

Mark Scheme (Results)

Summer 2016

Pearson Edexcel GCE
in Economics (6EC02)
Paper 01 Managing the Economy

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

Summer 2016

Publications Code 6EC02_01_1606_MS

All the material in this publication is copyright

© Pearson Education Ltd 2016

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.

Question Number	Indicative Content	Mark
1 (a) (i)	<p>KAA 4 marks:</p> <ul style="list-style-type: none"> • Increase/rise in wages/income (1) • adjusted for inflation (1) <p>2 marks for data reference - Only 1 mark if no/inaccurate figures used from Figure 1</p>	(4)

Question Number	Indicative Content	Mark
1 (a) (ii)	<p>KAA 8 marks:</p> <p>2 marks for data reference - Only 1 mark if no/inaccurate figures used from Figure 1 Award 2 measures only. Max. 6 marks; 1 mark for solely identifying a relevant point 1 mark for limited development of this point Up to 1 further mark for clear analysis of this point</p> <p>For example:</p> <ul style="list-style-type: none"> • higher rates of inflation experienced during this period • high unemployment depressing the wage growth • a lack of demand in the economy: could be due to recession, welfare cuts, etc. • lack of business confidence • falling labour productivity • high levels of immigration (can use Figure 3/Extract 1) depressing wages • increases in non-wage costs, such as pensions and employers' national insurance contributions • shift in labour market from well-paid manufacturing jobs to the lower paid service sector jobs that are flexible, with temporary/zero hour contracts • trade union bargaining power has been hit by economic problems at home and forces of globalisation 	(8)

Question Number	Indicative Content	Mark
1 (b)	<p>KAA 8</p> <p>1 mark for only an identification of a point, 1 mark for identification and very brief explanation, further 1 marks for analysis/development of the point.</p> <p>2 marks for reference to data – Only 1 mark if no/inaccurate figures used. Maximum 6/8 if no data reference. Maximum 5/8 if no reference to employment and unemployment</p> <p>Effects for employment: up to 3 marks for 1 point</p> <ul style="list-style-type: none"> • Increased size of population means that there is an increase in supply of labour, thus reducing wage rate and increasing demand for labour, so employment rises • 41% of people have immigrated for work and this is likely to lead to an increase in employment – these 228,000 immigrants may fill those vacancies that cannot be filled by indigenous workers • Increased consumer spending from an increased population means more jobs are created • Increased demand for public services creating increased demand for public sector workers <p>Effects for unemployment: up to 3 marks for 1 point</p> <ul style="list-style-type: none"> • Increased immigration means more people looking for work so likely to increase unemployment – 41% of immigrants looking for work, hence could displace current employees • Surplus labour in the market, e.g. family (15%), might attempt to join the labour market but with inappropriate skills <p>Evaluation 4 marks (2+2 or 4):</p> <ul style="list-style-type: none"> • Magnitude: only 41% coming for work • Magnitude of net immigration– 244,000 in the year ending March 2014 • 31% are for formal study so may only be short-term migrants; also not sure they will remain in the UK after study • Different sectors of the economy may be affected differently • Growing UK economy can take on more labour without increasing unemployment • Evidence might not be accurate/reliable, • Depends on the skills of the immigrants 	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing reasons with at least one evaluative point
Level 2	5-8	2 convincing reasons with no connections, or 1 convincing impact with some good analysis but no evaluative point; 1 or 2 less-convincing impacts with some evaluation
Level 1	1-4	Identification of relevant reasons with or without brief evaluative keywords

Question Number	Indicative Content	Mark
<p>*1 (c) QWC i-iii</p>	<p>KAA 8</p> <p>Up to 4 marks for the diagram: Diagram demonstrating a leftward shift of AD:</p> <p>correct shift of AD (1), lines labelled (1), axes labelled (1), equilibria labelled (1)</p> <p>Up to 2 marks for the analysis:</p> <ul style="list-style-type: none"> • $AD=C + I + G + (X-M)$; widening deficit means $(X-M)$ is a negative value and so AD will fall (1) • Impact on price level and real output (1) • Reference to the circular flow of income: leakages are greater than injections (1) • Reference to the multiplier effect causing impact across economy (1) <p>2 marks for reference to data - Only 1 mark if no/inaccurate figures used. Maximum 6/8 if no data reference present</p> <p>Evaluation 4 marks (2+2 or 4):</p> <ul style="list-style-type: none"> • depends on other factors (e.g. could be offset by a change in consumption) • other factors may be more significant parts of aggregate demand • exports have increased • may be due to short-term shifts in exchange rates • consideration of magnitude • consideration of time lags • elasticity of the AS curve • depends on the size of the multiplier <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 	<p>(12)</p>

Level	Mark	Descriptor
Level 3	9-12	1 convincing impact with AD/AS diagram, with at least one evaluative point
Level 2	5-8	1 convincing effect with evaluation but no/incorrect diagram, or 1 convincing impact with diagram but no evaluative point; less-convincing impact or diagram with some evaluation
Level 1	1-4	Identification of relevant impacts with or without brief evaluative keywords

Question Number	Answer	Mark
1 (d) (i)	<p>Definition / explanation of balance of trade: e.g. difference between value (1) of country's imports and exports (1) OR value of exports minus value of imports of a country (2) OR imports – exports (1)</p> <p>Lack of demand in the Eurozone economy leads onto lack of demand for UK exports (2) as large percentage - 50% - of UK exports go to these countries (2) so negative impact on UK balance of trade/deficit increases (2)</p>	(6)

Question Number	Indicative Content	Mark
1 (d) (ii)	<p>KAA 8 marks: 1 mark for solely identifying a relevant point 1 mark for limited development of this up to 2 further marks for clear analysis of this point</p> <p>Award 2 reasons only. Do not double award.</p> <p>For example:</p> <ul style="list-style-type: none"> • Increased demand for UK exports as they are now relatively less expensive for foreigners / exports become more competitive • Reduced demand for UK imports as they are now relatively more expensive for UK citizens / imports less competitive • Increase in UK aggregate demand due to increase in net exports • Increase in imported / cost push inflation pushing up UK inflation rate • Increased employment in the UK due to an increased demand for domestic production and exports 	(8)

Question Number	Indicative content	Mark
<p>*1 (e) QWC i-iii</p>	<p>KAA 18 marks</p> <p>Up to 6 marks:</p> <ul style="list-style-type: none"> • Identification of government policies as fiscal or supply-side policy (2) • Definition of employment rate OR data reference to employment rate (2) • Diagram showing AD shift and/or AS shift consistent with analysis (4); axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift inconsistent with analysis. <p>Explanation of how the policies might help increase employment: 12 marks (3 x 4 marks or 2 x 6 marks);</p> <p>1 mark for only identification of a point, 2 marks for identification and very brief explanation, up to further 4 marks for analysis/development of the point</p> <ul style="list-style-type: none"> • Investment in education and training to provide a more skilled workforce through increases in the level of human capital • Reduction in minimum wage to encourage more firms to increase employment levels • Reduction in unemployment and associated benefits to increase incentive to find work • Grants/tax breaks to firms encourage increases in employment • Reduction in taxation to encourage firms to expand or set up in UK, therefore increasing employment • Reduction in income tax creating a larger incentive to work, increasing consumption and therefore, employment • Decreasing the power of trade unions will help reduce real wage unemployment • Improving geographical mobility of labour - government providing tax breaks to firms who set up in depressed areas/giving some financial assistance to unemployed workers who move to areas with high employment • Government improving the labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase provision of free childcare 	

	<p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks)</p> <ul style="list-style-type: none"> • Time lag (e.g. education takes a long time to have significant impact on productivity) and implementation lags • Government budget deficit and national debt make it difficult to pay for large investments or offer significant grants/tax breaks • External factors beyond UK government's control, e.g. recession in Eurozone • Magnitude of the policy change • Conflicts with other UK economic objectives • Conflicts between the policies • Depends if there is spare capacity • Creditworthiness of the UK government • Discussion of effectiveness of individual policies - this could be 3 separate points <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 	(30)
--	---	-------------

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing points 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 points with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing points with no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

Question Number	Answer	Mark
2 (a) (i)	KAA: 4 marks <ul style="list-style-type: none"> • An increase (1) in the total value of goods and services produced in an economy/GDP • adjusted for inflation (1) <p>2 marks for data reference - Only 1 mark if no/inaccurate figures used from Figure 1</p>	(4)

Question Number	Indicative Content	Mark
-----------------	--------------------	------

<p>2 (a) (ii)</p>	<p>KAA 8</p> <p>Award 2 advantages only 1 mark for solely identifying a relevant point 1 mark for limited development of this point Up to 2 further marks for clear analysis of this point</p> <p>For example:</p> <ul style="list-style-type: none"> • HDI is a composite measure: broader perspective on a country's standard of living, not solely a monetary basis for comparison • Easy to compare countries by rank: can quickly see which countries performing well and which are not • Could be used to focus aid on countries most in need • Use of education and health could be used as a measure of the success of different government's policies • GDP rank minus HDI rank as a useful measure of health and education • Shift of AS curve outwards as a sign of increased potential without increase in costs: HDI rank sign of future welfare <p>Evaluation 4 marks (2+2 or 4):</p> <ul style="list-style-type: none"> • Reliability of the data: e.g. possibility of some countries deliberately producing misleading data; some countries lacking an organised and independent statistics authority • Access to data for some countries: due to lack of availability of data, especially in less developed countries • Less up-to-date data: more data to collect and then collate, so this is much more time-consuming than one single piece of data such as GDP • PPP values change quickly and are likely to be inaccurate or misleading • Still little sense of income distribution and quality of life in this measure • Difficult to measure human development • Other measures, such as access to the internet/mobile phones, might be better • An indication of deprivation or poverty would increase the usefulness of HDI 	<p>(12)</p>
--------------------------	--	--------------------

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

Question Number	Indicative Content	Mark
2 (a) (iii)	<p>KAA 8 marks:</p> <p>2 marks for data reference - Only 1 mark if no/inaccurate figures used from Figure 2 Award 2 measures only. Max. 6 marks; 1 mark for solely identifying a relevant point 1 mark for limited development of this Up to 1 further mark for clear analysis of this point</p> <p>For example:</p> <ul style="list-style-type: none"> • Measures to increase GDP e.g. inflationary fiscal policy • Higher government spending on benefits / social protection • Higher government spending on education e.g. building infrastructure, such as schools • Higher government spending on healthcare e.g. building infrastructure, such as hospitals • Better access to education / healthcare, e.g. providing incentives to children from poor families in countries where there is no state provision of education • Improved information / more support for jobseekers • Reduction in regulation to promote business investment • Raising of the compulsory school leaving age / increasing University enrolment and entry levels 	(8)

Question Number	Answer	Mark
2 (b) (i)	<p>2 marks:</p> <ul style="list-style-type: none"> Weights are attached to reflect relative importance of items (1) in terms of consumer spending/income (1) OR weights defined as a proportion of consumer spending/income spent on particular goods and services (2) <p>KAA 4 - 1 mark per point</p> <ul style="list-style-type: none"> Price survey Expenditure and Food Survey Basket of goods / 650 goods and services Contents of the basket revised annually Use of an index Base year Price changes multiplied by weightings 	(6)

Question Number	Indicative Content	Mark
2 (b) (ii)	<p>KAA 8 marks:</p> <p>1 mark for solely identifying a relevant point 1 mark for limited development of this up to 2 further marks for clear analysis of this point Award 2 reasons only.</p> <p>For example:</p> <ul style="list-style-type: none"> Inflation above target Rapid wage growth Other cost-push factors Other demand-pull factors e.g. house prices Consumer / business expectations of future price rises Lack of spare capacity in the economy Economy growing at 'unsustainable' level Make imports cheaper by strengthening the value of the sterling pound (attract hot money flows) 	(8)

Question	Indicative content	Mark
----------	--------------------	------

Number		
<p>2 (b) (iii)</p>	<p>KAA 8 marks</p> <p>Up to 4 marks for identification and explanation of each point. Award 2 points only. 1 mark for only identification of a point, 2 marks for identification and brief explanation, further 2 marks for analysis/development of the point. For example, it is desirable:</p> <ul style="list-style-type: none"> • Exports may increase and imports may decrease, improving UK trade balance and competitiveness • May lead to higher real wages or less erosion of fixed incomes, hence more spending • Could lower nominal interest rates which may encourage borrowing • Benefits of falling oil and commodity prices for the economy <p>Evaluation 4 marks (2+2 or 4) For example, it is not desirable:</p> <ul style="list-style-type: none"> • Expectation of falling prices in the future discourages purchases today; consumption and therefore AD falls • This is a cycle that it can be very hard for a country to get out of • May lead to increased unemployment • Increases real debt burden (could relate to consumers, business, or the government) <p>NB: Candidates may take reasons why a low rate of inflation is desirable as KAA, and why it's not as evaluation or vice versa.</p> <p>Other evaluation points include:</p> <ul style="list-style-type: none"> • Magnitude: Only 0.1% deflation • Deflation mainly caused by cost-push factors <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 	<p style="text-align: right;">(12)</p>

Level	Mark	Descriptor
Level 3	9-12	2 convincing reasons with at least one evaluative point
Level 2	5-8	2 convincing reasons with no connections, or 1 convincing impact with some good analysis but no evaluative point; 1 or 2 less-convincing impacts with some evaluation
Level 1	1-4	Identification of relevant reasons with or without brief evaluative keywords

Question Number	Indicative content	Mark
*2 (c) QWC i-iii	<p>KAA 18 marks</p> <p>Up to 6 marks:</p> <ul style="list-style-type: none"> • Definition of Monetary Policy (2) • Definition of the rate of inflation or data reference to the rate of inflation (2) • Diagram showing AD shift and/or AS shift consistent with analysis (4); axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift inconsistent with analysis. <p>Explanation of how the monetary policy has been responsible for controlling inflation: 12 marks (3 x 4 marks or 2 x 6 marks); 1 mark for only identification of a point, 2 marks for identification and very brief explanation, up to further 4 marks for analysis/development of the point</p> <ul style="list-style-type: none"> • Explanation of transmission mechanism- impact of changing interest rate on AD and therefore inflation (could count as 3 separate points, e.g. on consumption, investment, exchange rates and house prices) • Quantitative easing / changing money supply to further impact the inflation rate • Forward guidance? • Successfully kept inflation reasonably close to the target and within control (Figure 3) • Open, transparent and is operationally independent from political interference allowing it to focus on meeting inflation target <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks)</p> <ul style="list-style-type: none"> • Cost-push factors are out of the Bank of 	

	<p>England's control, e.g. oil prices</p> <ul style="list-style-type: none"> • Times where inflation is out of tolerance/not within target range (Figure 3) • Reluctance of banks to pass on changes in the base rate to their customers • Banks seeking to improve their capital ratios • Lack of confidence among consumers and/or businesses • MPC can only use interest rate and money supply as instruments which may restrict it from meeting the UK inflation target • Conflicts with other UK economic objectives • Time lags • Depends if there is spare capacity <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 	(30)
--	--	-------------

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing points 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 points with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing points with no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

