

# Mark Scheme (Results)

## Summer 2008

GCE

GCE Economics (6356)

6356 01 Mark Scheme Summer 2008

Question Number	Answer	Mark
1(a)	<p>Factors which could explain the higher rate of inflation in UK include:</p> <ul style="list-style-type: none"> <li>• Higher aggregate demand in the UK; aggregate demand rising faster than aggregate supply</li> <li>• Cost-push pressures e.g. higher unit wage costs; higher non-wage costs e.g. rents, government regulations</li> <li>• Lower productivity</li> <li>• Differences in monetary policy i.e. inflation targets (below 2% in eurozone; 2% +/- 1% in UK)</li> <li>• Fall in £ against the Euro</li> <li>• Lower unemployment in UK than France and Italy</li> <li>• Higher fiscal deficit in UK than in France and Italy</li> </ul> <p><i>Evaluation comments could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Prioritisation of factors</i></li> <li>• <i>Significance of productivity differences</i></li> <li>• <i>Allow credit for differences in accuracy of calculation</i></li> </ul> <p>For a L5 mark: Consideration of 3 factors together with 1 evaluative point.  <b>A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation</b>  <b>Max 28 marks if no evaluation.</b>  <b>Award a L4 mark (24-27 marks) if only 2 factors + evaluation or 3 factors without evaluation</b>  <b>Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.</b>  <b>Max 23/40 if no hint of comparison between countries</b></p>	(40)

Question Number	Answer	Mark
1(b)	<p>Factors include:</p> <ul style="list-style-type: none"> <li>• Application of supply side policies (this could count as two points) e.g. education and training; policies designed to increase competition; increased incentives for investment. Discussion should relate to how these measures might increase productivity and reduce unit labour costs</li> <li>• Improvements in infrastructure e.g. roads, railways</li> <li>• Tax relief on research and development to improve non-price factors such as quality, design, reliability, branding</li> <li>• Reduction in UK inflation rate relative inflation rates in other countries e.g. by lowering the inflation rate target</li> <li>• Depreciation in the exchange rate of the £</li> <li>• Net migration, especially from Eastern Europe, reduce wage pressures.</li> </ul> <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Discussion relative importance of the factors identified</i></li> <li>• <i>Comment on the importance of labour costs as a proportion of the total costs of production</i></li> <li>• <i>Discussion of problems of measuring competitiveness</i></li> <li>• <i>Time lags involved in the application of supply side policies</i></li> <li>• <i>New machinery by itself might not improve productivity - much depends on its quality and ability of workers to operate it efficiently</i></li> </ul> <p>For a L5 mark: Discussion of 4 points and 2 evaluative points.  <b>A Level 5* mark (48-60)</b> should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.  <b>Award a L4 mark (36-41 marks) if only 3 points + evaluation</b>  <b>Max 42 marks (top L4) if no evaluation</b>  <b>Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</b></p>	(60)

Question Number	Answer	Mark
2(a)	<p>Growth of trade associated with increased globalisation. Factors include:</p> <ul style="list-style-type: none"> <li>• Reduction in trade barriers linked to the work of the WTO; application of law of comparative advantage</li> <li>• Opening up of economies to world market e.g. China; former Communist countries</li> <li>• Economic development in LDCs leading to more demand for foreign goods</li> <li>• Growth of offshoring and outsourcing by multinationals</li> <li>• Higher real incomes create increased demand for imported goods (depending on value of the marginal propensity to import)</li> <li>• Expansion of trade blocs</li> </ul> <p><i>Evaluation comments could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Prioritisation of factors</i></li> <li>• <i>Critical view of accuracy of measures of trade and world GDP</i></li> <li>• <i>Application of concepts such as income elasticity of demand and marginal propensity to import</i></li> </ul> <p><b>For a L5 mark:</b> Consideration of 3 factors together with 1 evaluative point.  <b>A Level 5* mark (32-40)</b> should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation  <b>Max 28 marks</b> if no evaluation.  <b>Award a L4 mark (24-27 marks)</b> if only 2 factors + evaluation  <b>Award a L2 mark (16-19 marks)</b> for identification of points only or for narrow response focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
2(b)	<p>Possible disadvantages include:</p> <ul style="list-style-type: none"> <li>• Danger of deficit on the current account of the Balance of Payments <i>But not a problem if this can be financed by inflows into the financial account</i></li> <li>• In turn, this might lead to the need to borrow from other countries or from the IMF <i>Unnecessary if financed by inflows into the financial account</i></li> <li>• Increased unemployment - if the country's goods are uncompetitive <i>Effects will be uneven e.g. little effect on non-traded services sector</i></li> <li>• Overdependence on imported goods of strategic importance e.g. food, energy would be undesirable in times of war or political instability</li> </ul> <ul style="list-style-type: none"> <li>• Lower GDP - if free trade results in imports rising at a faster rate than exports <i>But, according to the law of comparative advantage, world output should rise as a result of increased specialisation and trade</i></li> <li>• Country's economy would be more subject to changes in the world economy</li> <li>• Negative externalities</li> <li>• Increased possibility of food shortages - abolition of CAP <i>But.. food would be cheaper than would be the case with protectionist measures</i></li> <li>• Increased possibility of dumping</li> </ul> <p>For a L5 mark: Discussion of 4 points and 2 evaluative points.  <b>A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.</b>  <b>Award a L4 mark (36-41 marks) if only 3 points + evaluation</b>  <b>Max 42 marks (top L4) if no evaluation</b>  <b>Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</b></p>	(60)

Question Number	Answer	Mark
3(a)	<p>Possible factors include:</p> <ul style="list-style-type: none"> <li>• World growth of GDP</li> <li>• Industrialisation of China</li> <li>• Supply shortages - more expensive to extract metals from new mines; food supplies disrupted by droughts, floods; wars</li> <li>• Speculation</li> <li>• Fall in value of dollar</li> <li>• Use of food for biofuels</li> <li>• Export taxes and/or bans on exports</li> </ul> <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Prioritisation of factors</i></li> <li>• <i>Comment on significance of inelasticity of supply/demand</i></li> <li>• <i>Comment on why metal prices have risen faster than food prices</i></li> </ul> <p><b>For a L5 mark:</b> Consideration of 3 factors together with 1 evaluative point.  <b>A Level 5* mark (32-40)</b> should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation  <b>Max 28 marks</b> if no evaluation.  <b>Award a L4 mark (24-27 marks)</b> if only 2 factors + evaluation  <b>Award a L2 mark (16-19 marks)</b> for identification of points only or for narrow response focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
3(b)	<p>Effects include:</p> <ul style="list-style-type: none"> <li>• Cost push inflation - AD/AS analysis showing leftward shift in AS curve <i>But increased costs might be offset by increased productivity or efficiency gains</i></li> <li>• Danger of wage price spiral and rising inflationary expectations <i>But... monetary policy might help to keep inflation under control</i></li> <li>• Lower growth - AD/AS analysis <i>But... if the rise in commodity prices is caused by rapid world growth, then the impact on growth might be limited</i></li> <li>• Possibility of increased unemployment</li> <li>• Impact on the trade in goods balance <i>In the UK's case, there is likely to an adverse effect on the trade in goods balance. But: this effect might be offset by a rise in goods and services</i></li> <li>• Impact on public expenditure e.g. benefits are increased in line with increases in RPI.</li> <li>• Impact on environment</li> </ul> <p>For a L5 mark: Discussion of 4 points and 2 evaluative points.  <b>A Level 5* mark (48-60)</b> should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.  <b>Award a L4 mark (36-41 marks) if only 3 points + evaluation</b>  <b>Max 42 marks (top L4) if no evaluation</b>  <b>Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</b></p>	(60)

Question Number	Answer	Mark
4(a)(i)	$\frac{550.4-342}{342} = \frac{208}{342} \times 100$ $= 60.9\% \text{ (Accept 61\%)}$ <p>Or 2 marks for correct answer without showing calculation.</p>	(1)  (1)

Question Number	Answer	Mark
4(a)(ii)	<p>The data is in current terms - no account taken of inflation</p> <p>Must consider the change in public expenditure as a proportion of GDP</p> <p>2 x 2 marks, or up to 3 marks for point explained well (3+1)</p>	(4)

Question Number	Answer	Mark
4(a)(iii)	<p>There was a fiscal surplus (1) of £16.5 billion (1) in 1999-2000 but a fiscal deficit (1) of £30.4 billion in 2006-07.(1)</p> <p>OR general approach to change in fiscal position (1)</p>	(4)

Question Number	Answer	Mark
4(b)	<p>Effects include:</p> <ul style="list-style-type: none"> <li>• GDP growth; multiplier effects; AD/AS analysis</li> <li>• Increase employment</li> <li>• Change in employment patterns - an increase in proportion of workers employed in the public sector</li> <li>• Possibility of inflationary consequences (this could be used in evaluation)</li> <li>• Financing issues - with the need for public sector borrowing</li> <li>• Crowding out</li> <li>• Improvement in public services leading to an increase in productivity</li> </ul> <p><i>Evaluation points could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Impact on GDP might be limited because low productivity in public sector</i></li> <li>• <i>Inflationary consequences have not materialised because inflation targeting; 'China effect'</i></li> <li>• <i>Few problems have been experienced in financing public sector net borrowing</i></li> <li>• <i>Labour and skill shortages could have been overcome by immigration</i></li> <li>• <i>Disincentive effects of increased taxes</i></li> </ul> <p>2 marks for identification; 1 for application; 4 for analysis and 5 for any two evaluation points (3 + 2; 2 + 3).</p>	(12)

Question Number	Answer	Mark
4(c)	<p>Key issues include:</p> <ul style="list-style-type: none"> <li>• Growth in footloose multi-nationals seeking the lowest cost locations - UK needs to ensure its corporation tax rate is competitive</li> <li>• Lower corporation tax would lead to an increase in investment</li> <li>• Increase in GDP via the multiplier effect</li> <li>• Higher investment would increase AS so would not be inflationary</li> <li>• Lower public sector borrowing</li> </ul> <p>Evaluation points could include:</p> <ul style="list-style-type: none"> <li>• <i>Other factors might be more significant for attracting FDI e.g. wage costs</i></li> <li>• <i>Research methodology might be flawed leading to inaccurate estimates of effects</i></li> <li>• <i>A reduction in corporation tax might not result in increased investment - companies might raise dividend payments to shareholders</i></li> <li>• <i>Discussion of short term and long term effects</i></li> </ul> <p>1 mark for identification; 2 for application (1 mark for data reference and 1 for recognition of different rates of corporation tax); 3 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
4(d)	<p>Effects could include:</p> <ul style="list-style-type: none"> <li>• Less even distribution of income - tax system has become less progressive <i>But could be offset by increases in tax credits</i></li> <li>• Cheaper to administer because the tax system has been simplified <i>But other changes have increased complexity of tax system</i></li> <li>• Impact on incentive to work <i>Incentives will vary according to income etc.</i></li> <li>• Increase in disposable income for some groups - could lead to rise in consumption and increase in AD <i>But tax cuts might result in an increase in savings and/or increase in imports</i></li> </ul> <p>Credit answers which refer to recent increase in tax free allowances</p> <p>1 mark for identification; 2 for application; explicit or implied reference to abolition of 10p tax rate (1 mark) and reduction in standard rate (1 mark); 3 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
4(e)	<p>Effects include:</p> <ul style="list-style-type: none"> <li>• Repayment of part of Public Sector Net Debt</li> <li>• Reduction in interest payments on public sector debt</li> <li>• More money available for expenditure on public services</li> </ul> <p><i>Would not be true if tax revenues were falling</i></p> <ul style="list-style-type: none"> <li>• UK would be able to meet criteria for entry into euro</li> </ul> <p><i>But ... this does not appear to be a priority at present</i></p> <ul style="list-style-type: none"> <li>• Possibility of lower interest rates; reduction in 'crowding out'</li> </ul> <p><i>But... other factors influence inflation and, therefore, the Bank of England's decisions on interest rates</i></p> <ul style="list-style-type: none"> <li>• Lower borrowing might imply less investment in infrastructure and public services and/or higher taxes</li> </ul> <p><i>But ... not necessary if lower taxes generate increase economic activity and increased tax revenue and incentives</i></p> <p><i>1 mark for identification; 1 mark for application (refer to context i.e. extra tax revenue resulting from tax cuts); 4 marks for analysis and 2 marks for any one evaluative comment</i></p>	(8)

Question Number	Answer	Mark
5(a)(i)	<p>1999: <math>\frac{195\,217}{911\,945} \times 100 = 21.4\%</math></p> <p>2006: <math>\frac{328\,736}{1\,299\,622} \times 100 = 25.3\%</math></p> <p>1 mark for correct method; 2 marks for accurate calculations. Allow +/- 0.1% Or 3 marks for correct answers without calculations; 2 marks if only one correct answer without calculation.</p>	(3)

Question Number	Answer	Mark
5(a)(ii)	<p>Possible causes include:</p> <ul style="list-style-type: none"> <li>• High value of the £ (reference to Figure 3)</li> <li>• Increase in real incomes, associated with continuous economic growth. Demand for imports is income elastic</li> <li>• Industrialisation of China - cheap imports from low wage countries; change in comparative advantage resulting in deindustrialisation in UK</li> <li>• Non-price factors e.g. quality design</li> <li>• Expansion of EU</li> </ul> <p>Evaluative comments could include:</p> <ul style="list-style-type: none"> <li>• Prioritisation of factors</li> <li>• Comment that it could have been caused by a combination of factors</li> </ul> <p>If no reference to change in import penetration then 5/8 maximum mark.</p> <p>2 marks for identification; 2 for application (causes must relate to UK economy. Examples may be given 1+1); 2 for analysis and 2 for any one evaluative comment</p>	(8)

Question Number	Answer	Mark
5(a)(iii)	<p>Possible effects include:</p> <ul style="list-style-type: none"> <li>• Deterioration in trade in goods and services balance - use of data;</li> <li>• Unemployment in manufacturing industries</li> <li>• Possibility of fall in aggregate demand, leading to fall in real incomes (use of AD/AS analysis)</li> <li>• Pressure on domestic firms to reduce costs to remain competitive</li> <li>• Downward pressure on the exchange rate of the £</li> </ul> <p>Evaluation could include:</p> <ul style="list-style-type: none"> <li>• Prioritisation of effects</li> <li>• Trade in goods and services deficit not a problem if there are inflows into investment income and financial accounts</li> <li>• Unemployment in manufacturing might be offset by employment gains in services sector</li> <li>• AD might not fall if rise in consumption and investment outweighs rise in imports</li> </ul> <p>2 marks for identification; 2 for application (use of data in Figure 1); 2 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
5(b)(i)	Positive correlation expected (1 mark) An increase in interest rates (relative to those in other countries) is likely to cause a rise in 'hot money' flows as investors seek the highest return on their cash. This could be illustrated with a supply and demand diagram - showing an increase in demand for the currency. (Up to 3 marks)	(4)

Question Number	Answer	Mark
5(b)(ii)	Use of data to show periods of correlation and years when relationship is weak. (2 + 1 marks) Commenting that there is no precise relationship (1 mark) but overall trend is similar (1 mark). 1 mark for specific data reference.	(3)

Question Number	Answer	Mark
5(b)(iii)	Factors include: <ul style="list-style-type: none"> <li>• Relative inflation rates <i>But... may not be significant in the short term - other factors more significant</i></li> <li>• Current account balance (may be linked to international competitiveness) <i>But... may have little impact if there are substantial flows into financial account</i></li> <li>• State of economy relative to those of major competitors <i>Might be regarded as the most significant factor: people wish to hold the currency of a strong economy</i></li> <li>• Speculation relating to future state of economy, political uncertainty</li> <li>• FDI</li> </ul> <p>2 marks for identification; 4 for application and analysis; 2 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
5(c)	<p>Analysis could include:</p> <p>For Inflation:</p> <ul style="list-style-type: none"> <li>• Increase value of the pound could result in a lower rate of inflation because imported raw materials will cost less.</li> <li>• Also exporters will try to reduce costs to remain competitive</li> <li>• Imported manufactured goods will also cost less</li> </ul> <p><i>But.... other factors might bring inflationary pressures e.g. external shocks; AD rising faster than AS</i></p> <p>For Economic growth:</p> <p>Growth could slow down if imports (leakages) are rising faster than exports (injections)</p> <p><i>But... other factors could be causing growth rates to be maintained e.g. higher investment or FDI</i></p> <p>For full employment:</p> <p>Lower import prices could result in unemployment</p> <p><i>But... rising real income might result in employment creation in other sectors of the economy.</i></p> <p>2 marks for identification; 1 for application to UK economy; 4 for analysis and 5 for any two evaluation points (3 + 2; 2 + 3). <b>Maximum 3/5</b> if no reference to simultaneous achievement of objectives.</p>	(12)

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Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
<b>A</b>					
Qu.1(a)	10	10	10	10	40
Qu.1(b)	10	10	20	20	60
<b>Total</b>	<b>20</b>	<b>20</b>	<b>30</b>	<b>30</b>	<b>100</b>
Qu.2(a)	10	10	10	10	40
Qu.2(b)	10	10	20	20	60
<b>Total</b>	<b>20</b>	<b>20</b>	<b>30</b>	<b>30</b>	<b>100</b>
Qu.3(a)	10	10	10	10	40
Qu.3(b)	10	10	20	20	60
<b>Total</b>	<b>20</b>	<b>20</b>	<b>30</b>	<b>30</b>	<b>100</b>
<b>B</b>					
Qu.4(a)(i)	2	0	0	0	2
Qu.4(a)(ii)	1	2	1	0	4
Qu.4(a)(iii)	2	2	0	0	4
Qu.4(b)	2	1	4	5	12
Qu.4(c)	1	2	3	4	10
Qu.4(d)	1	2	3	4	10
Qu.4(e)	1	1	4	2	8
<b>Total</b>	<b>10</b>	<b>10</b>	<b>15</b>	<b>15</b>	<b>50</b>
Qu.5(a)(i)	2	1	0	0	3
Qu.5(a)(ii)	1	1	4	2	8
Qu.5(a)(iii)	2	2	2	4	10
Qu.5(b)(i)	1	0	3	0	4
Qu.5(b)(ii)	0	3	0	0	3
Qu.5(b)(iii)	2	2	2	4	10
Qu.5(c)	2	1	4	5	12
<b>Total</b>	<b>10</b>	<b>10</b>	<b>15</b>	<b>15</b>	<b>50</b>

