**General Certificate of Education (A-level)
January 2013**

Economics **ECON2**

(Specification 2140)

Unit 2: The National Economy

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner 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 examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' 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.

AQA Advanced Subsidiary Economics

January 2013   **ECON2/1**

Section A: Objective Test (ECON 2/1)

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

Key List

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

Advanced Subsidiary Economics

January 2013   **ECON2/2**

Mark Scheme

Section B: Data Response

General Instructions

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

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

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

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

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

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

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

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

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 judgments about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

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

Candidates will be assessed according to their ability to:

  • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear

  • select and use a form and style of writing appropriate to purpose and complex subject matter

  • organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

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

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

01	Define the term the 'economic cycle' (**Extract B**, line 11).	*(5 marks)*

For an acceptable definition such as: • fluctuations in economic activity/output/**real** GDP/**real** national income • fluctuations in employment or unemployment • when economic growth (or actual growth) fluctuates around the trend (or underlying) rate of economic growth	**5 marks**
Full marks should be awarded to a candidate who demonstrates a clear understanding of the term '**the economic cycle**' even if the definition is not exactly the same as the acceptable examples quoted above.	

If the definition is incomplete, marks may be broken down, for example, as follows:

Fluctuations in aggregate demand OR fluctuations in GDP ('real' not mentioned).	**4 marks**
For an accurate diagram that illustrates the economic cycle and labels at least 2 phases of the cycle. Axes and curves must be correctly labelled for 2 marks, each error or omission reduces the mark available by 1 mark.	**4 marks**
For an accurate diagram that illustrates the economic cycle but doesn't label the phases of the cycle. Axes and curves must be correctly labelled.	**2 marks**
When the economy fluctuates around the trend rate of economic growth.	**2 marks**
For describing the characteristics of one or more phases of the economic cycle.	**2 marks**
For stating that the economic cycle is sometimes known as the trade cycle.	**1 mark**
For stating that the economic cycle is characterised by negative and positive output gaps.	**1 mark for each**
For defining a positive or a negative output gap.	**1 mark per definition - up to a maximum of 2 marks**
For just stating **one** or more examples of phases in the cycle such as: boom, recession, slump, recovery. Allow alternatives such as 'downturn'	**1 mark per example - up to a maximum of 2 marks for examples**

Maximum of 4 marks if the definition is incomplete

MAXIMUM FOR PART 01: 5 MARKS

| 02 | Using **Extract A**, identify **two** significant points of comparison between UK real GDP and productivity over the period shown. *(8 marks)* |

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

Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified.	**4 marks**
Identifies a significant point of comparison. Makes use of the data to support the point of comparison identified. However, if the unit of measurement is used/applied inaccurately **and/or** the dates aren't quoted or are inaccurate.	**3 marks**
Identifies a significant point of comparison. No correct use of the data to support the feature identified.	**2 marks**
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the comparison identified.	**1 mark**

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

The valid points include:

- At the start of the period, real GDP (index of 102) was higher than at the end of the period (index of 99.9). Productivity was also higher at the start of the period (index of 101.5) than at the end of the period (index of 100.8)

- The lowest index of real GDP was in the 3rd quarter of 2009 (97.3) whereas productivity was at its lowest in the 2nd quarter of 2009 (99.2)

- The highest index of real GDP was in the 1st quarter of 2008 (104) whereas productivity was at its highest in the 2nd quarter of 2008 (102.6)

- Between 2007 Q1 and 2008 Q4 the index of real GDP was above the index of productivity (e.g. in 2008 Q1 the index of GDP was 104 but the index of productivity was 101.7) whereas between 2009 Q1 and Q1 2011 the index of productivity was below the index of GDP (eg in 2009 Q4 the index of GDP was 97.8 but the index of productivity was 100)

  If a candidate only compares the index of real GDP and index of productivity between 2007 Q1 and 2008 Q4 **OR** only compares the two variables between 2008 Q4 and 2011 Q1, treat this as a feature of the data and award a maximum of 1 mark.

  However, do NOT allow statements such as: 'between 2007 Q1 and 2008 Q4 real GDP was above productivity whereas between 2009 Q1 productivity was below real GDP'.

- The range for real GDP is greater than the range for productivity. The index of real GDP ranges from 104 to 97.3 (6.7 index points) whereas the index of productivity ranges from 102.6 to 99.2 (3.4 index points). Allow 'more changeable' or 'more volatile' or 'fluctuates more'.

- The two indices appear to be positively correlated for most of the period. For example, when real GDP falls from 103.7 index points to 97.5 index points between 2008 Q2 and 2009 Q2 the index of productivity falls from 102.6 to 99.2

For this particular question, units of measurement do not have to be stated but, if an incorrect unit of measurement is quoted, eg £102.6, 4 marks for the comparison must not be given. Use the grid above to award the mark.

Only allow points of comparison that provide an overview of the whole of the period shown, eg do NOT allow comparisons such as 'both real GDP and productivity fell between 2008 Q2 and 2009 Q2'. However, figures that are used to support a valid comparison that takes into account the whole of the data series can be taken from just part of the data series.

The figures quoted above are approximations and the candidate should be allowed a margin of plus or minus 0.5 without penalty.

MAXIMUM FOR PART 02: 8 MARKS

03	**Extract C** (line 11) suggests that 'When the recovery comes, it is likely to be accompanied by an increase in investment'. Explain why a sustained recovery in an economy is likely to be accompanied by an increase in investment. *(12 marks)*

Candidates can be rewarded for explaining why a rise in investment might help to generate a sustained recovery in the economy **and/or** if they explain why a recovery in the economy is likely to bring about an increase in investment.

For a candidate who provides a relevant definition, eg investment, recovery, accelerator. Do not award any marks for a definition of 'the economic cycle'.	**1 mark per definition up to a maximum of 2 marks**

Award 2 marks for each logical link in a chain of reasoning. Marks can be awarded from more than one of the rows below.	
In a recovery, aggregate demand increases **(2 marks)**, firms will respond to the increase in demand by increasing output **(2 marks),** some firms will be operating close to capacity **(2 marks)** and they will need to invest if they are to be able to meet the growing demand **(2 marks)**. This is the essence of the accelerator theory **(2 marks)**. Since the capital-output ratio is greater than 1, the increase in investment may be greater than the rise in aggregate demand **(2 marks)**. (Reference to the capital-output ratio is not expected since it is not part of the AS Specification, but credit should be given if the concept is used appropriately).	**Up to 12 marks**
The recovery in the economy is usually accompanied by growing consumer and producer confidence and the impact of expectations on investment.	**Up to 12 marks**
In a recovery, company profits are likely to rise and significance of rising profits for investment.	**Up to 12 marks**
Any other reasonable discussion that explains why economic recovery is likely to result in rising investment, eg the period of recovery might be accompanied by easy credit and low interest rates.	**Up to 12 marks**
For explaining why an increase in investment might help to generate a sustained recovery in the economy, including the multiplier effect.	**Up to 12 marks**
For a candidate who explains why a recovery in the economy might **NOT** be accompanied by increased investment, eg in the early stages of the recovery, there might be lots of spare capacity, confidence might be fragile and the profits of business may be low.	**Up to 4 marks**

Award up to **4 additional marks** for the use of relevant diagrams, eg an AD/AS diagram that illustrates why a rise in investment will lead to a recovery in the economy or a diagram showing the relationship between interest rates and investment. (Such a diagram should be rewarded even though it is not included in the Specification) A diagram should only be rewarded if it is related to a valid explanation.	**Up to 4 marks per diagram up to a maximum of 4 marks** **Use the grid below when awarding marks for diagrams**

Do NOT reward statements that confuse saving and investment, eg a statement such as 'In a recovery consumers' incomes will rise and so they will invest more' is not worth credit.

Breakdown of the marks for the diagram:

Axes labelled (allow on the vertical axis: Inflation or PL or £ but **not** Price or P; allow on the horizontal axis: Real GDP, National Output, Output or Y but **not** Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and level of real GDP (PL1 Y1).	**1 mark**
For showing a valid shift in the AD and/or AS curves	**2 marks**
Dotted lines and the associated labelling showing the new level of real GDP (PL2 Y2).	**1 mark**

If a candidate draws a valid diagram that is not an AD/AS diagram, a similar approach to awarding the marks should be adopted, ie

For setting up the diagram (labelling the axes, the curves and the initial equilibrium).	**1 mark**
For a valid shift	**2 marks**
For showing and labelling the new equilibrium	**1 mark**

A simple diagram may only be worth 2 marks, eg if none of the curves is shifted.

MAXIMUM FOR PART 03: 12 MARKS

| **04** | **Extract C** (lines 5 – 8) suggests that as the pace of the recovery quickens a further increase in inflation is inevitable. Using the data and your economic knowledge, discuss the view that a sustained recovery in the UK economy will inevitably lead to an increase in inflation. *(25 marks)* |

Extracts B and **C** provide some help to candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will analyse the causes of inflation and consider why a recovery in the economy might lead to both demand-pull and cost-push inflationary pressures. Such candidates will also consider circumstances in which a sustained recovery might not be accompanied by an increase in inflation. This might be linked, for example, to the Government's policy package.

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

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

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

Introduction	• define sustained recovery and inflation • recovery as the phase in the cycle that follows a recession (or slump) • the main characteristics of a recovery • distinguish between demand-pull and cost-push inflation • policies to support recovery and/or control inflation.
Developing the response to the question: **(Application)**	• referring to the extracts that suggest that, even in the early stages, the current recovery has been accompanied by rising inflation • drawing on the reference, in **Extract B**, to the 'NICE' decade to suggest that even a period of sustained growth need not be accompanied by rising inflation • drawing on the reference, in **Extract C**, to the view that the rise in inflation might be temporary • using other evidence from the extracts to support arguments presented • using their knowledge of recent, or past, developments in the UK economy, the importance, or otherwise, of world commodity prices and the exchange rate for inflation, and the extent to which this is linked to recovery in the domestic economy.

Developing the response to the question: (Analysis)	• analysis of the causes of demand-pull inflation and the demand-pull inflationary process • analysis of the causes of cost-push inflation and the cost-push inflationary process • use of AD/AS diagrams to illustrate the causes of inflation • recovery as a period when aggregate demand is rising and the significance for inflation • recovery as a period when the amount of spare capacity is falling and the significance for inflation • recovery as a period when the labour market is tightening and the significance for inflation • the impact of a sustained recovery on other factor markets, factor prices and hence inflation • the importance, or otherwise, of world commodity prices and the exchange rate for inflation and the extent to which this is linked to recovery in the domestic economy • expectations, recovery and inflation • the extent to which the recovery is accompanied by supply-side improvements or supply-side problems and the significance for inflation • the nature of Government policies used to support recovery and their implications for inflation.
Evaluation	• use of the data from **Extracts B** and **C** to support arguments presented • use of own knowledge of developments in the UK economy to support or cast doubt on the views presented • the presentation of arguments for and against a recovery inevitably resulting in inflation • the significance of the pace of the recovery • the meaning of 'sustained' and whether or not bottlenecks and shortages emerge • discussion of whether or not an appropriate policy package can support a sustained recovery without generating inflation • discussion of the view that a sustained recovery will only be achieved if inflation is kept under control • the impact of technological change and other sources of productivity growth on the ability of an economy to recover without inflation • the impact of developments in the world economy, eg it might be argued that it is more difficult for the UK to achieve a sustained recovery without inflation if developments in the rest of the world are pushing up commodity prices.

*Examiners should note that credit can be given for basic evaluation. For example, a candidate might simply identify reasons why a recovery might lead to a rise in inflation and reasons why it might not. Basic evaluation (and good analysis) would allow the answer to achieve low **Level 4**. Stronger evaluation is provided by candidates who are able to support their view of the impact of a sustained recovery in the UK economy on inflation by the use of evidence and consideration of the current state of the UK economy. Most, but not all, candidates are likely to conclude that a sustained recovery will not **inevitably** lead to inflation but the good candidates will be able to justify their conclusion in a manner which is convincing.*

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR
FURTHER CLARIFICATION**

MAXIMUM FOR PART 04: 25 MARKS

OR

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

| **05** | Define the term 'rate of interest' (**Extract G**, line 5). | *(5 marks)* |

For an acceptable definition such as:
 • the reward saving and the cost of borrowing expressed as a percentage of the money saved or borrowed
 To achieve 5 marks the answer must include all 3 elements in the above definition, ie
    • reward for saving
    • cost of borrowing
    • percentage
	5 marks

Full marks should be awarded to a candidate who demonstrates a clear understanding of the term '**rate of interest'** even if the definition is not exactly the same as the acceptable example quoted above.	

If the definition is incomplete, marks may be broken down, for example, as follows

Amount paid (by a bank) to savers (reward for saving)	**3 marks**
Amount paid by a borrower to the lender (cost of borrowing)	**3 marks**
For stating that it is the price of money	**3 marks**
For stating that it is a percentage of the sum borrowed or saved	**2 marks**
For providing a numerical example that illustrates how interest is calculated.	**2 marks**
For stating a function of the rate of interest, eg • compensate for risk • compensate for inflation.	**2 marks each**
For stating that it is an instrument of monetary policy	**1 mark**
For stating that it is set by the Bank of England, the MPC or a bank	**1 mark**
For a statement such as: 'higher interest rates make it more attractive to save' or 'higher interests rates will reduce borrowing'	**1 mark per statement up to a maximum of 2 marks**
For one or more examples such as: • what you receive when you own government securities • how much you pay for a mortgage.	**1 mark per example up to a maximum of 2 marks for examples**

Maximum of 4 marks if the definition is incomplete

MAXIMUM FOR PART 05: 5 MARKS

I

06	Using **Extract D**, identify **two** significant points of comparison between households' real disposable income and real consumption expenditure over the period shown. *(8 marks)*

Award up to 4 marks for each point made

Identifies a significant point of comparison Makes accurate use of the data to support the comparison identified Unit of measurement given accurately	**4 marks**
Identifies a significant point of comparison Makes use of the data to support the comparison identified However, no unit of measurement is given and/or the unit of measurement is used/applied inaccurately and/or the dates aren't quoted or are inaccurate.	**3 marks**
Identifies a significant point of comparison No correct use of the data to support the comparison identified	**2 marks**
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the comparison identified Unit of measurement given accurately	**1 mark**

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

When making the comparison, candidates can choose to quote either the % change in households' real consumption expenditure or the monetary value.

The valid points include:

• At the start of the period real disposable income was lower (£824 billion) than at the end of the period (£869 billion) (or a difference of £45 billion). Households' real consumption expenditure was also lower at the start of the period (£788 billion) than at the end of the period (£821 billion) (or a difference of £33 billion)

• The gap between real disposable income and real consumption expenditure is larger at the end of the period than at the start of the period. It has increased from £36 billion to £48 billion

• Real disposable income peaked in 2009 at £876 billion whereas real consumption expenditure peaked in 2008 at £842 billion

• Real disposable income and real consumption expenditure were at their lowest values in 2004 at £824 billion and £788 billion respectively

• Real disposable income was always higher than real consumption expenditure, eg in 2007 real disposable income was £857 billion and real consumption expenditure was £837 billion.

• The largest difference between real disposable income and real consumption expenditure is in 2009 at £61 billion

• The smallest difference between real disposable income and real consumption expenditure is in 2007 at £20 billion

• Between 2004 and 2008 there is a direct relationship between real disposable income and real consumption expenditure, eg between 2007 and 2008 real disposable income rises by £9 billion and real final consumption expenditure rises by £5 billion

- Between 2008 and 2010 there is an inverse relationship between real disposable income and real consumption expenditure, eg between 2009 and 2010 real disposable income falls by £7 billion and real consumption expenditure rises by £6 billion

- Over the period, real final consumption expenditure has a larger range than real disposable income. Allow: 'fluctuates more', 'is more changeable' or 'is more volatile'. Real consumption expenditure has a range of £54 billion whereas real disposable income has a range of £52 billion
  However, allow the opposite conclusion if the candidate quotes percentage differences, eg the highest figure for real disposable income is 10.63% higher than the lowest figure but the highest figure for real consumption expenditure is 10.41% higher than the lowest figure.

MAXIMUM FOR PART 06: 8 MARKS

07	**Extract F** (lines 7–8) states: 'Politicians tell us that we should save rather than spend money we do not have.'
	Explain **two** factors that might lead to a rise in household saving. *(12 marks)*

For a candidate who provides a relevant definition, eg savings, income. Do not award any marks for a definition of 'rate of interest'.	**1 mark per definition Up to a maximum of 2 marks**

Award up to 8 marks for explaining a factor that is likely to result in an increase in saving. 2 marks should be awarded for identifying a factor and 2 marks for each logical link in the chain of reasoning.	
A rise in interest rates **(2 marks),** increases the reward for saving **(2 marks**) making it more likely that the real value of household savings will increase **(2 marks**) and as a result households are more likely to forgo current consumption **(2 marks)** since the opportunity cost of consuming has increased (**OR** accept 'making it more worthwhile to consume than save') **(2 marks)**. *A discussion of the importance of the 'real rate of interest' should be rewarded within the overall constraint of '**up to 8 marks'***	**Up to 8 marks**
The taxation of savings and opportunities for households to take advantage of tax-free schemes, eg ISAs.	**Up to 8 marks**
The impact of changes in both direct and indirect taxes upon people's willingness to save. Allow up to 4 marks for the argument that an increase in VAT will make it more attractive for people to save because the price of products has increased and hence the benefit from a given amount of expenditure has fallen. However, allow the full 8 marks if they also recognise that savings might fall because, for example, people may have to dip into their savings to maintain their standard of living.	**Up to 8 marks**
Expectations and uncertainty about the future state of household finances and/or the economy.	**Up to 8 marks**
What is happening to incomes and current living standards, ie if living standards are rising, households might be more willing and able to save an increased proportion of their disposable income.	**Up to 8 marks**
Changes in the state's welfare system, eg less generous pensions and out-of-work benefits might encourage people to make greater provision for their old age or to protect themselves against unforeseen contingencies.	**Up to 8 marks**
Rising household debt. High levels of debt tend to reduce household consumption and encourage them to pay off past debts which is, in effect, increasing saving.	**Up to 8 marks**

The impact of inflation. This should only be credited if there is some reasonable explanation **BUT** candidates could legitimately argue that an increase in inflation will reduce the saving (people start to consume more before prices rise) or that it will increase saving (the real value of savings are eroded by inflation and hence people save more to maintain the real value of their financial cushion).	**Up to 8 marks**
Award up to 4 additional marks for the use of relevant diagrams. To be worth credit the diagram must illustrate why the factor is likely to lead to an increase in saving and not the impact on the economy as a whole. There are no obvious, standard diagrams that are relevant but credit could be given for a diagram that shows a positive correlation between the rate of interest and saving, or between income and savings. (Such diagrams should be rewarded even though they are not included in the Specification).	**Up to 2 marks for labeling axes/curves, up to 2 marks for information shown**

An AD/AS diagram that shows how a change in saving, and hence aggregate demand, will affect real national income and the price level should NOT be given any credit.

However, an AD/AS diagram can be rewarded **PROVIDED** that the explanation linked to the diagram helps to explain a cause, **not a consequence**, of a rise in household saving. For example, if the candidate uses the diagram to explain that in a recovery national income will rise and that the rise in national income is likely to result in an increase in household saving, then the diagram can be given up to 4 marks.

Award a maximum of 10 marks if only ONE factor is identified

MAXIMUM FOR PART 07: 12 MARKS

08	**Extract G** (lines 8 – 9) claims that 'some think that cuts in income tax are more likely to help the economy in the long run, as well as giving it a much–needed boost in the short run'. Using the data and your economic knowledge, assess the view that a reduction in income tax is the best way to improve the performance of the UK economy in **both** the short run **and** the long run. *(25 marks)*

Extract G, in particular, provides some help to candidates and it is expected that they will make use of this material when developing their answers. It is anticipated that good answers will consider the impact of cuts in income tax on aggregate demand, the supply side of the economy and whether or not it is equitable. It is also likely that many candidates will discuss the impact on the budget balance.

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

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

A maximum of **21 marks** may be awarded if candidates do **NOT** consider **both** the short run **and** the long run effects of a reduction in income tax.

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

Introduction	- define income tax - identifying a reduction in income tax as a fiscal measure that is likely to affect both the demand-side and the supply-side of the economy - explain what cutting income tax might mean, eg increasing personal allowances, cutting the standard rate, changing tax bands or cutting the top rate of tax - identify the four main indicators of macroeconomic performance - recognise that other important objectives of policy that are relevant to this question include: cutting the budget deficit, helping to maintain living standards and provide help to the poorest in society - identifying other measures that might improve the performance of the economy - recognition that short run and long run effects are likely to be different.

Developing the response to the question: **Application**	• making use of the data, particularly **Extract G**, to indicate what a reduction in income tax might involve • referring to **Extract G** to link the short run effects to the need to 'stimulate consumption' • referring to **Extract G** to link the short run effects to the 'benefit to the poorer sections of the community' • referring to **Extract G** to link the long run effects to the 'supply-side benefits' to the economy • discussing the case for and against a reduction in income tax in relation to the current state of the UK economy.
Developing the response to the question: **Analysis**	• the impact on aggregate demand (AD) • the consequences of changes in AD on the four main macroeconomic policy objectives • the impact on incentives to work, enterprise and investment and consequently the supply-side of the economy • use of AD/AS diagrams to illustrate the above • the impact on the budget balance and the objective of reducing the budget deficit • the impact on living standards, poverty and the distribution of income • consideration of how the nature of the tax cuts might affect the impact on the economy • analysis of the impact of other measures that might be used to improve the performance of the economy.
Evaluation	• use of the data from the various extracts to support the arguments and conclusions presented • use of own knowledge of recent developments in the UK economy to help support the arguments and conclusions presented • an assessment of the short-run versus long-run consequences of a reduction of income tax and its benefits, or otherwise, to the UK economy • discussion of other policies that might be adopted (eg a cut in VAT, increased government spending on capital projects, monetary measures, other supply-side policies) and consideration of whether a reduction in income tax is the 'best' policy in current circumstances • discussion of whether it is the right time to reduce income tax or whether the Government should delay the reduction until the public finances improve?

*Examiners should note that credit can be given for basic evaluation, for example, the candidate might simply identify whether or not cuts income tax are likely to have a favourable or adverse impact on each of the four main macroeconomic performance indicators. Basic evaluation (and good analysis) would allow the answer to achieve low **Level 4**. Stronger evaluation is provided by candidates who are able to evaluate the impact of cuts in income tax on a wider variety of factors and support their assessment by the use of evidence and/or sound economic analysis. The best candidates will distinguish clearly between the long-run and short-run effects and they will compare cuts in income tax with one or more of the other policies open to the government. Candidates whose conclusions are linked to the present state of the UK economy should be well-rewarded.*

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 08: 25 MARKS