6EC02 Mark Scheme

Question Number	Answer	Mark
1(a)(i)	Increase **(1 mark)** in actual or real **(1 mark)** GDP or income or output **(1 mark)**. Allow potential **(1 mark)** output. Further valid explanation. **(1 mark)** Use of data for example France 2.0%, Germany 2%, Spain 2.7%, or UK 2.3%. **(1 mark)**	(4)

Question Number	Answer	Mark
1(a)(ii)	Up to four marks available. Award reference to: Basket of goods **(1 mark)** price survey **(1 mark)** food and expenditure survey (or equivalent) **(1 mark)** index (process of how an index is complied) **(1 mark)** base year. **(1 mark)** 650 items (allow in range 600 to 700). **(1 mark)** Further development. **(1 mark)**	(4)

Question Number	Answer	Mark
1(a)(iii)	**Award two factors only, up to 4 marks each:** For identification of each factor **(1 mark)** each and development of the factor **(3 marks each)**. Factors might include: - ignores distribution of income - population changes (per capita discussion) - real versus nominal - quality versus quantity - factors that GDP ignores such as self produced goods. Evaluation **(4 marks)**. Award **(2 x 2 marks or 1 x 4)**: - GDP is very useful in the wider context of a composite indicator - living standards are not quantifiable - prioritisation of measures of living standards, with justification - best method we have?	(12)

Question Number	Answer	Mark
1(b)(i)	Withdrawal – explanation, for example money is flowing out. **(2 marks)** Use of data -10.2% of GDP to support this. **(2 marks)**	(4)

Question Number	Answer	Mark
1(b)(ii)	Accept two plausible reasons. **(2 x 3 marks)** Identification **(1 mark)** and explanation. **(2 marks)** Factors might include: • high level of growth, sucking in imports **(3 marks)** • high level of inflation, reducing competitiveness **(3 marks)** • high level of exports from Germany, which has higher relative competitiveness. **(3 marks)** Accept answers **not** related to data, for example level of confidence, low level of unemployment.	**(6)**

Question Number	Answer	Mark
1(c)(i)	*Accept a reasonable definition such as:* A composite measure of economic development **(1 mark)** which includes longevity, years of school enrolment, literacy and GDP at PPPs **(1 mark for each element given)** presented as an index or rank which gives an indication of health and education rather than just incomes. **(1 mark)**	**(4)**

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Question Number	Answer	Mark
1(c)(ii)	QWC marks to be awarded as implicit. KAA 12 marks. Identification of three advantages and explanation (4 marks each) or (3 marks) for four less well developed factors (3 marks each). Factors might include: - measures chosen are easy and cheap to collect - measures chosen are fairly reliable - indicates GDP has been used to increase social welfare - GDP rank minus HDI rank as a useful measure or health and education - use of education and health is a sign of successful government policies - shift of PPF or AS curve outwards as a sign of increased potential without increases in costs, so HDI rank is a sign of welfare in the future. Evaluation (2 x 2 marks or 1 x 4 marks) (4 marks). Factors might include: - an indication of deprivation or poverty would increase the usefulness of HDI - PPP values change very quickly and are likely to be inaccurate or misleading - still very little sense of income distribution in this measure - still very little sense of quality of life in this measure, for example wars, political oppression - very difficult to measure human development – sense of prioritisation of options - other measures, such as access to the internet, might be more useful - better to use a combination of measures - changes over time or 'other things are not equal' make the measures less useful.	(16)

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Question Number	Answer	Mark
1(d)	Knowledge, application and analysis (**18 marks**), of which:	
	Definition of supply side policies. (**2 marks**)	
	Diagram showing the effects of relevant government policies on the price level and output, showing an increase to the right of AS. (**4 marks**)	
	Analysis (**12 marks**) of the effect of chosen policies – award three factors (**4 marks each**) or two factors (**6 marks each**). Factors might include:	
	supply side policies: - privatisation - education and training - deregulation - cutting bureaucracy - promotion of competition - control of power of monopolies - reduction in planning restrictions - improvement in human capital increases the value of workers' output, meaning that firms can produce more for the same price - improved education increases opportunities which means that incentives can work more effectively.	
	Evaluation (**12 marks**) – award three points up to **4 marks each** or two well-developed points up to **6 marks each**. Points might include the following: - time lag for the education to have a result on workforce - education might not be effective, for example Madonna studies, Surf Science - expansionary fiscal implications of supply side policies - other policies might be more effective, such as cutting interest rates - scope for further supply side policies is limited - time lags, for example supply side policies can lag for decades - supply side policy conflicts - Increased government spending and tax can cause disincentives - Supply side policy might have positive impact on the fiscal side in the long run.	(30)

Question Number	Answer	Mark
2(a)(i)	A permitted range for the increase in the price levels, measured by changes in the CPI **(2 marks)**; of 2% **(1 mark)**(+ or – 1%) **(1 mark)** OR as a government-determined goal set for the MPC. **(2 marks)** Reference to data (2.1%) **(1 mark)**	**(4)**

Question Number	Answer	Mark
2(a)(ii)	For each point (allow **two** points only for up to 5 marks each): Identification of evidence **(1 mark)**; with explanation of point **(2 marks)**; **and link to price level. (2 marks)** Evidence might include: • prospects for output growth have worsened • disruption to global financial markets • tight credit • consumer spending growth has eased • output growth has moderated.	**(10)**

Question Number	Answer	Mark
2(a)(iii)	Distribution of income improves (if justified): identification of groups (ie winners and losers) affected by cut in interest rates, for example savers, borrowers, mortgage holders, pensioners, hire-purchasers. **(2 marks)** Award up to **(4 marks)** for further analysis, for example savers are likely to be the higher-income groups and their returns will fall, monthly mortgage interest payments will reduce affecting lower-income groups more as a proportion of their income, link between interest rates and house prices. Evaluation **(4 marks)**. Award **(2 x 2 marks or 1 x 4)**. Points might include: • higher-income groups are not necessarily higher savers • higher-income groups might have larger mortgage interest payments as a proportion of their income • time implications for impact of interest rate changes • effects on income might take longer than wealth effects or other wealth issues • or other time issues.	**(8)**

Question Number	Answer	Mark
2(b)(i)	This is where the government spends more that it receives in taxation revenue. **(2 marks)** Reference to data either £39.4 billion or 2.8% GDP. **(2 marks)** Credit sense of negative figure or deficit. **(1 mark)**	**(4)**

Question Number	Answer	Mark
2(b)(ii)	Identification of multiplier. **(2 marks)** Diagram showing rightward shift in AD, and/or rightward shift in AS or equivalent verbal description. **(4 marks)** Analysis of multiplier. **(4 x 1 marks)** Points might include: • spending becomes other peoples' incomes • explanation of reasons for size of leakages • process continues until all extra income is leaked away • relevance to government spending, for example on hospitals • knock-on effects can be shown with the multiplier formula, although this is not required. Evaluation **(4 marks)** Allow 2 x 2 marks or 1 x 4 marks. Factors might include: • discussion of the size of the multiplier • time lag effects • depends on the shape or the AS curve • other things might not be equal, for example the pound might change in value.	**(14)**

Question Number	Answer	Mark
2(c)	Award two costs. Identification of costs **(2 marks for each cost clearly identified)**. For development/application of costs **2 marks each**. Costs might include: • loss of income, credit problems such as house repossession, welfare problems for dependants, poverty issues • loss of skills and other human capital: hard to get back into labour market • government revenue falls so spending likely to fall, other fiscal issues • social costs: large numbers of idle workers can have negative effect on society, for example crime, morale, social disintegration • opportunity costs: resources could be used elsewhere.	**(10)**

Question Number	Answer	Mark
2(d)	Knowledge, application and analysis **(18 marks)**, of **which**: • definition **(2 marks)**: demand side policies refer to monetary and fiscal policy • diagram (or equivalent) **(4 marks)** showing an increase to the right of AD • identification and link to two macroeconomic objectives **(4 marks)** • analysis **(12 marks)** of the effect of **conflicts** in macroeconomic objectives – award three factors **(3 marks each)**; or two factors **(6 marks each)**. Factors might include: • Phillips curve short run trade off • expansionary policy causes growth **but** inflationary pressures occur • expansionary policies might increase employment **but** worsen the impact on the environment • rises in interest rates can control inflation **but** worsen the distribution of income • cuts in interest rates can encourage growth **but** there is likely to be a worsening of the current account • tight monetary policy can cause the value of the currency to rise increasing living standards **but** there is a worsening effect on the current account of the balance of payments. Conflicts might include: • inflation and growth • inflation and employment • inflation and balance of payments issues • growth and environment • growth and income redistribution • growth and balance of payments issues - or any other combination. Evaluation **(12 marks)** – award three points up to **4 marks each** or two well-developed points up to **6 marks each**. Points might include: • depends on elasticities, for example LRAS when AD shifts • short run versus long run arguments, for example unemployment is a lagging indication • prioritisation of objectives with justification	

	- other things are not equal – confidence, availability of credit or inter-bank lending rates might be a more important influence on consumer spending than the repo rate - policies themselves might conflict - unreliable or missing information.	(30)