

GCE 2004

June Series



Mark Scheme

Economics

Unit ECN2/1 & ECN2/2

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Dr. Michael Cresswell Director General

AQA Advanced Subsidiary Economics**June 2004****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.	D	9.	B
2.	C	10.	C
3.	A	11.	A
4.	C	12.	B
5.	A	13.	D
6.	B	14.	B
7.	C	15.	C
8.	D		

Advanced Subsidiary Economics**June 2004****ECN2/2****Mark Scheme****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:

- (i) **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 6 of this mark scheme.
- (ii) **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 5. 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 6. 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 UNEMPLOYMENT****Total for this question: 25 marks**

- 1 (a) The chart in **Extract A** provides data for UK unemployment using two different methods of measurement. Compare the trends in the two sets of data for the period April 1992 to April 2002. (4 marks)

Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference to the data):

- both display the same trend in unemployment;
- both show a rise in unemployment 1992 – 1993 followed by a fall;
- the claimant count gives a lower level of unemployment than the ILO count throughout the period, but with the divergence between the two increasing through the later years;
- both show a levelling out of UK unemployment in the last two years of the period;
- any other relevant comparison.

A maximum of **1 mark** may be awarded if there is no comparison and a maximum of **2 marks** if there is no use of statistics.

If the candidate simply trawls through the data, award a maximum of **2 marks**.

MAXIMUM FOR PART (a) 4 MARKS

- 1 (b) Explain how a “slowdown in the growth of aggregate demand...could see unemployment start to rise” (**Extract B**, lines 3-4). (6 marks)

For candidates who:

define the term aggregate demand e.g. total spending or $C+I+G+(X-M)$; **1 mark**

explain some of the reasons for a slowdown in the rate of growth in AD, picking up the reference in Extract B to “for whatever reason”; **up to 2 marks**

explain why a fall in the rate of growth in AD may cause a rise in unemployment, perhaps with reference to cyclical/demand-deficient/Keynesian unemployment, e.g. increased risk of redundancies as output remains unsold, decline in business confidence, impact on business investment, reference to the multiplier; **up to 6 marks**

make appropriate use of diagrams e.g. AD/AS or a supply and demand diagram showing falling demand for labour. **up to 3 marks**

While reference to the data should be given due credit, candidates who do not go beyond direct reference to the data (e.g. simply copying Extract B) should be awarded a maximum of **one mark**.

If answered solely in terms of the impact of increasing AD and therefore falling unemployment, award a maximum of **3 marks**.

MAXIMUM FOR PART (b) 6 MARKS

- 1 (c) Using the data and your economic knowledge, evaluate the possible contribution of supply-side policies to the reduction of unemployment in the UK. (15 marks)

The data offer some guidance on what could be discussed on the supply-side and it is expected that candidates will be able to develop these points, relate them to the importance of demand factors, and arrive at an appropriate conclusion.

Evaluation

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion, if they are to be awarded **7 marks or more**.

Candidates who make a genuine attempt at evaluation should be well rewarded. In the context of this question they might, for example, argue that, while supply-side factors are important, they become something of an irrelevance if there is insufficient demand for labour and explain reasons for the latter, perhaps in a macro-economic context. They could also argue that the demand for labour may well be influenced in a positive way by the impact of supply-side factors such as labour attitudes, productivity, flexible working, pay issues, making labour more attractive to employ.

Candidates should not be awarded marks **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward the more implicit evaluation i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (10 or more marks)** there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented in the answer.

Issues and areas for discussion include:

- the meaning of the phrase ‘supply-side factors’;
- types of unemployment;
- recent government initiatives e.g. Welfare to Work/New Deal/New Deal 50+;
- use of the tax system to influence the incentive to work;
- changes in the benefits system to increase the incentive to work (possible reference to the replacement ratio and to the natural rate of unemployment);
- falling costs of job-search through provision of work-experience and better information flows;
- occupational and geographical mobility;
- labour flexibility: the reference to part-time working in the data, multi-skilling, flexitime;
- trade union reform/decline in union membership;
- wage flexibility/decline in national collective bargaining;
- training e.g. modern apprenticeships, the Social Charter promoting the right to vocational training;
- early retirement, growth of full-time education;
- national minimum wage;

- the argument that there is not one labour market, but several distinct markets, with some discussion of supply-side factors in relation to these e.g. supply-side factors have not been able to prevent the continuing job losses in manufacturing (170 000 jobs lost 1st qu. 2001 – 1st qu. 2002). In retailing and public administration, in contrast, notable job creation (supply-side factors perhaps important here e.g. part-time, flexitime, weaker trade unionism);
- significance of supply-side factors to productivity and competitiveness and the benefits these may bring;
- relevance of demand factors e.g. demand for final product, economic climate, business confidence and expectations;
- the experience of the UK economy (perhaps with reference to unemployment trends post-2002 if these begin to show a different picture) in order to support a conclusion;
- an overview of the issues raised; a final judgement.

Candidates should be rewarded for use of relevant diagrams correctly drawn

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS

OR

2 INVESTMENT

Total for this question: 25 marks

2 (a) Using **Extract D**, compare the trends in business investment and GDP growth in the UK economy for the period 1990 to 2002. (4 marks)

Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference to the data):

- investment as a % of GDP fell significantly over the period, GDP growth only marginally so;
- business investment appears to have lagged behind GDP growth by about 2 years;
- both graphs present a volatile picture over the period;
- both show substantial reductions at the beginning and end of the period, but significant revival between these years;
- any other relevant comparison.

A maximum of **1 mark** may be awarded if there is no comparison and **2 marks** if there is no use of statistics.

If the candidate simply trawls through the data, award a maximum of **2 marks**.

MAXIMUM FOR PART (a) 4 MARKS

2 (b) Explain **two** factors which might cause “disappointing levels of investment” in the UK economy (**Extract F**, line 5). (6 marks)

For candidates who:

define the term investment; **1 mark**

comment on what might be regarded as “disappointing levels” e.g. when compared to previous years or compared to other similar countries; **1 mark**

explain possible causes e.g.

- a decline in business confidence
 - attractive alternative use of funds (opportunity cost considerations)
 - expectations re market demand, the macro-economy, and hence rates of return (perhaps linked to MEC although not in AS spec.)
 - current low level of capacity utilisation
 - high rates of interest on borrowed funds
 - low levels of past profits
 - the impact of a high exchange rate
 - the uncertainty over UK entry to the euro
 - a reduction in FDI
 - disappointing economic growth internationally
- reward use of appropriate diagrams when they form part of any relevant explanation and are accurately drawn.

up to 4 marks per factor explained

If more than two causes are explained, award marks to the two best explanations.

While reference to the data to support the above should be given due credit, candidates who do not go beyond direct reference to the data (e.g. simply copying phrases) should not be awarded more than **one mark**.

MAXIMUM FOR PART (b) 6 MARKS

2 (c) Using the data and your economic knowledge, evaluate the importance of investment in achieving an increase in the growth rate of the UK economy. (15 marks)

The data offer some guidance on what could be discussed when considering investment and it is expected that candidates will be able to develop these points and relate them to other causes of economic growth in order to arrive at an appropriate conclusion.

Evaluation

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support conclusions, if they are to be awarded **7 marks or more**.

Candidates who make a genuine attempt at evaluation should be well rewarded. In the context of this question, they might, for example, argue that investment is in many ways the foundation-stone of the growth process and that few of the other causative factors could make progress without it.

Additionally, it may well be that neither investment nor other factors can make headway unless there is sound, on-going macro-economic management by the authorities creating a healthy economic climate for growth.

Candidates should not be awarded marks **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward the more implicit evaluation i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (10 marks or more)** there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented in the answer.

Issues and areas for discussion include:

- the nature of investment;
- gross and net investment;
- the distinction between total investment and growth-related investment;
- the distinction between financial and physical capital;
- human capital;
- investment and quantitative/qualitative distinctions;
- the nature of economic growth;
- growth-related terms: GDP, trend growth, output gap, AS, PPF;
- the significance of investment to the growth process;
- other causes of economic growth, perhaps with reference to:
 - natural resources;
 - macro-economic management;
 - flexible resource markets;
 - technology;
 - exports;
- explanation of possible relevance of investment to these causes;
- the relevance of investment to productivity improvements and hence competitiveness;
- investment and growth performance in the UK economy or other economies;
- the accelerator/multiplier processes;
- the issue of whether or not investment causes growth or vv;
- discussion of the points raised at the end of the data;
- an overview of the issues raised; a final judgement.

Candidates should be rewarded for use of appropriate diagrams correctly drawn.

In the raising of issues, candidates may well refer to economies other than the UK and these references should be given due credit.

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of these in the time available.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS