



# **General Certificate of Education**

## **Economics**

### **ECN6: Government Policy, the National and International Economy**

## **Mark Scheme**

*2007 examination - June series*

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.

Further copies of this Mark Scheme are available to download from the AQA Website: [www.aqa.org.uk](http://www.aqa.org.uk)

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**Advanced Level Economics****June 2007****ECN6****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:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. 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 5 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay 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 4. 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 5. 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.

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## APPLYING THE 'LEVELS' MARK SCHEME

### Levels of Response Mark Band Descriptors

#### Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. 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 specialist vocabulary.

**0 to 6 marks** (*Mid-Point: 3 marks*)

#### Level 2

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

**7 to 12 marks** (*Mid-Point: 10 marks*)

#### Level 3

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. 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. Some use of specialist vocabulary which is applied appropriately.

**13 to 20 marks** (*Mid-Point: 17 marks*)

#### Level 4

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. 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. A wide range of specialist vocabulary is used with facility.

**21 to 26 marks** (*Mid-Point: 24 marks*)

#### Level 5

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

**27 to 30 marks** (*Mid-Point: 29 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 Question 1 (d) and part (b) of the essay 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 an 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.

### Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

**Section A**

**Total for this question: 50 marks**

- 1(a) Using **Extract A**, compare the estimated impact of the supply-side shock on GDP with that on the rate of inflation in advanced countries for the period 2006 to 2009. (4 marks)

**Award up to 2 marks for each point (one mark for identification and one mark for reference to the data). For example:**

all the estimated changes in levels of GDP are negative while for inflation there is a mixture of negative and positive values

2007/08 were the most significant estimated changes in GDP but this is not the case for the change in the rate of inflation

the worst year for estimated changes in the rate of inflation is 2006, for GDP, 2007 and 2008 (the same change in each year)

the range of values for GDP is 1% and 2.4% for inflation

Any other valid comparison

A maximum of **2 marks** may be awarded if there is no use of statistics or if a candidate confines comparison to only one of the indicators.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

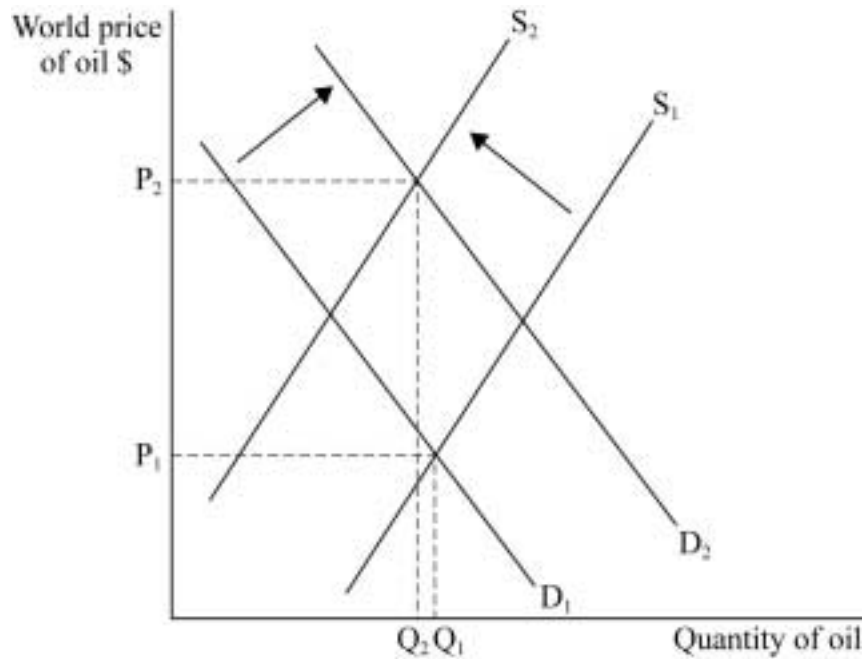
A maximum of **1 mark** may be awarded if a candidate simply trawls through the data with no attempt at a comparison – however award **up to 2 marks** for any valid comparison made for a single year.

**MAXIMUM FOR PART (a) 4 MARKS**

- 1(b) **Extract B** (lines 8-11) refers to a 'shock to oil supplies' and 'soaring global demand for oil'. With the use of a supply and demand diagram, explain the possible impact of these changes in the oil market on the world price of oil. (6 marks)

**For candidates who:**

draw an appropriate diagram, eg:



A relevant AD/AS diagram would be equally valid

**Award up to 4 marks (1 mark for coordinates, 1 mark for labelling, 1 mark per shift of curve shown). However, award a maximum of 1 mark if the information shown in terms of a shift of curve or movement along a curve is incorrect given the likely changes in supply and demand in the oil market.**

- |   |               |
|---|---------------|
| state that the probable impact will be a rise in the world price of oil | <b>1 mark</b> |
| explain why demand is rising  | <b>1 mark</b> |
| explain the nature of the disruption to oil supplies                    | <b>1 mark</b> |
| refer to elasticity conditions in the oil market                        | <b>1 mark</b> |
| relate disrupted Gulf oil supplies to total world oil supply            | <b>1 mark</b> |

Award a maximum of **4 marks** if an explanation is offered without a diagram, or a diagram without any explanation.

**MAXIMUM FOR PART (b) 6 MARKS**

1(c) **Extract C** (lines 8-10) points to possible changes in interest rates in the US economy. Analyse **two** reasons for a reduction in interest rates following a natural disaster such as Hurricane Katrina. (10 marks)

**Issues and areas for discussion include:**

- definition/explanation of interest rates
- the relationship between a central bank rate, such as UK base rate, and other rates in an economy
- demand-side and supply-side implications
  
- trends in government borrowing impacting on interest rates
- to influence the exchange rate
- to influence the consumption component of AD
- to influence savings
- to control inflation
- to encourage investment

Candidates should be rewarded for accurate and relevant diagrams to support their answers.

**Level 1**

The candidate simply copies reasons from **Extract C** with little or no development.

**1 to 3 marks**

**Level 2**

A clear explanation is given of at least **one** reason. At the lower end of the mark band, there is some evidence of confusion or the explanation is incomplete or remains at a fairly elementary level. These weaknesses should not be in evidence if marks are awarded at the higher end of the band, where there will also be some evidence of correct use of economic terminology, together with some reference to natural disasters or to Hurricane Katrina specifically or to post-disaster developments.

**4 to 7 marks**

**Level 3**

**Two** reasons are well analysed in a competently organised answer which shows a comprehensive understanding of the issues. Economic terminology is strongly in evidence, as are references to natural disasters and/or to Hurricane Katrina specifically. There is a clear awareness of the interrelationship between changes in interest rates and the reasons chosen for analysis.

**8 to 10 marks**

**MAXIMUM FOR PART (c) 10 MARKS**



- 1(d) **Extract B** (line 7) refers to a 'potential supply-side shock' caused by Hurricane Katrina. Using the data and your economic knowledge, evaluate the possible macroeconomic consequences for advanced countries of shocks of this nature.  
(30 marks)

It is anticipated that candidates will clarify at the outset what might be meant by supply-side shocks and how we might gauge macroeconomic consequences, before analysing and evaluating at least some of these consequences.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the data.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could consist of suggesting that there is a possibility that consequences remain localised or at least not more than national; the greater likelihood that advanced countries can 'absorb' any shock more easily than developing countries; reference to the nature and duration of the shock; the limitations of making generalisations for the advanced world as a whole; that the impact may depend on the previous economic conditions of the countries now affected, or by the frequency of shocks.

**Issues and areas for discussion include:**

- possible supply-side shocks
- a review of macroeconomic indicators
- potentially contrasting experiences of advanced countries
- distortion of the trade cycle
- significance of government responses
- disruption to energy supplies
- disruption to trade flows
- disruption to investment flows
- the potential for inflation
- the impact on economic growth
- the impact on the balance of payments
- exchange rate changes
- interest rate changes
- the economic costs/benefits of any necessary reconstruction
- the accelerator/multiplier processes (accelerator not in the specification however)
- employment/unemployment
- the potentially limited impact of any one shock
- the ability to 'absorb' shocks
- degree of stability/instability prior to the shock occurring
- the frequency/infrequency of shocks occurring
- the likelihood of significant exceptions to any generalisations made
- AD/AS analysis

Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to economies such as UK and US
- use of relevant diagrams to aid the analysis accurately drawn
- an overall judgement on the issues raised

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (d) 30 MARKS**

**TOTAL FOR THIS QUESTION: 50 MARKS**

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**Section B**

**Each question carries 50 marks**

<p>2 (a) Explain why economic growth is regarded as a major macroeconomic objective by governments.</p>
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*(20 marks)*

**For candidates who:**

provide an explanation of economic growth, e.g. in terms of actual growth/trend growth, LRAS, PPF, GDP

outline what other government macroeconomic objectives might be with definition or explanation (do not award marks for simply stating what they might be since these are given in part (b) ) **up to 6 marks**

use relevant diagrams accurately drawn

**Award up to 2 marks per relevant diagram (for AD/AS or supply and demand diagrams 1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of 6 marks.**

explain reasons for governments wanting to achieve economic growth, e.g.

- to improve the standard of living, e.g. economic growth gives the opportunity for higher incomes with the potential for higher disposable income (2 marks); higher levels of consumption can take place including higher demand for consumer durables and/or housing (2 marks); equally, there can be inroads into absolute and relative poverty (2 marks); overall a greater sense of well-being in terms of both quantitative and qualitative measures (2 marks).
- job creation
- to help improve the balance of payments
- supply-side growth helping to achieve price stability
- to create the necessary wealth to improve public services, with reference to the provision and improving quality of merit goods and public goods

**up to 8 marks per explanation**

Reward references to the UK economy (and/or other economies)

**MAXIMUM FOR PART (a) 20 MARKS**

- 2(b) Evaluate the view that, in the long run in the UK, the macroeconomic objectives of economic growth, price stability, full employment and a strong balance of payments can be achieved without conflicting with each other. (30 marks)

It is anticipated that candidates will develop a discussion of macroeconomic objectives and relate these to supply-side issues which might allow any conflict to be avoided.

For candidates to be awarded **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could be in terms of stating that supply-side improvements might be too weak to prevent conflict; supply-side improvements might not eradicate all examples of conflict; AD management may be of equal importance to avoid some examples of conflict; that the authorities may accept a degree of conflict as long as there is confidence that it is being monitored and controllable; the acceptance by the authorities of some conflicts emerging because of success with what are perceived to be the more important achievements; a possible need to accept gradual eradication of conflict rather than wanting an 'overnight' success.

Award a maximum of **24 marks** if there is no reference to the UK economy.

**Issues and areas for discussion include:**

- a review of macroeconomic objectives
- economic growth
- price stability
- full employment
- a strong balance of payments
- the exchange rate
- examples of potential conflict, e.g. economic growth and price stability; economic growth – higher consumption – deterioration in the balance of payments on current account; full employment and price stability
- the relevance of demand-management policies, notably interest rates
- a review of supply-side issues
- productivity
- investment
- education and training
- R&D
- competitiveness
- an assessment of the importance of specific conflicts and their eradication
- gradual, rather than sudden, eradication of conflict
- the significance of monitored and controlled conflict

Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to the UK and/or other economies
- use of diagrams to aid the analysis accurately drawn
- an overall judgement on the issues raised

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR THIS QUESTION: 50 MARKS**

3(a) Explain how fiscal policy could be used to influence aggregate demand.  
(20 marks)

**For candidates who:**

explain the concept of AD, perhaps with a definition and reference to its main components through use of the standard equation **up to 4 marks**

explain the term 'fiscal policy', perhaps with reference to the main components of the policy, different ways of analysing public spending, different types of taxes **up to 4 marks**

explain the distinction between automatic and discretionary fiscal stabilisers **up to 6 marks**

explain the significance of tax changes to AD **up to 6 marks**

explain the significance to AD of changes to public expenditure **up to 6 marks**

explain the significance of various budgetary positions to AD **up to 6 marks**

use relevant diagrams accurately drawn

**Award up to 2 marks per relevant diagram (for AD/AS or supply and demand diagrams 1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of 6 marks.**

Reward references to the UK economy (and/or other economies)

**MAXIMUM FOR PART (a) 20 MARKS**

- 3(b) The UK government decides to bring about a significant shift in the sources of tax revenue from direct taxes, such as income tax, to indirect taxes, such as Value Added Tax (VAT). Evaluate the potential economic consequences of such a shift in the sources of tax revenue. (30 marks)

It is anticipated that candidates might initially review the distinction between direct and indirect taxes. There is likely to be reference to the UK tax system and to the general functions of taxation in any economy.

To score **19 marks** or more there must be evidence of evaluation. For this question, this could be in terms of an assessment of the phrase 'significant shift'; the period of time over which this shift is made; the questioning of the view that there will be a substantial impact, perhaps related to the issue of theoretical predictions versus empirical research; whether the impact has time to develop before there are political changes which instigate a reversal of policy.

Award a maximum of **24 marks** if there is no reference to the UK economy and/or UK Government policy.

**Issues and areas for discussion:**

- the 'burden of tax' concept, expressed, for example, as a % of GDP
- direct taxation
- indirect taxation
- examples of direct and indirect taxes
- national insurance contributions
- the redistributive impact of progressive v regressive taxation
- the impact on enterprise
- the impact on productivity
- the impact on decisions to invest
- the impact on decisions to save
- the impact of indirect taxes on the pattern of consumption
- the impact of indirect tax changes on the measurement of inflation
- labour's response to any observed rise in inflation
- theoretical predictions versus the findings of empirical research
- the nature of 'significant shift'
- the period of time over which the shift takes place
- the likelihood of a reversal of policy arising from political change
- changes in the context of EU tax harmonisation
- the income and substitution effects arising from changes in income tax
- the Laffer Curve

Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to the UK and/or other economies
- use of diagrams to aid the analysis accurately drawn
- an overall judgement on the issues raised

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR THIS QUESTION: 50 MARKS**

4(a) Explain the various determinants of the exchange rate of one currency against other currencies. *(20 marks)*

**For candidates who:**

define/explain the term 'exchange rate' and/or make other relevant general comments on exchange rates **up to 4 marks**

explain possible determinants, eg:

- trade flows, eg exports create a demand for the domestic currency by those buyers of the economy's exports (2 marks); imports create a supply of the domestic currency by those in the economy wishing to purchase imports (2 marks); this is because exporters of goods and services often prefer to be paid in their own currency in order, for example, to avoid the cost of currency conversion (2 marks); the consequent change in the demand for the currency relative to the change in supply will determine the change in the exchange rate, ceteris paribus (2 marks).
- investment flows
- speculation/expectations/confidence
- interest rates
- government/central bank intervention
- the condition of the domestic economy, eg the rate of inflation and the potential impact on competitiveness **up to 8 marks per determinant**

Reward diagrams as long as they refer specifically to, and aid, the explanation of a determinant rather than simply duplicating any earlier use of supply and demand diagrams in the introduction for which credit has already been given.

**Award up to 2 marks per relevant diagram (for AD/AS or supply and demand diagrams 1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of 6 marks. Up to 4 marks per diagram for something more complex (as above, but 2 further marks possible for the greater amount of information provided on the graph), eg intervention buying and selling, to a maximum of 8 marks in total for diagram.**

Reward any references to the UK and/or other economies.

**MAXIMUM FOR PART (a) 20 MARKS**

4(b) “The pound sterling has been ‘piggy-in-the-middle’ between the US dollar and the euro. In the past five years, for example, the pound has climbed by as much as 25% against the dollar, while falling 10% against the euro.”

DAVID SMITH, © *The Sunday Times*, 20 November 2005

Evaluate the possible economic consequences for UK macroeconomic performance of changes in the external value of the pound. (30 marks)

It is anticipated that candidates will provide an introductory review of the significance of the changes indicated in the quote, perhaps with some reference to the importance of the USA and the EU to UK trade, before going on to analyse and evaluate some of the consequences of these changes.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could be in terms of whether elasticity conditions influence the actual significance of such changes; the potential significance of the inherent strength of the economies concerned; how changes in the exchange rate can be a two-edged sword, e.g. as regards export and import prices; whether or not the changes are tempered by changes in the pound’s value against currencies other than the euro and the US dollar.

Award a maximum of **20 marks** if candidates discuss only the consequences of appreciation **or** of depreciation.

Award a maximum of **24 marks** if there is no reference to the UK economy.

**Issues and areas for discussion:**

- exchange rate systems
- introductory comments on the nature of macroeconomic performance
- economic growth
- inflation
- employment
- balance of payments
- elasticity conditions
- the potential significance of the changes cited in the quote
- an assessment of the UK’s ability to take advantage of the £’s increased competitiveness against the euro, perhaps with reference to specific supply-side issues
- the ability to compensate for the £’s appreciation against the \$
- the significance of changes for import prices
- the significance for investment flows
- the significance for tourism
- exchange rate changes against other currencies
- the possible relevance of the condition of the economy prior to the changes in currency values
- the significance of volatility of currency values, e.g. are these trends likely to be reversed in the next five years or will the noted changes be longer-lasting?



Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to other economies
- use of diagrams to aid the analysis, accurately drawn
- an overall judgement on the issues raised

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR THIS QUESTION 50: MARKS**