

Mark Scheme (Results)

Summer 2015

Pearson Edexcel GCE Economics
(6EC02/01)
Unit 2 Managing the Economy

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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.

Question Number	Indicative content	Mark
1 (a) (i)	<p>KAA 8 marks</p> <p>Use of data 1+1 marks- e.g. fell from approx. 6.5% in Q3 2012 to approx. 3% in Q1 2013</p> <p>2 factors up to 3 marks each (2 x 3 marks). 1 mark for the identification and 2 marks for the explanation of each factor.</p> <ul style="list-style-type: none"> • Increased consumer confidence • Low interest rates • Greater availability of credit following various initiatives e.g. quantitative easing; Help to Buy; Funding for Lending • Falling unemployment/greater job security • Rising incomes (savings ratio as a % of income) 	(8)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8 marks (maximum of 6 marks for KAA if no reference to data)</p> <p>Reference to data 2 marks e.g. from figure 3 house prices rising by over 10% in 2007; from extract 1: 'in September 2013 British house prices rose at their fastest monthly rate in 11 years'</p> <p>2 marks for analysis of one point, e.g.: Identification of the wealth effect only (1) Analysis of wealth effect (1) e.g. an increase in the value of houses that will increase householder's confidence and thus encourage them to consume more (and/or save less) Also award for discussion of other effects beside the wealth effect (2) e.g. impact on:</p> <ul style="list-style-type: none"> • Mobility of labour • Unemployment • Budget deficit <p>Up to 4 marks for diagram demonstrating rightward shift of AD; correct shift in line (1), lines labelled (1), axes labelled (price level and real GDP/output/income) (1), equilibria labelled (both original and new) (1). Note diagrams where the line shift is incorrect receive no marks.</p> <p>Where candidates do not use a diagram but do write that real output and the price level should increase award 1 mark for each.</p> <p>Maximum 6/8 if no diagram.</p> <p>Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include:</p> <ul style="list-style-type: none"> • Houses are a significant component of consumers' wealth and effect a large proportion of households (approximately 65% owner occupied) in the UK which will therefore have a major effect in expanding AD • Significance of elasticity of AS curve and the state of the UK economy • Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship • 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 • Effect on first-time buyers so may lead to their consumption falling <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • 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	Explanation of wealth effect with a good diagram and at least one evaluative point
Level 2	5-8	Explanation of the wealth effect with a good diagram but no evaluative point; or good diagram but with limited explanation or; explanation of the wealth effect but no diagram and some evaluation
Level 1	1-4	Identification of relevant effect with or without brief evaluative keywords

Question Number	Indicative content	Mark
1 (b) (i)	<p>KAA 4 marks</p> <p>Reference to data (2): e.g.</p> <ul style="list-style-type: none"> • Interest rate 'cut to 1.5% in 2008', 0.5% 'by March 2009' • 'further big reductions' since November 2008 • 'the Bank of England began to inject money into the economy through quantitative easing' <p>Explanation of monetary policy: 2 marks: use of interest rates/quantitative easing/money supply (1) to control the level of economic growth/inflation in the economy (1)</p>	(4)

Question Number	Indicative content	Mark
* (b) (ii) QWC i-iii	<p>KAA 8</p> <p>Up to 4 marks for identification and explanation of each benefit. Award 2 benefits only. 1 mark for only an identification of a point, 2 marks for identification and very brief explanation, further 2 marks for analysis/development of the point</p> <ul style="list-style-type: none"> • Improved confidence among consumers and so supporting spending • Improved confidence among firms and so improving investment • Possibility of lower interest rates • Benefit to people on fixed incomes • Less enforced redistribution of income from creditors to borrowers • Lower shoe leather costs • Lower menu costs • Improved international competitiveness • Provides a more attractive environment for FDI • Stable inflation to avoid the risks of deflation • Problems associated with higher inflation that can be avoided <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • Potential offsetting macro consequences e.g. higher unemployment • Long run and short run impacts such as reducing expectations • Relative importance of each impact • Lack of demand-pull inflation implies economy is doing badly • Targeting low inflation runs the risk of deflation <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • 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 benefits with at least one evaluative point
Level 2	5-8	2 convincing benefits with no connections, or 1 convincing benefit with some good analysis but no evaluative point; 1 or 2 less-convincing benefit with some evaluation
Level 1	1-4	Identification of relevant benefit with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (iii)	<p>KAA 8 marks</p> <p>2 factors up to 4 marks each (2 x 2 marks) 1 mark for only an identification of a point, 2 marks for identification and very brief explanation, further 2 marks for analysis/development of the point</p> <ul style="list-style-type: none"> • Unemployment levels • Debt • Savings • Change in retail sales • Exogenous shocks • Regional data • Exchange rate • Failure of previous interest rates and QE to have their full effect • Commodity prices • Skills shortages • Inflation (for any explanation marks there must be reference to expected rates or pattern of inflation) • Performance in other countries • Level of confidence in the economy • Economic growth/output gap • Investment <p>Do not allow house prices</p>	(8)

Question Number	Indicative content	Mark
(c)	<p>KAA 6 marks</p> <p>Up to 2 marks for definitions (reward implicit understanding or correctly labelled diagram):</p> <ul style="list-style-type: none"> • Government spending is greater than the revenue (accept tax) it receives (2) • Define the circular flow of income as a model of the economy which shows the movement of goods and services between households and firms, and their corresponding payments in money terms (2) • If the candidate's answer simply states that injections are $I+G+X$ and withdrawals are $S+T+M$ then award 2 marks. <p>Up to 4 marks for explanation of the reasoning</p> <ul style="list-style-type: none"> • The budget deficit is a net injection (2) and so therefore more money is flowing around the circular flow/AD increases (2) • The effect of a reduction in the deficit would be a reduction in net injections (2), which would mean that total spending in the economy would fall and so AD would fall. (2) 	(6)

Question Number	Indicative content	Mark
(d) QWC i-iii	<p>Up to 6 marks</p> <ul style="list-style-type: none"> • Identification of fiscal policy as being demand-side macroeconomic policy (reward implicit understanding) (2) • Identification of monetary policy as being demand-side macroeconomic policy (reward implicit understanding) (2) • Identification of two macroeconomic objectives (1+1): <ul style="list-style-type: none"> ○ Economic Growth ○ Control of inflation ○ Reduction in unemployment ○ Making the distribution of income more equal ○ Accept reduction of the national debt or balancing the budget ○ Restoration of equilibrium in the balance of payments ○ Protection of the environment • AD/AS diagram showing shift in AD curve consistent with analysis (4 marks); correct shift in line (1), lines labelled (1), axes labelled (price level and real GDP/output/income) (1), equilibria labelled (both original and new) (1). <p>Explanation of how the policies might conflict with UK macroeconomic objectives- 12 marks (3 x 4 marks; 2 x 6 marks); 1 mark for only an identification of a point, 2 marks for identification and very brief explanation, up to further 4 marks for analysis/development of the point</p> <p>Fiscal</p> <ul style="list-style-type: none"> • Increasing government spending increasing employment and/or growth. Potential conflict with inflation and a balanced budget. • Reduction in taxation rates through borrowing or policy financed through lowering immediate tax burden increasing AD, increasing employment and/or growth. Potential conflict with inflation and a balanced budget. • Fiscal contraction through reducing government spending. Potential conflict with growth and employment. • Increasing taxation reducing inflation and/or improving government budget. Potential conflict with growth and employment. <p>Monetary</p> <ul style="list-style-type: none"> • Reduction in interest rates (or increase in money supply) increasing borrowing, reducing debt payments, increasing employment and growth. Potential conflict with inflation. • Reduction in interest rates (or increase in money supply) weakening exchange rate and improving competitiveness, increasing employment and growth and improving the current account. Potential conflict with inflation. <p>Reward other valid explanations</p> <p>Evaluation 12 marks (3 x 4 marks, OR 2 x 6 marks, OR 6 + 4 + 2 marks) Comments might include reference to</p> <ul style="list-style-type: none"> • If government increases spending on health/education AS will also increase so inflation might not occur • If increased government spending increases growth this should increase tax revenues • Lower interest rates might lead to increased investment causing AS to increase, reducing inflationary pressures 	(30)

	<ul style="list-style-type: none"> • Relative merits of policies which justifies prioritisation • Other things being equal • 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 • Reduced impact of interest rate cuts as they near zero • Long term debt payments to repay will reduce future living standards • Time lag for full effect such as with interest rates (18-24 months) • 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) • Magnitude of the changes • Apparent conflict between expansionary monetary policy and attempts to have austerity in fiscal policy <p>Quality of written communications will be assessed in this question based on the candidate’s ability:</p> <ul style="list-style-type: none"> • 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 	
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Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing conflicts 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 conflicts with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing conflicts with no evaluative point; 1 or 2 less-convincing conflicts 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)	<p>KAA 4 marks</p> <p>Up to 2 marks for a definition of investment, e.g.</p> <ul style="list-style-type: none"> • Increase/spending/purchase of capital stock/machinery (2) • asset build up and replacing of depreciated assets (2) <p>Up to 2 marks for explanation of ‘2010 prices’: e.g.</p> <ul style="list-style-type: none"> • discounts effect of inflation/real (1) since 2010 (1) • base year (1) of 2010 (1) <p>Up to 2 marks for reference to data e.g.,</p> <ul style="list-style-type: none"> • investment was £40bn (1) in 2008 (1) • investment fell from 2008 onwards (1) • investment fluctuated during the period shown on figure 1 (1) 	(6)

Question Number	Indicative content	Mark
(a) (ii)	<p>Use of data 1+1 marks- e.g. fell from approx. £39bn in 2008 to £29bn in 2013</p> <p>2 factors up to 3 marks each (2 x 3 marks). 1 mark for the identification and 2 marks for the explanation of each policy.</p> <p>Factors may include:</p> <ul style="list-style-type: none"> • Low domestic growth led to greater uncertainty of return on investment • Less business confidence • Interest rates • Low growth in export markets reducing confidence • Unwillingness of banks to lend to business because of high risk of default in a period of low economic growth • Firms had spare capacity as demand was well below 2007 and/or firms were labour hoarding • Banks lacking capital to lend out for investment <p>Also award for factors increasing investment if supported by appropriate data reference</p>	(8)

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8 marks</p> <p>AD/AS diagram, consistent with the candidate's analysis (4 marks); correct shift in line (1), lines labelled (1), axes labelled (price level and real GDP/output/income) (1), equilibria labelled (both original and new) (1).</p> <p>2 marks for correct effect on price level and real output . falling AD means price level falls (1) and real output falls (1)</p> <p>Up to 2 marks- transmission mechanism(s) explained, either AD or AS:</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • Depends on the effects of other factors in the economy (consumer confidence and consumer debt) • Knowledge that investment is small but significant component of AD (about 15%) • Long term or short term effects • Relative importance each effect • Size of the multiplier • Other factors are more important • Different effects in different industries or parts of the country • Elasticity of AD and/or AS 	(12)

Level	Mark	Descriptor
Level 3	9-12	Explanation of the effect with a good diagram and at least one evaluative point
Level 2	5-8	Explanation of the effect with a good diagram but no evaluative point; or good diagram but with limited explanation or; explanation of the effect but no diagram and some evaluation
Level 1	1-4	Identification of relevant effect with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (i)	<p>KAA 4</p> <p>4 marks for identification of components (1+1+1+1)</p> <ul style="list-style-type: none"> • Trade in goods • Trade in services • Investment income • Transfers <p>Also award 2 marks for reference to imports and exports/inflows and outflows</p>	(4)

Question Number	Indicative content	Mark
(b) (ii)	<p>KAA 8</p> <p>Award two factors only</p> <p>1 mark for only an identification of a point, 2 marks for identification and very brief explanation, further 2 marks for analysis/development of the point</p> <p>Factors may include:</p> <ul style="list-style-type: none"> • Relatively high value of pound/low value of dollar/other relative currencies. Within the point accept relatively high interest rates • Relatively low interest rates affecting AD (eg sucking in more imports) • Low quality of domestically produced goods or services • Relative inflation rates • Confidence shown in consumer spending and/or business investment • Price of oil/gas (UK net oil/gas importer) • Price of imports • Real wage costs rising, government tax policy, other changes to regulations makes X more expensive and M relatively cheap • Slowdown in other countries • Growth in UK increasing demand for imports <p>Do not allow productivity changes per se</p>	(8)

Question Number	Indicative content	Mark
* (b) (iii) QWC i-iii	<p>KAA 8 (maximum of 6 marks for KAA if no reference to data) 2 points, up to 4 marks per point: 1 mark for only an identification of a point, 2 marks for identification and very brief explanation, further 2 marks for analysis/development of the point</p> <ul style="list-style-type: none"> • Current account worsens or deficit grows, as a result of exports becoming less competitive; imports becoming more competitive • Falling real wages as workers do not receive pay rises • Rising unemployment as UK firms see lack of demand • Lower economic growth due to less demand for UK goods & services • Less investment • AS/AD analysis <p>Reference to data/own knowledge (2) e.g. GDP per hour worked is lower in the UK in 2012 than in all countries shown in figure 2 except for Japan</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • Depends on the price elasticity of demand for X and M • Does productivity determine current account or are other factors more important e.g. exchange rate, quality of goods and services • Problems with measuring productivity- e.g. especially with UK as a mainly services-based economy • Changes will take some time to come into effect • Depends on the productivity of other countries not listed in the data as well, but the key determinant is what is happening in the main trading countries • May not be a problem if there are large inflows from elsewhere (e.g. capital or income flows) <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately <p>To use grammar, spelling and punctuation appropriately</p>	(12)

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

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>KAA 18 Up to 6 marks for</p> <ul style="list-style-type: none"> • Definition of supply side policies (2); <ul style="list-style-type: none"> ○ a movement of AS to the right ○ increase in the quality/quantity of factor(s) of production ○ increase in productivity • Identification of a supply-side policy (2) • Defining real output as GDP or Economic Growth after inflation has been removed (2) • Use of a Production Possibility diagram to demonstrate growth (2) • AD/AS diagram showing rightward shift in AS (4 marks); correct shift in line (1), lines labelled (1), axes labelled (price level and real GDP/output/income) (1), equilibria labelled (both original and new) (1). <p>Policies might include 12 marks (3 x 4 marks or 2 x 6 marks) 1 mark for only an identification of a point, 2 marks for identification and very brief explanation, further 2 marks for analysis/development of the point</p> <ul style="list-style-type: none"> • Increased or improved education and or training would increase the productivity of the country • Increased or improved health care should reduce the number of days absence and so increase productivity • Changing the level of benefits and/or income tax to incentivise employment would increase the output per worker of those in work and increase the number of workers in work. • Cutting cost of bureaucracy and/or reduce regulation in firms would increase productivity • financial support for investment in economically-deprived regions should help overcome structural unemployment and increase the UK's total output • privatisation of an industry improving regulation and or competition of inefficient industries would increase the UK's productivity • privatisation which may lead to increased competition, innovation and efficiency which should lead to increased productivity • Reducing corporation tax and so increasing international competitiveness for investment which would increase UK productivity • infrastructure investment such as roads or broadband reducing industry's costs or improving access to market should increase the UK's productivity • Increased flexibility and/or mobility of labour market would increase the country's productivity and output • Improved childcare provision <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks); Comments might include reference to</p> <ul style="list-style-type: none"> • Time it takes for supply side policies to take effect • effectiveness of supply side policies such as infrastructure investments/ education/ health care at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth Business confidence may affect investment • Cut in income tax designed as an incentive to work and invest may be ineffective if workers use it as an opportunity to work less for the same income 	(30)

	<ul style="list-style-type: none"> • Cut in corporation tax ineffective if companies use the cut in corporation tax to boost short term profits rather investment • Interest rates may affect investment • Effectiveness of policy to deliver desired outcome • The actions of other countries also trying to attract investment • Increase in UK taxation elsewhere may have an effect on incentives • Concern about the ability of the government to repay its debt if it gets too large • Magnitude of policy change <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • 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 	
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Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing policies with at least two evaluative points
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

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

