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AS

# Economics

ECON2/2 The National Economy  
Mark scheme

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2140  
June 2016

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Version 1.0: Final Mark Scheme

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Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk).

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**Advanced Subsidiary Economics****June 2016****ECON2/1**

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

**KEY LIST****June 2016****ECON2/1**

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

**Total**

A	6
B	7
C	3
D	9
	<u>25</u>

June 2016

ECON2/2

**Mark Scheme****Section B: Data Response****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 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 candidate might include in the answer.

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 candidate. 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**

<b>AS LEVELS OF RESPONSE</b>	<b>AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology</b>	<b>AO2 APPLICATION of theories, concepts and terminology</b>	<b>AO3 ANALYSIS of economic problems and issues</b>	<b>AO4 EVALUATION of economic arguments and evidence, making informed judgements</b>
<b>Level 5</b> 22-25 marks (mid-point 24)  <b>Good analysis and good evaluation</b>	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
<b>Level 4</b> 17-21 marks (mid-point 19)  <b>Good analysis but limited evaluation</b>  <b>OR</b> <b>Reasonable analysis and reasonable evaluation</b>	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
<b>Level 3</b> 10-16 marks (mid-point 13)  <b>Reasonable answer, including some correct analysis but very limited evaluation</b>	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)
<b>Level 2</b> 4-9 marks (mid-point 7)  <b>Weak with some understanding</b>	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
<b>Level 1</b> 0-3 marks (mid-point 2)  <b>Very weak</b>	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 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.
- An** 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

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

Candidates 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**

**Total for this Context: 50 marks**

<b>01</b>	Define the term 'budget deficit' ( <b>Extract B</b> line 2).	<b>[5 marks]</b>
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<p><b>For an acceptable definition such as:</b></p> <ul style="list-style-type: none"> <li>• When government expenditure is greater than taxation revenue</li> <li>• The amount by which government expenditure exceeds the government's receipts</li> <li>• When the income the government receives from taxation is less than the money it spends</li> </ul>	<b>5 marks</b>
<p>Full marks should be awarded to a candidate who demonstrates a clear understanding of the term <b>budget deficit</b> even if the definition is not exactly the same as the acceptable examples quoted above.</p>	

**If the definition is inaccurate or incomplete, award a maximum of 4 marks which may be broken down, for example, as follows:**

The difference between government spending and taxation.	<b>3 marks</b>
The amount the government has to borrow.	<b>3 marks</b>
That a budget deficit is an expansionary fiscal policy	<b>3 marks</b>
The amount the government owes.	<b>1 mark</b>
The budget deficit includes government spending and taxation.	<b>1 mark</b>
They incorrectly define a budget deficit as where taxation is greater than government spending (but have recognised that it comprises taxation and government spending).	<b>1 mark</b>
They state that the budget deficit is concerned with fiscal policy.	<b>1 mark</b>

**Maximum of 4 marks if the definition is incomplete or inaccurate**

**MAXIMUM FOR PART 01: 5 MARKS**

**02** Using **Extract A**, identify **two** significant points of comparison between the UK balance of payments on current account and the sterling exchange rate index over the period shown.

**[8 marks]**

**Award up to 4 marks for each significant point made.**

Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified. Unit of measurement given accurately.	<b>4 marks</b>
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 <b>and/or</b> no unit of measurement is given <b>and/or</b> the unit of measurement is inaccurate <b>and/or</b> the wrong date is given.	<b>3 marks</b>
Identifies a significant point of comparison. No correct use of data to support the comparison identified.	<b>2 marks</b>
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified. Unit of measurement given accurately.	<b>1 mark</b>

**If a candidate identifies more than 2 significant points of comparison, reward the best two.**

**Significant points include:**

- The current account deficit peaked in 2013 at around £72 billion whereas the sterling exchange rate index peaked in 2007 at an index of around 98
- The current account deficit was at its lowest in 2011 at around £27 billion, whereas the exchange rate index was at its lowest in 2008 at an index of approximately 74

**(A negative sign is sufficient to show that the candidate understands that the current account is in deficit, even if they refer to the balance.)**

- The current account deficit was higher at the end of the period than at the start of the period and the exchange rate index was lower at the end of the period than at the start. The current account deficit was approximately £40 billion in 2007 whereas it was around £72 billion in 2013. The exchange rate index was approximately 98 in 2007 whereas it was around 85 in 2013
- The range of values for the current account deficit is £45 billion whereas the exchange rate index has a range of approximately 24 index points
- There is some evidence of an inverse relationship between the sterling exchange rate index and the current account balance (some might say it's a lagged relationship but this isn't necessary). For example, between 2007 and 2008 the exchange rate index falls by over 20 index points and subsequently, between 2008 and 2011, the current account deficit improves from around £56 billion to around £27 billion

**A margin of error equal to plus or minus £2 billion is acceptable for the current account deficit. A margin of error equal to plus or minus 1 index point is acceptable for the sterling exchange rate index.**

**When quoting the exchange rate, for each comparison, 'index' must be specified as the 'unit of measurement'.**

**MAXIMUM FOR PART 02: 8 MARKS**

**03** **Extract C** (lines 14 to 15) states: ‘the current account deficit will only be reduced if there are supply-side improvements that increase labour productivity’.

Explain why an increase in labour productivity is likely to reduce the deficit on the current account of the balance of payments.

**[12 marks]**

**The anticipated written response:**

Define labour productivity, current account of the balance of payments or any other <b>relevant</b> term.	<b>1 mark per definition Up to a maximum of 2 marks</b>
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<p><b>For the explanation:</b></p> <p>Award 2 marks for each logical link in the chain of reasoning explaining why <b>export revenue</b> is likely to rise, and then also award 2 additional marks for a statement (or whole chain of reasoning) of why <b>import expenditure</b> is likely to fall.</p> <p><b>Or</b></p> <p>Award 2 marks for each logical link in the chain of reasoning explaining why <b>import expenditure</b> is likely to fall, and then also award 2 additional marks for a statement (or whole chain of reasoning) of why <b>export revenue</b> is likely to rise.</p>	
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<p><b>For example</b></p> <p>An increase in labour productivity will enable firms to produce more output per worker per time period (<b>2 marks</b>). This will mean that unit labour costs will fall (<b>2 marks</b>), assuming that wage rates do not change (<b>2 marks</b>). Lower costs will allow firms to cut prices (<b>2 marks</b>) and remain profitable (<b>2 marks</b>) and increase their competitiveness in their export markets (<b>2 marks</b>). This should increase the quantity of exports sold (<b>2 marks</b>). The more price elastic the demand for UK exports the greater the benefit to the balance of payments (<b>2 marks</b>). This might be expected to increase export revenue (<b>2 marks</b>), hence there should be a fall in the current account deficit (<b>2 marks</b>).</p> <p>Domestically produced goods/services may also be more price competitive in the UK, and so a reduction in import expenditure is also likely. (<b>2 marks</b>)</p>	<b>Up to 12 marks</b>
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<p>Award <b>up to 3 additional marks</b> for the use of relevant diagrams, eg an AD/AS diagram that illustrates that a rise in labour productivity will shift the AS curve to the right, reducing the price level (easing inflation) and hence improving competitiveness.</p> <p>To be worth credit, the diagram must support the candidate’s explanation of why an increase in labour productivity is likely to reduce the current account deficit, ie it must be focused on the question.</p>	<p><b>Up to 3 marks per diagram up to a maximum of 3 marks</b></p> <p><b>Use the grid on the next page when awarding marks for diagrams</b></p>
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<b>Breakdown of the marks for an AD/AS diagram:</b>	
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 ( $PL_1$ $Y_1$ ).	<b>1 mark</b>
An accurately drawn shift of the SRAS (or LRAS) curve to the right.	<b>1 mark</b>
Lines drawn from the new equilibrium and labels such as $PL_2$ and $Y_2$ .	<b>1 mark</b>

**Note**

- (i) **To earn the first mark in the grid above, all three listed tasks must have been completed correctly.**
- (ii) **For the task of labelling the equilibrium points on the axes, but not the axis labels, any labels are acceptable, for example: PL and Y, A and B, P and Q.**

**MAXIMUM FOR PART 03: 12 MARKS**

**04** **Extract C** (lines 10 to 11) states that ‘there is a danger that the value of the pound could fall rapidly’.

Using the data and your knowledge of economics, assess the consequences for the performance of the UK economy of a substantial reduction in the pound sterling exchange rate.

**[25 marks]**

Extracts **A**, **B** and **C** provide a number of prompts for candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will analyse the likely impact of a substantial fall in the sterling exchange rate on each of the key macroeconomic policy objectives. When assessing the consequences of the reduction in the exchange rate, it is also expected that they will take into account recent developments and the current state of the UK economy.

**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, eg through the use of quotes or referring explicitly to the extracts.

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

*Examiners should note that if a candidate simply identifies some of the benefits and some of the disadvantages of a substantial fall in the sterling exchange rate, credit can be given for basic evaluation. For example, a candidate might state that it is beneficial because it is likely to stimulate growth and reduce unemployment but that it may be damaging because it adds to inflationary pressures. 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 their evaluation of the effects of the fall in the exchange rate by the use of evidence and sound economic analysis.*

*It will only be possible for candidates to consider a few of the issues identified and this should not constrain the mark awarded. They can also be credited for discussing other relevant issues not mentioned on the next page.*

<b>Introduction</b>	<ul style="list-style-type: none"> <li>explain what is meant by ‘a substantial reduction in the sterling exchange rate’</li> <li>identify the main macroeconomic policy objectives.</li> </ul>
<b>Developing the</b>	Credit for application can be given for relevant application of economic theory, use

<p><b>response to the question:</b> <b>(Application)</b></p>	<p>of the data and the candidate's own knowledge of recent developments in the UK economy.</p> <ul style="list-style-type: none"> <li>• explicit use of the data in the Extracts, particularly B and C</li> <li>• relevant application to recent developments in the UK economy</li> <li>• relevant application of appropriate economic concepts and principles to the context.</li> </ul>
<p><b>Developing the response to the question:</b> <b>(Analysis)</b></p>	<ul style="list-style-type: none"> <li>• explain how a fall in the exchange rate affects the price of exports and imports</li> <li>• analyse the impact of a fall in the exchange rate on aggregate demand</li> <li>• analyse the likely impact of a fall in the exchange rate on short-run economic growth</li> <li>• explain possible multiplier effects</li> <li>• analyse the possible impact of a fall in the exchange rate on long-run growth</li> <li>• explain possible accelerator effects</li> <li>• analyse the impact of a fall in the exchange rate on unemployment, particularly demand-deficient unemployment</li> <li>• analyse the impact of a fall in the exchange rate on both demand-pull and cost-push inflation</li> <li>• analyse the impact of a fall in the exchange rate on the current account of the balance of payments</li> <li>• analyse the impact of a fall in the exchange rate on other aspects of UK economic performance, eg the budget balance, manufacturing output and living standards</li> <li>• the use of relevant diagrams to support some of the points identified above.</li> </ul>
<p><b>Evaluation</b></p>	<ul style="list-style-type: none"> <li>• a fall in the exchange rate may lead to conflicts between policy objectives, eg stimulate short-run growth but generate higher inflation</li> <li>• why and how the consequences of a fall in the exchange rate may depend on other aspects of economic policy</li> <li>• the importance of what is happening in Europe and the rest of the world economy</li> <li>• short-run versus long-run consequences</li> <li>• an overall assessment of whether or not, in current circumstances, a substantial fall in the exchange rate is likely to be beneficial or damaging for the UK economy.</li> </ul>

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 WHICH OFFERS FURTHER GUIDANCE**

**MAXIMUM FOR PART 04: 25 MARKS**

OR

Context 2

Total for this Context: 50 marks

<b>05</b>	Define the term ‘unemployment rate’ ( <b>Extract E</b> , line 6).	<b>[5 marks]</b>
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<p><b>For an acceptable definition such as:</b></p> <ul style="list-style-type: none"> <li>• The number of people who are out of work and actively seeking work as a percentage of the working population (or population of working age or labour force)</li> <li>• The percentage of the labour force (or population of working age or labour force) who are willing and able to work but without a job.</li> <li>• The amount of people who are claiming Job Seeker’s Allowance (or unemployment benefit) as a percentage of the labour force (or population of working age or labour force)</li> </ul>	<b>5 marks</b>
<p>Full marks should be awarded to a candidate who demonstrates a clear understanding of the term <b>unemployment rate</b> even if the definition is not exactly the same as the acceptable examples quoted above.</p>	

**If the definition is inaccurate or incomplete, award a maximum of 4 marks which may be broken down, for example, as follows:**

The number of people who are out of work and actively seeking work as a percentage (or as a percentage of the population)	<b>4 marks</b>
The number of people who are out of work and actively seeking work, ie they define unemployment but not the unemployment rate.	<b>3 marks</b>
The number of people who aren’t working as a percentage of the working population/labour force, ie the definition of ‘unemployment’ is weak.	<b>3 marks</b>
Define unemployment as those who are claiming Job Seeker’s Allowance (or unemployment benefit (but not simply benefits)).	<b>3 marks</b>
Define the working population (or the labour force or the economically active population) as those who are in work plus those who are actively seeking work.	<b>2 marks</b>
The number of people who aren’t working, ie for a weak definition of ‘unemployment’.	<b>1 mark</b>
Stating that people may be unemployed because of structural or cyclical or frictional or seasonal factors (all or any number of these types/causes of unemployment)	<b>1 mark</b>

**Maximum of 4 marks if the definition is incomplete or inaccurate.**

**MAXIMUM FOR PART 05: 5 MARKS**

**06** Using **Extract D**, identify **two** significant points of comparison between the rate of unemployment in the UK and the USA over the period 2009 to 2014.

**[8 marks]**

**Award up to 4 marks for each significant point made.**

Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified. Unit of measurement given accurately.	<b>4 marks</b>
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 <b>and/or</b> no unit of measurement is given <b>and/or</b> the unit of measurement is inaccurate <b>and/or</b> the wrong date is given.	<b>3 marks</b>
Identifies a significant point of comparison. No correct use of data to support the comparison identified.	<b>2 marks</b>
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified. Unit of measurement given accurately.	<b>1 mark</b>

**If a candidate identifies more than 2 significant points of comparison, reward the best two.**

**Significant points include:**

- The rate of unemployment peaked in the USA in 2009 at around 9.9% whereas the rate of unemployment peaked in the UK in 2012 at around 8.3%
- The rate of unemployment was lowest in the USA in 2014 at around 5.8% and the rate of unemployment was also lowest in the UK in 2014 at around 5.8%
- The unemployment rate in both the USA and the UK is higher at the start of the period than it is at the end of the period, ie in the USA the unemployment rate is 9.9% in 2009 but is only 5.8% in 2014, similarly, in the UK, the unemployment rate is 7.8% in 2009 but is only 5.8% in 2014
- Between 2009 and 2011 the unemployment rate was higher in the USA than in the UK whereas, between 2012 and 2014, the unemployment rate was lower in the USA than the UK, eg in 2010 the unemployment rate was around 1.4% higher in the USA than the UK but in 2013 the unemployment rate was approximately 0.5% higher in the UK than in the USA
- Between 2009 and 2014, in the USA, the unemployment rate falls each year, ie from 9.9% to 5.8%, whereas, in the UK, the unemployment rate rises at first and then falls, eg between 2009 and 2012 it rises from 7.8% to 8.4% but between 2012 and 2014 it falls from 8.4% to 5.8%
- The largest fall in the unemployment rate in the USA is in 2013 when it falls by 1.6% whereas the largest fall in the unemployment rate in the UK occurs in 2014 when the rate falls by 1.4%.

**A margin of error equal to plus or minus 0.1% is acceptable**

**MAXIMUM FOR PART 06: 8 MARKS**

**07** **Extract E** (lines 15 to 17) states: ‘Some companies have expressed concerns about skill shortages, indicating that there is less spare capacity in the UK economy than some economic forecasters have suggested’.

Explain how a sustained reduction in the amount of spare capacity in the UK is likely to affect inflation.

[12 marks]

**The anticipated written response:**

<p>Define spare capacity, inflation, demand-pull inflation, cost-push inflation or any other <b>relevant</b> term.</p>	<p><b>1 mark per definition</b> <b>Up to a maximum of 2 marks</b></p>
<p><b>For the explanation, award 2 marks for each logical link in the chain of reasoning. For example:</b></p>	
<p>A fall in the amount of spare capacity is likely to result from an increase in aggregate demand <b>(2 marks)</b>. As the amount of spare capacity falls, firms are going to find it harder to meet an increase in demand by increasing output <b>(2 marks)</b> and hence some firms are likely to respond to rising demand by raising prices <b>(2 marks)</b> to increase their profits <b>(2 marks)</b>. This is demand pull inflation <b>(2 marks)*</b>.</p> <p>Also, as the amount of spare capacity falls, the extra cost of producing additional units of output may rise <b>(2 marks)</b>, for example, firms may have to pay overtime rates to some workers <b>(2 marks)</b>. A reduction in spare capacity also indicates that labour shortages may emerge <b>(2 marks)</b> and as a result, wage rates are likely to increase <b>(2 marks)</b>. If firms’ costs increase they are likely to raise prices to compensate <b>(2 marks)</b>. This is cost push inflation <b>(2 marks)*</b>.</p> <p>*but do not award 2 marks for an increase in inflation, without specifying demand pull or cost push.</p> <p>Inflation may not rise significantly until the economy approaches full capacity <b>(2 marks)</b>.</p>	<p><b>Up to 12 marks</b></p>
<p>A PPF diagram may be used to show understanding of or define spare capacity, (but this a maximum of 1 mark only because a PPF diagram cannot be used to show the effect on inflation)</p>	<p><b>1 mark</b></p>
<p>Award <b>up to 3 additional marks</b> for the use of relevant diagrams, eg an AD/AS diagram illustrating that as AD shifts to the right, and the amount of spare capacity falls, the price level is likely to increase more rapidly. Ideally, the diagram should show that when there is a lot of spare capacity, rising AD is likely to have little impact on the price level but as the economy approaches full capacity, the impact on the price level is likely to be greater.</p>	<p><b>Up to 3 marks per diagram up to a maximum of 3 marks</b> <b>Use the grid on the next page when awarding marks for diagrams</b></p>

<b>Breakdown of the marks for an AD/AS diagram:</b>	
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 ( $PL_1$ $Y_1$ ).	<b>1 mark</b>
An accurately-drawn shift of the AD curve to the right.	<b>1 mark</b>
Lines drawn from the new equilibrium and labels such as $PL_2$ and $Y_2$ .	<b>1 mark</b>

**Note**

- (i) To earn the first mark in the grid above, all three listed tasks must have been completed correctly.
- (ii) For the task of labelling the equilibrium points on the axes, but not the axis labels, any labels are acceptable, for example: PL and Y, A and B, P and Q.

**MAXIMUM FOR PART 07: 12 MARKS**

**08** **Extract F** (lines 14 to 16) states: ‘Persistently slow growth in Europe and a strengthening of the value of the pound against the euro have led some to predict that the fall in unemployment in the UK will soon come to an end’.

Using the data and your knowledge of economics, evaluate the relative merits of monetary and fiscal policy measures for a government attempting to achieve a further reduction in unemployment in the UK.

**[25 marks]**

Extracts **E** and **F** provide a number of prompts for candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will analyse how both monetary and fiscal measures can contribute to reducing unemployment. Such analysis is likely to recognise that monetary policy primarily affects aggregate demand, whereas fiscal measures can affect unemployment by influencing both the demand-side and supply-side of the economy. Good candidates are also likely to appreciate that the most appropriate policy depends on the current causes of unemployment.

**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, eg through the use of quotes or referring explicitly to the extracts.

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

*Examiners should note that if a candidate simply identifies some of the benefits and/or some of the disadvantages of monetary and/or fiscal policy as approaches to reducing unemployment, credit can be given for basic evaluation. 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 sound economic analysis to support their evaluation of the relative merits of monetary and fiscal policy measures for a government attempting to achieve a reduction in current levels of unemployment in the UK.*

*It will only be possible for candidates to consider a few of the issues identified and this should not constrain the mark awarded. They can also be credited for discussing other relevant issues not mentioned below.*

<p><b>Introduction</b></p>	<ul style="list-style-type: none"> <li>• define unemployment</li> <li>• the measurement of unemployment</li> <li>• recent trends in unemployment in the UK and the current level or rate of unemployment</li> <li>• possible causes of unemployment, eg frictional, structural or cyclical</li> <li>• define monetary policy and fiscal policy.</li> </ul>
<p><b>Developing the response to the question:</b> <b>(Application)</b></p>	<p>Credit for application can be given for relevant application of economic theory, use of the data and the candidate's own knowledge of recent developments in the UK economy.</p> <ul style="list-style-type: none"> <li>• explicit use of the data in the Extracts, particularly E and F</li> <li>• relevant application to recent developments in the UK economy</li> <li>• relevant application of appropriate economic concepts and principles to the context.</li> </ul>
<p><b>Developing the response to the question:</b> <b>(Analysis)</b></p>	<ul style="list-style-type: none"> <li>• analyse how low interest rates can contribute to a reduction in unemployment</li> <li>• analyse how other monetary measures can contribute to a reduction in unemployment, eg a lower exchange rate</li> <li>• link the above to aggregate demand and cyclical unemployment</li> <li>• analyse how fiscal measures can be used to increase aggregate demand and hence contribute to reducing cyclical unemployment</li> <li>• possible multiplier and accelerator effects</li> <li>• analyse how fiscal measures can help to reduce unemployment caused by supply-side problems, eg frictional and structural unemployment</li> <li>• explain how fiscal measures can help to improve the occupational and geographical mobility of labour</li> <li>• explain how fiscal measures may be used to increase incentives to work</li> <li>• the use of relevant diagrams to support some of the points identified above.</li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• why monetary is likely to be most effective in reducing demand-deficient (or cyclical) unemployment</li> <li>• the extent to which monetary measures might help to reduce some supply-side causes of unemployment, eg a weak pound may help to reduce structural unemployment caused by foreign competition</li> <li>• the limitations of monetary policy, eg time lags; banks might not respond to cuts in Bank Rate; cuts in interest rates may not stimulate spending</li> <li>• the advantages of monetary policy compared to fiscal policy, eg easy and quick to implement, expansionary monetary policy does not increase the budget deficit and national debt</li> <li>• the extent to which monetary policy is appropriate as a policy for achieving a further reduction in unemployment in current circumstances</li> <li>• the benefits and limitations of fiscal policy as a means of stimulating AD</li> <li>• fiscal measures can be targeted, eg to create jobs in areas that are suffering most from unemployment</li> <li>• fiscal measures can help to reduce both demand-side and supply-side causes of unemployment</li> <li>• some fiscal measures to reduce unemployment may help the poorer members of society, eg increases in tax-free pay, providing in-work benefits to increase incentives at work</li> <li>• some fiscal measures to reduce unemployment may be regarded as inequitable, eg cuts in out-of-work welfare benefits</li> <li>• assessing the policies in the light of main causes of the current levels of unemployment in the UK</li> <li>• the extent to which the different policies adopted to reduce unemployment might conflict with other objectives or economic policy</li> <li>• an overall assessment of whether or not, in current circumstances, monetary or fiscal measures are likely to be the most effective way of achieving a further reduction in unemployment in the UK.</li> </ul>
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**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 WHICH OFFERS FURTHER GUIDANCE**

**MAXIMUM FOR PART 08: 25 MARKS**