buy on credit encourage firms to borrow to invest raise disposable incomes of mortgage holders. Exemplar responses: There would be less saving (1) as the reward is lower (1) so more spending. There would be more borrowing (1) as the cost of loans is lower (1) so disposable income rises (1) so more spending. Those with mortgages may have lower monthly payments (1) so have more disposable income to spend (1), so more spending.	4	One mark for each explanatory point up to a maximum of four such points, but allow development marks. Also award where there is a distinction made between consumers borrowing to spend and firms borrowing to invest. Also award for lower interest rates leading to a lower exchange rate and more exports. Note 'encourage spending' is in the question, so 'more spending' is not to be rewarded.

Question		Answer	Marks	Guidance	
				Content	Levels of Response
	(d)	<ul style="list-style-type: none"> • Low interest rates and extra spending will require more output which will mean economic growth • Low interest rates and extra spending will lead to more employment in order to produce the extra output • There is likely to be a multiplier effect as more output and employment leads to further spending • More loans may be taken for business investment or to start new businesses • The £ may fall, making exports cheaper/ imports more expensive. The balance of payments may improve. • More spending could be inflationary – demand-pull inflation. <p>Exemplar response: Low interest rates mean that people will save less and spend more (L1). More spending will lead to more output and more employment (L2). As demand rises, more workers are needed to produce the extra output and this leads to a multiplier effect (L3). Low interest rates are therefore good for the economy, unless they lead to too much demand when the economy is near to full capacity, leading to demand-pull inflation (L4).</p>	8	<p>At Level 4 an evaluative comment/a judgement will be made. This may be with reference to the conflict between objectives, so that while employment and growth may be encouraged there is the danger of rising inflation. Evaluation could be in relation to the state of the economy e.g. in a boom low interest rates are a problem as inflation may need to be controlled.</p> <p>At Level 3 this should include an analysis of the effects on macro-economic variables.</p> <p>At Level 2 effects on particular groups in the economy can be explained, e.g. borrowers have less to pay on their loans.</p> <p>At Level 1 award definition mark for rate of interest. Award for knowledge, e.g. borrowers and mortgage holders gain.</p>	<p>Level 4: 7-8 marks Candidate evaluates effects of low interest rates</p> <p>Level 3: 5-6 marks Candidate analyses effects of low interest rates</p> <p>Level 2: 3-4 marks Candidate applies knowledge of effects of low interest rates. Explained or applied knowledge?</p> <p>Level 1: 1-2 marks Candidate demonstrates some knowledge of effects of low interest rates</p> <p><i>Quality of Written Communication</i> is assessed on this question. Please see page 6 for guidelines.</p>

Question			Answer	Marks	Guidance
3	(a)		Direct – one from income tax, national insurance, corporation tax, business rates Indirect – one from VAT, excise duties	2	One mark for each correct identification up to a maximum of two identifications. NB Where more than one of each is given, mark the first one only. NB. Accept council tax as either, but not both.
	(b)	(i)	Corporation tax VAT	2	One mark for each identification up to a maximum of two identifications.
		(ii)	$\text{£}683\text{bn} - \text{£}592\text{bn} = \text{£}91\text{bn deficit}$	2	Up to two marks for the correct answer, which may be expressed as $-\text{£}91\text{bn}$. Accept 91bn (no £ sign). One mark for correct method where arithmetic error. One method mark where bn missing.

Question		Answer	Marks	Guidance	
				Content	Levels of Response
	(c)	<p>Progressive taxes could be increased so higher income groups pay a greater proportion of their incomes. Transfer payments such as income support, child benefit, Job Seeker's Allowance, state pensions could be increased to give more to the lower income groups. The two measures combined will thus reduce inequalities.</p> <p>Exemplar response: Transfer payments such as social security benefits increase income particularly of lower income groups (L1). The money comes from income tax, which takes more from those with higher incomes it is a progressive tax (L2). This means it takes a larger percentage of a greater income and so reduces inequalities/the gap between the rich and poor will narrow (L3).</p>	6	<p>At Level 3 there is an explanation/analysis of how both measures work. A Level 3 answer may give an accurate explanation of how progressive taxes work, and consider both these and transfer payments in reducing inequalities.</p> <p>At Level 2 knowledge is applied to explain how a rise in at least one of the variables reduces inequalities. Award relevant examples of transfer payments. Max. L2 if only progressive taxes or transfer payments are considered.</p> <p>At Level 1 give marks for 'definitions', allowing 'progressive taxes take more from the rich.' Also award at Level 1 for recognising increasing both would reduce inequalities.</p>	<p>Level 3: 5-6 marks Candidate explains/analyses how income inequalities are reduced.</p> <p>Level 2: 3-4 marks Candidate applies knowledge of reducing income inequalities.</p> <p>Level 1: 1-2 marks Candidate demonstrates some knowledge of progressive taxes and/or transfer payments.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of Response
	(d)	<ul style="list-style-type: none"> Tobacco is a good with negative externalities (demerit good). The rise in tax will raise the price and will discourage consumption. This will benefit those who stop smoking. It will also benefit others; less passive smoking, etc. If smoking is reduced, the government spends less on smoking-related diseases, freeing resources to use elsewhere. This would lead to a significant rise in tax revenue which could be used to help the citizens/economy, e.g. on NHS. However, tobacco products have a price inelastic demand which means the fall in consumption may not be great. High tax may encourage unofficial markets. It is a regressive measure, so the tax rises will hit those with low incomes the hardest. <p>Exemplar response: Increased tobacco tax will make smoking more expensive, so some people will stop smoking (L1). This benefits people as they are less likely to die and others do not suffer passive smoking (L2). The extra money received from the tax can be spent, e.g. on the NHS which means the UK will benefit from a healthier population (L3). However, as the demand for tobacco is inelastic (it is habit forming), the rise in the tax will have little effect on consumption, so there will be</p>	8	<p>Level 4 – an evaluative comment must be present/a judgement will be made in relation to whether the economy benefits e.g.: However, if they still smoke and it is more expensive, this will mean a bigger part of a low income, it hits the poor the most, it is regressive and increases inequalities in income distribution. e.g. It has price inelastic demand, so the tax rises will not be effective in reducing negative externalities in the economy as people will still smoke. L4 answers may justify why alternative methods to restrict tobacco use may benefit the economy more than the tax rise.</p> <p>Level 3 – there is some analysis, e.g. the inelastic demand will lead to more revenue for the government which can be used to help people affected by smoking, e.g. spending on the NHS.</p> <p>Level 2 – applies knowledge, e.g. reduced consumption will benefit people because smoking is bad for their health.</p> <p>Level 1 – shows knowledge, e.g. the tax rise will reduce consumption as it is now more expensive to buy tobacco products.</p> <p>NB Answers which only address effects on smokers (standard of living falls) or firms (profits fall) should not be awarded above L2.</p>	<p>Level 4: 7-8 marks Candidate evaluates effects of tobacco tax rises, so a judgement is made in relation to whether the economy benefits.</p> <p>Level 3: 5-6 marks Candidate analyses effects of tobacco tax rises</p> <p>Level 2: 3-4 marks Candidate applies knowledge of effects of tobacco tax rises</p> <p>Level 1: 1-2 marks Candidate demonstrates some knowledge of effects of tobacco tax rises</p> <p><i>Quality of Written Communication</i> is assessed on this question. Please see</p>

Question	Answer	Marks	Guidance
	a limited reduction in negative externalities.(L4).		page 6 for guidelines.

Question	AO1	AO2	AO3	Totals
1a		2		2
1bi	2			2
1bii	2			2
1c	2	2	2	6
1d	2	2	4	8
2a		2		2
2b	2	2		4
2ci		2		2
2cii	2	2		4
2d	2	2	4	8
3ai	2			1
3bi	2			2
3bii		2		2
3c	2	2	2	6
3d	2	2	4	8
Totals	22	22	16	60

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