**General Certificate of Education (A-level)
January 2012**

Economics   **ECON2**

(Specification 2140)

Unit 2: The National Economy

Final

Mark Scheme

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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 students' 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.

Advanced Subsidiary Economics

January 2012   **ECON2/1**

Section A: Objective Test (ECON2/1)

**The following list indicates the correct answers used in marking the students'
responses.**

KEY LIST

1.	**A**	**9.**	**D**	**17.**	**B**
2.	**D**	**10.**	**A**	**18.**	**D**
3.	**A**	**11.**	**A**	**19.**	**D**
4.	**C**	**12.**	**B**	**20.**	**B**
5.	**B**	**13.**	**D**	**21.**	**C**
6.	**C**	**14.**	**A**	**22.**	**B**
7.	**A**	**15.**	**B**	**23.**	**C**
8.	**B**	**16.**	**D**	**24.**	**C**
				25.	**A**

Advanced Subsidiary Economics

January 2012   ECON2/2

Mark Scheme

Section B: Data Response

General Instructions

Marks awarded to students 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 student to score full marks in a variety of ways. Where the student'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 student's answer does not deserve credit, then no marks should be given.

Occasionally, a student 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:

(i)   **An issue based approach.** The mark scheme for questions **01**, **02**, **03**, **05**, **06** and **07** 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 student might include in the answer.

(ii)   **A levels approach.** This approach is used for marking questions **04** and **08** of the data response questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated at each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the student. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up and down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the levels descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 04 AND 08 ONLY

AS LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) **Good analysis <u>and</u> good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Good use of data to support answer Some good application to issues. Some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Largely relevant and well organised with reasonable logic and coherence	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues No use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

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 student to answer the question properly.

I   Where a relevant **ISSUE** is raised by the student.

K   Where the student demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the student's response to the question. This should also be used where the student quotes relevant examples.

Ap   Where the student demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

An   Where the student demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E   Where the student **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 04 and 08 only.

Students will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

EITHER

Context 1

CUTTING PUBLIC EXPENDITURE IN THE UK

01 Define the term 'disposable income' (**Extract B**, line 10).	*(5 marks)*

For an acceptable definition such as:	
 • gross income less income tax and national insurance contributions plus cash welfare benefits • the money that comes into a household from various sources, including welfare benefits but after taxes on income **also allow** • the amount of money/income that a household/individual has available to spend after tax has been deducted	**5 marks**
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'disposable income' even if the definition is not exactly the same as the acceptable examples quoted above.	

If the definition is incomplete/inaccurate, marks may be broken down, for example, as follows:

Candidates who state that disposable income is the money that households have to spend after major items of expenditure, such as mortgage repayments, should be awarded a **maximum of 2 marks**. For example:

- 'the amount of money a household has to spend after bills and taxes' is worth **2 marks**
- 'the amount of money a household has to spend after paying bills' is worth **zero marks**

If the candidate states that it is the money/income that a household has available to spend (and save) then award **2 marks**.

For defining income, eg as a flow of money coming into a household	**2 marks**
For stating that it is income after tax	**2 marks**
For stating that it is after national insurance contributions have been deducted	**1 mark**
For stating that it includes welfare benefits	**1 mark**
For one or more examples of a source of income, other than welfare benefits, eg wages or dividends.	**1 mark**

Maximum of 4 marks if the definition is incomplete

MAXIMUM FOR PART 01: 05 MARKS

> **02** Using **Extract A**, identify **two** significant points of comparison between public expenditure as a percentage of GDP and unemployment over the period shown.
> *(8 marks)*

Award up to 4 marks for each point made.

Identifies a significant point of comparison. Makes accurate use of the data to support the point of comparison. Unit of measurement given accurately (millions/% of GDP or %)	**4 marks**
Identifies a significant point of comparison. Makes use of the data to support the comparison identified. However, only one piece of data is given when two are needed to make a valid comparison **and/or** no unit of measurement is given **and/or** the unit of measurement is used/applied inaccurately.	**3 marks**
Identifies a significant point of comparison. No use of correct data to support the comparison identified.	**2 marks**
Identifies a significant feature of the data but no comparison is made Makes use of the data to support the feature identified Unit of measurement given accurately	**1 mark**

If a candidate identifies more than two significant points of comparison, reward the best two ('significant' such as highs, lows or major changes/trends over a period of time).

The significant points of comparison include:

- public expenditure as a % of GDP was lower at the start of the period (39% of GDP) than at the end of the period (approx. 47% of GDP) whereas unemployment was higher at the start of the period (1.7 million) than at the end of the period (1.6 million)

- public expenditure as a % of GDP peaked at the end of the period, i.e. in 2009-10 (approx. 47 % of GDP) whereas unemployment peaked between 1992 and 1994 at 2.8 million

- public expenditure as a % of GDP was lowest in 1999-2000 (36% of GDP) whereas unemployment was at its lowest in 2004-05 and 2007-08 at 0.8 million

- both series fluctuated over the period. Public expenditure as a % of GDP fluctuated between 36% in 1999-2000 and approx. 47% in 2009-10. Unemployment fluctuated between 2.8 million (1992-93 & 1993-94) and 0.8 million (2004-05 & 2007-08)

- between 1992-93 and 1999-2000, public expenditure fell as a % of GDP (44% to 36%) whereas unemployment started to fall in 1994-95 and did not really start to rise again until 2008-09 (2.8 million to 0.8 million)

- between 1999-2000 and 2009-2010, public expenditure rose as a % of GDP (36% to approx. 47%) whereas unemployment continued to fall slowly (or was fairly stable) after 1999-00 and didn't start to raise again until 2007-08 (between 2007-08 and 2009-10 it rose from 0.8 million to 1.6 million)

- there is some evidence of a positive/direct (but NOT proportional) relationship between unemployment and public expenditure as a % of GDP (eg between 1993/94 and 1999/00

unemployment fell from 2.8 million to 1.2 million whilst public expenditure fell from approx. 47% of GDP to 36% of GDP)

The figures quoted above are approximations and the candidate should be allowed, without penalty, a margin of **plus or minus 1%** for the GDP figures and **plus or minus 0.1 million** for the unemployment figures.

MAXIMUM FOR PART 02: 8 MARKS

03	**Extract B** (line 9) states that 'cuts in public expenditure are also likely to reduce aggregate demand'.
	Explain why cuts in public expenditure are likely to reduce aggregate demand.
	(12 marks)

For a candidate who provides a relevant definition, eg public expenditure, aggregate demand. Do **not** credit a definition of disposable income.	**1 mark per definition Up to a maximum of 2 marks**
For stating that public expenditure is a **component** of aggregate demand and hence if public expenditure falls so will aggregate demand. This statement might be linked to the AD equation. It is **not** sufficient to say 'government spending falls and so aggregate demand falls'.	**2 marks**

Award up to 6 marks for each of the following elements of the explanation.	
For stating that some public expenditure is on goods and services produced by the private sector **(2 marks)**, for example roads, medicines and tanks **(2 marks for an example)**, if the government spend less money on these items, firms will experience a fall in demand for their products/services **(2 marks)**.	**Up to 6 marks**
For stating that cuts in welfare benefits (**2 marks**) will reduce disposable income (**2 marks**) and hence reduce consumption/aggregate demand (**2 marks**).	**Up to 6 marks**
For explaining how public sector job cuts will reduce aggregate demand.	**Up to 6 marks**
For explaining how the multiplier effect of a fall in public expenditure leads to further reductions in aggregate demand. To gain these marks, the explanation must follow from a valid reason why a cut in public spending will lead to an initial reduction in aggregate demand.	**Up to 6 marks**
For any other relevant explanation, eg public expenditure cuts reducing injections into the circular flow of income.	**Up to 6 marks**

If there is more than one logical chain of reasoning used by the candidate to explain why a fall in public expenditure will reduce aggregate demand, only award 2 marks for 'and hence aggregate demand/spending/consumption will reduce/fall' once.

Award **up to 4 additional marks** for the use of relevant diagrams. An example of an acceptable diagram is one that shows that a cut in public expenditure will shift the aggregate demand curve to the left. The diagram may or may not include an AS curve.

Do **not** give marks for the diagram if the associated written explanation invalidates the diagram.

Breakdown of the marks for the diagram:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but **not** Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and level of real GDP (PL_1 Y_1).	**1 mark**
Leftward shift in the AD curve	**2 marks**
Dotted lines and the associated labelling showing the new lower level of real GDP (PL_2 Y_2) at the same given price level	**1 mark**

MAXIMUM FOR PART 03: 12 MARKS

04	**Extract B** (lines 5-7) states: 'This plan, laid out by the Coalition Government, implies the longest and deepest sustained period of cuts to public spending since the Second World War'.
	Using the data and your economic knowledge, assess the likely impact of substantial cuts in public expenditure on the performance of the UK economy. *(25 marks)*

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Extracts A, **B** and **C** provide some help to candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will consider both the short-run and long-run effects of public spending cuts for different aspects of economic performance. They are also likely to assess both the demand-side and supply-side consequences. Candidates should also be rewarded for relevant discussion of the microeconomic consequences but, on this paper, this aspect of the debate should not be the main focus of their answers.

Likely issues and areas for discussion:

Introduction	• the nature of government expenditure • explanation of economic performance and the objectives of economic policy • a brief outline of the reasons for cuts in government spending related to the size of the budget deficit.
Developing the response to the question: **Application**	• the current state of the UK economy and the role of aggregate demand in, for example, sustaining recovery from recession • the impact of public spending cuts on the budget balance and hence government borrowing in the UK • the impact on levels of taxation in the UK (perhaps based on the assumption that the budget deficit has to be reduced).

	• the impact on interest rates (picking up on the references in Extracts B and C) and the related consequences for UK economic performance • microeconomic implications for particular sectors of the UK economy, eg the impact on individual public services, the construction industry, the distribution of income, regional consequences • use of the data in the extracts, or own knowledge of the UK economy, to help develop any other relevant points.
Developing the response to the question: **Analysis**	• the effect of cuts in government spending and aggregate demand upon economic performance, eg employment, growth, inflation and the balance of payments • the multiplier effects • use of diagrams to illustrate possible demand-side consequences of public spending cuts • the likely impact of public spending cuts on the supply-side performance of an economy and the link with macroeconomic performance • use of diagrams to illustrate possible supply-side consequences of public spending cuts • the possible impact of spending cuts on consumer and business confidence and the resulting effects on private sector spending • microeconomic aspects of spending cuts • possible opportunities for growth in the private sector resulting from cuts in public spending.
Evaluation	• the extent to which, if at all, cuts in public spending are unavoidable given the size of the budget deficit • possible alternatives to cuts in public sector spending, eg increases in taxation, and their relative merits • the likelihood that the growth in private sector spending will compensate for the fall in public spending • use of evidence from the performance of the UK economy since the cuts were first implemented • discussion of the effectiveness of mechanisms through which the reduction in public sector spending might lead to a compensating increase in private spending, eg lower interest rates, lower exchange rate, less need for tax increases • discussion of extent to which the supply-side consequences are likely to be detrimental or possibly advantageous • the extent to which cuts in public spending can be achieved without harming the services provided to the general public • the distributional effects, eg are the cuts likely to fall disproportionately on the poor and/or people living in northern conurbations? • short-run versus long-run consequences • other factors that might affect the impact of cuts in public spending on economic performance, eg the growth in the world economy, the nature of the cuts, what happens to the exchange rate, the effect on industrial relations.

Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some of the arguments for and against cutting public spending. Basic evaluation (and good analysis) would allow the answer to achieve low Level 4. Stronger evaluation is provided by candidates who are able to support arguments both for and against cuts in public spending by the use of evidence and/or sound economic analysis.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 5 AND 6 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 04: 25 MARKS

OR

Context 2

UK IMPORTS AND THE RECOVERY OF THE UK ECONOMY

05	Define the term 'recovery' (**Extract F**, line 12).	*(5 marks)*

For an acceptable definition such as: • a phase of the economic cycle, after a recession/depression, during which real GDP starts to increase and unemployment begins to fall • it is a time when the economy begins to grow again after it has been in recession/depression/slump.	**5 marks**
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'recovery' even if the definition is not exactly the same as the acceptable examples quoted above.	

If the definition is incomplete, marks may be broken down, for example, as follows:

When there is a rise in real GDP/national income/output or the economy starts to grow	**2 marks**
When the economy is coming out of recession	**2 marks**
When an economy is getting back to its trend rate of growth	**2 marks**
When an economy moves from a negative output gap to a positive output gap	**2 marks**
When unemployment is falling and/or employment is increasing.	**2 marks**
For an accurate and correctly labelled diagram that shows the recovery phase of the economic cycle **or** a production possibility diagram showing the economy moving from a point inside the boundary towards the boundary **or** an AD/AS diagram showing a reduction in the negative output gap	**2 marks**
A time when aggregate demand is rising	**1 mark**
For stating it is a phase of the economic cycle	**1 mark**

Maximum of 4 marks if the definition is incomplete

MAXIMUM FOR PART 05: 5 MARKS

| 06 | Using **Extract D**, identify **two** significant points of comparison between the total value of imports of goods and services and the pound sterling exchange rate index over the period shown. *(8 marks)* |

Award up to 4 marks for each point made.

Identifies a significant point of comparison. Makes accurate use of the data to support the point of comparison. Unit of measurement given accurately (£billion or £bn/index points or index).	**4 marks**
Identifies a significant point of comparison. Makes use of the data to support the point of comparison. However, only one piece of data is given when two are needed to make a valid comparison **and/or** no unit of measurement is given **and/or** the unit of measurement is used/applied inaccurately.	**3 marks**
Identifies a significant point of comparison. No use of correct data to support the comparison identified.	**2 marks**
Identifies a significant feature of the data but no comparison is made Makes use of the data to support the feature identified Unit of measurement given accurately	**1 mark**

If a candidate identifies more than two significant points of comparison, reward the best two ('significant' such as highs, lows or major changes/trends over a period of time).

The significant points of comparison include:

- the value of imports was lower at the start of the period (£88 billion) than at the start of the period (£110 billion) whereas the exchange rate index was higher at the start of the period (index of 101) than at the end of the period (index of 78)

- the value of imports peaked in 2008 Q3 (£119bn) whereas the exchange rate index peaked in 2007 Q2 (index of 105)

- the value of imports was lowest in 2005 Q1 (£88bn) whereas the exchange rate index was lowest in 2008 Q4 (index of 74)

- the value of imports and the exchange rate index both showed significant fluctuations. The value of imports fluctuated between £88bn in 2005 Q1 and £119bn in 2008 Q3 and the exchange rate index fluctuated between 74 index points in 2008 Q4 and 105 index points in 2007 Q2

- there is some evidence of an inverse relationship between the sterling exchange rate index and the value of imports, eg between 2007 Q2 and 2008 Q3, the exchange rate index fell from105 to 80 index points whilst the value of imports rose from £101 billion to £119 billion.

The figures quoted above are approximations and the candidate should be allowed, without penalty, a margin of **plus or minus £2** billion for the figures for value of imports and **plus or minus 2 index points** for the exchange rate index figures.

MAXIMUM FOR PART 06: 8 MARKS

07	Explain how the value of imports into the UK is likely to be affected by **both** a fall in the value of the pound on the foreign exchange market **and** a reduction in UK labour productivity. *(12 marks)*

For a candidate who provides a relevant definition, eg value of imports, fall in the value of the pound, labour productivity Do **not** credit a definition of recovery.	**1 marks per definition Up to a maximum of 2 marks**

For explaining how a fall in the value of the pound will affect the value of imports:	
A fall in the value of the pound leads to a rise in the (sterling) price of imports into the UK **(2 marks)**, imports are now less competitive (relatively dearer) than products produced in the UK **(2 marks)**, as a result, the quantity of imports purchased is likely to decrease **(2 marks)**, the impact on the value of imports depends on the resulting change in the quantity demanded (some might mention the price elasticity of demand) **(2 marks)**. Marks can also be awarded, **within the 8 mark constraint**, for recognising that some firms might absorb the impact of the fall in the exchange rate and leave prices unchanged. **Note**: Candidates do not have to state that it is the *sterling* price of imports that rises. However, if a candidate explains why the sterling price rises then an **extra 2 marks** can be awarded but the overall constraint of 8 marks still applies.	**Up to 8 marks**

For explaining how a reduction in labour productivity will affect the value of imports:	
A fall in labour productivity leads to a rise in firms' (unit) costs of production **(2 marks)**, firms are likely to raise their prices **(2 marks)**, this means imports are now more competitive in the domestic market **(2 marks)**, and hence the quantity of imports purchased rises **(2 marks)**, leading to a rise in the amount spent (value) on imports **(2 marks)**.	**Up to 8 marks**
If an answer attempts to analyse the overall impact of a fall in the exchange rate combined with a fall in labour productivity on the value of imports award **2 marks**.	

Award **up to 4 additional marks** for the use of relevant diagrams. An example is a diagram that shows a demand curve for imports which is used to illustrate the impact of a rise in price upon the amount spent on imports. Other acceptable diagrams include: a diagram that shows **either** a rightward shift in the AD curve as a result of a fall in the exchange rate **or** a leftward shift in the AS curve, and hence a movement along the AD curve, resulting from a fall in labour productivity. Do **not** give marks for the diagram if the associated written explanation invalidates the diagram, eg if the explanation only relates to rising exports and this is the justification for shifting the AD curve to the right.

Breakdown of the marks for the diagram:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but **not** Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and level of real GDP (PL_1 Y_1). **NB** Price and quantity is required for the labels on the axes if a micro diagram is used to show the 'demand for imports' rather than AD.	**1 mark**
Correct shift in the curve (or movement along the curve if a micro diagram is used to show the impact of the rise in the price of imports resulting from a fall in the exchange rate)	**2 marks**
New dotted lines and the associated labelling showing the new position (this will depend on the diagram drawn)	**1 mark**

No marks should be awarded for explanations that relate to the value of exports

A **maximum of 10 marks** can be awarded if **ONLY** the effect of a fall in the value of the pound **OR** a reduction in labour productivity is attempted.

MAXIMUM FOR PART 07: 12 MARKS

08	**Extract F** (lines 9-10) states that 'July's dreadful trade figures cast doubt over the ability of external trade to drive the recovery in the UK economy'. Using the data and your economic knowledge, evaluate the extent to which external trade can be relied upon to bring about a recovery in the UK economy. *(25 marks)*

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data.

Level 5	Good analysis <u>and</u> good evaluation	**22-25 marks (mid-point 24)**
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	**17-21 marks (mid-point 19)**
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	**10-16 marks (mid-point 13)**
Level 2	Weak with some understanding	**4-9 marks (mid-point 7)**
Level 1	Very weak	**0-3 marks (mid-point 2)**

Extracts D, **E** and **F** provide some help to candidates and it is anticipated that they will make use of this material when developing their answers. It is expected that the better candidates will recognise that exports represent an injection into the circular flow of income and that a rise in exports is likely to increase aggregate demand and help the economy to recover from recession. They should also appreciate that an increase in imports and a rising trade deficit represent a net withdrawal from the circular flow and may inhibit recovery. However, the better candidates are also likely to recognise that a growing trade deficit might be the consequence of the increase in prosperity and economic activity that occurs when the economy is recovering from recession and hence a growing trade deficit will not necessarily harm recovery.

Like issues and areas for discussion:

Introduction	- definitions, eg deficit on the balance of trade - the characteristics of an economy recovering from recession - a diagram to illustrate the recovery phase of the economic cycle - the role of aggregate demand in stimulating recovery.
Developing the response to the question: **Application**	- the consideration of recent changes in the UK external trade and the possible impact on recovery, eg the rise in the deficit as indicated in Extract F - the current state of the UK economy

	• the significance of changes in external trade given the prospects for other components of aggregate demand in the UK, eg public expenditure cuts and the effect of higher taxes • changes in the value of sterling, perhaps using the data in Extract D • use of the data in the extracts, or own knowledge of the UK economy, to help develop any other relevant points.
Developing the response to the question: **Analysis**	• the effect of a change in exports on aggregate demand • the effect of a change in imports on aggregate demand • why external trade can help support or hinder recovery • a trade deficit as a net withdrawal from the circular flow of income and its impact on aggregate demand • possible multiplier effects • the impact of aggregate demand upon economic activity and hence recovery from recession • the use of a suitable diagram to illustrate the above. • more fundamental causes of the growing trade deficit, eg slow growth in export markets, lack of competitiveness • reasons why, in the recovery phase, imports might increase, eg more imports of raw materials and components, more imports of consumer goods fuelled by rising incomes • the government might have to adopt policies to reduce the deficit which affect the recovery • other ways in which external trade might help to support recovery, eg increased imports of capital goods.
Evaluation	• discussion of the differing impacts that external trade can have on recovery from recession, eg depending on whether the trade balance is in deficit or surplus and whether it is growing or shrinking • the significance of a growing trade deficit (or surplus) depends on whether it is persistent or whether it is temporary • it also depends on the size of the trade deficit (or surplus) (some might discuss the size of the deficit as a percentage of GDP) • it depends on the cause of the deficit (or surplus), eg rising (or falling) imports, falling (or rising) exports, rate of growth in export markets • is the impact on aggregate demand of a growing trade deficit (or surplus) may offset by changes in other components of demand • the relevance of what happens to the sterling exchange rate • if a growing deficit is due to low productivity, a general lack of competitiveness and inadequacies on the supply–side of the economy then its impact on recovery will be serious • if the increase in the deficit is due to rising imports of capital goods and intermediate goods it may be advantageous and help to support the recovery • relevance of external trade to the UK, given the prospect of significant cuts in public expenditure.

Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some of the favourable and unfavourable consequences of external trade for an economy recovering from recession. Basic evaluation and good analysis would allow the answer to achieve low Level 4. Stronger evaluation is provided by candidates who are able to use evidence and/or sound economic analysis to support their assessment of the impact of external trade on the ability of the UK economy to recover from recession. Good evaluation will also include a supported final judgement that considers the extent to which an external trade deficit is likely to affect the recovery from recession in the UK.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 5 AND 6
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 08: 25 MARKS