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# A level

# Economics

ECON4/Unit 4  
Mark scheme

The National and International Economy

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2140  
June 2015

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Version 1.0 Final

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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](http://aqa.org.uk)

**AQA ADVANCED LEVEL (A2) ECONOMICS  
LEVELS OF RESPONSE MARK SCHEME  
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

<b>A2 LEVELS OF RESPONSE</b>	<b>AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology</b>	<b>AO2 APPLICATION of theories, concepts and terminology</b>	<b>AO3 ANALYSIS of economic problems and issues</b>	<b>AO4 EVALUATION of economic arguments and evidence, making informed judgements</b>
<p><b>Level 5</b> 22-25 marks (mid-point 24)</p> <p><b>Good analysis and good evaluation</b></p>	<p>Good throughout the answer with few errors and weaknesses</p>	<p>Good application to issues</p> <p>Where appropriate, good use of data to support answer</p>	<p>Relevant and precise with a clear and logical chain of reasoning</p> <p>Good awareness of the inter-relatedness of economic issues</p>	<p>Good with a clear final judgement</p>
<p><b>Level 4</b> 17-21 marks (mid-point 19)</p> <p><b>Good analysis but limited evaluation</b></p> <p><b>OR</b></p> <p><b>Reasonable analysis and reasonable evaluation</b></p>	<p>Good throughout the answer with few errors and weaknesses</p> <p>Good throughout much of the answer with few errors and weaknesses</p>	<p>Good application to issues</p> <p>Where appropriate, good use of data to support answer</p> <p>Some good application to issues</p> <p>Where appropriate, some good use of data to support answer</p>	<p>Relevant and precise with a clear and logical chain of reasoning</p> <p>Good awareness of the inter-relatedness of economic issues</p> <p>Largely relevant and well organised with reasonable logic and coherence</p> <p>Some awareness of the inter-relatedness of economic issues</p>	<p>Limited but showing some appreciation of alternative points of view</p> <p>Reasonable, showing an appreciation of alternative points of view</p>
<p><b>Level 3</b> 10-16 marks (mid-point 13)</p> <p><b>Reasonable, including some correct analysis but very limited evaluation</b></p>	<p>Satisfactory but some weaknesses shown</p>	<p>Reasonable application to issues</p> <p>Where appropriate, reasonable use of data to support answer</p>	<p>Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present</p> <p>Quite well organised with some logical development</p>	<p>Superficial, perhaps with some attempt to consider both sides of the issue(s)</p>
<p><b>Level 2</b> 4-9 marks (mid-point 7)</p> <p><b>Weak with some understanding</b></p>	<p>Limited and some errors are made</p>	<p>Partial application to issues with some errors</p> <p>Where appropriate, limited use of data to support answer</p>	<p>Partial but confused at times, lacking focus and development</p> <p>Limited logic and coherence</p>	<p>A very basic and simplistic attempt is made which is unsupported by analysis</p>
<p><b>Level 1</b> 0-3 marks (mid-point 2)</p> <p><b>Very weak</b></p>	<p>Weak with a number of errors</p>	<p>Little, if any, application to issues</p> <p>Where appropriate, no use of data to support answer</p>	<p>Poor and lacking clarity and focus</p>	<p>No relevant evaluation</p>

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**THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME**

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

**Synoptic Assessment**

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

**QUALITY OF WRITTEN COMMUNICATION**

**Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 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).

**1 THE GLOBAL CONTEXT****Total for this Context: 40 marks**

- 01** Using the data in **Extract A**, calculate the number of people in the US labour force in 2013, if the number of people unemployed was 12 million in 2013, **and** identify **one** significant point of comparison between the macroeconomic performance of the US and that of the UK over the period shown.

**[5 marks]****The calculation**

$$(100/7.5) * 12 \text{ million} = 160 \text{ million}$$

For the correct answer (160 million people). The 'unit', (million) <b>must</b> be shown. Do not penalise if 'people' is not stated.	<b>3 marks</b>
For the correct answer <b>without</b> a unit shown	<b>2 marks</b>
For showing the correct method but arriving at a wrong number, ie wrong number $(100/7.5) * 12 \text{ million} = \text{any other figure than } 160 \text{ million}$	<b>1 mark</b>

**Identifying one significant feature of the period specified**

For identifying a significant comparison ( <b>1 mark</b> ) and providing relevant and accurate supporting data ( <b>1 mark</b> ) with units ( <b>1 mark</b> ).	<b>Up to 3 marks</b>
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	<b>0 marks</b>

**Examples of significant comparisons include:**

- The rate of growth in the US is always (including forecasts) higher than the UK's growth rate in all years: for example, 2011 US 1.8% and UK 1.1% and 2013 US 3.0% and UK 1.5% (forecast).
- Unemployment started higher in the US than the UK in percentage terms. However, it is forecast to fall to a lower rate than the UK by the end. (U.S. starting at 8.9% and UK 8.0% in 2011 with US forecast to fall to 7.0% compared to UK's 7.1% in 2014).
- Inflation in the US is always (including forecasts) lower than the UK's inflation rate in all years for example 2011 US 3.2% UK 4.5% and 2013 US 1.5% and UK 2.6%

**MAXIMUM FOR PART 01: 5 MARKS**

**02** **Extract B** (lines 1–3) states: ‘Some economists are predicting that the US will play a leading role in driving world economic growth and, as the country which is the UK’s main export partner, this may provide an injection into the UK’s circular flow of income’.

Explain the term ‘circular flow of income’ **and** analyse how economic growth in the US may lead to increased national income in the UK.

**[10 marks]**

**Explanation**

For a relevant explanation of circular flow: eg A model which demonstrates the flow of money between households and firms <b>(2 marks)</b> and going on to explain the role of injections/leakages <b>(2 marks)</b> or linking the circular flow to measures of national income/output/expenditure <b>(2 marks)</b>	<b>Up to 4 marks</b>
For a diagram of the circular flow	<b>Up to 2 marks – these can be given in addition to the diagram marks in the analysis</b>

**Maximum of 4 marks for the explanation**

**Analysis - award 1 mark for each step in a logical chain of reasoning**

<b>For example:</b> Increased growth in the US could lead to rising disposable income of US citizens <b>(1 mark)</b> who may increase their spending <b>(1 mark)</b> this may be on UK’s goods or services <b>(1 mark)</b> which would lead to increased export earnings for the UK <b>(1 mark)</b> which would increase the output of UK firms <b>(1 mark)</b> and therefore AD <b>(1 mark)</b> of which exports are a component <b>(1 mark)</b> which therefore increases the national income of the UK <b>(1 mark)</b> .	<b>Up to 8 marks</b>
Use of appropriate diagrams, eg a diagram showing increased AD on an AD/AS diagram or increased FDI from overseas increasing both AD and AS	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks.</b>  <b>These marks can be given in addition to analysis marks.</b>
Reference to the UK or other economies.	<b>1 mark per reference up to a maximum of 2 marks, included as part of, but not in addition to the analysis.</b>

**MAXIMUM FOR PART 02: 10 MARKS**

**03** **Extract C** (lines 7–9) states: ‘These policies, however, have created greater divides in terms of the ‘haves’ and ‘have nots’ which may have consequences for the UK’s macroeconomic performance.’

Using the data and your knowledge of economics, assess the importance for UK macroeconomic performance of increasing income inequality, **both** domestically **and** in other economies.

**[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Candidates who do not address both parts of the question **should be limited to 16 marks**. Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• The meaning of inequality</li> <li>• Differences between income and wealth</li> <li>• UK economic performance measures.</li> </ul>
<b>Developing the response to the question (Application)</b>	Drawing on the information in the extracts: <ul style="list-style-type: none"> <li>• the rich having a lower MPC and a higher MPS and if incomes of the poor increased consumption would increase <b>(Extract B)</b></li> <li>• US economic growth and US being the UK’s main export partner <b>(Extract B)</b></li> <li>• Increased income inequality due to reduced union power <b>(Extract C)</b></li> <li>• trickle-down effects improving living standards <b>(Extract C)</b></li> <li>• promoting incentives and wealth generation and focusing on financial services <b>(Extract C)</b></li> <li>• economic progress often depends on saving and innovation <b>(Extract C)</b></li> <li>• UK financial services making short term with profits and lacking long term investment <b>(Extract C)</b></li> </ul>

<b>Analysis</b>	<p>Arguments how inequality impacts on UK performance:</p> <ul style="list-style-type: none"> <li>• impacts on consumption and AD</li> <li>• US as the UK's main export market + other export markets</li> <li>• how supply side reforms have affected UK macro-performance</li> <li>• UK's comparative advantage in financial services</li> <li>• increased savings linking to investment</li> <li>• policies impacting on consumption and investment and different income groups</li> <li>• entrepreneurship, "wealth generation" and the free market.</li> <li>• equity vs efficiency arguments</li> <li>• impact on FDI</li> <li>• asset bubbles</li> <li>• UK banking system and the pursuit of long term investment</li> </ul> <p>Analysis of each of the UK's four main macro-economic goals or other social goals or current government targets could be included.</p>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Does inequality in other countries really impact on the UK economy?</li> <li>• The relative amount of inequality</li> <li>• Does the marginal propensity to consume have such a big impact or are there more important considerations (does increased saving by the "top 1%" have such an impact?)</li> <li>• The importance of exports and FDI in the economy.</li> <li>• Other considerations such as domestic policy or financial crisis creating bigger impacts.</li> <li>• The relative importance of each macroeconomic performance indicator</li> <li>• Whether Government intervention is necessary for the improvement of the economy and if so in what way?</li> </ul>
<b>Also give credit for:</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 03: 25 MARKS**



**2 THE EUROPEAN UNION CONTEXT****Total for this Context: 40 marks**

**04** Using the data in **Extract D**, calculate the value of debt in Ireland in 2012, to the nearest billion euros, if the GDP of the economy was €164bn in 2012, **and** identify **one** significant feature of the fiscal balance data over the period shown.

**[5 marks]****Calculation****164bn \* 1.17 = 191.88bn therefore €192bn**

For the correct answer (€192 bn) The 'unit', (€bn) <b>must</b> be shown.	<b>3 marks</b>
For the correct answer <b>without</b> a unit shown	<b>2 marks</b>
Any other answer between €190bn and €194bn (inclusive) irrespective of decimal places, <b>with</b> unit shown.	<b>2 marks</b>
Any other answer between €190bn and €194bn (inclusive) irrespective of decimal places, <b>without</b> unit shown.	<b>1 mark</b>
For showing the correct method but arriving at a wrong number, ie $\frac{164\text{bn} * 1.17}{100} = \text{wrong number.}$	<b>1 mark</b>

**Identify one significant feature**

For identifying a significant feature ( <b>1 mark</b> ) and providing relevant and accurate supporting data ( <b>1 mark</b> ) with units ( <b>1 mark</b> ).	<b>Up to 3 marks</b>
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	<b>0 marks</b>

**Significant features include:**

- Germany is the only economy to record a positive budget balance (surplus) over the whole time period. In 2012 they had a balance of +0.2% of GDP
- Ireland has the biggest range of fiscal balances over the time period with a deficit of -7.7% of GDP in 2012 and -4.5% of GDP in 2014 (a difference of 3.2%)
- the UK's fiscal deficit was always greater than that of the Eurozone. When they were closest in 2014 the Eurozone was at -2.6% of GDP and the UK at -6.4% of GDP.

**MAXIMUM FOR PART 04: 5 MARKS**

**05** **Extract E** (lines 8–9) states: ‘There’s a lack of concern about international competitiveness in France.’

Explain what is meant by ‘international competitiveness’ **and** analyse how the international competitiveness of France might be improved.

**[10 marks]**

### Explanation

Definition: As there is no single definition for this, any suitable definitions can be credited: eg The ability of an economy to sell goods and services in or to other countries **(2 marks)** and linking to the theory comparative advantage **(2 marks)** or in terms of lower costs of production or price/non price competitiveness **(2 marks)**

**Up to 4 marks**

**Maximum of 4 marks for the explanation**

### Analysis - award 1 mark for each logical link in the chain of reasoning

<p><b>For example:</b> A fall in corporation tax <b>(1 mark)</b> may reduce a firms costs <b>(1 mark)</b> therefore the firms expected profits may rise <b>(1 mark)</b> and improve confidence <b>(1 mark)</b> which may be a catalyst for investment <b>(1 mark)</b> which may increase spending on both human capital and physical capital <b>(1 mark)</b> which may lead to productivity advancements <b>(1 mark)</b> allowing firms to sell goods for cheaper on international markets <b>(1 mark)</b>.</p>	<p><b>Up to 8 marks</b></p>
<p>Use of appropriate diagrams, eg AD/AS</p>	<p><b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks.</b></p> <p><b>These marks can be in addition to analysis marks</b></p>
<p>Reference to the UK or other economies.</p>	<p><b>1 mark per reference up to a maximum of 2 marks, included as part of, but not in addition, to the analysis</b></p>

**MAXIMUM FOR PART 05: 10 MARKS**

**06** **Extract F** (lines 14–18) states: ‘The EU introduced the Stability and Growth Pact ...in order to prevent individual economies from creating instability across the EU. However, EU member countries have struggled to keep to the pact, with only four member countries not breaking the rules’.

Using the data and your knowledge of economics, evaluate the likely impact on the UK economy of a number of EU countries attempting to reduce their public sector debt at the same time.

**[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• The nature of public sector debt</li> <li>• The relationship between deficits and debt</li> <li>• The EU and fiscal rules.</li> </ul>
<b>Developing the response to the question (Application)</b>	<p>Drawing on information in the extracts:</p> <ul style="list-style-type: none"> <li>• Eurozone recovery slowing (<b>Extract B</b>)</li> <li>• Taxation affecting investment (<b>Extract B</b>)</li> <li>• Ireland creating conditions to increase lending (<b>Extract C</b>)</li> <li>• Crowding out (<b>Extract C</b>)</li> <li>• High levels of public debt (<b>Extract C</b>)</li> <li>• Significant trade partners (<b>Extract C</b>)</li> </ul>

<b>Analysis</b>	<p>Arguments as to how reduced public sector debt in other economies may effect UK:</p> <ul style="list-style-type: none"> <li>• methods of reducing public sector debt</li> <li>• equity and different income groups</li> <li>• impact on UK exports/FDI</li> <li>• impact on UK growth (short-run and long-run)</li> <li>• impact on the balance of payments on both current and capital accounts.</li> <li>• impact on employment/unemployment</li> <li>• impact on inflation</li> <li>• impact on investment and confidence</li> <li>• impact on ratings agencies and bond yields</li> <li>• crowding in/crowding out arguments</li> <li>• standards of living</li> <li>• Keynesian multiplier</li> </ul> <p>Consideration of how reduced public sector debt domestically is also worthy of credit.</p>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• How ‘impact’ is measured and the importance of various macroeconomic performance indicators</li> <li>• The differences between the relationships with each nation ie countries which provide us with net exports possibly having a bigger impact</li> <li>• Consideration of ‘at the same time’ as being with each other or with the UK</li> <li>• The rate at which debts are being reduced</li> <li>• Consideration of whether Government debt is in fact a problem</li> <li>• Consideration of FDI and how this might be affected</li> <li>• Will the private sector actually have more freedom to invest both domestically and abroad with reduced Government intervention</li> <li>• Whether debt reduction causes crowding in or crowding out and the effects on AD.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 06: 25 MARKS**

**SECTION B****Essay 1****Total for this essay: 40 marks**

**07** With the help of **either** a numerical example **or** a diagram, explain how the theory of comparative advantage demonstrates that countries can benefit from international trade

**[15 marks]****For defining/explaining**

- Comparative advantage
- The difference between absolute advantage and comparative advantage.
- International trade.

**Up to 2 marks per definition or explanation to a maximum of 4 marks**

**Award 1 mark for each step in a logical chain of reasoning**

**For example:** As countries specialise (**1 mark**) in the provision of goods and services in which they hold a natural or assumed advantage (**1 mark**) either due to factor endowment (**1 mark**) or the development of specific advantages due to cost reasons over time (**1 mark**) due to having a lower opportunity cost (**1 mark**) then it would be mutually beneficial for countries (**1 mark**) to exchange the goods or services they have specialised in, with another country (**1 mark**) as long as they can establish certain terms of trade (**1 mark**) which will therefore benefit both countries in terms of increased consumption possibilities (**1 mark**) which may allow households to consume an increased amount of goods and services (**1 mark**) which may improve living standards (**1 mark**).

**Up to 15 marks**

For the numerical example it is expected that the candidate is likely to make use of at least 2 'tables' where students initially demonstrates 2 economies where either the two economies are initially producing both goods or already specialising. The other expected table would demonstrate that trade was mutually beneficial in terms of increased availability of both goods.

**Up to 2 marks per numerical example up to a maximum of 4 marks.**

Use of diagrams to help support explanations, eg production possibility frontiers or consumption possibilities.

**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**

Relevant real world examples and/or relevant reference to the UK and/or other economies.

**1 mark per reference to a maximum of 2 marks**

**MAXIMUM FOR PART 07: 15 MARKS**

**08** Evaluate the view that further enlargement of the European Union would be beneficial for the UK economy.

**[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• The nature of EU single market</li> <li>• Origins of the EU</li> <li>• How ‘beneficial’ may be measured in terms of macroeconomic performance.</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<ul style="list-style-type: none"> <li>• Current EU policies regarding freedom of movement of labour/capital/trade etc</li> <li>• How more EU members may affect growth</li> <li>• How more EU members may affect inflation</li> <li>• How more EU members may affect the balance of payments</li> <li>• How more EU members may affect unemployment</li> <li>• Trade diversion/Trade creation.</li> <li>• Comparative advantage</li> <li>• Extended overseas markets and economies of scale</li> <li>• The impact on inward and outward FDI</li> <li>• The relative size of the economies of the possible entrants.</li> <li>• The effects on other EU members</li> <li>• The implications of immigration</li> <li>• The possibility that these countries may enter the Eurozone.</li> <li>• Short–run and long–run considerations</li> <li>• The UK’s current macro–economic performance in context.</li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• The importance of which countries join and when?</li> <li>• The relative size of say the agricultural sector of the new markets may affect the UK's proportion of CAP</li> <li>• The 'net contributor' argument in terms of EU funding.</li> <li>• Scope for FDI (both inward and outward)</li> <li>• The relative importance of EU institutions to the UK.</li> <li>• The relative effects on each macroeconomic goal being dependant on the UK's position on the trade cycle</li> <li>• The importance of stability</li> <li>• Important current political considerations</li> <li>• Immigration depending on the net migration size</li> <li>• Economic and social impact of further integration.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for:</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 08: 25 MARKS**

## Essay 2

Total for this Essay: 40 marks

<b>09</b>	Explain how the process of quantitative easing in the UK might increase the rate of inflation.	<b>[15 marks]</b>
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<b>For defining/explaining:</b>	
<ul style="list-style-type: none"> <li>• Quantitative easing.</li> <li>• Inflation.</li> <li>• Monetary policy (along with the other instruments).</li> </ul>	<b>Up to 2 marks per definition or explanation to a maximum of 4 marks</b>
<b>Award 1 mark for each step in a logical chain of reasoning</b>	
<p><b>For example:</b> The Bank of England (in agreement with the Treasury) by crediting its own account <b>(1 mark)</b> expanding the bank's balance sheet <b>(1 mark)</b> increasing the money supply <b>(1 mark)</b>. It then uses this additional credit to purchase previously issued government assets and/or other corporate assets <b>(1 mark)</b> such as bonds <b>(1 mark)</b> from financial institutions. This increases the amount of liquid assets <b>(1 mark)</b> in the banking system. As financial institutions seek profitable returns <b>(1 mark)</b> they increase lending <b>(1 mark)</b> by either reducing lending rates <b>(1 mark)</b> or increasing the availability of credit <b>(1 mark)</b> which may increase consumption <b>(1 mark)</b> and as consumption is a component of aggregate demand <b>(1 mark)</b> this may push the economy towards its productive capacity <b>(1 mark)</b> causing demand pull inflation <b>(1 mark)</b>.</p>	<b>Up to 15 marks</b>
Use of diagrams to help support explanations, eg increased aggregate demand, marginal efficiency of capital (although this is not in the specification) or diagrams linking the money supply and interest rates.	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.</b>
Relevant real world examples and/or relevant reference to the UK and/or other economies	<b>1 mark per reference to a maximum of 2 marks</b>

**MAXIMUM FOR PART 09: 15 MARKS**



**10** To what extent do you agree that maintaining the UK’s target rate of inflation of 2% should be the top priority of UK macroeconomic policy? Justify your answer.

**[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Inflation and the types of inflation</li> <li>• The role of the Bank of England</li> <li>• Explanation of the target rate of inflation.</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<ul style="list-style-type: none"> <li>• Why the UK has inflation targets</li> <li>• The importance of the other macroeconomic goals</li> <li>• How the independent Bank of England has control of the tools to control inflation</li> <li>• The importance of low inflation greasing the wheels of the economy.</li> <li>• Limitations to the use of policy tools</li> <li>• The importance of inflationary expectations</li> <li>• The effects of deflation</li> <li>• Trade-offs in macroeconomic goals</li> <li>• How inflation can affect growth</li> <li>• How inflation can affect the Balance of payments</li> <li>• How inflation can affect unemployment or vice versa</li> <li>• How focusing on other goals may impact on inflation</li> <li>• How the prioritisation may change</li> <li>• How other policies affect inflation</li> <li>• The role of supply side policy in controlling inflation</li> <li>• Short-run vs long-run considerations.</li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Whether control of inflation depends on where the economy is operating in the trade cycle</li> <li>• Whether the UK has the ability to control cost push inflation to the same extent as demand pull</li> <li>• How ‘independent’ is the Bank of England in setting policy</li> <li>• Historical perspectives compared to current economic policies.</li> <li>• The prospects of inflation as opposed to deflation</li> <li>• The effects on the UK when the UK went outside of the target in the past</li> <li>• The relative importance of inflation compared to other goals</li> <li>• Is there an inevitable trade off with unemployment?</li> <li>• Short–run vs long–run considerations.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for:</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 10: 25 MARKS**

**Essay 3**

**Total for this Essay: 40 marks**

<b>11</b>	Explain why economies may go from periods of economic growth to recession.	<b>[15 marks]</b>
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<p><b>For:</b>  <b>Defining/explaining:</b></p> <ul style="list-style-type: none"> <li>• Economic growth (short-run or long-run)</li> <li>• Recession</li> <li>• The trade cycle</li> </ul>	<p><b>Up to 2 marks per definition or explanation to a maximum of 4 marks</b></p>
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**Award 1 mark for each step in a logical link chain of reasoning**

<p><b>For example:</b> An external shock (<b>1 mark</b>) such as the banking crisis which began in 2007 (<b>1 mark for examples</b>) reduced the ability of the financial sector to lend (<b>1 mark</b>) which caused individuals difficulty in gaining credit (<b>1 mark</b>) and therefore causing consumption to fall (<b>1 mark</b>) as consumption is a large component of aggregate demand (<b>1 mark</b>) as AD falls the real national output of the economy falls (<b>1 mark</b>) which could cause a negative multiplier effect (<b>1 mark</b>) and, if real national output falls for 2 successive quarters this is a recession (<b>1 mark - but do not reward if already defined earlier</b>).</p>	<p><b>Up to 15 marks</b></p>
<p>Use of diagrams to help support explanations, eg AD/AS or the trade cycle.</p>	<p><b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks</b></p>
<p>Relevant real world examples and/or relevant reference to the UK and/or other economies.</p>	<p><b>1 mark per reference to a maximum of 2 marks</b></p>

**MAXIMUM FOR PART 11: 15 MARKS**

**12** Evaluate the view that living standards must be rising in economies which are experiencing economic growth.

**[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

There should be some consideration, either explicitly, or implicitly, of the term ‘must’ in order for the candidate to reach level 4.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Economic growth</li> <li>• Living standards/the quality of life</li> <li>• Measurements of living standards.</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<ul style="list-style-type: none"> <li>• Measuring economic growth</li> <li>• Correlations between growing real GDP per capita and living standards</li> <li>• The change in real GDP per capita as a monetary indicator and the suitability of this for use in judging living standards</li> <li>• Long-run and short-run growth considerations</li> <li>• Inaccuracy and variability in growth rates</li> <li>• HDI/Legatum prosperity index/Misery index/Happy planet index or any other measurement of living standards</li> <li>• Regional differences within countries</li> <li>• Possibilities of increased consumption possibilities</li> <li>• Provision of merit goods/public goods</li> <li>• Pollution and the environment</li> <li>• Inequality issues within countries.</li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• The sustainability of the growth and consideration of how fast economies are growing</li> <li>• Discussion of the prioritisation of the various factors which make up living standards</li> <li>• Consideration of trade–offs involved in growth</li> <li>• The ability of individuals to move between countries in pursuit of better living standards</li> <li>• Consideration of different economies experiences</li> <li>• Differences between different economic perspectives on welfare provision between different countries and over time</li> <li>• Considering that the judgement of standards of living is highly subjective and different individuals have different opinions on living standards</li> <li>• Exogenous factors beyond the control of the country may impact on living standards for example global warming.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 12: 25 MARKS**