Pearson Edexcel

Mark scheme

Sample assessment materials

Issue 3

Pearson Edexcel GCE AS Level

in Economics A (8EC0)

Paper 2: The UK economy – performance and policies

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • an increase in real GDP (1) OR • an increase in an economy's productive capacity/potential (1).	**(1)**

Question Number	Answer	Mark
1(b)	**Application 2** (1534 - 1506) / 1506 x 100 (1) = 1.9% (1) NB if the answer given is between 1.8% and 2% award 2 marks.	**(2)**

Question Number	Answer	Mark
1(c)	D	**(1)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition: • the proportion of one additional unit of income that is spent (1) OR • ΔC/ΔY (1).	**(1)**

Question Number	Answer	Mark
2(b)	**Application 2** Multiplier = 1/(1-MPC) OR Multiplier = 1/MPW (1) Multiplier = 1/0.6 = 1.7 (1) NB if the answer given is between 1.6 and 2 award 2 marks.	**(2)**

Question Number	Answer	Mark
2(c)	C	**(1)**

Question Number	Answer	Mark
3(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • an increase in the average/general price level (1).	**(1)**

Question Number	Answer	Mark
3(b)	B	**(1)**

Question Number	Answer	Mark
3(c)	**Knowledge 2** 1 mark for limitation identified and 1 mark for linked development. Possible answers include: • CPI is not fully representative (1) as it is a figure for the 'average' household (1) • CPI does not include mortgage interest payments/ it also excludes council tax, TV licences etc (1) which may be a considerable expense to some households (1) • may suffer from sampling bias (1) either in Living Costs and Food (LCF) Survey, or price survey (1) • difficult to account for the changing quality of goods and services (1) so inflation may be overestimated (1).	**(2)**

Question Number	Answer	Mark
4(a)	D	**(1)**

Question Number	Answer	Mark
4(b)	**Knowledge 1, Application 2** **Knowledge/understanding** • 1 mark for definition of a budget deficit (1). **Application**: • 1 mark for calculating government spending and 1 mark for calculating budget deficit. Forecast government spending = £720 bn (1). Forecast budget deficit = £612bn - £720bn = (-) £108 bn (1).	**(3)**

Question Number	Answer	Mark
5(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition: • output per unit of input (1).	**(1)**

Question Number	Answer	Mark
5(b)	**Application 2** **Application:** 2 marks for, e.g. • New LRAS curve drawn, showing an outwards/rightwards shift (1). • New equilibria labelled, showing a fall in average price level, and an increase in real GDP (1).	**(2)**

Question Number	Answer	Mark
5(c)	A	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • Investment is an increase in the capital stock (1). • Real means adjusted for inflation (1). **Application** 2 marks for, e.g. • Investment has fallen (1). • Data reference from Figure 1, e.g. by approximately £20bn in 2011 and 2012 (1).	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge** 1 mark for, e.g. • An appreciation means that one pound becomes worth more US dollars (1). **Application** 2 marks for two data references from Figure 2, e.g. • the pound has appreciated from £1 = $1.52 on 1 July 2013 (1), to £1 = $1.65 on 1 January 2014 (1). **Analysis** 2 marks for, e.g. • The British pound price of goods and services imported from the US will be lower (1). • The US dollar price of goods and services exported from the UK will be higher (1).	**(5)**

Question Number	Answer	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** • Identification of two reasons (1+1). **Application** • Reference to Extract A (1+1). **Analysis** Linked development of why each factor led to increased consumption (1+1), e.g. • delayed impact of the cut in the bank rate (1) to 0.5% (1), making borrowing cheaper and providing less incentive to save (1) • the Funding for Lending Scheme (1) meant that high street banks became more willing to lend to consumers/to lend at lower rates of interest (1), reducing the cost of borrowing (1) • rising consumer confidence (1): the FLS led to rising house prices (1), which created a positive wealth effect/raising consumers' confidence and making them more likely to spend (1).	**(6)**

Question Number	Indicative content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2** Interest rates: • current rates will influence the cost of servicing loans (interest payments) • expectations of future interest rates may influence cost projections and project viability. Other factors to consider might include: • willingness of banks to lend to firms (FLS) • company profitability • level of cash held by firms • business confidence • sustained consumer spending (may be linked to rising real incomes) • rate of depreciation of capital • inflation rate (current and future expectations) • cost of raw materials / wage rates.	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no links between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(d) continued	**Evaluation 4** • Expectations of future values as important as current values (e.g. interest rates). • Weighing up of different factors – extract implies confidence is the most important. • Different factors may be more important for different firms/different regions of the UK.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** • Understanding of inflationary pressures/inflation. The effect of a lack of investment: • a lack of new investment may mean that depreciation occurs at a quicker rate than investment, reducing the productive potential of the economy • this could lead to a decrease in the economy's level of aggregate supply/an inward shift of its PPF • candidates may draw an AS/AD diagram to show the effects of a reduction in (LR)AS • cost-push inflationary pressures would build in the economy. The effect of a stronger pound: • a stronger pound makes imports cheaper. The price of imported goods in the CPI basket should fall, reducing inflationary pressures • cheaper imports and more expensive exports may lead to a worsening of the trade balance, reducing UK aggregate demand (this may be illustrated on an AS/AD diagram). This would lead to a fall in demand-pull inflationary pressures • imported raw materials become cheaper (particularly oil, which is priced in US dollars). This could reduce firms' production costs, leading to an increase in (SR)AS, and a reduction in cost-push inflationary pressures. NB Level 3 responses must consider the effect of both the lack of investment and the appreciation of the currency.	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • It depends on the rate of depreciation of capital. • It depends on the level of spare capacity in the economy. • It depends on the elasticity of the AD curve, and/or whether a lack of investment reduces AD too. • Comment on the significance of the appreciation. • The effect on the trade balance and hence AD of the appreciation depends on the PED for imports and exports.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6, Evaluation 6** • Understanding of economic growth. • Understanding of macroeconomics objectives. Candidates may address this question in different ways. • Explanation of the likely benefits of economic growth to: o consumers o firms o the government o income distribution o the environment o current and future living standards • Explanation of the likely costs of economic growth to: o consumers o firms o the government o income distribution o the environment o current and future living standards • Explanation that economic growth may support the achievement of some of the government's other macroeconomic objectives: o low unemployment o balanced government budget o achieving environmental goals • Explanation that economic growth may conflict with the achievement of some of the government's other macroeconomic objectives: o balance of payments equilibrium o low, stable inflation o reduced income inequality o achieving environmental goals	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Answer	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6, Evaluation 6** • Understanding of monetary policies. • Understanding of macroeconomic objectives. Candidates may consider either the impact of two monetary policies on one or more macroeconomic objectives each, or the impact of one monetary policy on all of the macroeconomic objectives. In evaluation, candidates may consider either the macroeconomic objectives that wouldn't be met through the use of monetary policies, or may consider the significance of their arguments more generally. Monetary policies which may be considered: • change in the interest rate • change in the value of asset purchases to affect the money supply. The effect of loose monetary policy on the macroeconomic objectives: • an increase in AD should lead to an increase in real GDP, creating economic growth for the economy • but this depends on the level of spare capacity in the economy, as well as consumer and business confidence levels • demand-pull inflationary pressures would be increased, affecting the low, stable inflation objective but inflation rates also depend on the level of cost- push inflationary pressures in the economy • unemployment should fall in the economy • time lag – unemployment tends to be a lagging indicator, particularly if firms already have spare capacity • government budget balance would improve in the long run if the policy was successful in generating economic growth but contractionary fiscal policy might be more effective at achieving this objective, certainly in the short run • the environment might be harmed by the increased levels of economic activity generated • in developed economies such as UK, economic growth tends to reduce the level of environmental degradation • income inequality might worsen as economic growth tends to widen the gap between high and low income earners but lower interest rates tend to redistribute income from savers to borrowers, which would tend to improved income distribution	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
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Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.