

GCE

Economics

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

Advanced Subsidiary GCE

Mark Scheme for June 2017

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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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MARK SCHEME FORMAT 1

Question		Answer/Indicative content	Mark	Guidance
1	a	<p>What is meant by negative economic growth?</p> <p>A decrease in real GDP (2) a decrease in GDP over a period of time (2) A decrease in national output (2) A decrease in productive capacity (2) A decrease in GDP (1)</p>	2	
1	b	<p>Explain how fiscal policy differs from supply-side policy.</p> <ul style="list-style-type: none"> • Fiscal policy involves decisions on government spending and taxation (1) supply-side policy includes e.g. education and training, cuts in income tax, privatisation and deregulation/improves quality/efficiency of labour and product markets (1). • Fiscal policy seeks to influence aggregate demand/is a demand-side policy (1) whereas supply-side policy seeks to influence aggregate supply/productive capacity.is a supply-side policy (1). • Fiscal policy tends to be more short term (1) whereas supply-side policy tends to be long term (1). 	4	
2		<p>Using information in Fig.1, calculate Russia's trade in services balance in 2015.</p> <p>-\$37 billion/a deficit of \$37 billion (3). Imports of services \$87 billion/ deficit of \$37 million or other denomination. (2) Recognition in words or figures that the current account balance is trade in goods balance + trade in services</p>	3	

Question		Answer/Indicative content	Mark	Guidance
		balance + other (primary income and secondary income). or version of - 37 appearing in the working/imports of services 87 (1)		
3	a	<p>Using information from the case study, explain two benefits of low unemployment for a government.</p> <ul style="list-style-type: none"> • High tax revenue (1) incomes will be higher and so more income/direct tax revenue received (1) more spending and so more indirect tax revenue (1) increase ability of government to spend on e.g. education and health care/reduce budget deficit /reduce government borrowing (1). • Reduction in government spending on unemployment benefits (1) this could enable the government to spend more on other areas (1) benefit of spending on another area/reduce a budget deficit/reduce government borrowing (1). 	6	One mark each for each of two benefits identified and up to 2 marks each for each of two explanations of the benefits.
3	b	<p>Comment on whether a government's objectives of full employment will conflict with the objective of an avoidance of a deficit on the current account of the balance of payments.</p> <p>Up to 3 marks for analysis of why full employment may create a deficit on the current account of the balance of payments:</p> <p>Full employment may increase incomes/wages (1) the higher incomes may increase spending on imports (1) reduce trade in goods/trade in goods and services balance (1) this may cause products to be diverted from the export to the home market (1) causing a deficit on the trade in goods/trade in goods and services balance/net exports (1). Full employment may create a shortage of labour (1) this may push up wages (1) result in cost-push inflation (1) reduce international competitiveness of domestic products (1).</p>	6	

Question	Answer/Indicative content	Mark	Guidance
	<p>Government policy measures to achieve full employment may involve expansionary fiscal/monetary policy measures (1) e.g. cuts in income tax/reduction in the rate of interest (1) this may increase spending on imports (1) may increase aggregate demand (1) causing demand-pull inflation (1) reducing international competitiveness of domestic goods (1)</p> <p>Up to 3 marks for an evaluation of why full employment may not create a deficit on the current account of the balance of payments.</p> <p>Government policy measures to achieve full employment may involve e.g. education and training (1) such measures may increase the skills of workers (1) raise international competitiveness (1) increase export revenue and lower import expenditure (1).</p> <p>A government may seek to achieve full employment by lowering the exchange rate/there may be a fall in the exchange rate (1) this would lower export prices and raise import prices (1) increase export revenue and lower import expenditure (1).</p> <p>Other countries may have full employment/high incomes (1) this may create high demand for a country's exports (1).</p> <p>Costs of production may not increase with full employment (1) if there are e.g. advances in technology (1).</p> <p>More imports may not be purchased if the quality of imports is low (1).</p> <p>There may initially have been a current account surplus (1).</p> <p>An increase in the deficit on trade in goods and services may be offset by a surplus on the two other components of the current account (1) example (1)</p> <p>May be offset by a change in another component (1)</p> <p>If AD and AS rise in line, inflation may not occur (1)</p>		<p>Up to three marks for one evaluative point well made.</p>

Question		Answer/Indicative content	Mark	Guidance
4	a	<p>Explain how an increase in spending by the Russian government on the training of workers will affect aggregate demand.</p> <p>It will increase aggregate demand/shift AD curve to the right (1) Government spending is a component of aggregate demand/formula of AD/rise in employment and so consumer expenditure (1).</p>	2	Note: an increase in aggregate demand may be shown on a diagram.
4	b	<p>Explain how an increase in spending by the Russian government on the training of workers will affect aggregate supply.</p> <p>It will increase aggregate supply (1) increase the skills of workers (1) raise productivity/efficiency/quality of labour (1) lower costs of production (1) increase the ability of a country to produce goods and services/raise productive capacity (1).</p>	4	Note: an increase in aggregate supply may be shown on a diagram.
5	a	<p>Using information from the case study, explain two difficulties of measuring inflation.</p> <p>Up to 2 marks for each of two difficulties:</p> <ul style="list-style-type: none"> • The products used in the basket may not be representative of the expenditure of the population as a whole (1) this will give inaccurate weights/based on a survey/not including the informal economy (1). • Weights may be out of date/consumers may have switched away from the more expensive products (1) weights changed annually/weights may not reveal changes in quality (1) same amount may be spent but better quality obtained/quality changes will mean inflation is overstated/change due to delay in paying wages/lower wages (1). 	4	

Question		Answer/Indicative content	Mark	Guidance
5	b	<p>Analyse how a fall in a country’s exchange rate may cause inflation.</p> <p>A fall in a country’s exchange rate will lower export prices and increase import prices/increase international competitiveness (1) raise export revenue and reduce import expenditure / increase exports and reduce imports (1) increase net exports / exports are a component of AD (1) this may increase aggregate demand (1) if AD rises by more than AS (1) cause demand-pull inflation (1). Higher prices of imported raw materials will raise costs of production (1) cause cost-push inflation (1).</p>	5	
6		<p>Comment on whether a cut in wages paid to low skilled workers will always reduce consumer expenditure.</p> <p>Up to 3 marks for analysis of why a cut in wages may reduce consumer expenditure.</p> <ul style="list-style-type: none"> • Lower wages will reduce income (1) lower incomes will reduce people’s ability to spend (1). • Low skilled workers are likely to receive low pay (1) the low paid spend a high proportion of their income (1) so a cut in their wages may have a significant effect (1). <p>Up to 3 marks for an analysis of why a cut in wages may not always reduce consumer expenditure.</p> <ul style="list-style-type: none"> • Low skilled workers may reduce saving (1) in order to maintain consumer expenditure at current level (1) keeping consumer expenditure at the same level (1). • A cut in wages may be accompanied by a cut in income tax (1) keeping disposable income constant (1). • A cut in wages may be accompanied by a cut in interest rates (1) encouraging an increase in 	6	Up to three marks for one evaluative point well made.

Question			Answer/Indicative content	Mark	Guidance
			borrowing (1) reduction in saving (1). <ul style="list-style-type: none"> High skilled workers may receive wage rises (1) and low skilled workers may form a small proportion of the labour force (1) so overall wages may increase (1). Low skilled workers may be optimistic (1) may expect wages to rise in the future (1). Low skilled workers may take time to adjust their spending to a cut in wages (1). 		

Question			Answer/Indicative Content	Marks	Guidance	
					Content	Levels of response
7			<p>Discuss whether a reduction in the rate of interest will always promote economic growth.</p> <p>This question requires a discussion of the possible effectiveness of a cut in the rate of interest. Answers may consider how such a cut may affect both aggregate demand and aggregate supply.</p> <p>A reduction in the rate of interest may result in a rise in consumer expenditure and investment, It may also lower the</p>	18	<p>If awarding Level 4, indicate lower band Level 4 with L4 and higher band Level 4 with EE.</p> <p>For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing whether a cut in the rate of interest will always promote economic growth.</p> <p>For 13 – 15 marks, a discussion which does evaluate in terms of exploring both the reasons why a cut in the rate of interest may</p>	<p>Level 4 [13 – 18]</p> <p>For a discussion of whether economic growth will always help a government achieve its other policy objectives for the macro-economy.</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"> come to a supported

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		<p>exchange rate and increase net exports. The resulting increase in AD may lead to a rise in real GDP/actual economic growth.</p> <p>Higher investment may increase aggregate supply. This will increase productive capacity and so result in potential economic growth.</p> <p>Level 4 Answers should evaluate whether a cut in the rate of interest will be effective in increasing a country's economic growth rate.</p> <p>Examples of possible Level 4 answers:</p> <ul style="list-style-type: none"> • A cut in the rate of interest may not increase consumer expenditure and investment and so on AD if households and firms are pessimistic about the future. • Higher consumer spending may go on imports and firms may buy capital goods from abroad. If this is the case the cut may promote economic growth abroad rather than at home. • If the rate of interest is already low, any further cut may have little impact on saving and investment. For instance, if households and firms are not prepared to borrow at e.g. 2% it is unlikely that a cut to 1% 		<p>promote economic growth and the reasons why it might not.</p> <p>Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, constantly relevant have been well structured, using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p>	<p>conclusion as to what factors will influence whether a cut in the rate of interest will increase economic growth</p> <ul style="list-style-type: none"> • consider the impact on both aggregate demand and aggregate supply • be based on strong and relevant analysis and evaluation. <p>For 13 – 15 marks, the discussion must:</p> <ul style="list-style-type: none"> • examine how a cut in the rate of interest may increase economic growth and how it might not • be based on preceding analysis which must focus on the actual question set.

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				Content	Levels of response
		<p>would encourage them to do so.</p> <ul style="list-style-type: none"> • If households and firms expect that the cut may be reversed in the near future they may not change their consumption and investment plans. • There may be a policy conflict, if the reduction increases consumer expenditure but not investment, the outcome may cause inflation but not economic growth. • A cut in the rate of interest by the central bank may not be passed on by commercial banks to their customers. • Commercial banks may not be prepared to lend more if they think potential borrowers are not credit worthy. • Firms will not increase investment if they have spare capacity. In such a case they would be able to expand their output without buying new capital equipment. • A cut in the interest rate may create unsustainable economic growth by encouraging households and firms to take out risky loans. For instance, a firm may borrow to set up unviable businesses. • The effect of a cut in the 			

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		<p>interest rate may be offset by, for instance, an increase in the rate of income tax or a global recession.</p> <ul style="list-style-type: none"> The effect of higher AD on output will be influenced by the initial level of spare capacity. <p>Level 3 Answers should analyse the effects of a reduction in the rate of interest.. Examples of possible Level 3 answers:</p> <ul style="list-style-type: none"> A cut in the rate of interest will reduce the reward for saving and reduce the cost of borrowing. Consumer expenditure may rise as households save less and borrow more. This will increase AD which may increase real GDP. A cut in the rate of interest may increase investment. This is because it will be cheaper for firms to borrow and they may expect to sell more as consumer expenditure would be expected to rise, Higher investment can increase both AD and AS. This would cause both actual and potential economic growth – sustained 		<p>Show where Level 3 has been awarded with L3. If awarding Level 3, 2 or 1 show where the highest level has been gained. For 11+ marks, there must be some depth of analysis, covering the effects on both AD and AS.. For 9 – 10 marks, there may be some lack of depth, covering the effect on just AD or AS..</p> <p>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning.</p>	<p>Level 3 [9 – 12] For an analysis of how a cut in the rate of interest may promote economic growth.</p> <p>The analysis must focus on the actual question set, bringing out how a cut in the rate of interest may promote economic growth.</p> <p>For 11 – 12 marks, there should be analysis of the effects of a cut in the rate of interest on both AD and AS.. For 9 – 10 marks, there should be undeveloped analysis of the effects on AD or AS.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		<p>economic growth.</p> <ul style="list-style-type: none"> A cut in the rate of interest may discourage foreigners from placing funds in the country's financial institutions. This would reduce demand for the currency and lower the exchange rate. A lower exchange rate would reduce export prices and raise import prices. This could result in an increase in aggregate demand and so raise actual economic growth. <p>Level 2 Answers should recognise some of the effects of a reduction in the rate of interest. Examples of possible Level 2 answers:</p> <ul style="list-style-type: none"> It may increase consumer expenditure/AD. It may increase investment/AD/AS. It may increase exports/reduce imports/increase AD. A relevant but unexplained diagram showing either AD or AS or both AD and AS shifting to the right and real GDP/national output increasing. Unsubstantiated statements on likely outcome such as it depends on the size, duration of the cut, it may be offset by other 		<p>For 7 – 8 marks, the answer should recognise the effect on three or four points. For 5 – 6 marks, the answer should recognise the effect on one or two points.</p> <p>Some 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>Level 2 [5 – 8] For application of knowledge and understanding of how a cut in the rate of interest may promote economic growth.</p> <p>To gain 8 marks, there should be identification of the effects on four points or a hint of explanation on two points. To gain 7 marks, there should be identification of the effects on three points or a hint of explanation on one point. To gain 6 marks, there needs to be identification of the effect on two points. To gain 5 marks, there needs to be identification of the effect on one</p>

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		<p>effects.</p> <p>Level 1 These answers will show awareness of the terms. Examples of Level 1 answers:</p> <ul style="list-style-type: none"> • Economic growth is increases in real GDP. • Economic growth is an increase in productive potential. • Economic growth may be caused by an increase in AD. • Economic growth may be caused by an increase in AS. • The rate of interest is a payment to lenders of money. • The rate of interest is the price of borrowing money. 		<p>For 3 – 4 marks, there will be good knowledge of economic growth and/or the rate of interest.. For 1 – 2 marks, there will be some awareness of economic growth or the rate of interest.</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>	<p>point.</p> <p>Level 1 [1 – 4] For knowledge and understanding of economic growth and the rate of interest.</p>

APPENDIX 1 – this contains a generic mark scheme grid

Question number	A01	A02	A03	A04	Total
1	1	1			2
1b	4				4
2		3			3
3a	2	4			6
3b			3	3	6
4a	1	1			2
4b	3	1			4
5a	2	2			4
5b	1	2	2		5
6			3	3	6
7	4	4	4	6	18
Total	18	18	12	12	60

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