



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme

June 2003

GCE

Economics

Unit ECN2

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ECN2/1

This component is an objective test for which the following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1.	A	9.	D
2.	A	10.	C
3.	C	11.	D
4.	A	12.	A
5.	C	13.	B
6.	B	14.	D
7.	D	15.	B
8.	B		

ECN2/2**General Instructions**

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

- (iii) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 18 of this mark scheme.
- (iv) **A 'levels' approach.** This approach is used for marking part (c) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 17. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 18. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE ‘LEVELS’ MARK SCHEME**Levels of Response Mark Band Descriptors**

In part (c) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can ‘evaluate economic arguments and evidence, and make informed judgements’. It is not necessary that the candidate identifies a wide range of issues. As indicated below, the Quality of Written Communication used should be taken into account when awarding the marks.

Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

0 to 3 marks*Mid-Point: 2 marks***Level 2**

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate’s explanation may become confused. There may be some attempt to present alternative points of view but any attempt at evaluation is superficial. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

4 to 6 marks*Mid-Point: 5 marks***Level 3**

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

7 to 9 marks*Mid-Point: 8 marks***Level 4**

Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.

10 to 12 marks*Mid-Point: 11 marks***Level 5**

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

13 to 15 marks*Mid-Point: 14 marks*

THE KEY TO BE USED WHEN USING THE ‘LEVELS’ MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate’s response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

EITHER**1****Total for this question: 25 marks**

- 1 (a) Using the data in **Extract A, Table 1**, describe the main changes in total household consumption expenditure and its components that have taken place between 1999 and the third quarter of 2001. *(4 marks)*

For candidates who:

do not provide any accurate descriptions of the changes in the total household consumption or the composition of consumption expenditure.	0 marks
provide one accurate description of the data but do not use the figures to indicate the magnitude of the changes. OR provide one or more reasonable descriptions of the data but it is clear that they are confusing the ‘rate of growth’ of consumption with the ‘level’ of consumption.	1 mark
provide one accurate description of the data which is supported by figures that indicate the magnitude of the changes. OR provide two or more accurate descriptions of the data that are not supported by any figures.	2 marks
provide two or more accurate descriptions of the data that are supported by figures indicating the magnitude of the changes. However, it is not always clear from the descriptions that the candidate fully understands that the figures show the ‘rate of growth’ of consumption.	3 marks
provide two or more accurate descriptions of the data that are supported by figures indicating the magnitude of the changes. It is clear that the candidate fully understands that the data shows the ‘rate of growth’ of consumption rather than the level of consumption.	4 marks

NB Candidates who provide a ‘blow by blow’ description with no overview can be awarded a **maximum of 2 marks**.

MAXIMUM FOR PART (a) 4 MARKS

- 1 (b) Explain why the rate of growth of expenditure on consumer durables may have differed from the growth of other forms of consumption expenditure. (6 marks)

For candidates who:

explicitly define the term consumer durable

1 mark

explain why the fall in the **relative** price of durables might have contributed to the above average rate of growth of consumption

Up to 3 marks

Candidates who do **NOT** bring out the significance of the fall in the **relative** price can be awarded a **maximum of 2 marks**

explain why the significant reduction in interest rates might have contributed to the rapid increase in the consumption of durables e.g. many durables are expensive items that may be financed by borrowing etc.

Up to 3 marks

explain how the increase in house prices may have contributed to the rapid growth in expenditure on durables. Candidates who consider the effects of equity withdrawal should be rewarded

Up to 3 marks

explain how an increase in activity in the housing market may have contributed to the growth of expenditure on consumer durables (i.e. when a person moves house they may buy carpets, a fitted kitchen etc.). Some candidates may also consider the impact on no-durable items (e.g. paint, wallpaper etc.)

Up to 3 marks

explain how the high level of employment and/or consumer confidence may have contributed to the rapid growth in expenditure on durables

Up to 3 marks

explain why the growth in real household income may have resulted in a rapid growth in expenditure on consumer durables relative to other forms of consumption

Up to 3 marks

In each case, if the candidate doesn't indicate why the factor indicated has increased the consumption of durables relative to other types of consumption then only **1 mark** should be awarded.

Allow **1 mark** for candidates who state that expectations of high inflation may persuade people to bring forward their purchases of durable goods, even though the data states that inflationary pressures are subdued.

NB Candidates who just copy out relevant sections of the data without providing any further explanation should be awarded a **maximum of 1 mark**.

MAXIMUM FOR PART (b) 6 MARKS

- 1 (c) Using the data to help you, assess the likely effects of the growth in consumer expenditure on the performance of the United Kingdom economy during 2001. (15 marks)

Candidates should recognise that consumer spending is an important component of aggregate demand and be able to analyse the effect of a change in aggregate demand on the major macroeconomic policy objectives. The better candidates will recognise that the buoyancy of consumer spending was an important factor in preventing the United Kingdom economy as a whole going into recession. They will also appreciate some of the problems that may result from an excessive growth of consumer spending e.g. the rapid growth in spending durables will have contributed to the large balance of payments deficit on current account although it may also have helped support the manufacturing sector which was already in recession.

To achieve more than 7 marks candidates will need to show that they can use the data provided to help them make plausible judgements about the impact of the growth in consumer expenditure on the United Kingdom economy in 2001. They should identify aspects of the growth in consumer expenditure that might have been expected to be beneficial and others that might have been detrimental. They are also likely to attempt to come to an overall conclusion.

Issues and areas for discussion include:

- consumer expenditure as a component of aggregate demand;
- consumer expenditure as typically accounting for over 65% of aggregate demand;
- recognition that the data shows that the growth of consumer spending remains strong even though it appears to be growing a little more slowly than in the previous 2 years;
- the growth in consumer spending as a factor that helps to offset the deflationary impact of the fall in exports;
- other data that might be useful e.g. what happened to the other components of aggregate demand such as investment and government expenditure (some candidates may use their own knowledge to supplement the data provided);
- the growth of consumption and hence aggregate demand, in relation to the underlying rate of growth of the economy;
- the state of the United Kingdom economy in 2001;
- the impact of the slowdown in the world economy on the United Kingdom (not just the events of September 11th);
- the effect of the growth of consumer spending on the actual rate of growth of GDP;
- the information on the actual rate of growth of GDP provided in the text;
- the effect of the growth of consumer spending on unemployment;
- the information on employment and unemployment provided in the text;
- the possible effect of the growth of consumer spending on inflation;
- the information on inflation provided in the text;

- the effect of the growth of consumer spending on the balance of payments on current account;
- the information on the balance of payments on current account provided in the text;
- the effect of the growth of consumer spending on manufacturing industry;
- the information on United Kingdom manufacturing industry provided in the text;
- an overall assessment of the impact of the continued growth in consumer spending on the performance of the United Kingdom economy in 2001.

Candidates should be rewarded for the use of diagrams that are correctly drawn and labelled.

USE THE LEVELS MARK SCHEME ON PAGES 17 & 18

MAXIMUM FOR PART (c) 15 MARKS

OR**2****Total for this question: 25 marks**

- 2 (a) Using the data in **Extract C, Table 2**, describe the main changes in France's balance of payments on current account and its components between 1998 and 2000. *(4 marks)*

For candidates who state that:

- | | |
|---|----------------------|
| the surplus on the current account of the balance of payments declined between 1998 and 2000 | 1 mark |
| there was a substantial deterioration in the balance of trade in goods | 1 mark |
| the deteriorating current transfers balance has also made a contribution to the deterioration in the current account balance | 1 mark |
| the deterioration in the balance of trade in goods and services has been offset by the improvement in 'Investment and other income' | 1 mark |
| the decline in the current account balance has been offset by the growing surpluses on travel, net income and to a lesser extent services | Up to 2 marks |

Candidate can be awarded **up to 2 extra marks** for appropriate use of figures to support their descriptions.

Candidates who do not use any relevant figures can be awarded a **maximum of 2 marks**.

MAXIMUM FOR PART (a) 4 MARKS

- 2 (b) Explain the factors that contributed to the improvement in “price competitiveness in relation to France’s trading partners both inside **and** outside the Euro area”. (**Extract C**, lines 13-14)
(6 marks)

For candidates who:

explain what is meant by price competitiveness

1 mark

identify factors that might have contributed to an improvement in price competitiveness e.g. lower inflation, improvements in productivity, a lower exchange rate etc. **Up to 2 marks**

explain that the main reason for the improvement in price competitiveness in relation to euro area countries is the lower rate of inflation in France (they might develop their answers by: explaining that in 2000 the French franc was fixed against other euro area currencies, discussing productivity and unit costs, considering inflation in tradable products) **Up to 4 marks**

explain **why** the main reason for the improvement in price competitiveness in relation to non euro area countries is likely to be the decline in the value of the euro (i.e. a fall in the exchange rate reduces the foreign currency price of exports and raises the domestic currency price of imports) **Up to 4 marks**

explain that for the improvement in price competitiveness in relation to non euro area countries might have resulted from a lower rate of inflation in France than in other parts of the world **Up to 2 marks**

Candidates who **only** consider countries **either** inside **or** outside the euro area should be awarded a **maximum of 4 marks**

MAXIMUM FOR PART (b) 6 MARKS

- 2 (c) **Extract C, Table 2**, shows that there was a reduction in the surplus on the current account of the French balance of payments between 1998 and 2000. Using the data, assess whether this reflects a deterioration in the performance of the French economy. (15 marks)

Candidates should recognise that achieving a satisfactory balance of payments position is commonly regarded as an important macroeconomic policy objective. In this respect, it might be argued that a deterioration in the current account may be a sign of poor performance but even at a superficial level this doesn't take into consideration the continuing large surplus. The data should help candidates to identify some of the important causes of the deterioration in the French current account balance in 2000. The data also provides the material they need to judge whether or not the reduction in the current account surplus reflects a deterioration in the performance of the French economy. For example, the writer argues that one of the reasons for the deterioration was the "brisk domestic demand" that resulted in the "creation of over 500,000 jobs" and hence reflected a significant improvement in this aspect of economic performance. However, candidates who argue that other information would also be useful and explain how it would help should be rewarded.

To achieve more than 7 marks candidates will need to show that they can use the data provided to help them make plausible judgements about the extent to which the deterioration in the current account surplus reflects a deterioration in the performance of the French economy. They should present arguments on both sides and are likely to attempt to come to an overall conclusion.

Issues and areas for discussion include:

- the current account balance of the balance of payments as a major macroeconomic policy objective;
- an assessment of the current state of the French balance of payments position using the data provided;
- other policy objectives;
- the deterioration in the current account (especially the trade in goods and services) as a sign of declining competitiveness;
- the data on price competitiveness;
- other factors that have contributed to the reduction in the surplus that might indicate it has little to do with a reduction in competitiveness;
- the 14% growth in exports as a sign of a healthy economy contributing to the creation of new jobs (supported by other data);
- the 20% growth in imports may indicate domestic producers are unable to meet the needs of consumers but it also reflects the "brisk domestic demand" and the increase in real incomes;
- the impact on aggregate demand resulting from the declining surplus in the balance of trade in goods and services;
- the writer's suggestion that one reason for the "decrease in the current account surplus" was "a national investment drive....which is essential to the maintenance of a high non-inflationary growth rate";
- evidence relating to the growth in employment (but what about the level of unemployment?);

- evidence relating to inflation (and costs);
- the impact of the weakness of the euro for the current account and the French economy;
- an overall assessment of the extent to which the decline in the current account surplus reflects a deterioration in the performance of the French economy.

Candidates should be rewarded for the use of diagrams that are correctly drawn and labelled.

USE THE LEVELS MARK SCHEME ON PAGES 17 & 18

MAXIMUM FOR PART (c) 15 MARKS