AQA

AS
Economics

7135/2

Paper 2 – The National Economy in a Global Context

Mark scheme

7135

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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.

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SECTION A

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

KEY LIST

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

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

The levels of response grid below should be used when marking the 25 mark questions.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21–25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16–20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments and/or data.	**11–15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited, application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes attempted evaluation which is weak and unsupported.	**6–10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1–5 marks**

SECTION B

Context 1 ECONOMIC SHOCKS AND THE UK ECONOMY **Total for this context: 50 marks**

21 *Define 'budget surplus'* ***Extract B*** *(line 12)*.

[3 marks]

Level of response	Response	Max 3 marks
3	• A full and precise definition is given.	**3 marks**
2	• The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.	**2 marks**
1	• Some fragmented points are made.	**1 mark**

Examples of acceptable definitions worth 3 marks:

- when the amount of revenue received from taxation is greater than the amount of government spending in a time period, eg one year.
- when there is a positive budget balance so there is no borrowing requirement for the current year.

Examples of a definition worth 2 marks:

- when tax receipts are greater than government spending.
- when a government does not have to borrow money.

Examples of a definition worth 1 mark:

- fiscal policy includes taxation, government spending, and the budget position
- contractionary policy.
- when tax receipts are greater than government spending resulting in exports exceeding imports.

Notes:

i. If a student mistakes a budget surplus for a current account trade surplus, this should be awarded zero marks.

ii. If a candidate shows understanding of a budget surplus but also goes on to refer to a current account trade surplus, this should be awarded a maximum of 1 mark.

MAXIMUM FOR QUESTION 21: 3 MARKS

22 *Assume that the increase in national income as a result of the proposed Heathrow airport expansion is £29 billion.*

*Use **Extract C** to calculate, to one decimal place, the value of the multiplier*.

[4 marks]

Response	**Marks**
For a correct answer: 1.6	**4 marks**
For the correct value with (any) more than one decimal place: eg 1.6477 or incorrectly rounded, ie 1.7 **OR** The correct value to one decimal place but with the wrong unit of measurement, eg £1.6 or 1.6 billion or 1.6%	**3 marks**
For the correct values top and bottom but the wrong answer: 29/17.6 **OR** The correct value incorrectly rounded and with the wrong unit of measurement, eg £1.7	**2 marks**
Upside down figures in the formula 17.6/29 = 0.6 **OR** Stating the formula correctly, eg change in national income/change in investment (or spending)	**1 mark**

MAXIMUM FOR QUESTION 22: 4 MARKS

23	*Use **Extract A** to identify **two** significant features of the changes in the sterling exchange rate over the period shown.* ***[4 marks]***

Award up to 2 marks for each significant feature identified.

Response	**Marks**
Identifies a significant feature. Makes accurate use of the data to support the feature identified. Unit of measurement given accurately.	**2 marks**
Identifies a significant feature but only one piece of data is given when two are needed **and/or** no unit of measurement is given **and/or** the unit of measurement is inaccurate **and/or** the wrong date is given.	**1 mark**

If a candidate identifies more than 2 significant features, reward the best two.

Significant points include:

- the value of the pound fell from US$1.46 to US$1.29 over the period shown
- the value of the pound fell from US$1.46 in May 2016 to US$1.29 in April 2017
- the value of the pound was highest in June 2016 at US$1.48
- the value of the pound was lowest in January 2017 at US$1.21
- there was a significant fall in the value of the pound in June 2016 from US$1.48 to US$1.32
- the value of the pound had a range of 27 cents, over the period shown, **and/or** ranging from a low value of US$1.21 in January 2017, to a high of US$1.48 in June 2016
- the value of the pound fluctuated over the period shown, **supported by at least one set of data**, for example, the most significant change occurred in June 2016 when it fell from a value of US$1.48 to US$1.32 in a matter of days, **and/or** it fell from US$1.30 in September 2016 to US$1.21 in October 2016.

Note

- Allow a margin of +/- US$0.02.
- If values given are outside of this tolerance, award zero marks for that feature because there is incorrect use of data.

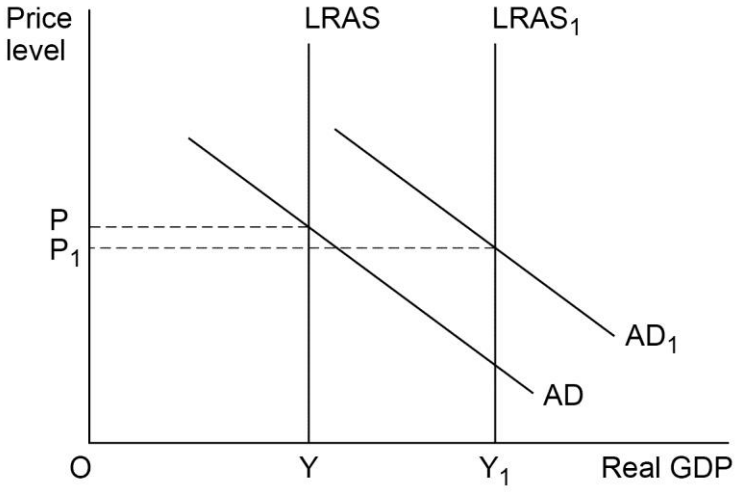
MAXIMUM FOR QUESTION 23: 4 MARKS

24 ***Extract C*** *(lines 7–9) states 'During late 2016 the Government gave the go-ahead to the construction of the third runway at Heathrow Airport in London.'*

Draw an AD/AS diagram to show ***both*** *the short-run* ***and*** *long-run effects 'on macroeconomic equilibrium' of investment in a large infrastructure project such as this.*

[4 marks]

The correct diagram involves an AD/AS diagram illustrating both a shift to the right in the AD curve and a shift to the right in the LRAS curve. It is not necessary to include the SRAS curve. The use of the Keynesian model is acceptable and should be rewarded.



Response	Marks
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve, a rightwards shift in the LRAS curve, an increase in real national output, and an equilibrium price level with both axes and all curves and coordinates correctly labelled. **(Please note: price level may rise, fall or stay the same)**	**4 marks**
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve, a rightwards shift in the LRAS curve, an increase in real national output, and an equilibrium price level, with one label missing or inaccurate (axis or curve or coordinate).	**3 marks**
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve **OR** a rightwards shift in the LRAS curve, an increase in real national output, and an equilibrium price level, with both axes and all curves and coordinates correctly labelled. **OR** Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve, a rightwards shift in the LRAS curve, an increase in real national output, and an equilibrium price level, with two or more labels missing or inaccurate (axis or curve or coordinate).	**2 marks**
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, with both axes, both original curves and coordinate correctly labelled. (This **1** mark can be given even if the curves are labelled AS (rather than LRAS) and AD.) **OR** Accurately drawn AD/AS diagram with both axes and curves labelled showing a rightwards shift in either the LRAS **OR** AD curves.	**1 mark**

Notes:

Labels refer to axes and/or coordinate labels.
Label of axis can be 'Real GDP', 'Real Output,' 'Output,' 'Y,' 'RNO,' 'NI' and 'National Output.'
Do not reward Quantity or Q.
Label of axis can be 'Price Level,' 'PL,' 'Inflation' and '£'.
Do not reward Price or P.

MAXIMUM FOR QUESTION 24: 4 MARKS

25 ***Extract B*** *(lines 9–11) states 'The Bank of England's Monetary Policy Committee loosened its monetary policy in an attempt to prevent a downturn in the economic cycle.'*

Explain how monetary policy might help to prevent a downturn in the economic cycle.

[10 marks]

Level of response	An answer that:	Max 10 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • may include a relevant diagram to support their explanation.	**8 - 10 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram to support their explanation.	**4 - 7 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.	**1 - 3 marks**

Relevant issues include:

- what is meant by monetary policy
- what is meant by a downturn in the economic cycle, ie a fall in economic activity, falling output and rising unemployment (some candidates might interpret as a 'downturn', a fall in the rate of growth)
- how interest rates/Bank Rate affect consumption/investment/AD
- how money supply/QE affect consumption/investment/AD
- how a falling exchange rate affects exports/imports/AD
- how AD affects the level of economic activity/output/employment.

MAXIMUM FOR QUESTION 25: 10 MARKS

26 ***Extract C*** *(lines 5–6) states 'Some economists believe that a reduction in the level of economic activity and an increase in unemployment are inevitable.'*

Use the extracts and your knowledge of economics to assess the view that when an economy experiences a negative economic shock there will always be a sustained increase in unemployment.

[25 marks]

Areas for discussion include:

- what is meant by an (negative) economic shock/examples of economic shock
- what is meant by unemployment/types of unemployment
- what is meant by 'inevitable'
- what is meant by sustained increase in unemployment
- arguments to support the view:
  the impact of an economic shock on the level of economic activity and unemployment
  the impact of weaker demand conditions
  the impact of a fall in investment
  the consequences of inflationary pressure/possible contractionary monetary policy
  the impact of low confidence and uncertainty
- arguments to dispute the view:
  the impact of loosening monetary/fiscal policy
  the impact of sustained consumer confidence and spending
  the impact of private sector investment
  the role of markets and adaptability of economic agents in responding to the shock
  the falling value of the exchange rate
  the impact of supply-side policies
- the importance of time lags
- the significance of geographical and occupational mobility of labour
- the extent of structural change caused by the shock
- external influences
- the size, nature and duration of shocks, eg a serious financial crisis is likely to have a more damaging long-term effect than other types of shock
- the size of any positive/negative multiplier effects
- the importance of productivity increases
- conflicts with other policy objectives
- ability of the government/central bank to manage the economy
- the use and significance of the data in the extracts.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response the question.

Use the levels mark scheme on page 5 to award candidates marks for this question.

MAXIMUM FOR QUESTION 26: 25 MARKS

Context 2 A NEW APPROACH TO GOVERNMENT POLICY **Total for this context: 50**

27 *Define 'progressive taxation' **Extract E** (line 17).*

[3 marks]

Level of response	Response	Max 3 marks
3	• A full and precise definition is given.	**3 marks**
2	• The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.	**2 marks**
1	• Some fragmented points are made.	**1 mark**

Examples of acceptable definitions worth 3 marks:

- takes a larger proportion/percentage of a higher income than it does of a lower income
- when the more a person earns the higher their rate of taxation will be
- when the marginal rate of tax is higher than the average rate

Examples of a definition worth 2 marks:

- when the amount paid in tax increases as income increases
- when the income tax rate increases

Examples of a definition worth 1 mark:

- when the amount paid in tax increases
- a tax used to reduce income inequality

MAXIMUM FOR QUESTION 27: 3 MARKS

28 *Use **Extract D** to calculate the median amount of funding allocated to the local enterprise partnerships in the Northern Powerhouse.*

[4 marks]

Response	**Max 4 marks**
For a correct answer: £43.3m	**4 marks**
For the correct value with no £ **OR** no million: eg £43.3 **OR** 43.3m	**3 marks**
For the correct value with no £ **AND** no million: 43.3	**2 marks**
For stating that the funding belongs to Cheshire and Warrington **OR** For stating or showing that it is the one in the middle	**1 mark**

MAXIMUM FOR QUESTION 28: 4 MARKS

29 *Use **Extract D** to identify **two** significant features of the funding allocated to the Northern Powerhouse.*

[4 marks]

Award up to 2 marks for each significant feature identified.

Response	**Max 2 marks**
Identifies a significant feature. Makes accurate use of the data to support the feature identified. Unit of measurement given accurately.	**2 marks**
Identifies a significant feature but only one piece of data is given when two are needed **and/or** no unit of measurement is given **and/or** the unit of measurement is inaccurate.	**1 marks**

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

Significant points include:

- the LEP receiving the greatest amount of funding is Greater Manchester with £130.1 million
- the LEP receiving the smallest amount of funding is Cumbria with £12.7 million
- the total amount of funding granted to the Northern Powerhouse is £556.3 million
- the LEP receiving the most funding, Greater Manchester, receives more than the five LEPs receiving the least combined, £130.1 million compared to £123.9 million
- the mean amount of funding allocated to LEPs in the Northern Powerhouse is £50.6 million
- the range of funding allocated to the LEPs in the Northern Powerhouse is £117.4 million, with £12.7 million given to Cumbria and £130.1 million given to Greater Manchester.

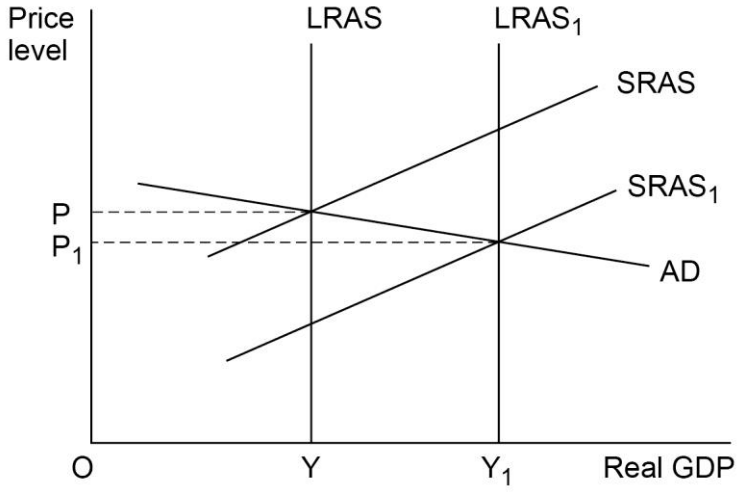
MAXIMUM FOR QUESTION 29: 4 MARKS

30 ***Extract F*** *(lines 8–9) states 'This makes it even more difficult to achieve increases in productivity.'*

Draw an AD/AS diagram to show the effects of ***both*** *short-run* ***and*** *long-run productivity gains on macroeconomic equilibrium.*

[4 marks]

The correct diagram involves an AD/AS diagram illustrating both a shift to the right in the SRAS curve and a shift to the right in the LRAS curve.



Response	Max 4 marks
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the SRAS curve, a rightwards shift in the LRAS curve, an increase in real national output and a decrease in price level, with both axes and all curves and coordinates correctly labelled.	**4 marks**
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the SRAS curve, a rightwards shift in the LRAS curve, an increase in real national output and a decrease in price level, with one label missing or inaccurate (axis or curve or coordinate).	**3 marks**
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the SRAS curve **OR** a rightwards shift in the LRAS curve, an increase in real national output and a decrease in price level, with both axes and all curves and coordinates correctly labelled. **OR** Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the SRAS curve, a rightwards shift in the LRAS curve, an increase in real national output and a decrease in price level, with two or more labels missing or inaccurate (axis or curve or coordinate). **OR** Accurately drawn AD/AS diagram with both axes and curves labelled, showing a rightwards shift in both the LRAS and SRAS curves.	**2 marks**
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, with both axes, both original curves and coordinate correctly labelled. (This **1** mark can be given even if the curves are only labelled AS (rather than SRAS) and AD.) **OR** Accurately drawn AD/AS diagram with both axes and curves labelled, showing a rightwards shift in either the LRAS or SRAS curves.	**1 marks**

Notes:
Labels refer to axes and/or coordinate labels.
Label of axis can be 'Real GDP', 'Real Output,' 'Output,' 'Y,' 'RNO,' 'NI' and 'National Output.'
Do not reward Quantity or Q.
Label of axis can be 'Price Level,' 'PL,' 'Inflation' and '£'.
Do not reward Price or P.

MAXIMUM FOR QUESTION 30: 4 MARKS

31 ***Extract E*** *(lines 18–19) states 'the 2017 Budget Report stated the intention to reduce the rate of corporation tax further to 17% by 2020.'*

Explain how a reduction in corporation tax on firms' profits might lead to supply-side improvements in the economy.

[10 marks]

Level of response	An answer that:	Max 10 marks
3	• is well organised and develops one or more of the key issues that are relevant to each of the two factors • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well–focused analysis with a clear, logical chain of reasoning • may include a relevant diagram to support their explanation.	**8 – 10 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram to support their explanation.	**4 – 7 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.	**1 – 3 marks**

Relevant issues include:

- what is meant by supply-side policies/improvements
- what is meant by corporation tax
- how reductions in corporation tax create incentives to expand/invest
- how investment in capital leads to supply-side improvements such as increases in efficiency/productivity
- how investment in human capital/labour improves the quality of labour
- the impact on economic growth/long run aggregate supply/the productive capacity of the economy/non-inflationary growth.

MAXIMUM FOR QUESTION 31: 10 MARKS

32 ***Extract E*** *(lines 3–4) states that there is 'a new approach to government…a new, active role that backs business and ensures more people in all corners of the country share in the benefits of its success'.*

Use the extracts and your knowledge of economics to assess the view that a more active government industrial policy will make a significant improvement in macroeconomic performance.

[25 marks]

Areas for discussion include:

- what is meant by macroeconomic performance
- what is meant by supply-side policy/industrial policy
- what is meant by 'more active government policy'
- what is meant by 'significant improvement' in macroeconomic performance
- arguments to support the view:
  the benefits of targeted government spending on growth/jobs/price stability
  the benefits of technical education on growth/jobs
  the benefits of R and D/investment/infrastructure on growth/jobs/price stability
  the benefits of regional policy on growth/jobs
  the impact of using the tax and benefits system to create incentives
  the impact of all of the above on international competitiveness
  the impact of the above on consumer and business confidence
- arguments to dispute the view:
  affordability
  opportunity costs
  the impact of reducing progressive taxation leaving VAT, for example, unchanged
  the impact of low wages and job insecurity on consumption/confidence
  the accelerator effect and the impact of a fall in investment
  the consequences of inflationary pressure
  the productivity gap
  regional imbalances
  government failure/imperfect knowledge
  long term impact on taxation
- the importance of time lags – long term versus short term
- free market (supply-side) versus government intervention view
- external influences
- the size of any positive/negative multiplier effects
- the importance of productivity increases
- reliance on monetary policy
- what is meant by 'significant' in the context of the current economic situation
- the significance of a 'more active' approach – is it really different?
- the use of and significance of the data in the extracts

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response the question.

Use the levels mark scheme on page 5 to award candidates marks for this question.

MAXIMUM FOR QUESTION 32: 25 MARKS