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A LEVEL
ECONOMICS

ECON2/Unit 2   The National Economy
Mark scheme

2140
June 2015

Version 1.0: Final

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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from aqa.org.uk

AQA Advanced Subsidiary Economics

June 2015   **ECON2/1**

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

KEY LIST

JUNE 2015   **ECON2/1**

1.	D	9.	D	17.	A
2.	A	10.	A	18.	C
3.	C	11.	D	19.	A
4.	D	12.	C	20.	B
5.	A	13.	C	21.	B
6.	B	14.	D	22.	B
7.	B	15.	C	23.	B
8.	D	16.	A	24.	D
				25.	D

Advanced Subsidiary Economics

June 2015   **ECON2/2**
Mark Scheme

Section B: Data Response

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks MUST be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An issue based approach.** The mark scheme for questions **01**, **02**, **03**, **05**, **06** and **07** of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

A levels approach. This approach is used for marking questions 04 and 08 of the data response questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated at each level. First decide the level into which an answer falls. The level chosen should be the one which best fits the answer provided by the candidate. It is not intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up and down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker must identify where a particular skill is being demonstrated. The key to be used to identify the skill is given after the levels descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 04 AND 08 ONLY

AS LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) **Good analysis <u>and</u> good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues. Good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis <u>but</u> limited evaluation** **OR**	Good throughout the answer with few errors and weaknesses	Good application to issues. Good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning	Limited but showing some appreciation of alternative points of view
Reasonable analysis <u>and</u> reasonable evaluation	Good throughout much of the answer with few errors and weaknesses	Some good application to issues. Some good use of data to support answer	Largely relevant and well organised with reasonable logic and coherence	Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues. Reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors. Limited use of data to support answer	Partial but confused at times, lacking focus and development. Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues. No use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

KU   Where the candidate demonstrates **KNOWLEDGE** and understanding of relevant economic theories, concepts and terminology

APP   Where the candidate demonstrates the ability to **APPLY** knowledge, concepts and theories to the context and where they use the data (from the extracts or from their knowledge of the UK economy) to develop and support their answers.

AN   Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas, constructing logical chains of reasoning.

EVAL   Where the candidate **EVALUATES**, showing an appreciation of alternative points of view, and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 04 and 08 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

EITHER

Context 1   **Total for this Context: 50 marks**

01   Define the term 'cyclical unemployment' (**Extract B** line 10).
[5 marks]

For an acceptable definition such as:	
• Where people are out of work and actively seeking work as a result of the economy going into recession (or a slump)	
• Where people are out of work and actively seeking work as a result of a fall in aggregate demand	**5 marks**
• Where a fall in economic activity results in people losing their jobs and being unable to find work despite being willing to accept work at current market wage rates.	

Full marks should be awarded to a candidate who demonstrates a clear understanding of the term **cyclical unemployment** even if the definition is not exactly the same as the acceptable examples quoted above. However, candidates who **just** repeat the word 'unemployment' in their definition, without further elaboration, cannot be awarded the full marks since the definition is incomplete.

If the definition is inaccurate or incomplete, award a maximum of 4 marks which may be broken down. For example:

Unemployment caused by a fall in aggregate demand.	**4 marks**
Unemployment that occurs in a recession (or slump or depression).	**3 marks**
When the economy has a negative output gap (or spare capacity)	**3 marks**
Unemployment caused by a fall in demand ('aggregate' not mentioned)	**2 marks**
Unemployment that occurs across the whole (or most sectors of the) economy.	**2 marks**
Define unemployment as those who are out of work and actively seeking work.	**2 marks**
An accurate diagram that illustrates an economy suffering from cyclical unemployment.	**2 marks**
Also known as demand–deficient unemployment.	**2 marks**
Stating that cyclical unemployment is involuntary unemployment.	**1 mark**
Stating that it relates to the economic cycle	**1 mark**

Maximum of 4 marks if the definition is incomplete or inaccurate

MAXIMUM FOR PART 01: 5 MARKS

| 02 | Using **Extract A**, identify **two** significant points of comparison between the changes in the output of the construction and service sectors of the economy over the period shown.

[8 marks] |

Award up to 4 marks for <u>each</u> significant point made.

Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified. Unit of measurement given accurately.	**4 marks**
Identifies a significant point of comparison. Makes use of the data to support the comparison identified. However, 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.	**3 marks**
Identifies a significant point of comparison. No correct use of data to support the comparison identified.	**2 marks**
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified. Unit of measurement given accurately.	**1 mark**

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

Significant points include:

- Output of the construction sector peaked in 2008 Q1 at an index of 110.4 whereas the output of the service sector peaked in 2013 Q3 at an index of 105.1

- Output of the construction sector was at its lowest in 2009 Q2 when the index was 91.5. The output of the service sector was also at its lowest in 2009 Q2 when the index was 98.9

- Output of the construction sector was lower at the end of the period than at the start of the period whereas the output of the service sector was higher at the end of the period than at the start. Output of the construction sector was 109.9 index points at the start of the period and 95.8 index points at the end of the period. The output of the service sector was 100.9 index points at the start of the period and 105.1 index points at the end of the period.

- Output of the construction sector is more volatile than the service sector. For example, the output of the construction sector ranges from an index of 110.4 in 2008 Q1 to an index of 91.5 in 2009 Q2 whereas the output of the service sector ranges from an index of 105.1 in 2013 Q3 to an index of 98.9 in 2009 Q2.

    OR

- The range of values for the output of the construction sector is greater than for the service sector. For example, the output of the construction sector has a range of 18.9 index points whereas the range for the service sector is only 6.2 index points.

- The largest fall in the output of both the construction and service sectors is between 2008 Q1 and 2009 Q2. The output index for the construction sector falls from 110.4 to 91.5 whereas the output index for the service sector falls from 104.6 to 98.9.

A margin of error equal to +1 or -1 index points is acceptable

Additional guidance

Award 1 mark, if it is clear that a candidate has, for example, compared a maximum (or minimum) value from one data series with a value from the other data series which is not the maximum (or minimum) value, e.g.

Output of the construction sector peaked in 2008 Q1 at an index of 110.4 whereas the output of the service sector peaked in 2007 Q3 at an index of 104.8

This is only worth 1 mark for a significant feature because the output of the service sector peaked in 2013 Q3

MAXIMUM FOR PART 02: 8 MARKS

03   **Extract C** (lines 9 to 10) states that: 'If house prices continue to rise at current rates, the Monetary Policy Committee of the Bank of England will have to consider increasing interest rates.'

Explain the likely consequences of an increase in interest rates on the output of the construction sector of the UK economy.

[12 marks]

The anticipated written response:

Define interest rate, monetary policy, aggregate demand, construction sector or any other *relevant* term.	**1 mark per definition Up to a maximum of 2 marks**
For the explanation, award 2 marks for each logical link in the chain of reasoning, for example:	
A rise in interest rates will increase the cost of borrowing **(2 marks)** and, since the purchase of property is often financed using a mortgage the cost of 'buying' the property or repaying the mortgage will rise **(2 marks)** since monthly mortgage repayments will increase the demand for property is likely to fall **(2 marks)** the increase in property prices will slow, or perhaps prices will fall, **(2 marks)** reducing the profits of construction companies **(2 marks)** leading to a fall in the output of the construction industry **(2 marks)**	**Up to 12 marks**
A similar line of argument could be applied to other sectors of the property market, e.g. commercial properties. Each link in the logical chain of reasoning should be rewarded **BUT** the same link must only be credited once. For example, don't reward 'this will reduce the demand for property and hence the output of the construction industry' more than once.	
Award **up to 4 additional marks** for the **USE** of relevant diagrams, eg an AD/AS diagram that illustrates why a rise in interest rates may lead to a fall in national income and hence a reduction in spending on construction. BUT a **maximum of 2 marks** for an AD/AS diagram that is merely used to illustrate the impact of a fall in construction spending on the macroeconomy **UNLESS** there is also some reference to/explanation of how this affects the **output** of the **construction industry**. For such diagrams, subtract 1 mark for each inaccuracy. Other diagrams can also be rewarded, eg a micro demand and supply diagram illustrating the effect of a rise in interest rates on the property market. Do NOT award marks for a diagram if it is NOT referred to or used.	**Up to 4 marks per diagram, up to a maximum of 4 marks Use the grid below when awarding marks for diagrams**

Breakdown of the marks for an AD/AS diagram

Axes labelled (allow on the vertical axis: Inflation or PL or £ but not Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but not Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and level of real GDP (PL1 Y1).	**1 mark**
An accurately-drawn shift of the AD curve to the left.	**2 marks**
Lines drawn from the new equilibrium and labels such as PL_2 and Y_2	**1 mark**
Any other relevant feature of the diagram, eg the negative output gap.	**1 mark**

Note

    (i)   **To earn the first mark in the grid above, all three listed tasks must have been completed correctly.**

    (ii)   **For the task of labelling the equilibrium points on the axes, but not the axis labels, any labels are acceptable, for example: PL and Y, A and B, P and Q.**

If the candidate draws a diagram other than an AD/AS diagram, marks should be awarded in a similar manner to the grid above but, for example, the appropriate axes labels may be different.

A **MAXIMUM of 8 MARKS** should be awarded for an answer to part 03 that explains the impact of rising interest rates on the macroeconomy rather than on the output of the construction sector of the economy.

MAXIMUM FOR PART 03: 12 MARKS

04   **Extract B** (lines 16 to 18) states that: 'recent surveys have indicated that output, orders and employment in the construction industry have grown for eight months in a row.'

Using the data and your knowledge of economics, assess the significance of the growth of the construction sector for the UK economy.

[25 marks]

Extracts **A**, **B** and **C** provide a number of prompts for candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will analyse the likely impact of increased spending on construction in both the short run and the long run, taking into account both the demand–side and supply-side consequences. Such answers are likely to show that they appreciate that the construction sector is much smaller than the service sector but that spending on construction is much more volatile than the demand for services. Some consideration should be given to impact of the growth in the construction sector upon each of the main macroeconomic policy objectives.

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data, eg through the use of quotes or referring explicitly to the extracts.

Level 5	Good analysis <u>and</u> good evaluation	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**Reasonable answer, including some correct analysis <u>but</u> very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• describe the nature of the construction sector
	• state that the construction sector is smaller than the service and manufacturing sectors
	• provide some background to the current state of the UK economy and relate this to the growth of the construction sector
	• explain that growth of the construction sector will affect the government's macroeconomic policy objectives

Developing the response to the question: (Application)	Credit for application can be given for relevant application of economic theory, use of the data and the candidate's own knowledge of relevant aspects of transport. Examples might include:
	• use of the statistical data in **Extract A** that shows recent changes in the output of the construction and other sectors of the economy
	• drawing on the prompts in **Extract B** paragraph 1 to support the view that the growth in the construction sector matters eg for low-skilled workers and UK manufacturing
	• drawing on the prompts in **Extract B** paragraph 2 regarding the volatility of the construction sector and why it can help to generate growth across the whole economy
	• drawing on the prompts in **Extract B** and **Extract C** to consider the impact of growth in the construction sector on the housing market and house prices
	• drawing on the prompts in **Extract C** to consider how monetary policy might be adjusted in response to the growth in the construction sector and rising house prices.
	Examples of relevant economic concepts and principles that might be applied to this question include: the economic cycle, aggregate demand, the multiplier, economic growth, monetary policy, house price bubbles.
Developing the response to the question: **(Analysis)**	• the short-run demand-side consequences of the growth in the construction sector upon the rate of economic growth in the UK
	• analysis of possible multiplier and accelerator effects of the growth in the construction sector
	• analysis of the significance of the 'low import intensity' of the construction sector
	• analysis of the relationship between the growth in the construction sector and manufacturing
	• analysis of the possible effects on unemployment
	• analysis of the impact on labour mobility
	• the possible effects on inflation in both the long run and the short run
	• the possible effects on the supply-side performance of the economy and the long-run rate of economic growth
	• the possible effects on the balance of payments
	• the possible impact on the budget deficit
	• how policies that have helped to stimulate the construction sector might have contributed to creating a 'housing bubble' and the implications of this for the future health of the economy
	• the possible impact on environmental and social objectives of government policy
Evaluation	• the significance of the growth in the construction sector in relation to the current economic climate, e.g. helping to maintain recovery from recession
	• the construction sector provides jobs for relatively low-skilled employees and also provides high-paid jobs in the service sector, e.g. architects

	- an expansion in the construction sector gives a boost to UK manufacturing but might also stimulate the demand for imports - the short-run and long-run effects of growth in construction for inflation - the measures used to stimulate activity in the construction sector might have implications for the long-run stability of the UK economy - artificial stimulus of construction might lead to a misallocation of resources with only very limited economic benefit - more house building should help to moderate the growth of house prices - the social benefits of the growth in the construction sector, e.g. more houses at a time when the number of households is growing - the environmental impact of the growth in the construction sector - benefits of construction for long-run growth and the supply-side performance of the economy, e.g. new offices and factories, an improved road and rail network - the costs and benefits depend on the nature of the construction activity, e.g. the effects of building a new hospital will differ from constructing HS2 - an overall assessment of the likely impact of the growth in the construction sector on the performance of the UK economy in both the short run and the long run

Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some of the benefits and some of the costs resulting from growth in the construction sector. Basic evaluation (and good analysis) would allow the answer to achieve low Level 4. Stronger evaluation is provided by candidates who are able to support their evaluation of the effects of the growth in the construction sector by the use of evidence and/or sound economic analysis.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 WHICH OFFERS FURTHER GUIDANCE

MAXIMUM FOR PART 04: 25 MARKS

OR

Context 2   **Total for this Context: 50 marks**

05 Define the term 'price deflation' (**Extract F** line 13). **[5 marks]**	

For an acceptable definition such as	5 marks
• When there is a fall in the price level • When the average price of goods and services is falling • When there is a fall in the general price of goods and services	
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term **price deflation** even if the definition is not exactly the same as the acceptable examples quoted above.	

If the definition is inaccurate or incomplete, award a maximum of 4 marks which may be broken down.

For example, as follows:

When the rate of inflation is negative	**4 marks**
A rise in the value of money	**4 marks**
A fall in the cost of living	**4 marks**
When prices are falling	**3 marks**
When CPI (or RPI) fall	**3 marks**
For a definition of the price level	**2 marks**
Includes a diagram that illustrates deflation, eg AD shifting to the left or AS shifting to the right	**2 marks**
When there is a fall in aggregate demand	**1 mark**
When the economy experiences a recession or a slump	**1 mark**

Maximum of 4 marks if the definition is incomplete or inaccurate.

MAXIMUM FOR PART 05: 5 MARKS

06	Using **Extract D**, identify **two** significant points of comparison between economic growth and inflation in the UK over the period 2006 to 2013.
	[8 marks]

Award up to 4 marks for <u>each</u> significant point made

Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified. Unit of measurement given accurately.	**4 marks**
Identifies a significant point of comparison. Makes use of the data to support the comparison identified. However, 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.	**3 marks**
Identifies a significant point of comparison. No correct use of data to support the comparison identified.	**2 marks**
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified Unit of measurement given accurately.	**1 mark**

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

Significant points include

- Economic growth peaked in 2007 at 3.5% whereas inflation peaked in 2011 at 4.5%.

- Both economic growth and inflation were lowest in 2009, the rate of economic growth was -5.4% whereas the inflation rate was 2.2%.

- Economic growth was higher at the start of the period (2.7%) than at the end of the period (1.7%) whereas inflation was lower at the start of the period (2.3%) than at the end of the period (2.6%).

- The range of values for economic growth (3.5% to -5.4%, or 8.9%) was higher than the range of values for inflation (4.5% to 2.2%, or 2.3%).

- The rate of inflation was positive throughout the period (never fell below 2.2%) whereas there were two years of negative economic growth (-0.6% in 2008 and -5.4% in 2009).

MAXIMUM FOR PART 06: 8 MARKS

07 **Extract E** (lines 11 to 13) states that: 'as consumption continues to grow and confidence returns, investment should follow, boosting productivity and generating a period of sustained growth.'

Explain why a rise in investment should help to increase the rate of growth of the UK economy.

[12 marks]

The anticipated written response:

Define investment, short–run growth, long–run (or underlying) growth, multiplier, productivity or any other *relevant* term.	**1 mark per definition Up to a maximum of 2 marks**
For the explanation, award 2 marks for each logical link in the chain of reasoning. For example:	
Investment is a component of aggregate demand **(2 marks)**, if investment increases, demand for capital goods will rise and the firms supplying capital goods will increase their output **(2 marks)** leading to a rise in real GDP (short-run growth) **(2 marks)**. The increase in investment will also have a multiplier effect as rising incomes in the capital goods sector will boost consumption resulting in a further increase in national income/output **(2 marks)**. Investment also leads to improvements in the supply-side performance of the economy **(2 marks)** increasing long-run (underlying) growth, i.e. productive capacity **(2 marks)**, new investment incorporates changes in technology and increases productivity/efficiency **(2 marks)**.	**Up to12 marks**
Also allow credit for a chain of reasoning that starts with investment in human capital or investment in R&D.	
Award **up to 4 additional marks** for the **USE** of relevant diagrams, eg an AD/AS diagram illustrating that investment shifts AD to the right, increasing real GDP **or** an AD/AS diagram illustrating that investment shifts LRAS to the right, increasing the productive capacity of the economy. Only allow a diagram that shows a rightward shift in the SRAS if there is an explanation linking investment to higher productivity and hence lower production costs Do NOT award marks for a diagram if it is NOT referred to or used.	**Up to 4 marks per diagram up to a maximum of 4 marks Use the grid below when awarding marks for diagrams**

Breakdown of the marks for an AD/AS diagram:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but not Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but not Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and level of real GDP (PL1 Y1).	**1 mark**
An accurately-drawn shift of the AD curve (or LRAS) to the right.	**2 marks**
Lines drawn from the new equilibrium and labels such as PL2 and Y2.	**1 mark**

Note

(i) **To earn the first mark in the grid above, all three listed tasks must have been completed correctly.**

(ii) **For the task of labelling the equilibrium points on the axes, but not the axis labels, any labels are acceptable, for example: PL and Y, A and B, P and Q.**

If the candidate draws a diagram other than an AD/AS diagram, eg a PPC diagram, marks should be awarded in a similar manner to the grid above.

MAXIMUM FOR PART 07: 12 MARKS

08	**Extract F** (line 1) states that 'Whilst a return to growth is to be welcomed, it is not all good news'. Using the data and your knowledge of economics, assess the extent to which it is likely that the UK economy will be able to continue to grow without experiencing conflicts with the other main objectives of macroeconomic policy. **[25 marks]**

Extracts **D**, **E** and **F** provide a number of prompts for candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will analyse why there might be a conflict between a return to growth and each of the other main macroeconomic policy objectives. Good candidates are also likely to consider the potential for policy conflicts in relation to the current state of the UK economy. Such candidates are also likely to discuss whether they are short–run or long–run conflicts and how the sources of growth and the nature of government policy might affect whether or not more growth conflicts with the other major macroeconomic policy objectives.

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data, e.g. through the use of quotes or referring explicitly to the extracts.

Level 5	Good analysis <u>and</u> good evaluation	**22 to 25 marks** *Mid-point 24 marks*
Level 4	Good analysis <u>but</u> limited evaluation **OR** Reasonable analysis <u>and</u> reasonable evaluation	**17 to 21 marks** *Mid-point 19 marks*
Level 3	Reasonable answer, including some correct analysis <u>but</u> very limited evaluation	**10 to 16 marks** *Mid-point 13 marks*
Level 2	Weak with some understanding	**4 to 9 marks** *Mid-point 7 marks*
Level 1	Very weak	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• define economic growth, distinguishing between short–run and long-run growth • identify other objectives of macroeconomic policy • explain what is meant by 'conflicts between macroeconomic policy objectives' • provide some background to the current state of the UK economy and the reasons for the return to growth.
Developing the response to the question: (Application)	Credit for application can be given for relevant application of economic theory, use of the data and the candidate's own knowledge of recent developments in the UK economy. Examples might include: • use of the data in **Extract D** • drawing on the prompts in **Extract E paragraph 1** relating to growth, unemployment and spare capacity • use of the prompts in **Extract E paragraph 2** relating to productivity • use of the prompts in **Extract E paragraph 3** relating to the nature of the return to growth and implications for inflation and the balance of payments • use of the prompts in **Extract F paragraph 1** relating to the fall in the sterling exchange rate and the current account deficit • use of the prompts in **Extract F paragraph 1** relating to rebalancing the UK economy • drawing on the prompts in **Extract F (paragraph 2)** relating to inflation • use of own knowledge of examples of the impact of growth upon the other macroeconomic policy objectives, eg 2003 – 2006 as a period of stable growth in the UK with low inflation. Some examples of relevant economic concepts and principles that might be applied to this question include: output gaps, demand-pull inflation, export-led growth, supply–side improvements, productivity and inflation.
Developing the response to the question: (Analysis)	• why a resumption of short-run growth may lead to inflation • why short-run growth may lead to a larger balance of payments deficit • why a resumption of short-run growth is likely to be compatible with the objective of reducing unemployment • the relationship between growth and the objective of reducing the budget deficit • economic growth and the government's environmental objectives • economic growth and the aim of achieving a fair distribution of income • why improvements in productivity and the supply-side of the economy could mean that a return to growth might not conflict with the other objectives of macroeconomic policy
Evaluation	• the significance of the amount of spare capacity in the economy • in the long run, the extent to which a return to growth generates inflation and balance of payments problems depends on what happens to productivity and the supply side of the economy • the view that conflicts between macroeconomic policy objectives only arise when growth is generated by boosting aggregate demand

	- the conflict between growth and the balance of payments might be avoided if the world economy starts to expand - a further fall in the exchange rate might help to generate export-led growth helping to relieve the balance of payments deficit but would be likely to exacerbate inflationary pressures - the effectiveness of government policy measures in helping to avoid conflicts between economic growth and other macro policy objectives - the extent to which there is a 'rebalancing of the UK economy' may affect whether or not significant conflicts emerge - a growing economy is likely to be compatible with reducing unemployment but some forms of unemployment may not be greatly affected by growth - an assessment of reasons why growth may or may not conflict with the objectives of protecting the environment, achieving an equitable distribution of income and reducing the budget deficit - use of the data in the extracts to support the judgements made regarding the likely impact of economic growth on the other objectives of policy - an overall assessment of the likely impact of a return to growth on the other of macro policy objectives, in both the short run and the long run

*Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some of the reasons why a return to growth might **and** might not conflict with other policy objectives. Basic evaluation (and good analysis) would allow the answer to achieve low Level 4. Stronger evaluation is provided by candidates who are able to support arguments both for and against the view that continued growth in the UK economy will result in conflicts with other policy objectives by the use of evidence and/or sound economic analysis.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 WHICH OFFERS FURTHER GUIDANCE

MAXIMUM FOR PART 08: 25 MARKS