

Mark Scheme (Standardisation) Summer 2008

GCE

GCE Economics (6356/01)

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	Answer	Mark
1(a)	<p>Factors which could explain the higher rate of inflation in UK include:</p> <ul style="list-style-type: none"> • Higher aggregate demand in the UK; aggregate demand rising faster than aggregate supply • Cost-push pressures e.g. higher unit wage costs; higher non-wage costs e.g. rents, government regulations • Lower productivity • Differences in monetary policy i.e. inflation targets (below 2% in eurozone; 2% +/- 1% in UK) • Fall in £ against the Euro • Lower unemployment in UK than France and Italy • Higher fiscal deficit in UK than in France and Italy <p><i>Evaluation comments could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of factors</i> • <i>Significance of productivity differences</i> • <i>Allow credit for differences in accuracy of calculation</i> <p>For a L5 mark: Consideration of 3 factors together with 1 evaluative point. A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation Max 28 marks if no evaluation. Award a L4 mark (24-27 marks) if only 2 factors + evaluation or 3 factors without evaluation Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points. Max 23/40 if no hint of comparison between countries</p>	(40)

Question Number	Answer	Mark
1(b)	<p>Factors include:</p> <ul style="list-style-type: none"> • Application of supply side policies (this could count as two points) e.g. education and training; policies designed to increase competition; increased incentives for investment. Discussion should relate to how these measures might increase productivity and reduce unit labour costs • Improvements in infrastructure e.g. roads, railways • Tax relief on research and development to improve non-price factors such as quality, design, reliability, branding • Reduction in UK inflation rate relative inflation rates in other countries e.g. by lowering the inflation rate target • Depreciation in the exchange rate of the £ • Net migration, especially from Eastern Europe, reduce wage pressures. <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> • <i>Discussion relative importance of the factors identified</i> • <i>Comment on the importance of labour costs as a proportion of the total costs of production</i> • <i>Discussion of problems of measuring competitiveness</i> • <i>Time lags involved in the application of supply side policies</i> • <i>New machinery by itself might not improve productivity - much depends on its quality and ability of workers to operate it efficiently</i> <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
2(a)	<p>Growth of trade associated with increased globalisation. Factors include:</p> <ul style="list-style-type: none"> • Reduction in trade barriers linked to the work of the WTO; application of law of comparative advantage • Opening up of economies to world market e.g. China; former Communist countries • Economic development in LDCs leading to more demand for foreign goods • Growth of offshoring and outsourcing by multinationals • Higher real incomes create increased demand for imported goods (depending on value of the marginal propensity to import) • Expansion of trade blocs <p><i>Evaluation comments could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of factors</i> • <i>Critical view of accuracy of measures of trade and world GDP</i> • <i>Application of concepts such as income elasticity of demand and marginal propensity to import</i> <p>For a L5 mark: Consideration of 3 factors together with an evaluative point. A Level 5* mark (32-40) should be awarded for answers that meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation Max 28 marks if no evaluation. Award a L4 mark (24-27 marks) if only 2 factors + evaluation Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
2(b)	<p>Possible disadvantages include:</p> <ul style="list-style-type: none"> • Danger of deficit on the current account of the Balance of Payments <i>But not a problem if this can be financed by inflows into the financial account</i> • In turn, this might lead to the need to borrow from other countries or from the IMF <i>Unnecessary if financed by inflows into the financial account</i> • Increased unemployment - if the country's goods are uncompetitive <i>Effects will be uneven e.g. little effect on non-traded services sector</i> • Overdependence on imported goods of strategic importance e.g. food, energy would be undesirable in times of war or political instability <ul style="list-style-type: none"> • Lower GDP - if free trade results in imports rising at a faster rate than exports <i>But, according to the law of comparative advantage, world output should rise as a result of increased specialisation and trade</i> • Country's economy would be more subject to changes in the world economy • Negative externalities • Increased possibility of food shortages - abolition of CAP <i>But.. food would be cheaper than would be the case with protectionist measures</i> • Increased possibility of dumping <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
3(a)	<p>Possible factors include:</p> <ul style="list-style-type: none"> • World growth of GDP • Industrialisation of China • Supply shortages - more expensive to extract metals from new mines; food supplies disrupted by droughts, floods; wars • Speculation • Fall in value of dollar • Use of food for biofuels • Export taxes and/or bans on exports <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of factors</i> • <i>Comment on significance of inelasticity of supply/demand</i> • <i>Comment on why metal prices have risen faster than food prices</i> <p>For a L5 mark: Consideration of 3 factors together with 1 evaluative point. A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation Max 28 marks if no evaluation. Award a L4 mark (24-27 marks) if only 2 factors + evaluation Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
3(b)	<p>Effects include:</p> <ul style="list-style-type: none"> • Cost push inflation - AD/AS analysis showing leftward shift in AS curve <i>But increased costs might be offset by increased productivity or efficiency gains</i> • Danger of wage price spiral and rising inflationary expectations <i>But... monetary policy might help to keep inflation under control</i> • Lower growth - AD/AS analysis <i>But... if the rise in commodity prices is caused by rapid world growth, then the impact on growth might be limited</i> • Possibility of increased unemployment • Impact on the trade in goods balance <i>In the UK's case, there is likely to an adverse effect on the trade in goods balance. But: this effect might be offset by a rise in goods and services</i> • Impact on public expenditure e.g. benefits are increased in line with increases in RPI. • Impact on environment <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
4(a)(i)	$\frac{550.4 - 342}{342} = \frac{208}{342} \times 100$ $= 60.9\% \text{ (Accept 61\%)}$ <p>Or 2 marks for correct without showing calculation.</p>	(1) (1)

Question Number	Answer	Mark
4(a)(ii)	<p>The data is in current terms - no account taken of inflation</p> <p>Must consider the change in public expenditure as a proportion of GDP</p> <p>2 x 2 marks, or up to 3 marks for point explained well (3+1)</p>	(4)

Question Number	Answer	Mark
4(a)(iii)	<p>There was a fiscal surplus (1) of £16.5 billion (1) in 1999-2000 but a fiscal deficit (1) of £30.4 billion in 2006-07.(1)</p> <p>OR general approach to change in fiscal position (1)</p>	(4)

Question Number	Answer	Mark
4(b)	<p>Effects include:</p> <ul style="list-style-type: none"> • GDP growth; multiplier effects; AD/AS analysis • Increase employment • Change in employment patterns - an increase in proportion of workers employed in the public sector • Possibility of inflationary consequences (this could be used in evaluation) • Financing issues - with the need for public sector borrowing • Crowding out • Improvement in public services leading to an increase in productivity <p><i>Evaluation points could include:</i></p> <ul style="list-style-type: none"> • <i>Impact on GDP might be limited because low productivity in public sector</i> • <i>Inflationary consequences have not materialised because inflation targeting; 'China effect'</i> • <i>Few problems have been experienced in financing public sector net borrowing</i> • <i>Labour and skill shortages could have been overcome by immigration</i> • <i>Disincentive effects of increased taxes</i> <p>2 marks for identification; 1 for application; 4 for analysis and 5 for any two evaluation points (3 + 2; 2 + 3).</p>	(12)

Question Number	Answer	Mark
4(c)	<p>Key issues include:</p> <ul style="list-style-type: none"> • Growth in footloose multi-nationals seeking the lowest cost locations - UK needs to ensure its corporation tax rate is competitive • Lower corporation tax would lead to an increase in investment • Increase in GDP via the multiplier effect • Higher investment would increase AS so would not be inflationary • Lower public sector borrowing <p>Evaluation points could include:</p> <ul style="list-style-type: none"> • <i>Other factors might be more significant for attracting FDI e.g. wage costs</i> • <i>Research methodology might be flawed leading to inaccurate estimates of effects</i> • <i>A reduction in corporation tax might not result in increased investment - companies might raise dividend payments to shareholders</i> • <i>Discussion of short term and long term effects</i> <p>1 mark for identification; 2 for application (1 mark for data reference and 1 for recognition of different rates of corporation tax); 3 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
4(d)	<p>Effects could include:</p> <ul style="list-style-type: none"> • Less even distribution of income - tax system has become less progressive <i>But could be offset by increases in tax credits</i> • Cheaper to administer because the tax system has been simplified <i>But other changes have increased complexity of tax system</i> • Impact on incentive to work <i>Incentives will vary according to income etc.</i> • Increase in disposable income for some groups - could lead to rise in consumption and increase in AD <i>But tax cuts might result in an increase in savings and/or increase in imports</i> <p>Credit answers which refer to recent increase in tax free allowances Credit analysis based on reduced government expenditure but not on increased expenditure</p> <p>1 mark for identification; 2 for application; explicit or implied reference to abolition of 10p tax rate (1 mark) and reduction in standard rate (1 mark); 3 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
4(e)	<p>Effects include:</p> <ul style="list-style-type: none"> • Repayment of part of Public Sector Net Debt • Reduction in interest payments on public sector debt • More money available for expenditure on public services <p><i>Would not be true if tax revenues were falling</i></p> <ul style="list-style-type: none"> • UK would be able to meet criteria for entry into euro <p><i>But ... this does not appear to be a priority at present</i></p> <ul style="list-style-type: none"> • Possibility of lower interest rates; reduction in 'crowding out' <p><i>But... other factors influence inflation and, therefore, the Bank of England's decisions on interest rates</i></p> <ul style="list-style-type: none"> • Lower borrowing might imply less investment in infrastructure and public services and/or higher taxes <p><i>But ... not necessary if lower taxes generate increase economic activity and increased tax revenue and incentives</i></p> <p><i>1 mark for identification; 1 mark for application (refer to context i.e. extra tax revenue resulting from tax cuts); 4 marks for analysis and 2 marks for any one evaluative comment</i></p>	(8)

Question Number	Answer	Mark
5(a)(i)	<p>1999: $\frac{195\,217}{911\,945} \times 100 = 21.4\%$</p> <p>2006: $\frac{328\,736}{1\,299\,622} \times 100 = 25.3\%$</p> <p>1 mark for correct method; 2 marks for accurate calculations. Allow +/- 0.1% Or 3 marks for correct answers without calculations; 2 marks if only one correct answer without calculation.</p>	(3)

Question Number	Answer	Mark
5(a)(ii)	<p>Possible causes include:</p> <ul style="list-style-type: none"> • High value of the £ (reference to Figure 3) • Increase in real incomes, associated with continuous economic growth. Demand for imports is income elastic • Industrialisation of China - cheap imports from low wage countries; change in comparative advantage resulting in deindustrialisation in UK • Non-price factors e.g. quality design • Expansion of EU <p>Evaluative comments could include:</p> <ul style="list-style-type: none"> • Prioritisation of factors • Comment that it could have been caused by a combination of factors <p>If no reference to change in import penetration then 5/8 maximum mark.</p> <p>2 marks for identification; 2 for application (causes must relate to UK economy. Examples may be given 1+1); 2 for analysis and 2 for any one evaluative comment</p>	(8)

Question Number	Answer	Mark
5(a)(iii)	<p>Possible effects include:</p> <ul style="list-style-type: none"> • Deterioration in trade in goods and services balance - use of data; • Unemployment in manufacturing industries • Possibility of fall in aggregate demand, leading to fall in real incomes (use of AD/AS analysis) • Pressure on domestic firms to reduce costs to remain competitive • Downward pressure on the exchange rate of the £ <p>Evaluation could include:</p> <ul style="list-style-type: none"> • Prioritisation of effects • Trade in goods and services deficit not a problem if there are inflows into investment income and financial accounts • Unemployment in manufacturing might be offset by employment gains in services sector • AD might not fall if rise in consumption and investment outweighs rise in imports <p>2 marks for identification; 2 for application (use of data in Figure 1); 2 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
5(b)(i)	Positive correlation expected (1 mark) An increase in interest rates (relative to those in other countries) is likely to cause a rise in 'hot money' flows as investors seek the highest return on their cash. This could be illustrated with a supply and demand diagram - showing an increase in demand for the currency. (Up to 3 marks)	(4)

Question Number	Answer	Mark
5(b)(ii)	Use of data to show periods of correlation and years when relationship is weak. (2 + 1 marks) Commenting that there is no precise relationship (1 mark) but overall trend is similar (1 mark). 1 mark for specific data reference.	(3)

Question Number	Answer	Mark
5(b)(iii)	Factors include: <ul style="list-style-type: none"> • Relative inflation rates <i>But... may not be significant in the short term - other factors more significant</i> • Current account balance (may be linked to international competitiveness) <i>But... may have little impact if there are substantial flows into financial account</i> • State of economy relative to those of major competitors <i>Might be regarded as the most significant factor: people wish to hold the currency of a strong economy</i> • Speculation relating to future state of economy, political uncertainty • FDI <p>2 marks for identification; 4 for application and analysis; 2 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
5(c)	<p>Analysis could include:</p> <p>For Inflation:</p> <ul style="list-style-type: none"> • Increase value of the pound could result in a lower rate of inflation because imported raw materials will cost less. • Also exporters will try to reduce costs to remain competitive • Imported manufactured goods will also cost less <p><i>But.... other factors might bring inflationary pressures e.g. external shocks; AD rising faster than AS</i></p> <p>For Economic growth:</p> <p>Growth could slow down if imports (leakages) are rising faster than exports (injections)</p> <p><i>But... other factors could be causing growth rates to be maintained e.g. higher investment or FDI</i></p> <p>For full employment:</p> <p>Lower import prices could result in unemployment</p> <p><i>But... rising real income might result in employment creation in other sectors of the economy.</i></p> <p>2 marks for identification; 1 for application to UK economy; 4 for analysis and 5 for any two evaluation points (3 + 2; 2 + 3). Maximum 3/5 if no reference to simultaneous achievement of objectives.</p>	(12)

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Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
A					
Qu.1(a)	10	10	10	10	40
Qu.1(b)	10	10	20	20	60
Total	20	20	30	30	100
Qu.2(a)	10	10	10	10	40
Qu.2(b)	10	10	20	20	60
Total	20	20	30	30	100
Qu.3(a)	10	10	10	10	40
Qu.3(b)	10	10	20	20	60
Total	20	20	30	30	100
B					
Qu.4(a)(i)	2	0	0	0	2
Qu.4(a)(ii)	1	2	1	0	4
Qu.4(a)(iii)	2	2	0	0	4
Qu.4(b)	2	1	4	5	12
Qu.4(c)	1	2	3	4	10
Qu.4(d)	1	2	3	4	10
Qu.4(e)	1	1	4	2	8
Total	10	10	15	15	50
Qu.5(a)(i)	2	1	0	0	3
Qu.5(a)(ii)	1	1	4	2	8
Qu.5(a)(iii)	2	2	2	4	10
Qu.5(b)(i)	1	0	3	0	4
Qu.5(b)(ii)	0	3	0	0	3
Qu.5(b)(iii)	2	2	2	4	10
Qu.5(c)	2	1	4	5	12
Total	10	10	15	15	50