Mark Scheme (Standardisation)

June 2010

GCE Economics (6EC04/01)

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.

- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.

- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.

- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.

- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.

- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.

- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.

- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

N.B. Quality of written communication (QWC) is assessed in both parts of the essays and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

Question Number	Answer	Mark
1(a)	Causes could include: - Education - Skills and training - Experience/age - Type of employment - Ownership of assets - Inheritance - Pension rights Evaluation: - Prioritisation of factors - Significance of each factor - Level and quality of education e.g. degree, subject, class - Pension rights e.g. final salary schemes - Conclusion (Synoptic element: reference to use of Economist's tool-kit in analysis and evaluation and in approach to question)	(20)

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	consideration of one factor with one evaluative point or 2 points with no evaluation
Level 3	11-14	consideration of 2 factors with one evaluative point or 3 points with no evaluation
Level 4	15-16	consideration of 3 factors with one evaluative point
Level 5	17-20	consideration of 3 factors with at least two evaluative points

Question Number	Answer	Mark
1(b)	Effects include: • Disincentive to work: could be analysed using income and substitution effects • Tax revenues- use of Laffer curve analysis • Tax evasion (illegal) • Tax avoidance (legal) e.g. working fewer hours taking income in form of share option (CGT only 18%) • Tax exiles – move to Switzerland • Distribution of income – more even: analysis of progressive taxation • Impact on AD and associated analysis Evaluation could include: • Extent of disincentive effects of 50% tax rate • Ease of avoiding 50% tax rate • Number of people affected by new tax rate • Extent of tax evasion • Significance of impact on different sectors of the economy e.g. on financial services • Impact on income distribution might be offset be other factors e.g. increasing unemployment (Synoptic elements: reference to concepts introduced in unit 2 e.g. fiscal policy; use of Economist's tool-kit in analysis and evaluation and in approach to question)	(30)

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	2 factors with one evaluative point or 3 factors with no evaluation
Level 3	16-21	3 factors with one evaluative point or 4 factors with no evaluation
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with three evaluative points

Question Number	Answer	Mark
2(a)	Issues could include: • Price fluctuations – analysis of price inelasticity of demand and supply and impact of shifts in S & D • Value added of primary products is very low • Producer revenue fluctuations – implications for planning investment and output • Fluctuations in foreign currency earnings – constraint on importing capital goods • Income inelasticity of demand for primary products – Prebisch-Singer hypothesis: falling terms of trade • In the case of soft commodities – problem of extreme weather events • Protectionism by developed countries • Impact on political stability Evaluative points could include: • LEDCs may have comparative advantage in primary products • Demand may be income elastic e.g. for gold (Ghana); diamonds (Botswana); oil (Nigeria); • Examples of countries which have grown and developed on basis on primary products • Consideration of other constraints and growth and development • Prioritisation of factors discussed. (Synoptic element: reference to price determination and elasticities (unit 1) and to use of Economist's tool-kit in analysis and evaluation and in approach to question)	(20)

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	consideration of one factor with one evaluative point or 2 points with no evaluation
Level 3	11-14	consideration of 2 factors with one evaluative point or 3 points with no evaluation
Level 4	15-16	consideration of 3 factors with one evaluative point
Level 5	17-20	consideration of 3 factors with at least two evaluative points

Question Number	Answer	Mark
2(b)	Strategies could include: • Industrialisation – Lewis model • Development of tourism • Outward-looking/market led policies e.g. trade liberalisation; allowing currency to depreciate; opening up of capital markets; removal of domestic subsidies (this could count as 2 strategies) • Increase savings rate (Harrod-Domar model) • Reduce red tape, making it easier for new firms to be established • Increase property rights (Hernando de Soto) • Aid from developed countries • Debt cancellation • FDI Evaluation could include: • Industrialisation and tourism might result in increased inequality • External costs of industrialisation and/or tourism • Opportunity cost of industrialization e.g. availability of land to grow food • Discussion of problems associated with market-led strategies e.g. domestic producers may be unable to compete; higher prices for basic necessities • Higher savings ratio is not a necessary condition for growth and development. Savings gap could be filled by FDI or aid • Strategies may be ineffective for geo-political reasons e.g. nearness to markets; political instability • Aid might be ineffective e.g. because of corruption (Synoptic element: reference to macroeconomic variables (unit 2) and to use of the Economist's tool-kit in analysis and evaluation and in approach to question)	(30)

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	2 factors with one evaluative point or 3 factors with no evaluation
Level 3	16-21	3 factors with one evaluative point or 4 factors with no evaluation
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with three evaluative points

Question Number	Answer	Mark
3(a)	Factors include: • Increase in the value of the country's currency • Decline in productivity relative to other countries • Increase in rate of inflation relative to other countries • Decline in non-price competitiveness • Increase in real unit labour costs • Increase in regulations Evaluation points include: • Relative significance of factors selected • Whether or not these are short or long term factors • Competitiveness might not fall following a rise in exchange rate if exporters cut profit margins (Synoptic element: reference to productivity, inflation and exchange rates (unit 2) and use of the Economist's tool-kit in analysis and evaluation and in approach to question)	(20)

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	consideration of one factor with one evaluative point or 2 points with no evaluation
Level 3	11-14	consideration of 2 factors with one evaluative point or 3 points with no evaluation
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Level 5	17-20	consideration of 3 factors with at least two evaluative points

Question Number	Answer	Mark

3(b)	Measures used by businesses could include:
	• Research and development resulting in improved designs or new products
	• Investment in new technology
	• Investment in capital equipment
	• Pricing strategies (e.g. limit pricing)
	• Improved reliability of products
	• Better customer service
	Measures used by governments could include:
	Range of supply side policies including...
	• Privatisation
	• Education and training
	• Investment tax relief
	• Improvements in infrastructure
	• Cutting unemployment benefits
	• Removal of regulations e.g. health and safety, environmental, employment protection
	• Encourage immigration.
	If appropriate examples are given, candidates could also discuss:
	  Devaluation of currency;
	  Increase in trade barriers
	  Subsidies
	
	Evaluation could include:
	• Costs to businesses of expenditure on new capital equipment
	• Costs to government: difficult to finance at time when fiscal deficit is rising rapidly
	• Time frame: some measures could take a considerable time to have an impact
	• Increased inequality e.g. if unemployment benefits are cut
	• Danger of increased exploitation of workers and of the environment if regulations are relaxed
	• These policies could be offset by other factors e.g. appreciation of the currency; rising wage costs
	Maximum 21 if only government or business strategies are discussed
	(Synoptic element: pricing policies (unit 3) supply side policies (unit 2) and use of the Economist's tool-kit in analysis and evaluation and in approach to question)
		(30)

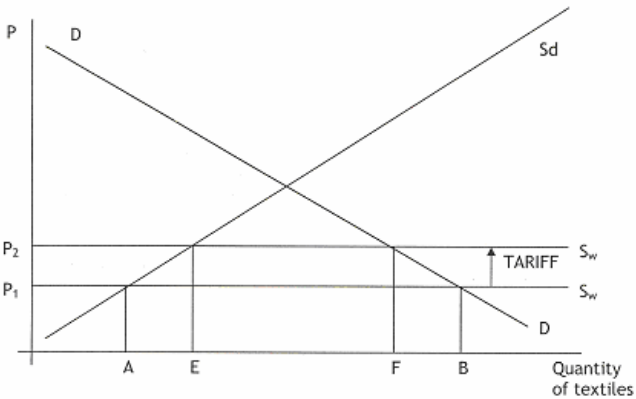| Level	Mark	Descriptor
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Level 5	26-30	4 factors with three evaluative points

Question Number	Answer	Mark
4(a)	Features include: • Decline in world trade • Fall in capital movements • Decrease in FDI • Decrease in tourism 3 marks for knowledge, 2 for application/ one data reference e.g. to % fall in world trade or to % fall in FDI	(5)

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge of 2 characteristics (up to 2 marks for one characteristic)
Level 2	4-5	Up to 3 marks for knowledge of 2 characteristics and 2 marks for application/data reference

Question Number	Answer	Mark
4(b)	Reasons include: • Greater dependence on exports e.g. Japan, Germany • Differences in policy response e.g. cutting interest rates, fiscal stimulus, quantitative easing • Differences in likely fall in house prices • Differences in importance of different sectors e.g. financial services industry/manufacturing/tourism • Differences in consumer/business confidence	(8)

Level	Mark	Descriptor
Level 1	1	1 mark for brief identification of one issue
Level 2	2-5	Up to 3 marks for identification of 2 issues; 2 for application (2 data references i.e. to 2 different countries/regions)
Level 3	6-8	3 marks for identification of 2 issues; 2 for application (2 data references i.e. to 2 different countries/regions) and 3 for analysis of one or two issues

Question Number	Answer	Mark
4(c)	Consideration of: • Income elasticity of demand for tourism (D likely to be income elastic) • Therefore, significant fall in number of tourists • Employment implications • Fall in GDP • Fall in foreign currency earnings from tourism • Deterioration in current account balance • Loss of tax revenues: deterioration in fiscal balance • Effects on airlines, hotels Evaluation might include: • Differential effects on different countries • Size of tourism as a proportion of GDP • Impact on current account depends also on number of people travelling abroad from domestic economy • Depends on length of recession	(10)

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 effect; 2 for application (e.g.reference to likely fall of one third in number of visitors to the Caribbean; 1 example of a specific country from own knowledge)
Level 2	4-6	1 mark for identification of 1 effect; 2 for application (e.g.reference to likely fall of one third in number of visitors to the Caribbean; 1 example of a specific country from own knowledge); 3 for analysis of 1 or more issues.
Level 3	7-10	1 mark for identification of 1 effect; 2 for application (e.g.reference to likely fall of one third in number of visitors to the Caribbean; 1 example of a specific country from own knowledge); 3 for analysis of 1 or more issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
4(d)	Key issues: • Recession deeper than many had predicted and affecting most countries, leading to huge decline in demand for exports and imports • Greater integration of world economy • Trade finance has dried up following the banking crisis • Global supply chains • Recession leading to an increase in protectionism • Firms had large inventories (stocks) Evaluation might include: • Prioritization • Downturn must be seen in perspective: it followed years of growth in world trade • Detailed consideration of implications of offshoring and outsourcing (Synoptic element: analysis of recession from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	(12)

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (1 example of a specific country/region from own knowledge or data ref of % decline in world trade lines 13-14)
Level 2	4-7	1 mark for identification; 2 for application; 4 for analysis e.g. of impact of depth of recession
Level 3	8-12	1 mark for identification; 2 for application; 4 for analysis of at least 2 reasons e.g. of impact of depth of recession; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

Question Number	Answer	Mark
4(e)	This could be approached in a variety of ways: • Distortion of comparative advantage: leading to fall in specialization and decrease in world output; fall in living standards; rising unemployment (Counts as 2 points) • Decline in world trade • Possible inflationary consequences • Retaliation • Diagram to show effect of a tariff on price: (from P1 to P2) and an increase in domestic production (from A to E). Imports decline from AB to EF. Discussion of: • Effects on consumers e.g. higher prices; loss of consumer surplus. • Effects on producers e.g. higher domestic output within the EU. • Welfare losses. • Tax revenue to the government. • Implications for the balance of trade. Evaluative comments might include: • Differential effects of tariffs on developed and developing countries • Impact depends on extent of trade as a % of GDP e.g. major impact on Japan, lesser impact on India (up to 2 application marks for data references) • Protectionism might be rational response by politicians facing an election – to protect employment (at least in the short run) • Re: tariffs: Significance of PED/PES for impact on the amount imported impact depends on the level of tariffs. • Short run/long run effects. • Retaliation. (Synoptic element: supply and demand analysis including elasticities from unit 1. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	

		Quality of written communication (QWC) is assessed on the candidate's ability: • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economics vocabulary appropriately • To use grammar, spelling and punctuation appropriately	(15)

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 effects on world economy; 2 for application (reference to specific countries/data or for tariff diagram)
Level 2	5-9	2 marks for identification of 2 effects; 2 for application(reference to specific countries/data or for tariff diagram) ; 5 for analysis of effects on world economy (maximum 3 marks for micro analysis of tariff diagram)
Level 3	10-15	2 marks for identification of 2 effects; 2 for application(reference to specific countries/data or for tariff diagram) ;5 for analysis of effects on world economy (maximum 3 marks for micro analysis of tariff diagram); 6 marks for up to 3 evaluative points.

Question Number	Answer	Mark
5(a)	• Recession • leading to increased public spending on benefits and fall in tax revenues • Part nationalisation of banks • Effect of fiscal stimulus measures Reference to data – deficit rose from just over 2.5% (allow some latitude here) to 12.4%. If one data ref then only 1 mark	(5)

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for 2 factors
Level 2	4-5	Up to 3 marks for 2 factors and 2 marks for application (data reference to increase in fiscal deficit)

Question Number	Answer	Mark
5(b)	Problems could include discussion of impact on: • Cost of servicing the National debt • Need to make public expenditure cuts in the future and/or tax increases e.g. VAT • Possible difficulty in selling gilt-edged securities • Danger of inflationary consequences later • Crowding out • Loss of AAA credit rating	(8)

Level	Mark	Descriptor
Level 1	1	1 mark for brief identification of one issue
Level 2	2-5	3 marks for identification of 2 issues; 2 for application (2 data references to fiscal deficit or National Debt or examples)
Level 3	6-8	3 marks for identification of 2 issues; 2 for application (2 data references to fiscal deficit or National Debt or examples) and 3 for analysis of one or two issues

Question Number	Answer	Mark
5(c)	Reasons include: • Financial services form a significant part of UK economy – implications for GDP, employment, tax revenues and balance of payments • Unwillingness of banks to lend • British household debt was very high. Consumers likely to try to repay debt and reduce expenditure • The British house price bubble was bigger than in other countries. Therefore, danger that Britain would face a large fall in house prices – negative wealth effect • UK had been running a fiscal deficit since 2001/02 • Dependence of trade with EU & US *Evaluative points could include:* • *Decline in financial services might enable a rebalancing of economy* • *Short run and long run effects – it will take a long time for consumers to repay debts* • *House price falls likely to cause negative equity, reduction in labour mobility;* • *Prioritisation of factors* (Synoptic element: concept of wealth effect and economic growth from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	(10)

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (text references or examples or UK references)
Level 2	4-6	1 mark for identification of 1 reason; 2 for application(text references or examples or UK references) ; 3 for analysis of 2 issues
Level 3	7-10	1 mark for identification of 1 reason; 2 for application (text references or examples or UK references); 3 for analysis of 2 issues; 4 marks for any two evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
5(d)	• Understanding of monetary policy • Theoretical impact of cut in interest rates – transmission mechanism • Impossibility of further reductions in interest rates • Or impact of quantitative easing *Evaluative points include:* • *Interest rate cuts unlikely to be successful in stimulating the economy because of sharp decline in business and consumer confidence* • *Also: unwillingness of banks to lend to each or to consumers and businesses* • *Quantitative easing: an untried policy in the UK; difficult to assess long term effects; danger of inflation* • *Disparity between Bank of England base rate and commercial interest rates* (Synoptic element: Monetary policy (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question)) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	(12)

Level	Mark	Descriptor
Level 1	1-3	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble)
Level 2	4-7	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble); 4 for analysis e.g. transmission mechanism following cut in interest rates or impact of quantitative easing
Level 3	8-12	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble); 4 for analysis e.g. transmission mechanism following cut in interest rates or impact of quantitative easing; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

Question Number	Answer	Mark
5(e)	Understanding of trade weighted index: value of sterling in relation to a weighted basket of other currencies. Implications include: • Increased price competitiveness of UK goods (fall in export prices, rise in import prices) • Improvement in current account of balance of payments • Will enable UK to benefit from upturn in world economy so moving out of recession quickly • Will help to prevent deflation because import prices are rising *Evaluative points could include:* • *Collapse in export market because of world recession so no immediate improvement in current account (J curve effect)* • *Current account will not improve if Marshall-Lerner condition is not met* • *Inflation could become a problem given the size of the fall in the value of sterling* • *UK exporters may not be able to respond to increased demand* • *Deflation could still result if world recession* (Synoptic element: Elasticities (unit 1); Balance of payments (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question)) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** **To use grammar, spelling and punctuation appropriately**	(15)

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 effects or for understanding of trade weighted index; 2 for application (reference to specific countries/data e.g. exports from UK fell less than from Japan (1), with actual falls(1)
Level 2	5-9	2 marks for identification of 2 effects or for understanding of trade weighted index ; 2 for application (reference to specific countries/data e.g. exports from UK fell less than from Japan (1), with actual falls(1)); 5 for analysis of effects
Level 3	10-15	2 marks for identification of 2 effects or for understanding of trade weighted index ; 2 for application(reference to specific countries/data) ; 5 for analysis of effects; 6 marks for up to 3 evaluative points

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2010

Level		Performance Criteria for Mark base 20
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Consideration of 1 factor with 1 evaluative point or 2 points with no evaluation*
Level 3	11-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Consideration of 2 factors with 1 evaluative point or 3 points with no evaluation*
	11-12	Award in this range for 2 points and 1 evaluative comment (or 3 points with no evaluation) which are *not* well developed/reasoned
	13-14	Award in this range for 2 points and 1 evaluative comment (or 3 points with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Consideration of 3 factors with 1 evaluative point*
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Consideration of 3 factors with 2 evaluative points*

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2010

Level		Performance Criteria for Mark base 30
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Consideration of 2 factors with 1 evaluative point or 3 points with no evaluation*
Level 3	16-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Consideration of 3 factors with 1 evaluative point or 4 points with no evaluation*
	16-18	Award in this range for 3 points and 1 evaluative comment (or 4 points with no evaluative comment) which are *not* well developed/reasoned
	19-21	Award in this range for 3 points and 1 evaluative comment (or 4 points with no evaluative comment) which are well developed/reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Consideration of 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Consideration of 4 factors with 3 evaluative points*