

GCE

Economics

Unit **F582/01**: The National and International Economy

Advanced Subsidiary GCE

Mark Scheme for June 2016

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

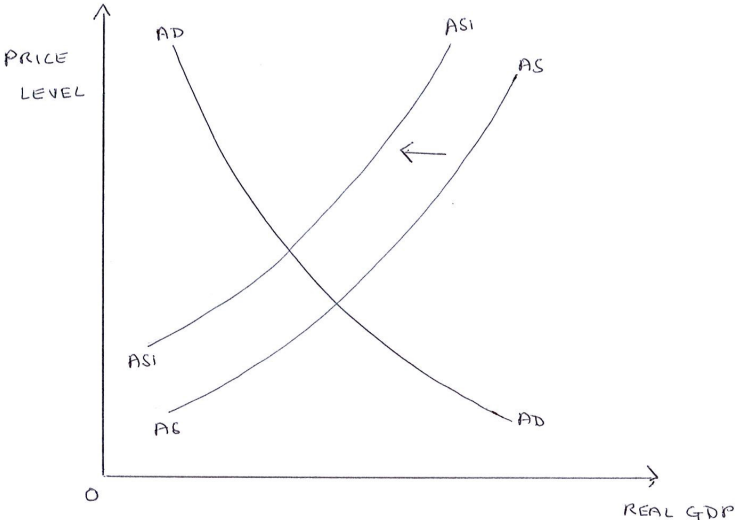
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Question		Answer/Indicative content	Mark	Guidance
1		<p>Using information from the case study, identify two policy measures the Japanese government could have taken to redistribute income from the rich to the poor.</p> <p>Identification</p> <ul style="list-style-type: none"> Increasing the top rate of income tax/make tax more progressive Increasing state benefits Increasing government spending on health care 	2	<p>One mark each for each of two policy measure identified.</p> <p>No marks for just progressive tax/increase tax rates/set up benefit system/change tax rate/change benefits.</p>
2	a	<p>Describe two disadvantages to a government of measuring unemployment through use of the Labour Force Survey (ILO).</p> <ul style="list-style-type: none"> survey results may be unreliable/inaccurate (1) problem of whether survey may be representative / problem of interpretation/sampling errors (1) measures relatively expensive (1) time and effort has to be spent collecting the information (1) time delay before information comes available (1) this may mean that the figure under or over estimate the current unemployment rate (1) people may be working in the informal economy (1) will give inaccurate information (1) excludes discouraged workers (1) these will not have looked for work in the last month (1) 	4	<p>One mark each for each of two disadvantages and one mark each for each description of those two disadvantages.</p> <p>No marks for people in between jobs or working part-time when they would like to work full-time.</p> <p>No marks for giving opportunity cost as an expansion of expensive.</p>
2	b	<p>Using information from the case study, calculate how many more people were unemployed in Japan than in the UK at the start of 2013.</p> <p>Two marks for 0.2 million/200,000.</p> <p>One mark for recognising unemployment in the UK was 2.4m and was 2.6m in Japan/ 0.2 or 2 million or variation of 2.</p>	2	<p>7.5% of 32million = 2.4million unemployed 4% of 65million = 2.6million unemployed</p> <p>2.6million – 2.4million = 0.2million (200,000)</p>

Question			Answer/Indicative content	Mark	Guidance
2	c	i	<p>Explain why a cut in the amount paid in benefits to the unemployed may decrease unemployment.</p> <ul style="list-style-type: none"> • Will reduce the income (money available) of the unemployed/income will be higher by working/lower by not working/greater opportunity cost of not working • May increase pressure on the unemployed to search more actively for employment/increase incentive to work/be more willing to accept a low paid job • May reduce frictional/voluntary/search unemployment 	2	
2	c	ii	<p>Analyse why a cut in the amount paid in benefits to the unemployed may increase unemployment.</p> <ul style="list-style-type: none"> • Lower incomes will reduce the spending (of the unemployed) • Unemployed are likely to have a high mpc. • Lower consumer expenditure will reduce aggregate demand • Lower aggregate demand will reduce output/profits • To produce less output/lower costs, fewer workers will be required • Cyclical unemployment may increase • Unemployed will spend less on education of their children making them less employable 	4	<p>No marks for just mentioning it will reduce incomes. No marks for why it may prevent unemployment falling e.g. reduce the amount the unemployed can spend travelling to job interviews. We are looking for link between C and AD rather than G and AD (benefits = transfer payment).</p>

Question	Answer/Indicative content	Mark	Guidance
3 a	<p>What effect would an increase in costs of production have on the position of the aggregate supply curve?</p> <ul style="list-style-type: none"> Will shift it to the left/shift inwards 	1	<p>Accept a diagram showing aggregate supply shifting to the left provided the curves are labelled No marks for AS will fall – too vague.</p> 
3 b	<p>Explain how three of the proposed policy measures mentioned in the case study (lines 25 to 28) could shift Japan’s aggregate supply curve.</p> <ul style="list-style-type: none"> A cut in corporation tax could increase investment (1) this would increase quantity/ quality of capital goods/reduce costs of production/increase productivity (1) Increased spending on health care or increased spending on another factor e.g. education or infrastructure that could increase productivity (1) reduce costs of production / increase quantity/ quality of labour/make workers healthier (1) 	6	<p>No marks for just identifying policy measures. The question is on the process, so also no mark for identifying the direction of the shift or stating they will increase AS/productive capacity.</p>

Question		Answer/Indicative content	Mark	Guidance
		<ul style="list-style-type: none"> • Deregulation removes rules and regulations (1) which could reduce costs of production/increase efficiency/increase competition/ attract investment/increase quantity or quality of resources (1) • Privatisation may put increased competitive pressure on firms/stimulate investment (1) to keep costs of production low/increase efficiency/increase productivity/increase quantity or quality of resources (1) 		
4	a	<p>Explain what effect the change in the value of the Japanese yen, shown in Fig.1, would be expected to have had on Japan’s aggregate demand.</p> <ul style="list-style-type: none"> • The value of the Japanese yen rose • More dollars had to be paid to buy a Japanese yen/less of the Japanese currency had to be given to buy a dollar • The price of Japanese exports would have increased • Demand for Japanese exports may have fallen • The price of Japanese imports would have decreased • Demand for Japanese imports may have increased • Net exports are likely to have decreased • Net exports are a component of AD/exports are an injection and/or imports are a leakage • Lower net exports may have reduced Japan’s aggregate demand • Lower profits may reduce investment and so lower relative quality of exports 	4	<p>Accept for net exports being a component of AD – $AD = C + I + G + (X - M)$.</p> <p>Accept for decrease AD, a shift to the left of the AD curve on a diagram. So long as the AD curve is labelled.</p>

Question	Answer/Indicative content	Mark	Guidance
<p>4 b</p>	<p>Comment on whether a large and sustained reduction in the rate of interest is likely to reduce a current account surplus on the balance of payments.</p> <p>Up to three marks for why it might:</p> <ul style="list-style-type: none"> • A lower rate of interest will reduce the cost of borrowing/encourage borrowing and discourage saving (1) • Consumer spending is likely to rise (1) • Some of the higher consumer spending is likely to go on imports (1) • Higher consumer spending may encourage some domestic firms to switch products from foreign markets to the domestic market thereby reducing exports (1) • A lower interest rate may increase the price level (1) • Inflation may make domestic products less price competitive (1) • Higher domestic prices may reduce net exports (1) • Lower saving may reduce funds available for investment (1) • Lower investment may make products less price competitive (1) <p>Up to three marks for why it might not:</p> <ul style="list-style-type: none"> • A lower interest rate may discourage hot money flows/reduce the amount foreigners will want to put funds into the country's banks (1) demand for the currency may fall reducing the exchange rate (1) lower export prices and higher import prices may improve the trade in goods and services (1) 	<p>6</p>	<p>One side = analysis and the other side evaluation. Marks on one side indicated by a tick and on the other side by a C.</p> <p>Up to three marks for one point well made.</p>

Question	Answer/Indicative content	Mark	Guidance
	<ul style="list-style-type: none"> • Trade in goods and services is only one part of the current account position (1) changes in other components of the current account position could offset a change in the trade in goods and services balance (1) primary income (income) and/or secondary income (current transfers) could increase (1) • Consumer spending/borrowing may not change (1) people may be pessimistic about the future/incomes are falling/people may be paying off past debt (1) so demand for imports may not change (1) • A lower rate of interest may stimulate investment which may increase quality/reduce costs of production (1) making domestic products more price competitive (1) • Firms may purchase raw materials/capital equipment (1) this can increase prices/quality competitiveness (1) increase exports in the future (1) • Exports may rise to cancel out the rise in imports (1) • Exports may rise if e.g. income abroad rise/exchange rate falls (1) 		<p>Note: credit can only be given once for purchase more raw materials/capital goods.</p>
5	<p>Comment on whether a large decline in a country's output is likely to result in lower government spending.</p> <p>Up to three marks for why it might:</p> <ul style="list-style-type: none"> • A reduction in a country's output will lower income/employment/profits (1) • Tax revenue is likely to fall (1) • Lower income will reduce revenue from income tax and corporation tax (1) 	6	<p>One side = analysis and the other side evaluation. Marks on one side indicated by a tick and on the other side by a C.</p> <p>Note: lower unemployment may occur on either side but can only be credited once.</p>

Question	Answer/Indicative content	Mark	Guidance
	<ul style="list-style-type: none"> • Lower income reduces spending (1) • Lower spending will reduce revenue from VAT and excise duties/indirect taxes (1) • Lower tax revenue reduces the funds available for a government to spend/may reduce the willingness of a government to spend because of concern about having to borrow/causing a budget deficit (1) <p>Up to three marks for why it might not:</p> <ul style="list-style-type: none"> • A government may increase its spending to stimulate economic activity (1) higher government spending may increase aggregate demand (1) higher aggregate demand may encourage firms to increase output (1) • Lower output may increase unemployment (1) higher unemployment will increase the amount spent on unemployment benefits (1) more subsidies may be given to firms/more might be spent on training (1) • Tax revenue may not fall (1) tax rates may be increased (1) tax base may be increased (1) • Government spending may initially have been below tax revenue/there may have been a budget surplus (1) government spending can be maintained without causing a deficit (1) there may be no concern about getting into debt (1) • The government may spend on education and training to increase productivity (1) to make economy more internationally competitive (1) • Output may fall but prices/wages/profits may rise (1) 		<p>Up to three marks for one point well made.</p> <p>Note: reference may be made to automatic stabilisers. This approach is not required but should be credited.</p>

Question		Answer/Indicative content	Mark	Guidance
6	a	<p>State one similarity and one difference between GDP and real GDP.</p> <p>Similarity: * Both are a measure of output/income/expenditure Or: • Both include gross investment</p> <p>Difference: • Real GDP has been adjusted for inflation whereas GDP has not/real GDP is at constant prices whilst GDP is at current prices</p>	2	<p>Similarity Nothing for both measure Gross Domestic Product. Also nothing for both measure economic growth – that would be <i>changes</i> in real CDP and nothing for living standards – that would be real GDP per head.</p> <p>Difference Accept: real GDP adjusted for inflation/at constant prices/takes into account inflation.</p>
6	b	<p>Using information from the case study, calculate the expected increase in the UK's real GDP between 2012 and 2013.</p> <p>Three marks for \$62.7billion/\$6,270,000,000/\$62.7 x 10⁹</p> <p>Two marks for: \$2,494.7billion – \$2432billion or (any variation of) \$62.7/62.7 or for 62billion without the dollar sign or with e.g. £ sign.</p> <p>One mark for \$2,432billion/2,432</p>	3	<p>\$38,000 * 64million = \$2,432billion (1)</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
6c		<p>Discuss whether economic growth will always help a government achieve its other macroeconomic policy objectives.</p> <p>Economic growth can encourage firms to take on more workers and so may reduce unemployment and may reduce poverty. It may be export-led which may help to reduce a current account deficit or turn it into a surplus. If caused by an increase in aggregate supply, it may reduce inflation and make the country's products more internationally competitive.</p> <p>Answers should evaluate the impact of economic growth on other policy objectives for the macro-economy.</p> <p>Examples of possible Level 4 answers:</p> <ul style="list-style-type: none"> • Economic growth may both help and hinder a government's ability to achieve its other policy objectives for the macro-economy – there may be policy conflicts • Economic growth which combines both an increase in aggregate demand and aggregate supply is more likely to enable a government to achieve its other objectives 	18	<p>If awarding Level 4, indicate lower band Level 4 with L4 and higher band Level 4 with EE.</p> <p>For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing whether economic growth caused by both an increase in AD and AS will always help a government achieve its other policy objectives for the macro-economy.</p> <p>For 13 – 15 marks, a discussion which does evaluate in terms of exploring both the reasons why economic growth may help a government to achieve other policy objectives for the macro-economy and the reasons why it might not.</p> <p>Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, constantly relevant have been well structured, using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p>	<p>Level 4 [13 – 18] For a discussion of whether economic growth will always help a government achieve its other macroeconomic policy objectives.</p> <p>Note: evaluation must be supported by relevant analysis. For 16 – 18 marks, the discussion must:</p> <ul style="list-style-type: none"> • come to a supported conclusion as to what factors will influence how economic growth affects a government's other policy objectives • be based on strong and relevant analysis and evaluation considering both the effects of an increase in both AD and AS on the objectives. <p>For 13 – 15 marks, the discussion must:</p> <ul style="list-style-type: none"> • examine how economic growth may both benefit and harm a government's other policy objectives • be based on preceding analysis which must focus on the actual question set.

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		<ul style="list-style-type: none"> • Economic growth resulting from an increase in aggregate demand may cause inflation and so prevent a government from achieving price stability • Economic growth may benefit the rich more than the poor and result in a more uneven distribution of income • Economic growth may be the result of advances in technology which may, in the short term, cause unemployment • Rapid economic growth may generate economic instability which in the longer term may discourage investment • Economic growth may increase imports of finished goods as incomes rise and imports of raw materials and capital goods as production increases. Exports may also be diverted to the domestic market. <p>Level 3 Answers should analyse the effects of economic growth on a government's other policy objectives for the macro-economy. Examples of possible Level 3 answers:</p>			
				Show where Level 3 has been awarded with L3. If awarding Level 3, 2 or 1 show where the highest level has been gained. For 11+ marks, there must be some depth of analysis, based on both increased AD and increased AS	<p>Level 3 [9 – 12] For an analysis of how economic growth may affect a government's other macroeconomic policy objectives.</p>

Question		Answer/Indicative Content	Marks	Guidance	
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		<ul style="list-style-type: none"> • Economic growth can reduce unemployment. Higher output may encourage firms to increase the number of workers they employ. Actual economic growth may reduce cyclical unemployment. Advances in training which can cause potential economic growth may reduce structural unemployment. • Economic growth can increase tax revenue and this could be used to improve education and training which could reduce unemployment. It could also be used to make income more evenly distributed by increasing state benefits • Economic growth, caused by an increase in aggregate supply, may reduce inflationary pressure. Increases in the quality or quantity of resources could reduce costs of production and so lower cost-push inflation • Economic growth, caused by an increase in aggregate supply, may increase the quality and price competitiveness of domestic products and so reduce a current account deficit or turn it into a surplus 		<p>For 9 – 10 marks, there may be some lack of depth, on both increased AD and increased AS</p> <p>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning.</p>	<p>The analysis must focus on the actual question set, bringing out the effects of economic growth on unemployment, inflation and redistribution of income/lower poverty, economic stability and the current account position.</p> <p>For 11 – 12 marks, there should be analysis based on both increased AD and increased AS. For 9 – 10 marks, there should be some analysis based on either AD or AS, or undeveloped analysis on both increased AD or increased AS</p> <p>Note: writing about how an increase in AD at full capacity will cause inflation but no change in output is not exploring how economic growth will influence an economy.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		<ul style="list-style-type: none"> Economic growth resulting from an increase in resources may enable an economy to produce more without creating inflation Stable and sustainable economic growth may promote economic stability as households and firms are more likely to be able to predict future earnings and profits <p>Level 2 Answers should recognise how the other policy objectives for the macro-economy may be affected. Examples of possible Level 2 answers:</p> <ul style="list-style-type: none"> Economic growth may reduce unemployment Economic growth may generate inflationary pressure Economic growth may increase a current account deficit Economic growth may alter the distribution of income Economic growth may reduce poverty Economic growth may promote economic stability 		<p>For 7 – 8 marks, the answer should recognise the effect on at least three or four policy objectives or a hint of explanation on one objective. For 5 – 6 marks, the answer should recognise the effect on one or two effects.</p> <p>Some ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.</p>	<p>Level 2 [5 – 8] For application of knowledge and understanding of how economic growth may affect the other macroeconomic policy objectives.</p> <p>To gain 8 marks, there should be identification of the effects on four objectives or a hint of explanation on one objective. To gain 7 marks, there should be identification of the effects on three objectives or a limited hint of explanation on one objective. To gain 6 marks, there needs to be identification of the effect on two objectives. To gain 5 marks, there needs to be identification of the effect on one objective.</p>

Question		Answer/Indicative Content	Marks	Guidance	
				Content	Levels of response
		<p>Level 1 These answers will show an awareness of the terms. Examples of Level 1 answers:</p> <ul style="list-style-type: none"> • Economic growth is increases in real GDP • Economic growth is an increase in productive potential • Macro-economic policy objectives include full employment, price stability, a current account balance, redistribution of income/poverty and economic stability 		<p>For 3 – 4 marks, there will be good knowledge of economic growth and macro-economic policy objectives. For 1 – 2 marks, there will be some awareness of economic growth or macroeconomic policy objectives.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.</p>	<p>An L2 mark can be given for a relevant unexplained assertion</p> <p>Level 1 [1 – 4] For knowledge and understanding of economic growth and macro-economic policy objectives.</p>

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

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OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553

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