



GCE MARKING SCHEME

SUMMER 2016

**ECONOMICS – EC2 (LEGACY)
1132/01**

INTRODUCTION

This marking scheme was used by WJEC for the 2016 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

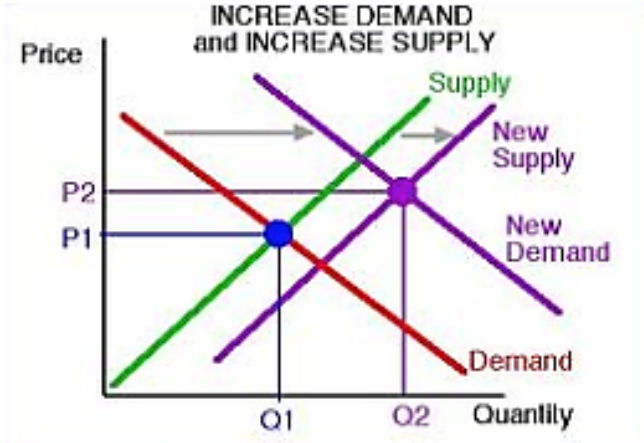
Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him / her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

GCE ECONOMICS - EC2 (LEGACY)

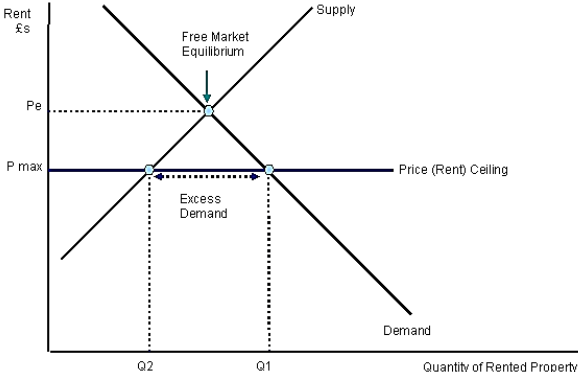
SUMMER 2016 MARK SCHEME

Section A			
Question	Answer	Mark	Assessment objective
1 (a)	<p>With reference to Figure 1, analyse the links between house prices and consumer spending in the UK.</p> <p>AO1: 2 marks There is generally a strong positive link – when house prices rise, consumption rises and when house prices fall consumption falls (1). The causation is from house prices to consumption (1).</p> <p>AO2: 2 marks Figures are used from the data to support the link or years are used well (e.g. “between 2008 and 2010 both are falling”) (1).</p> <p>Figures are used from the data to support the link and years are used well (e.g. “between 2008 and 2010 both are falling”). There is a clear implicit understanding that this is percentage change data not absolute house prices and consumption (an explicit understanding is obviously fine too) (2).</p> <p>AO3: 2 marks The link between the two is explained using economic theory: Wealth effects: Limited explanation (1) explained fully (2).</p> <p>Equity withdrawal: Limited explanation (1) explained fully (2).</p> <p>Link might be explained by third factor such as financial crisis (etc.) Implication that more homes are changing hands and therefore there is an impact on associated sectors (solicitors, carpets, furniture, removals), increasing consumption: Limited explanation (1) explained fully (2).</p>	6	<p>AO1 2 AO2 2 AO3 2</p>

Question	Answer	Mark	Assessment objective
1 (b)	<p>Using a supply and demand diagram explain why, if existing trends continue, house prices are likely to continue to rise.</p> <p>AO1: 4 marks Clear diagram showing demand and supply shifting to the right, but demand shifting by more than supply.</p>  <p style="text-align: center;">INCREASE DEMAND and INCREASE SUPPLY</p> <p>The diagram shows a coordinate system with Price on the vertical axis and Quantity on the horizontal axis. There are four curves: a red downward-sloping curve labeled 'Demand', a purple downward-sloping curve labeled 'New Demand', a green upward-sloping curve labeled 'Supply', and a purple upward-sloping curve labeled 'New Supply'. Arrows indicate a rightward shift from Demand to New Demand and from Supply to New Supply. The initial equilibrium is at the intersection of Demand and Supply, with price P1 and quantity Q1. The new equilibrium is at the intersection of New Demand and New Supply, with price P2 and quantity Q2. P2 is higher than P1, and Q2 is higher than Q1.</p> <p>4 marks for correctly labelled diagram 3 marks for correct diagram with 2 or more labelling errors 2 marks for showing the same or lower price. 1 mark for the supply or demand curve has been shifted incorrectly.</p> <p>AO2: 2 marks Trends from the data are clearly identified:</p> <p>Demand: “demographic trends suggest that 6m new homes are required over the next 30 years. That means 200,000 each year.” (1).</p> <p>Supply: “and in England we have struggled to build half that – just 112,630 new homes – in the 12 months to March 2014.” (1).</p> <p>Quotes are not necessary but clear use of the context is.</p>	6	AO1 4 AO2 2

Question	Answer	Mark	Assessment objective
1 (c)	<p>Explain why flood defences are generally considered to be public goods</p> <p>AO1: Understanding of what public goods are (2)</p> <p>Understanding of non-excludability (1) Something along the lines of: Once the good has been provided, non-payers cannot be prevented from using it.</p> <p>Understanding of non-diminishability / rivalry (1) Something along the lines of: An additional user does not impact on the benefits available to others.</p> <p>Understanding of non-rejectability (1) Once the good has been provided consumers don't have a choice.</p> <p>Marginal cost of provision is zero (1).</p> <p>AO2: Applied to flood defences in context (2)</p> <p>Non-excludable: Once a flood barrier has been built, all houses behind that barrier are protected regardless of whether they have paid. A sense that flood defences give communal rather than individual protection (1).</p> <p>Non-diminishable / rivalrous: If additional houses are built in an area, then the flood defences still remain the same – they are equally effective at holding back flood waters (or words to this effect) (1).</p> <p>Accept any other valid application to public goods.</p>	4	AO1 2 AO2 2

Question	Answer	Mark	Assessment objective
1 (d)	<p>Explain why public goods are generally supplied by the government rather than by private sector firms.</p> <p>There are two aspects to this, each worth up to 3 marks (with a maximum of 4 marks for the question)</p> <ul style="list-style-type: none"> Public goods will not be supplied by a free market (up to 3). <p>Public goods cannot be supplied by the free market (AO1: 1) because non-excludability means that nobody would pay (AO3: 1) making them unprofitable for firms (AO3:1). Free rider problem explained.</p> <ul style="list-style-type: none"> This lack of provision is a bad thing because it will need to market failure (up to 3). <p>Public goods are often highly desirable / failure to provide them will lead to a welfare loss (AO1:1) Therefore the government will want to make them available if the market fails to provide them (AO3: 1) this will help to prevent a misallocation of resources and market failure (AO3:1).</p> <ul style="list-style-type: none"> Government provision reduces income inequality, provides goods for the benefit of all. Government has the finances to do large scale projects. Positive equity arguments – helps to redress long term balance (up to 3). 	4	AO1 2 AO3 2

Question	Answer	Mark	Assessment objective
1 (e)	<p>Discuss, with the aid of a diagram, whether imposing a maximum rent below the free market equilibrium would be a good solution to the housing market problems identified in the data.</p> <p>The key here is that this is not simply an advantages and disadvantages of maximum prices question – it asks about the problems identified in the case – good answers will need to reflect this. The two key problems in the housing market identified are:</p> <ul style="list-style-type: none"> • Insufficient housing • Rents that are excessive <p>Diagram: Clear diagram showing maximum rent below the free market equilibrium but with excess demand within the market labelled or explained (up to 2).</p>  <p>Insufficient housing</p> <p>2 for each well-developed idea, (up to 6).</p> <p>The policy will cause shortages of housing (use of diagram (1)), therefore failing to solve the problem. There is a risk that the problem may be made even worse as reduced profits deter landlords from entering the market. The quality of the housing stock is likely to fall. Danger that the housing shortage may lead to the development of an unregulated market in which people are forced to rent outside the market with no legal protection. There may be social consequences such as an increase in homelessness or people forced to live at home with their parents – hence risk of government failure.</p>	10	AO1 1 AO2 3 AO3 2 AO4 4

Question	Answer	Mark	Assessment objective
	<p>Excessive rents</p> <p>In principle some people will be able to rent at lower cost than they were previously able to. In the diagram above Q2 homes are available at lower rents than was previously the case. Hence some people are available to avoid the rental trap. (Up to 2 for good use of the diagram, 2 for developing the idea).</p> <p>But</p> <p>Q2 Q1 people are unable to find property at all, meaning that for many people the problem hasn't been solved at all. The establishment of a black market may mean that in reality rents may increase, even for some of the Q2 as they may have to make unofficial additional payments.</p> <p>Therefore</p> <p>Some of the other policies suggested (government housing projects / New Towns or increased interest rates) might be more appropriate, although they have their own problems too (up to 2).</p> <p>General guidance</p> <p>Up to 4 for arguing that it might solve some of the problems identified and up to 6 for arguments suggesting that the policy will either be ineffective or will produce undesirable side-effects.</p> <p>Diagram only, properly labelled (2).</p> <p>An answer that is not in context can get a maximum of 6.</p> <p>There are 4 evaluation marks here.</p>		

Question	Answer	Mark	Assessment objective
1 (f)	<p>Using the data, discuss whether an increase in interest rates would have been advisable given the economic situation at the end of 2014.</p> <p>Award 1 mark for understanding of each point made (up to 2)</p> <p>Award 1 mark for applying to the case in context (up to 2)</p> <p>Award 1 mark for development of each point (up to 2)</p> <p>There are no separate marks for diagrams, but diagrams may assist candidates in showing understanding.</p> <p>Evaluation</p> <p>1-2 marks – limited evaluation</p> <p>3-4 marks – good evaluation</p> <p>An answer which makes no use of the context cannot score more than 2 evaluation marks.</p> <p>One very well developed evaluation can score 4 marks.</p> <p>Indicative content:</p> <p>Advisable</p> <p>Housing bubble seems to be getting established and a rise in interest rates will make mortgages more expensive, cooling the housing market.</p> <p>Something needs to be done to deal with the problems in the housing market – rising house prices are clearly causing big problems for individuals and the wider economy.</p> <p>But</p> <p>The impact of interest rate changes will have a UK-wide effect when house prices are rising unevenly, meaning that some areas will be hit disproportionately hard.</p> <p>Inflation is well below target and rising interest rates will depress AD, causing a further fall in inflation, pushing it below the BoE’s lower target boundary.</p> <p>Wage growth is low, meaning that an increase in interest rates may push struggling households deeper into poverty as mortgage costs are pushed up further.</p> <p>Falling growth in the Eurozone is a major concern for the UK with the risk of falling export demand. An increase in interest rates may further depress AD as well as pushing up the exchange rate.</p> <p>However</p> <p>The economy is growing strongly meaning that an increase in interest rates has less risk and falling unemployment means that there is a risk that inflation will pick up again towards target making an increase in interest rates sensible at this point.</p>	10	AO1 1 AO2 3 AO3 2 AO4 4

Section B				Mark	Assessment objective
Question	Answer				
2 (a)	Household incomes reach record levels. More families increase spending on luxury items.		8	AO1 3 AO2 3 AO3 2	
	Explain why the supply of manufactured goods tends to be more price elastic than the supply of agricultural goods.				
	Level 1	1-3 Marks			<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answer may contain a definition of PES and perhaps a list of factors without development.</p> <p>Examples may include: Agriculture: Things take a long time to grow. Manufacturing: Stocks can be held.</p> <p>There may be some unsupported diagrams, but with no explanation of them. High and low PES may be misunderstood.</p> <p>Credit any other relevant points.</p>
Level 2	4-6 Marks	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Points are well-developed in the context of agricultural and manufactured goods.</p> <p>Agricultural goods: Hard to store because they are often perishable Growing seasons mean that the production period can be long making it hard to increase supply in response to a rise in price.</p> <p>Manufactured goods: Firms often have spare capacity meaning that supply can quickly be increased. May be easier to increase factors of production through investment into capital goods, hence increasing supply.</p> <p>Answers in this level may fail to fully relate back to the concept of PES - the idea of responding to a price rise – and may tend to focus on flexibility of production rather than PES itself. Top of level answers are likely to have 3 developed ideas.</p>			

Question	Answer			Mark	Assessment objective
	Level 3	7-8 Marks	<p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples / diagrams throughout the answer.</p> <p>Answers in this level have will have clear relation to PES and good examples in each category. Probably three main points have been made and well-developed in the context of PES or perhaps 4 points with slightly less development, but with a clear understanding of what PES really means.</p> <p>Credit any other relevant points.</p>		

Question	Answer			Mark	Assessment objective						
2 (b)	<p>Discuss, using diagrams, whether rising incomes in the UK will be likely to have more impact on the prices of agricultural goods or on the prices of manufactured goods.</p> <table border="1" data-bbox="316 338 1126 1800"> <tr> <td data-bbox="316 338 421 943">Level 1</td> <td data-bbox="421 338 536 943">1-4 Marks</td> <td data-bbox="536 338 1126 943"> <p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Answer will tend to make assertions that do not really have explanation. They may understand that rising incomes will increase demand and may have diagrams showing that the prices of agricultural goods will increase by more, but these diagrams are not explained.</p> <p>Alternatively, there may be some limited attempts to assert that it is hard to increase the output of agricultural goods, so an increase in demand will have a big impact on price.</p> </td> </tr> <tr> <td data-bbox="316 943 421 1800">Level 2</td> <td data-bbox="421 943 536 1800">5-8 Marks</td> <td data-bbox="536 943 1126 1800"> <p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops points, using economic theory in context.</p> <p>More impact on agricultural goods:</p> <ul style="list-style-type: none"> • Supply of agricultural goods is inelastic, so an increase in demand will lead to a big increase in price. • Diagram to support this. • Manufactured goods have stocks that can easily be rolled out. <p>Manufactured goods may not respond that much to rising incomes – services tend to be more affected with higher YED.</p> <p>More impact on manufactured goods:</p> <ul style="list-style-type: none"> • YED likely to be higher for manufactured goods, meaning that demand will rise by more. </td> </tr> </table>			Level 1	1-4 Marks	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Answer will tend to make assertions that do not really have explanation. They may understand that rising incomes will increase demand and may have diagrams showing that the prices of agricultural goods will increase by more, but these diagrams are not explained.</p> <p>Alternatively, there may be some limited attempts to assert that it is hard to increase the output of agricultural goods, so an increase in demand will have a big impact on price.</p>	Level 2	5-8 Marks	<p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops points, using economic theory in context.</p> <p>More impact on agricultural goods:</p> <ul style="list-style-type: none"> • Supply of agricultural goods is inelastic, so an increase in demand will lead to a big increase in price. • Diagram to support this. • Manufactured goods have stocks that can easily be rolled out. <p>Manufactured goods may not respond that much to rising incomes – services tend to be more affected with higher YED.</p> <p>More impact on manufactured goods:</p> <ul style="list-style-type: none"> • YED likely to be higher for manufactured goods, meaning that demand will rise by more. 	12	AO1 3 AO2 3 AO3 2 AO4 4
Level 1	1-4 Marks	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Answer will tend to make assertions that do not really have explanation. They may understand that rising incomes will increase demand and may have diagrams showing that the prices of agricultural goods will increase by more, but these diagrams are not explained.</p> <p>Alternatively, there may be some limited attempts to assert that it is hard to increase the output of agricultural goods, so an increase in demand will have a big impact on price.</p>									
Level 2	5-8 Marks	<p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops points, using economic theory in context.</p> <p>More impact on agricultural goods:</p> <ul style="list-style-type: none"> • Supply of agricultural goods is inelastic, so an increase in demand will lead to a big increase in price. • Diagram to support this. • Manufactured goods have stocks that can easily be rolled out. <p>Manufactured goods may not respond that much to rising incomes – services tend to be more affected with higher YED.</p> <p>More impact on manufactured goods:</p> <ul style="list-style-type: none"> • YED likely to be higher for manufactured goods, meaning that demand will rise by more. 									

Question	Answer		Mark	Assessment objective
		<ul style="list-style-type: none"> • Not always easy to increase the supply of manufactured goods due to global supply chains and scarcity of key raw materials (rare earth metals etc.). • Agricultural goods may have low YED hence as incomes rise, demand is in reality little affected. • Supply of agricultural goods may be rising as a result of improvements in technology like GM crops and fertilisers – hence if S is already rising, an increase in D might not push up prices. • It is possible to hold stocks of some agricultural goods, hence PES might not be that low. • Governments may use price stabilisation schemes to prevent prices from rising, if they have previously bought stocks. <p>Answers in this level will tend to be purely ‘agricultural more, manufactured more’, covering around 3-4 main points probably with a diagram.</p> <p>Answers using throw-away evaluation only will be in this level, e.g. it depends on the size of the increase, without then developing that idea. Also answers which evaluate but have weak underlying analysis, i.e. relevant economic theory and principles are not fully understood, applied and analysed. Answers with no evaluation cannot reach level 3.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>9-10 marks. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples / diagrams.</p> <p>11-12 marks. In context answer, evaluates both sides. Candidate evaluates both sides of the argument and probably makes a judgment about which products will be more likely to increase in price and why.</p> <p>Credit any other relevant points.</p> <p>No diagrams max 8.</p>		

Question	Answers		Mark	Assessment objective
3 (a)	<p>40% of graduates still unemployed 6 months after leaving university.</p> <p>Explain why the presence of external costs might lead to 'market failure'.</p>		8	AO1 3 AO2 3 AO3 2
Level 1		1-3 Marks	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answer may contain a definition of market failure in terms of misallocation of resources and may show an understanding of external costs, but this understanding is probably quite superficial (based on examples rather than theory) and does not show why external costs may lead to a misallocation of resources.</p> <p>Credit any other relevant points.</p>	
Level 2		4-6 Marks	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Level 1 points are explained. Points are likely to include: External costs damage third parties, but the consumer and producer don't have to pay, meaning that output will be too high. In the case of production externalities, the market price will therefore be too low.</p> <p>Examples of the way in which external costs create problems for third parties in either production or consumption (the question does not ask for examples, but used effectively they will help an answer to reach the top of the band).</p> <p>Top of level answers will either cover both consumption and production externalities <u>or</u> will cover one of them very thoroughly making good use of terminology and examples to support their answer. Such an answer will make very clear the difference between private, external and social costs during the answer (definition not required).</p>	
Level 3		7-8 marks	<p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples / diagrams throughout the answer.</p>	

Question	Answer		Mark	Assessment objective
		<p>Answers in this level will be distinctive in that they clearly explain why one leads to the other. Answers in this level will be more than the idea that external costs are a bad thing – the answer is very clear that resources have been misallocated – that the equilibrium output of goods with external costs is too high and the Level 2 analysis supports this conclusion.</p> <p>Answers in this level will be likely to have one of the following:</p> <ul style="list-style-type: none"> • A simple supply and demand diagram might be used to make the point • Clear use of an examples • Coverage of both production and consumption externalities <p>But the analysis needs to be developed – these are not automatic level 3 green lights.</p>		

Question	Answer			Mark	Assessment objective
3 (b)	Discuss whether the UK government should subsidise university education.			12	AO1 3 AO2 3 AO3 2 AO4 4
Level 1		1-4 Marks	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Answers in this level will tend to be anecdotal, asserting rather than analysing points. Probable points will be:</p> <ul style="list-style-type: none"> • Good for the UK economy • Education is a merit good • Good for poor people <p>But points will not be explained.</p>		
Level 2		5-8 Marks	<p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points.</p> <p>Should:</p> <ul style="list-style-type: none"> • Education is a merit good and will be under consumed in a free market. Subsidies will therefore increase the equilibrium output, correcting market failure. • Increased undergraduate uptake will be good for the supply side of the economy as more skilled workers are available, hence increasing potential growth. • Subsidies for education may increase access for low-income groups who may be reluctant to take on high levels of debt. Therefore subsidies may play a part in reducing income inequality. • Given the nature of the UK economy and the low-wage competition that it faces, it is essential to create the skills needed to grow and succeed in the global economy. <p>Won't:</p> <ul style="list-style-type: none"> • Difficult to estimate the size of the external benefit – risk of over-provision (as suggested by the strap-line – unemployed undergraduates). • Supply side benefits will depend on which degrees are taken – won't automatically work. • Higher education is still heavily middle-class – subsidising it may therefore simply make income inequality worse. • Subsidies will worsen the budget deficit – can they be afforded? 		

Question	Answer		Mark	Assessment objective
		<p>Top of level answers will probably cover around 4 main points, but may either focus on education in general rather than undergraduates, or look more at simply increasing provision rather than the specific context of subsidies.</p> <p>Answers using throw-away evaluation (e.g. it depends on the size of the subsidy, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>9-12 marks</p> <p>9-10 marks. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples / diagrams.</p> <p>11-12 marks. In context answer, evaluates both sides. Candidate evaluates fully and probably makes a judgment about whether or not subsidies will be beneficial.</p> <p>Top level evaluation may simply take existing ideas and come to a well-rounded conclusion or it may attempt to further sophisticate with ideas such as:</p> <ul style="list-style-type: none"> • Subsidies might be better targeted at certain degree courses where the UK faces skills shortages. • Subsidies might work best if they are means tested rather than universal. • There is a danger that subsidies may simply encourage more people into university level education who aren't really suited and that the money might be better spent on vocational qualifications. <p>The key is that top of level answers will answer the question directly having already established strong analytical ground-work.</p> <p>Credit any other relevant points.</p>		

Question	Answer			Mark	Assessment objective						
4 (a)	<p>International research suggests that increases in the minimum wage might not cause job losses.</p> <p>Using examples, explain why an increase in the minimum wage might not cause unemployment to rise.</p> <table border="1" data-bbox="288 450 1137 1957"> <tr> <td data-bbox="288 450 408 943">Level 1</td> <td data-bbox="408 450 517 943">1-3 Marks</td> <td data-bbox="517 450 1137 943"> <p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answers in this level are likely just to have a diagram showing that the minimum wage will not cause job losses if it is imposed below the free market equilibrium, without any sense of why this might be so or for which jobs it might be true. Bottom level responses will have the diagram poorly labelled.</p> <p>Alternatively there may be a series of anecdotal points which are not developed in terms of economic analysis.</p> <p>Credit any other relevant points.</p> </td> </tr> <tr> <td data-bbox="288 943 408 1957">Level 2</td> <td data-bbox="408 943 517 1957">4-6 Marks</td> <td data-bbox="517 943 1137 1957"> <p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Points are developed and explain why an increase in the minimum wage might not cause unemployment to rise.</p> <p>Possible points:</p> <ul style="list-style-type: none"> • Increase might still be below the equilibrium for many jobs. Diagram is drawn and explained in terms of the idea that for many jobs an increase in the NMW will still be below their market rate, meaning there should be no difference. • Increased NMW may create incentives to work, hence reducing voluntary unemployment • Increases in minimum wage may encourage firms to become more efficient, raising productivity, training workers hence unit costs don't increase. • An increase in the NMW may lead to an increase in the real income of some of the poorest workers in the UK. Hence spending may rise, creating jobs in new sectors, even if jobs are lost in this one (demand for labour may rise) </td> </tr> </table>			Level 1	1-3 Marks	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answers in this level are likely just to have a diagram showing that the minimum wage will not cause job losses if it is imposed below the free market equilibrium, without any sense of why this might be so or for which jobs it might be true. Bottom level responses will have the diagram poorly labelled.</p> <p>Alternatively there may be a series of anecdotal points which are not developed in terms of economic analysis.</p> <p>Credit any other relevant points.</p>	Level 2	4-6 Marks	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Points are developed and explain why an increase in the minimum wage might not cause unemployment to rise.</p> <p>Possible points:</p> <ul style="list-style-type: none"> • Increase might still be below the equilibrium for many jobs. Diagram is drawn and explained in terms of the idea that for many jobs an increase in the NMW will still be below their market rate, meaning there should be no difference. • Increased NMW may create incentives to work, hence reducing voluntary unemployment • Increases in minimum wage may encourage firms to become more efficient, raising productivity, training workers hence unit costs don't increase. • An increase in the NMW may lead to an increase in the real income of some of the poorest workers in the UK. Hence spending may rise, creating jobs in new sectors, even if jobs are lost in this one (demand for labour may rise) 	8	AO1 3 AO2 3 AO3 2
Level 1	1-3 Marks	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answers in this level are likely just to have a diagram showing that the minimum wage will not cause job losses if it is imposed below the free market equilibrium, without any sense of why this might be so or for which jobs it might be true. Bottom level responses will have the diagram poorly labelled.</p> <p>Alternatively there may be a series of anecdotal points which are not developed in terms of economic analysis.</p> <p>Credit any other relevant points.</p>									
Level 2	4-6 Marks	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Points are developed and explain why an increase in the minimum wage might not cause unemployment to rise.</p> <p>Possible points:</p> <ul style="list-style-type: none"> • Increase might still be below the equilibrium for many jobs. Diagram is drawn and explained in terms of the idea that for many jobs an increase in the NMW will still be below their market rate, meaning there should be no difference. • Increased NMW may create incentives to work, hence reducing voluntary unemployment • Increases in minimum wage may encourage firms to become more efficient, raising productivity, training workers hence unit costs don't increase. • An increase in the NMW may lead to an increase in the real income of some of the poorest workers in the UK. Hence spending may rise, creating jobs in new sectors, even if jobs are lost in this one (demand for labour may rise) 									

Question	Answer		Mark	Assessment objective
		<ul style="list-style-type: none"> • A rising NMW may not cause job losses if the economy is doing well. When GDP is rising, job losses are far less likely as firms can pass cost increases onto consumers, again DL may be shifting to the right. • NMW may still be below that of international competitors. • In some sectors, demand for labour may be highly inelastic. <p>A top of level answer will be likely to have two well-developed ideas or 3 less well-developed points but may lack good examples to support the points made.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>7-8 marks</p> <p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples / diagrams throughout the answer.</p> <p>Answers in this level will be theoretically very solid, probably using a diagram to support the points made, but the key is that there are illustrative examples used to support the points made (such as examples of jobs which would be likely to be unaffected). Two very well-developed arguments with good examples might be sufficient, but three points is more likely.</p>		

Question	Answer			Mark	Assessment objective
4 (b)	Discuss, using diagrams, whether an increase in the supply of labour in the UK caused by immigration will be likely to reduce wage rates.			12	AO1 3 AO2 3 AO3 2 AO4 4
Level 1	1-4 Marks	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Answers in this level are likely simply to have a diagram showing labour supply shifting to the right and asserting that wages would fall without explaining.</p> <p>Alternatively answers may centre around anecdotal evidence that illegal immigrants will undercut the wages of indigenous workers or that migrants are prepared to work for less than indigenous workers. In either case, there are chains of reasoning that are not developed.</p>			
Level 2	5-8 Marks	<p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points.</p> <p>Wages may fall:</p> <ul style="list-style-type: none"> • Clear explanation of how an increase in labour supply will create excess supply in some markets, therefore forcing down the equilibrium wage rate. • Workers from low income parts of the EU may be more accepting of low incomes if they are sending money back home where purchasing power is greater. <p>Wages may not fall:</p> <ul style="list-style-type: none"> • Can't fall below the minimum wage. • Not all jobs will be affected – migrant workers will affect some sectors more than others. • Depends on what is happening to labour demand – if this is rising, then an increase in labour supply might not reduce wage rates. • Many migrant workers are high skilled and in areas where there are skills shortages. 			

Question	Answer		Mark	Assessment objective
		<ul style="list-style-type: none"> In some cases migrants carry out jobs that were not being done at all by UK workers. <p>Top of level answers are likely to explain clearly that wages will fall using a diagram and may use a diagram to make one of the counter-arguments (minimum wage or rising demand) and explain each well. Hence two to three well-developed ideas with a diagram or two.</p> <p>Answers using throw-away evaluation only will be in this level (e.g. 'it depends on the size of the increase', without then developing that idea), as will answers which evaluate but have weak underlying analysis (i.e. relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>9-10 marks. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples / diagrams.</p> <p>11-12 marks. In context answer, evaluates both policies. Candidate evaluates fully and probably makes a judgment about whether or not wages rates will fall.</p> <p>Evaluation points that carry answers into this part of the band will tend to be of the 'It depends' format (but properly developed and linked to the question in context, not 'it depends on how many migrants there are'). E.g. It depends on what type of migrants there are and whether they become locally concentrated. It depends on what is happening in the economy more generally – the problem is much less likely when the economy is growing strongly.</p> <p>Credit any other relevant points.</p>		

Section C					
Question	Answer			Mark	Assessment objective
5 (a)	<p>UK needs supply side reforms to raise growth</p> <p>Using examples, explain how supply side policies in the markets for land, labour and capital can boost the potential of the UK economy.</p>			8	AO1 3 AO2 3 AO3 2
	Level 1	1-3 Marks	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Candidate shows some understanding of what supply side policies are, but lacks depth.</p> <p>Answer may draw a diagram showing AS or a PPF shifting outwards, but this shift will not really be explained – probably just asserted that SSPs increase the quantity quality and efficiency of use of FoPs without explaining why.</p> <p>Credit any other relevant points.</p>		
	Level 2	4-6 Marks	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Points are developed and show clearly how SSPs will increase the potential of the UK economy – points are linked back to the quantity, quality and / or efficiency of use of factors of production. In addition, answers deal with the factor markets mentioned in the question.</p> <p>Labour market This is the one that will tend to have most time spent on it, but answers which really only give examples from here will be limited to mid-band (5 marks). Examples include:</p> <ul style="list-style-type: none"> • Cuts in income tax creating incentives to work. • Cuts in benefit payments • Reductions in trade union power. • Reductions in regulations over hiring and firing. • Government investment into education and training etc. 		

Question	Answer		Mark	Assessment objective
		<p>Capital Market Policies designed to boost investment (allow policies to boost enterprise in here). Examples include:</p> <ul style="list-style-type: none"> • Cuts in corporation tax which both increase retained profits and increase the incentive to invest. • Infrastructure spending to make the UK more attractive. • Tax breaks for R and D. • Reductions in bureaucracy / ease of doing business etc. <p>Land</p> <ul style="list-style-type: none"> • Relaxation of green belt legislation. • Relaxation of zoning laws (e.g. use, height etc.). • Incentives for land reclamation schemes (drainage of marshes etc.). <p>A top Level 2 answer will show clearly some of the impact on AS / PPF and will cover at least two of the three areas reasonably well, with examples.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>7–8 marks</p> <p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples / diagrams throughout the answer.</p> <p>Top band answers cover all three markets and have a clear link to economic potential. Bottom level answers may fail to come up with an example for one category or the link to economic potential may be weaker.</p> <p>Credit any other relevant points.</p>		

Question	Answer			Mark	Assessment objective
5 (b)	<p>UK needs supply side reforms to raise growth.</p> <p>Discuss whether supply side policies can, by themselves, achieve the government's macroeconomic objectives</p>			12	AO1 3 AO2 3 AO3 2 AO4 4
	Level 1	1-4 Marks	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Candidate shows some understanding of how supply side policies impact on the key policy objectives, but the link is asserted rather than explained.</p> <p>Answers which show little more than an understanding of SSPs and of key policy objective, without really linking the two will be at the bottom of the band.</p> <p>Answers which assert policy impacts by the use of unexplained diagrams will also be in this level.</p>		
	Level 2	5-8 Marks	<p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Yes:</p> <ul style="list-style-type: none"> • Unemployment - SSPs can help to spur economic growth through increased efficiency, creating jobs. SSPs such as education and training can help unemployed workers to find jobs. Cuts in benefits or income tax may help to reduce voluntary unemployment • Inflation - In principle, SSPs will assist firms to become more efficient, putting downward pressure on costs, therefore helping to reduce inflation. • Growth - SSPs help to increase the quantity, quality and efficiency of use of FoPs and should therefore help to promote potential growth. • Trade. SSPs should help UK firms to become more efficient, helping them to compete on world markets. • Budget – SSPs should help to promote growth, therefore increasing the government's tax base and, by creating jobs, reduce spending on social protection. 		

Question	Answer		Mark	Assessment objective
		<p>Top level 2 answers will show a good understanding of why each might matter (two to three points on each, with a small amount of development).</p> <p>But:</p> <ul style="list-style-type: none"> • Unemployment may rise as SSPs create greater efficiency and new technology. • Some SSPs may create inflation in the short run. • Growth / Trade improvements may not be created if SSPs are ineffective, in the wrong areas, or have significant time lags (explained). SSPs may not create actual growth in a recession. • Budget – some SSPs are very expensive, meaning that the government’s budget position may worsen in the short run. <p>Top level 2 answers will have around 4 main points covering a minimum of at least two government objectives. This may include the use of diagrams to show how they can produce benefits, but not when the economy is in recession. Answers which are purely based around a superficial analysis of these diagrams (‘flat bit of the AS’ etc.) are unlikely to get past 6 / 12.</p> <p>Answers using throw-away evaluation only will be in this level (e.g. it depends on the size of the increase, without then developing that idea), as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>9-12 Marks</p> <p>9-10 marks. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples / diagrams.</p> <p>11-12 marks. In context answer, comes to a conclusion about which is most important or when one might be more important than another.</p> <p>Credit any other relevant points.</p>		

Question	Answer		Mark	Assessment objective
6 (a)	<p>Higher government capital spending may need to be financed by increased VAT rates.</p> <p>Using an aggregate demand and aggregate supply diagram, explain how an increase in VAT rates might be expected to affect the equilibrium level of output, employment and price level in an economy.</p>		8	AO1 3 AO2 3 AO3 2
Level 1	1-3 Marks	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Points are likely to be mainly assertion of the idea that a rise in VAT will have bad effects. If a diagram is used, then it will tend to show AD shifting to the left, or will simply insert a new equilibrium high up on the AD function without a corresponding shift in AS.</p> <p>Credit any other relevant points.</p>		
Level 2	4-6 Marks	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Answers in this level are likely to have an appropriate diagram (SR not necessary) such as:</p> <div style="text-align: center;"> </div>		

Question	Answer		Mark	Assessment objective
		<p>Answers will also explain clearly why an increase in VAT will be:</p> <ol style="list-style-type: none"> 1) Likely to increase the price level by pushing up firms' costs. 2) Reduce GDP as firms are forced to increase prices, reducing real incomes and hence hitting AD. 3) Consequently lead to job losses as firms are forced to make efficiency savings. <p>Top of level answers will tend to draw an appropriate diagram and deal with prices and GDP without really explaining the diagram fully or fully developing the negative impact on GDP / jobs. Or there is strong analysis but with an inaccurate diagram.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>7-8 Marks</p> <p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples / diagrams throughout the answer.</p> <p>Candidate covers all three areas in a good level of detail (hence a theoretically strong answer) with an accurate well-integrated diagram – the difference at level 3 will tend to be that there is either a very clear explanation of why VAT drives up the price level or a very detailed analysis of the negative effects on the real economy.</p> <p>Credit any other relevant points.</p>		

Question	Answer		Mark	Assessment objective
6 (b)	Discuss whether significant increases in capital spending by the government are likely to be beneficial for the UK economy.		12	AO1 3 AO2 3 AO3 2 AO4 4
Level 1	1-4 Marks	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Candidate understands what capital spending is.</p> <p>Answer asserts that capital spending will be beneficial in terms of creating jobs, or perhaps just believes that capital spending affects the supply side without development, ignoring the impact on AD.</p>		
Level 2	5-8 Marks	<p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops some of the reasons for and against significant increases in capital spending:</p> <p>Benefits: Rising capital spending will increase AD. Hence creating jobs directly and also triggering multiplier effects as the previously unemployed workers with a high marginal propensity to consume create demand in other sectors.</p> <p>Well-integrated AD / AS diagram to illustrate this.</p> <p>Capital spending may also benefit the supply side of the economy, providing better infrastructure for UK firms, helping to boost productivity and efficiency, therefore promoting long term growth and perhaps a better trade position.</p> <p>Increased capital spending may encourage UK and overseas firms to invest (FDI), again benefiting the economy in the long term. Some infrastructure will directly lead to higher living standards.</p> <p>Capital spending on schools and hospitals can help to reduce income inequality</p> <p>But: May be inflationary in the short term – the supply side benefits of capital spending may take some time to feed through (explained).</p>		

Question	Answer			Mark	Assessment objective
			<p>Increased spending may mean a higher budget deficit and hence a higher debt with the various issues that this entails (opportunity cost of debt interest, risk of crowding out, credit downgrades etc.).. As implied by the title, higher capital spending may lead to a higher tax burden with the assorted negative consequences of this.</p> <p>Risk that the capital spending may not be appropriate – hence government malinvestment.</p> <p>Top level 2 answer will tend to have 3 main points covered, looking at both the supply side and demand side effects of capital spending.</p> <p>Answers using throw-away evaluation only will be in this level (e.g. it depends on the size of the increase, without then developing that idea), as will answers which do evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p>Credit any other relevant points.</p>		
	Level 3	9-12 Marks	<p>9-10 marks. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples / diagrams.</p> <p>11 - 12 marks. In context answer, comes to a conclusion about whether or not the policy taken as a whole is desirable</p> <p>Top level answers will tend to qualify their ideas. E.g.it depends on:</p> <ul style="list-style-type: none"> – The nature of the capital spending – which areas it goes into. – The timescale over which the benefits are expected to be delivered. – How the increase in capital spending is financed. – The state of the economy at the time – if in recession, capital spending might be appropriate in terms of creating jobs, if not then it may need to be counterbalanced by cuts elsewhere to prevent inflation. <p>Or will simply come to a reasoned conclusion based on their earlier analysis</p> <p>Credit any other relevant points.</p>		

Question	Answer			Mark	Assessment objective
7 (a)	<p>Calls for more free trade as slowing global growth leads to rising protectionism.</p>			8	AO1 3 AO2 3 AO3 2
	<p>Explain what is meant by free trade and explain how it provides benefits to an economy.</p>				
	Level 1	1-3 Marks	<p>Limited knowledge of relevant economic theory. One or two basic points made.</p> <p>Answers are likely to be anecdotal, making superficial 'common sense' points rather than those rooted in economic theory.</p> <p>These may include: UK needs to import lots of food. Free trade will lead to more choice. Free trade may mean that we can buy cheaper goods from abroad.</p>		
Level 2	4-6 Marks	<p>Good understanding of subject matter with some application. Relevant points made and developed using examples / diagrams and appropriate economic theory.</p> <p>Points are developed and show how free trade will bring benefits</p> <p>Free trade may allow the UK to specialise in those areas in which it has a comparative advantage, allowing for greater efficiency and growth.</p> <p>Free trade may allow the UK to consume outside of its production possibility frontier by specialising in what it is best at and trading for other goods and services, increasing living standards.</p> <p>Free trade may increase competition levels within the economy, forcing domestic firms to be more efficient and hence leading to higher levels of growth and lower inflation.</p> <p>Free trade may force UK firms to invest and innovate.</p> <p>At a micro level, free trade may allow consumers to access a wider range of goods and services at a lower price and possibly higher quality, increasing living standards.</p> <p>Credit any other relevant points.</p>			

Question	Answer			Mark	Assessment objective
	Level 3	7-8 Marks	<p>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples / diagrams throughout the answer.</p> <p>The answer makes strong theoretical points but also applies effectively to the context of an economy and may include:</p> <p>UK needs to trade to acquire the range of primary commodities necessary to maintain living standards.</p> <p>Free trade will allow the UK to specialise in high value added services which maximise living standards; global markets are necessary to maximise the benefits of this.</p> <p>Free trade allows the UK to benefit from low prices of goods from lower wage economies in Asia, increasing living standards.</p> <p>The indicative content makes reference to the UK economy, however, reference to other economies will be credited.</p> <p>Credit any other relevant points.</p>		

Question	Answer			Mark	Assessment objectives
7 (b)	Discuss whether a sharp appreciation in the pound will benefit the UK economy.			12	AO1 3 AO2 3 AO3 2 AO4 4
	Level 1	1-4 marks	<p>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</p> <p>Candidate asserts that a rise in the exchange rate will decrease AD and cost jobs.</p> <p>Candidate draws an AD / AS diagram to support this, but it is not explained. Assertion that a rise in the exchange rate will destroy jobs and growth, worsen the trade balance but put downward pressure on inflation with an unexplained diagram will all fall into this level.</p>		
	Level 2	5-8 marks	<p>Basic economic theory and principles are explained / applied / analysed. The candidate engages with the issue being considered using appropriate examples / diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points.</p> <p>Not beneficial:</p> <ul style="list-style-type: none"> • Cheaper imports and more expensive exports should lead to a rise in the value of imports and a fall in the value of exports. As a result the trade balance should worsen. • AD is likely to fall as UK exporters have less demand. Hence jobs may be lost and GDP may fall, creating negative multiplier effects. Well-integrated AD / AS diagram may be used here. • Worse trade balance may reduce AD, hence damaging jobs and growth within the economy therefore leading to a deterioration in the government's finances by reducing the tax yield and increasing spending on social protection. 		

Question	Answer		Mark	Assessment objectives
		<ul style="list-style-type: none"> • Lower import prices increase imports, damaging home producers in terms of employment / profits / output etc. • Buying assets in the UK is more expensive and thus FDI may fall. <p>Beneficial:</p> <ul style="list-style-type: none"> • Falling AD may reduce inflationary pressure if the UK is close to capacity. • Falling import prices may also feed into lower inflation. • Higher spending power of UK consumers may increase living standards. • Cheaper import prices may support job creation in some sectors, especially since the UK is a net importer. • Stronger £ can offset the impact of rising global commodity prices. <p>Answers which look narrowly at falling AD only will not be any higher than level 2. Top of level response will be likely to have 3-4 main ideas developed.</p> <p>Answers using throw-away evaluation only will be in this level (e.g. it depends on the size of the change, without then developing that idea), as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.</p> <p>Credit any other relevant points.</p>		
	Level 3	<p>9-12 Marks</p> <p>9-10 marks. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples / diagrams.</p> <p>11-12 marks. In context answer, evaluates fully. Candidate evaluates the argument fully (i.e. <i>qualifies</i> the benefits) and probably makes a judgment about whether or an improvement in the trade balance will be beneficial.</p>		

Question	Answer			Mark	Assessment objectives
			<p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include:</p> <ul style="list-style-type: none"> • If the demand for imports is price inelastic, then the value of imports might actually fall, which is quite likely for commodity imports such as oil etc. • Likewise, exports might not fall if export markets are buoyant etc. • Given that UK already has significant trade deficit, the import effects may outweigh the export effects. • Focus on the idea of ‘sharp’ appreciation • Given the UK’s net import position, it is far from inevitable that the trade balance will deteriorate • May depend on which currencies the UK appreciates against (but this needs to be supported with some sort of meaningful analysis – an understanding of which currencies are more likely to matter to the UK and why; Eurozone, major trading partner. US major trading partner, commodities priced in \$. China, growing trading partner, but not that significant yet etc. • May depend on how long it is believed the exchange rate will stay high. <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have developed evaluation.</p> <p>Credit any other relevant points.</p>		