F582 The National and International Economy

Subject-specific Instructions

6   The paper is to be marked to AS standard.

7   Marking should be positive: marks should not be subtracted for errors or inaccuracies.

8   In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, ie a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.

9   The Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

10   The quality of written communication will be assessed in the answer to the final part question.

A set number of marks for written communication is not a requirement. However, where a level of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

<u>Level 4</u>

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

<u>Levels 2 and 3</u>

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

<u>Level 1</u>

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

F582   **Mark Scheme**   **June 2009**

Question		Expected Answer	Marks	Rationale
1		**Using information from the case study (lines 3-5) calculate Russia's GDP per head in 2007.** 2 marks for US $8,000. 1 mark for idea of GDP/population.	**(2)**	**If no idea of the formula is present but a variation of $8000 is given e.g. $8, $80, $80,000 give 1 mark maximum as candidate must have sought to divide GDP by population.**
2	(a)	**Define the term 'unemployment'.** 1 mark for identifying a situation where workers are without jobs 1 mark for a further relevant elaboration, eg people willing and able to work, people actively seeking employment, receiving unemployment benefits (Job seeker's allowance), excess supply of labour.	**(2)**	**No marks for people who are not economically active.**
	(b)	**Using Fig. 1, describe how Russia's unemployment differed from the UK's unemployment in 2006.**	**(4)**	**No marks for just quoting figures eg Russia's higher rate was 5.8% and the UK's was 5.5%.** **Nothing for Russia overall has a lower unemployment rate.** **If a candidate compares UK with Russia – this is perfectly acceptable.** **Be mindful of the need to reward RATES not LEVELS e.g. Russia has a lower rate on the lower measure, but not a lower number of people unemployed.**

Fig. 1 table (within question 2(b)):

Fig. 1 Russian and UK unemployment, 2006		
Unemployment rate	Russia (%)	UK (%)
Lower measure (claimant count or equivalent	2.0	3.0
Higher measure (ILO measure)	5.8	5.5
Highest regional rate	8.2	4.4
Lowest regional rate	1.5	1.8
Percentage of unemployed who have been out of work for more than a year.	18.6	21.2

[Maximum 4 marks]

Question		Expected Answer	Marks	Rationale
		1 mark for Russia's unemployment rate is lower on the lower measure/claimant count. 1 mark for Russia's unemployment rate is higher on the higher measure/ILO. 1 mark for Russia's long term unemployment rate is lower. 1 mark for Russia's highest regional rate is higher than the UK's. 1 mark for Russia's lowest regional rate is lower than the UK's. 1 mark for Russia's unemployment rate varies more between the regions.		

Question		Expected Answer	Marks	Rationale
3	(a)	**Define the term 'inflation rate' (line 5).** 3 marks for a sustained rise in the price level measured in percentage terms. 2 marks for a sustained rise in the price level/prices/price index. 2 marks for a sustained fall in the value or purchasing power of money. 2 marks for a rise in the price level measured in percentage terms. 1 mark for reference to a sustained rise or over time. 1 mark for reference to an increase in the price level. 1 mark for a fall in the value or purchasing power of money. 1 mark for a percentage change or percentage example.	**(3)**	**Nothing for rate.** **Nothing for change in the price level.** **Money loses value = 1 mark.** **Percentage loss in the value of money over a period of time = 3 marks.**
	(b)	**State and explain <u>two</u> costs of inflation.** 1 mark each for each of two costs identified, e.g. menu costs, shoe leather costs, administrative costs, reduction in international competitiveness, random redistribution of income, fiscal drag, inflationary noise, discouragement of investment. 1 mark each for each of two basic descriptions, eg inflation can make it difficult for consumers and firms to judge relative prices. 1 mark each for each of two further elaborations, eg inflationary noise can lead to consumers and firms making inefficient choices.	**(6)**	**Nothing for causes of a rise in price level.** **If a candidate identifies a fall in real income, only give the full three marks if their answer recognises that for this to occur, the price level would have to rise by more than income.** **Increase in the cost of living = 1 mark, unless fully developed.** **Increases unemployment = 1 mark only unless explained.** **Be generous on the interpretation of shoe leather costs.** **Two costs identified in any one sub-part should be awarded where there is no other relevant cost in the other sub-part.**

Question		Expected Answer	Marks	Rationale
4	**(a)**	**Using Fig. 2, describe how Russia's current account position differed from that of the other countries shown.**	**(3)**	**Nothing for higher or lower, negative or positive, minuses or pluses.** **But allow e.g. Russia exported more than it imported, whereas UK imported more than it exported.**

Current account balance of selected countries , 2007	
China	10.9
Russia	5.6
Japan	4.7
UK	-3.3
USA	-5.5

1 mark for Russia had a current account surplus, whereas the UK and/or US had a deficit.
1 mark for Russia had a smaller percentage surplus than China.
1 mark for Russia had a larger percentage surplus than Japan.

Question		Expected Answer	Marks	Rationale
	(b)	**Comment on the effectiveness of <u>one</u> supply side policy in improving a country's current account position.** 1 mark for identifying a measure eg government spending on education, privatisation, a cut in income tax, subsidies. Up to 3 marks for explaining how a supply side measure could improve a country's current account position: • improved education should improve labour productivity • higher labour productivity may cut costs and make exports more price competitive • increase in export revenue would reduce the gap between export revenue and import expenditure. • import expenditure may be reduced due to improved productivity Up to 3 marks for evaluation of the likely effectiveness of how one supply side measure could improve a country's current account position: Evaluative comments may include: • the existence of a time lag • more spending on education will not necessarily improve educational performance • costs of production will not fall if wages rise by more than productivity • lower export prices may not raise export revenue if incomes abroad are falling • increased output may boost import spending – this is a deterioration	**(7)**	**Do not reward import restrictions.** **If a candidate identifies a factor that would increase aggregate supply, e.g. R & D, investment or technology without specifically identifying a policy measure they can still gain up to a maximum of 6 marks.** **If identified interest rate as the policy then they must relate to stimulating investment to gain any marks.** **In deciding whether or not it is a supply side policy, the test is will it shift the AS curve to the right?** **Nothing for the assumption that higher output equals an improved current account position.** **Up to 3 marks, 1 for identification and up to 2 for explanation, if the candidate does not relate to the current account.** **To access evaluation marks, the candidate must be analysing the effect on the current account position.**

Question		Expected Answer	Marks	Rationale
5	**(a)**	**Consumer expenditure is one of the components of aggregate demand.** **Identify three of the other components.** 1 mark each for investment, government spending, exports and imports.	**(3)**	**Net exports/trade balance without reference to both imports and exports = 1 mark.**
	(b)	**Comment on the effectiveness of cutting income tax to increase consumer expenditure.** Up to 2 marks for explaining how a cut in income tax may increase consumer expenditure. 1 mark for explaining it will raise disposable income. 1 mark for explaining disposable income is income after the deduction of income tax (plus state benefits). 1 mark for explaining that higher disposable income will enable people to spend more. Up to 4 marks for evaluating whether consumer expenditure will rise: eg, • it will be influenced by how much income tax is cut. • consumers may not spend more if pessimistic about the future. • spending on imports may rise. • it may be offset by other factors, e.g. a rise in the interest rate.	**(6)**	**Up to 3 marks for one evaluative point well explained.**

Question		Expected Answer	Marks	Rationale
	(c)	**State and explain <u>two</u> other causes of an increase in consumer expenditure.** 1 mark for each of each two causes identified, eg fall in the rate of interest, increase in consumer confidence, rise in wealth, general increase in income. Up to 2 marks for each of two explanations of a relevant cause identified, eg a fall in the interest rate will encourage borrowing, discourage saving and increase discretionary income.	**(6)**	**Need the idea of change – if not then a maximum of 2 for each cause. (Note 'consumer confidence' implies positive change.)** **Be generous if the candidate mentions a fall in the exchange rate - up to 2 marks.** **Two causes identified in any one sub-part should be awarded where there is no other relevant cause in the other sub-part.** **Nothing for an answer on the causes of a decrease in consumer expenditure.**

Question	Expected Answer	Marks	Rationale
6	**Discuss the extent to which an increase in aggregate demand may affect output, unemployment and inflation.** This question requires a discussion of the possible impact of an increase in aggregate demand on output, unemployment and the price level/inflation. *An increase in aggregate demand would be expected to encourage firms to increase their output. To produce a higher output, firms may take on more workers which may reduce unemployment. Higher AD many lead to a rise in the price level. Answers should recognise that the impact of higher AD will depend on a number of factors. For example, higher AD may not raise output or affect the price level if there is considerable spare capacity.* **L4 For a discussion of how an increase in AD may affect output, unemployment and inflation (13-18)** Answers should evaluate the possible impacts of an increase in AD on output, unemployment and inflation. Examples of possible L4 answers: • The effect that an increase in AD has on output (real GDP), unemployment and inflation will depend on the size of the change. A larger increase is likely to have more of an impact than a small increase. • The final effect of an increase in AD may be greater than the initial increase due to the multiplier effect. • The impact will depend on the degree of spare capacity in the economy. If an economy is initially operating with considerable unemployment, an increase in AD may raise output and reduce unemployment but have no effect on the price level. In contrast, if the economy is operating close to full employment, the impact may just be on the price level. • An increase in AD may also increase AS if it results from, e.g. an increase in investment or an increase in government spending on	(18)	**Evaluation must be underpinned with relevant analysis.**

Question	Expected Answer	Marks	Rationale
	education and training. In this case, an economy can experience both actual and potential economic growth.		
	• Higher AD may be met by workers working overtime, an increase in labour saving investment and so unemployment may not fall. • If AD does not rise in line with an increase in potential output (AS), unemployment may rise. For 16 - 18 marks, the discussion must have some depth to the factors influencing the effect, changes in AD and their relative importance. For 13-15 marks, a discussion that does evaluate but which lacks some depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling punctuation and grammar. **L3 For an analysis of how an increase in AD may affect output, unemployment and inflation. (9 – 12)** Answers should analyse the links between AD and output, unemployment and inflation. Examples of possible L3 answers: • the inclusion of an AD/AS diagram showing how a shift to the right may affect output and the price level with some supporting statements. • an increase in AD will mean more spending in an economy. Higher spending may encourage firms to increase their output. Higher output (real GDP) may encourage firms to take on more workers. • higher AD may result in demand-pull inflation with excess demand, pulling up prices. For 11+, there should be some depth of analysis covering output,		**For 18 marks, a candidate must have two good evaluative arguments, or three reasonable evaluative arguments, or one good evaluative argument, one reasonable evaluative argument and one brief evaluative argument.** **For 16 marks, a candidate must have one good evaluative argument, plus one brief evaluative argument, or two reasonable evaluative arguments.** **12 marks for a reasonably accurate macro diagram plus at least two changes analysed.** **11 marks for a reasonably accurate macro diagram plus one change analysed.** **10 marks for a reasonably accurate macro diagram plus identification of at least two changes.** **9 marks for a reasonably accurate macro diagram. NB. If diagram provided is entirely micro, do not give credit.**

Question	Expected Answer	Marks	Rationale
	unemployment and inflation. For 9-10 marks there may be some lack of depth, for instance, the impact on only one or two of the variables may be considered.		**Without a diagram** **12 marks for good analysis of impact on at least two of the variables.** **11 marks for good analysis of impact on one of the variables and identification of the impact on one of the other variables.** **10 marks for basic analysis of the impact on one variable, plus identification of the impact on at least one other variable.** **9 marks for basic analysis of the impact on one of the variables.**
	Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning. **L2 For an application of knowledge and understanding of how an increase in AD may affect output, unemployment and inflation. (5 - 8)** Answers should recognise how an increase in AD may be expected to affect output, unemployment and inflation. Examples of possible L2 answers:		**8 marks for recognising the effect on the three variables, plus limited application to one, e.g. higher output can create jobs.**

Question	Expected Answer	Marks	Rationale
	• an increase in AD may cause an increase in the output of the economy (real GDP). • an increase in AD may reduce unemployment. • an increase in AD may cause a rise in the price level/inflation. For 7-8 marks, the answer should recognise the effect(s) of higher AD on output, unemployment and inflation. For 5-6 marks, answers may recognise the effect(s) of higher AD on one or two of the variables. Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar of which may be noticeable and intrusive. **L1 For knowledge and understanding of aggregate demand. (1 – 4)** These answers will show some awareness of the terms. Examples of L1 answers: • AD is the total demand for products produced in the economy. • AD consists of C + I + G + (X – M). • an increase in AD may be caused by a rise in any of the components of AD For 3-4 marks there will be both knowledge and understanding of AD and one of the variables only. Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.		**7 marks for recognising the effect on the three variables.** **6 marks for recognising the effect on two variables.** **5 marks for recognising the effect on one variable.**