

Mark scheme (Results)

Summer 2016

Pearson Edexcel GCE AS Level
in Economics A (8EC0)

Paper 02 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.

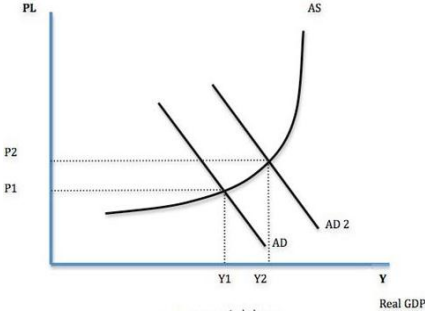
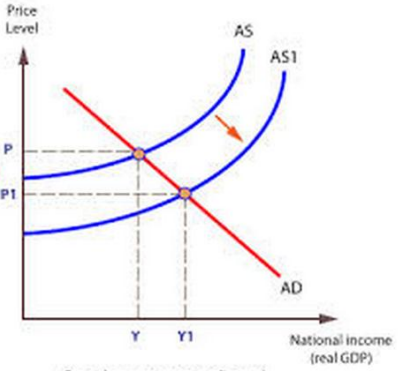
Question Number	Answer	Mark
1 (a)	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. total spending on goods and services.	(1)

Question Number	Answer	Mark
1 (b)	C	(1)

Question Number	Answer	Mark
1 (c)	Knowledge 2 Knowledge/understanding 1 Mark for definition, e.g. <ul style="list-style-type: none"> • Money flows around the economy between consumers/households and firms (1). 1 Mark for identification of features, e.g. <ul style="list-style-type: none"> • There are also withdrawals from the circular flow • Injections also include government spending, exports • Withdrawals are taxation, savings, imports • Consumption and income flows as financial flows for factors of production and goods and services. Also award marks (1+1) if illustrated in diagram form.	(2)

Question Number	Answer	Mark
2 (a)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding</p> <p>1 mark for partial definition, e.g.</p> <ul style="list-style-type: none"> • Making a comparison between countries. <p>2 marks for full and accurate definition, e.g.</p> <ul style="list-style-type: none"> • The rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country • Comparison between countries, taking into account different cost of living. 	(2)

Question Number	Answer	Mark
2 (b)	A	(1)

Question Number	Answer	Mark
<p>2 (c)</p>	<p style="text-align: center;">Knowledge 1</p> <p>New AD curve (shifts to the right) and a new equilibrium at Y2 (1)</p>  <p>OR</p> <p>New AS curve (shifts to the right) and a new equilibrium is found at Y1 (1)</p> 	<p>(1)</p>

Question Number	Answer	Mark
3 (a)	<p style="text-align: center;">Knowledge 1</p> <p>Knowledge/understanding 1 mark for definition, e.g.</p> <ul style="list-style-type: none"> Number of people claiming unemployment benefit/jobseekers allowance 	(1)

Question Number	Answer	Mark
3 (b)	<p style="text-align: center;">Application 2</p> <p>$858,344 - 961,149 = -102,805$</p> <p>$(-102,805 / 961,149) \times 100 (1) = -10.7\% (1)$</p> <p>2 marks for -10.7% (or written equivalent- e.g. 'fell by 10.7%')</p> <p>If answer given is between -10.6% and -11%, award 2 marks.</p> <p>If answer given is between 10.6% and 11%, award 1 mark.</p>	(2)

Question Number	Answer	Mark
3 (c)	B	(1)

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

Question Number	Answer	Mark
4 (b)	<p style="text-align: center;">Knowledge 1 Application 1 Analysis 1</p> <p>Knowledge 1 mark for identification of one likely reason, e.g.</p> <ul style="list-style-type: none"> • Falling oil price reducing cost of imports (1) • Relatively lower inflation in UK makes exports more competitive (1) • Improvement in quality of UK exports increases demand for them (1) • Depreciation of the exchange rate. (1) <p>Application 1 mark for use of data from Figure 1, e.g.</p> <ul style="list-style-type: none"> • trade deficit was approx. £1 billion in January 2015 (1) <p>Analysis 1 mark for linked development of reason, e.g.</p> <ul style="list-style-type: none"> • Fall in the value of the pound makes exports cheaper and imports more expensive. (1) 	(3)

Question Number	Answer	Mark
5 (a)	<p style="text-align: center;">Knowledge 1, Application 2</p> <p>Knowledge 1 mark for correct multiplier formula, e.g.</p> <ul style="list-style-type: none"> • Multiplier = $1 / (1-MPC)$ (1) <p>Application 2 marks for use of data in calculation, e.g.</p> <ul style="list-style-type: none"> • Multiplier = $1 / 0.5 = 2$ (1) • £15 billion x 2 = £30 billion (1) <p>If answer given is £30 billion, award 3 marks.</p>	(3)

Question Number	Answer	Mark
5 (b)	D	(1)

Question Number	Answer	Mark
6 (a)	<p style="text-align: center;">Knowledge 2, Application 2</p> <p>Knowledge 2 marks for, e.g.</p> <ul style="list-style-type: none"> • Income is money received as payment for work (1) • Real means adjusted for inflation/purchasing power of income (1) <p>Application 2 marks for, e.g.</p> <ul style="list-style-type: none"> • Real income has fallen (1) • From approximately £675 in 2008 to £615 in 2013 (1) 	(4)

Question Number	Indicative content	Mark
6 (b)	<p>Knowledge 2, Application 2, Analysis 2</p> <ul style="list-style-type: none"> • Lower incomes means lower consumption • Consumer confidence falls • Aggregate demand therefore falls • Fall in standard of living • Falling demand for firms means lower profits; rising unemployment • Less ability to save & possible consequences of this, e.g. mortgage deposit; confidence <p>Candidates may illustrate this with an accurate AD/AS diagram showing AD decreasing</p>	(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 link 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 (b) continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Depends on other factors in the economy, such as government spending or demand for exports • Changes in benefits and/or tax allowances may offset fall in real income • Only short-term fall (Figure 1 shows slight increase in 2013) • Inflation falling recently, improving likelihood of real income rises • Could be due to firms keeping wages low rather than making redundancies, thus people's standard of living higher than it would be if they lost their job 	(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 relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
6 (c)	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 2</p> <p>Knowledge/understanding 1 marks, e.g.</p> <ul style="list-style-type: none"> • Definition of aggregate demand • Understanding of a rise in value of the pound <p>Application 2 marks (1+1), e.g.</p> <ul style="list-style-type: none"> • Aggregate demand will fall (1) • Lagged effect (1) • Declining imported food and commodity prices (1) <p>Analysis Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> • Imports become cheaper so aggregate demand falls (1) • Exports become expensive so aggregate demand falls (1) 	(5)

Question Number	Answer	Mark
6 (d)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Knowledge Identification of two reasons (1+1)</p> <ul style="list-style-type: none"> • Falling energy prices • Falling telecommunication prices • Falling shipping costs • Falling non-energy industrial goods prices • Slowdown in world economic growth • Slowdown in consumer spending • Slowdown in house construction <p>Application 2 relevant pieces of application from Extract B (1+1), e.g.</p> <ul style="list-style-type: none"> • inflation at 0.3% (1) <p>Analysis Linked development of how reasons identified cause falling inflation rate (1+1) e.g.</p> <ul style="list-style-type: none"> • falling oil prices makes transport of goods cheaper (1) <p>N.B. Falling inflation rate does not necessarily mean prices are falling, so students may talk about reasons for disinflation and/or deflation</p>	(6)

Question Number	Indicative content	Mark
6 (e)	<p>Knowledge 3, Application 3, Analysis 3</p> <p>The MPC should be concerned because:</p> <ul style="list-style-type: none"> • Risk of deflationary spiral; hard to 'escape' from such a situation • Example of Japan • Consumer expectations of very low/falling prices become embedded • Limited ability of the MPC to get the economy out of deflation (interest rates already only 0.5%) • Harder for MPC to react to/influence supply-side factors such as falling oil prices <p>Diagrammatic analysis may also be used as part of an answer.</p> <p>NB Candidates may, alternatively, argue that the MPC should not be concerned about deflation for KAA and that they should for evaluation</p>	(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	<p style="text-align: center;">Evaluation 6</p> <p>MPC should not be concerned because:</p> <ul style="list-style-type: none"> • Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year • Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy • Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy • Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand • May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD <p>NB Candidates may, alternatively, argue that the MPC should not be concerned about deflation for KAA and that they should for evaluation</p>	(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 recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6 (f)	<p>Knowledge 4, Application 4, Analysis 6,</p> <ul style="list-style-type: none"> • Changing interest rates and quantitative easing/asset purchases to influence money supply as monetary policies • AD/AS diagram could be used to aid effective analysis <p>MPC has been successful at controlling inflation:</p> <ul style="list-style-type: none"> • According to Figure 2 highest inflation rate was only just over 5%, good by historical standards • Independent of government • Regular monthly MPC meetings implies flexibility • Willingness to use other unorthodox tools such as QE and forward guidance to additionally control inflation • QE helped to avoid risk of deflation during global economic crisis • Powerful transmission mechanisms • Contrast with Japan. <p>MPC has not been successful at controlling inflation:</p> <ul style="list-style-type: none"> • Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target • MPC struggles to respond to supply-side factors, e.g. rising food/commodity prices in 2008/9 and now falling prices in 2014 • Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation • Banking failure • In the period shown, interest rates have been 0.5% but inflation has continued to fall <p>NB Candidates may, alternatively, argue that the MPC has not been successful for KAA and that they have been successful for evaluation</p>	(14)

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 chains 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.

Question Number	Indicative content	Mark
6 (f) continued	<p style="text-align: center;">Evaluation 6</p> <p>MPC has not been successful at controlling inflation:</p> <ul style="list-style-type: none"> • Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target • MPC struggles to respond to supply-side factors, e.g. falling food and commodity prices in 2014 • Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation • Banking failure • In the period shown, interest rates have been 0.5% but inflation has continued to fall 	(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 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	Indicative content	Mark
6 (g)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6,</p> <ul style="list-style-type: none"> • Understanding of demand-side policies to include monetary and/or fiscal policy • Understanding of Global Financial Crisis of 2008 in UK and/or other countries • AD/AS diagram may be used to aid effective analysis <p>Examples of demand-side policies that students may discuss. These need to be clearly linked to responding to a financial crisis:</p> <ul style="list-style-type: none"> • Reduction of interest rates to boost aggregate demand in a recession. • Quantitative easing to increase liquidity • Bailout of banks • Increase in government spending e.g. infrastructure • Cut in taxation 	(14)

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 chains 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.

Question Number	Indicative content	Mark
6 (g) continued	<p style="text-align: center;">Evaluation 6</p> <ul style="list-style-type: none"> • Short run/long run issues, e.g. interest rates take at least a year to have a full effect • Interest rates cannot be cut much further; relative interest rates are important • The uncertainty of the impact of QE, e.g. do banks pass on the credit, is it inflationary? • Size of the multiplier • Problems in financing government deficit/fiscal austerity issues • Impact of different tax cuts, e.g. income tax vs. VAT • Relative success of US or other country's policies in response to the crisis compared to the UK 	(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 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.

