



GCE

Economics

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

Advanced Subsidiary GCE

Mark Scheme for June 2014

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

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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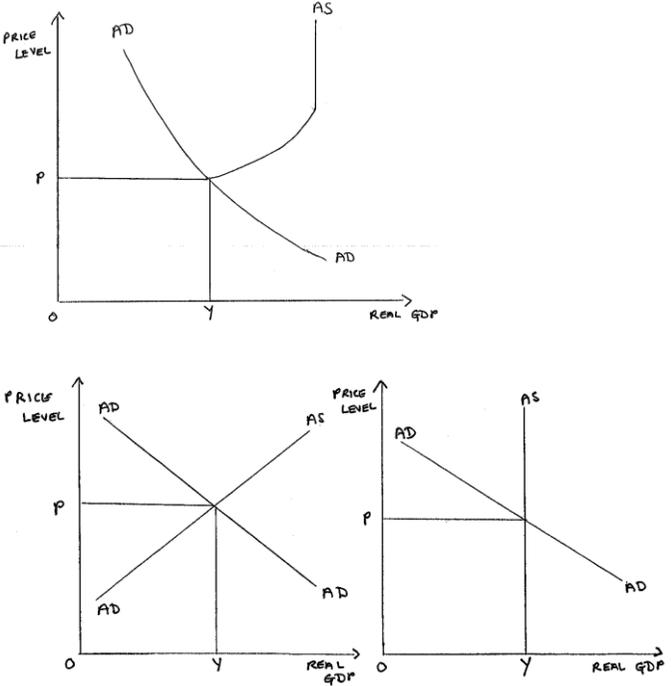
Annotations

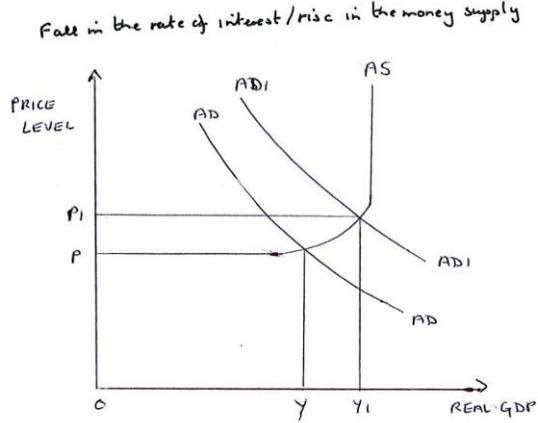
Please annotate **every** response, even if no credit is given.

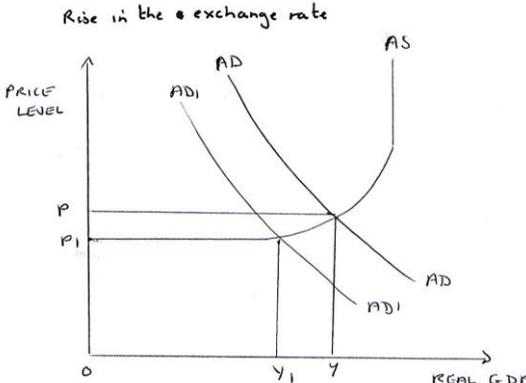
Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Unclear
	Benefit of doubt
	Comment
	Effective evaluation
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too vague
	Repeat

Highlighting is also available to highlight any particular points on the script.

'SEEN' to be inserted on every blank page.

Question	Answer	Mark	Guidance
1 (a)	<p>State three components of aggregate demand.</p> <ul style="list-style-type: none"> • consumer spending • investment • government spending • net exports 	3	<p>One mark for each correct identification up to a maximum of three identifications.</p> <p>Note: one mark for net exports, exports or imports. If exports and imports are given as two separate components, award one mark.</p> <p>If more than 3 given, mark the first 3.</p> <p>Accept e.g. C for consumer spending.</p>
1 (b)	<p>Describe how equilibrium in the macro-economy is determined.</p> <p>Two marks for either:</p> <ul style="list-style-type: none"> • interaction of aggregate demand and aggregate supply/where AD = AS <p>or:</p> <ul style="list-style-type: none"> • interaction of injections and leakages/where injections equal leakages. <p>One mark for reference to either:</p> <ul style="list-style-type: none"> • AD or AS <p>or:</p> <ul style="list-style-type: none"> • injections or leakages <p>or:</p> <ul style="list-style-type: none"> • demand for goods and services in an economy equals the supply of goods and services in an economy. 	2	<p>No marks for a purely micro answer e.g. demand equals supply.</p> <p>Allow up to two marks for a correct, fully labelled diagram.</p> 

Question	Answer	Mark	Guidance
			One mark for equilibrium not shown but the rest of the diagram is correct.
(c)	<p>Explain how two monetary policy measures could cause equilibrium in the macro-economy to change. Indicative content:</p> <ul style="list-style-type: none"> • change in the rate of interest (1) this would be expected to change AD and reason why/this would be expected to alter real GDP and or the price level (1) • change in the money supply/quantitative easing (1) this would be expected to change AD and reason why/this would be expected to alter real GDP and or the price level (1) • change in the exchange rate (1) this would be expected to change AD and reason why/this would be expected to alter real GDP and or the price level (1) • introduction of inflation target (1) to reduce growth in AD by e.g. reducing growth in consumer expenditure/reduce the decrease in AS by lowering wage claims/change real GDP and or price level (1). 	4	<p>One mark for each correct identification of relevant monetary policy measures up to a maximum of two identifications, plus one further mark for each of two explanations.</p> <p>Note: two distinct monetary policy measures are needed for four marks and not just two directions of the same policy measure. So, for example, a candidate who answers on the basis of a rise and fall in interest rates can only gain a maximum of two marks.</p> <p>NB Allow a diagram approach for the explanation(s).</p>  <p>The diagram is a hand-drawn graph with 'PRICE LEVEL' on the vertical axis and 'REAL GDP' on the horizontal axis. A vertical line represents the Aggregate Supply (AS) curve. Two downward-sloping curves represent the Aggregate Demand (AD) curve, with the upper one labeled AD1 and the lower one labeled AD. The initial equilibrium is at the intersection of AS and AD1, corresponding to price level P1 and real GDP Y1. The new equilibrium is at the intersection of AS and AD, corresponding to a lower price level P and a lower real GDP Y. Handwritten text above the graph reads 'Fall in the rate of interest / rise in the money supply'.</p>

Question	Answer	Mark	Guidance
			<p>Rise in the exchange rate</p> 
<p>2</p>	<p>Using information in Fig. 1, identify three differences between the performance of the BRIC and MIST countries in terms of inflation in 2011.</p> <ul style="list-style-type: none"> • MIST countries generally have lower inflation rates or - price stability / lower average inflation rate or - BRIC countries generally have higher inflation rates / lower price stability / higher average inflation rate than MIST countries or - BRIC countries average rate = 5.7% whereas MIST's average rate = 5.35% or - middle two BRIC countries in terms of inflation rate had a higher rate than middle two MIST countries • MIST countries have greater variation of inflation rates/BRIC countries' inflation rates are less widespread 	<p>3</p>	<p>One mark for each correct identification up to a maximum of three identifications.</p> <p>No marks for a comparison within a group.</p>

Question	Answer	Mark	Guidance
	<ul style="list-style-type: none"> • one MIST country/Turkey had the highest inflation rate/lowest price stability • one MIST country/South Korea had the lowest inflation rate/greatest price stability 		
3	<p>Using information in Fig. 1, comment on whether a lower inflation rate always results in a lower unemployment rate.</p> <p>Up to three marks for analysis:</p> <ul style="list-style-type: none"> • relevant reason why a country with a lower inflation rate than another country/countries may have a lower unemployment rate that country/countries e.g. may be more internationally competitive leading to higher output and so more need for workers (1) • the two countries, South Korea and China, with the lowest inflation rates have the lowest unemployment rates (2) <p>or:</p> <ul style="list-style-type: none"> • China has low inflation and low unemployment (1) and • South Korea has low inflation and low unemployment (1) • the two countries, India and Turkey, with the highest inflation rates have the highest 	6	<p>Up to six marks.</p> <p>Note: a candidate cannot access the evaluation marks without any analytical underpinning clearly related to the question.</p> <p>Up to three marks for one evaluative point well made.</p> <p>Note: a maximum mark of 1 mark for relevant theoretical approach.</p> <p>There are 5 possible marks available for data analysis (1 mark for supporting evidence and one for an exception) but remember there is a maximum of 3 marks in total for analysis.</p>

Question	Answer	Mark	Guidance
	<p>unemployment rates (2)</p> <p>or:</p> <ul style="list-style-type: none"> • Turkey has high inflation rate and high unemployment rate (1) <p>and</p> <ul style="list-style-type: none"> • India has high inflation rate and high unemployment rate (1) <ul style="list-style-type: none"> • examples of exceptions: India has a lower inflation rate than Turkey but the same unemployment/Russia has a higher inflation rate than Indonesia but slightly lower unemployment/China has a higher inflation rate than South Korea but a lower unemployment rate. (1) <p>Up to three marks for evaluation:</p> <ul style="list-style-type: none"> • the data does generally support the view/does not always support the view/there are exceptions (1) • the data does not indicate how inflation and unemployment are measured (1) if the BRIC countries use a claimant count measure of unemployment and the MIST countries use the labour force survey measure (1), it may not be valid to make a comparison/reference to how one measure may result in different outcomes in different countries e.g. differences in eligibility for benefits or differences in how people respond to surveys (1) • only a small number of countries are shown (1) these may not be representative of most countries (1) which may support the view (1) • only one year is shown (1) this may be an untypical/ exceptional year (1) and so give an unusual result (1) there may be a time lag (1) • unemployment is influenced by a number of factors 		

Question	Answer	Mark	Guidance
	<p>(1) it may fall even if the inflation rate rises (1) e.g. if expansionary fiscal policy measures are adopted (1)</p> <ul style="list-style-type: none"> • the type of inflation may affect the relationship (1) <p>demand-pull may be accompanied with high unemployment whereas cost-push may be associated with high unemployment (1)</p>		
4	<p>Comment on whether an increase in saving will reduce inflation.</p> <p>Up to three marks for analysis:</p> <ul style="list-style-type: none"> • an increase in saving may mean a fall in consumer expenditure/investment (1) • lower consumer expenditure or investment will reduce AD/saving is a leakage from the circular flow (1) • lower AD may result in a fall in demand-pull inflation (1) • an increase in saving may increase funds available for investment (1) • higher investment may increase AS (1) • higher AS may reduce inflationary pressure/cost-push inflation (1) <p>Up to three marks for evaluation.</p> <ul style="list-style-type: none"> • an increase in saving may be accompanied by a fall in another leakage (1) taxation or imports may fall (1) and so aggregate demand may not change/effect may be offset (1) • an increase in saving may be accompanied by a rise in another injection/component of AD (1) e.g. exports may rise (1) this may leave aggregate demand unchanged/effect may be offset (1) • it is possible for both saving and consumer expenditure to rise (1) if incomes increase (1) so 	6	<p>Up to six marks.</p> <p>Note: a candidate cannot access the evaluation marks without any analytical underpinning clearly linked to the question.</p> <p>Up to three marks for one evaluative point well made.</p>

Question		Answer	Mark	Guidance
		<p>aggregate demand may increase (1)</p> <ul style="list-style-type: none"> higher saving may not reduce cost-push inflation (1) it may not offset rises in raw material costs/wage rises (1) firms may be experiencing rises in costs of production which will push up the price level (1) the effect will be influenced by the extent to which saving rises/length of time of the rise/initial rate of inflation (1) lower investment may cause AS to decrease (1) causing cost push inflation (1) firms may not reduce investment if confident about the future (1) if there is considerable spare capacity, there may be no effect on the price level (1) 		
5	(a)	<p>Explain two reasons why governments seek to achieve economic growth.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> improved living standards (1) higher output provides more goods and services for people to enjoy (1) lower unemployment (1) higher output may encourage firms to employ more workers/with advances in technology and education, output has to rise for unemployment not to increase/reduces poverty/demand for labour is a derived demand (1) higher tax revenue (1) higher output will increase income and spending which will raise both direct and indirect tax revenue/higher revenue can be spent on e.g. education and health care (1) lower government spending on benefits (1) higher output which raise income and employment will reduce the need for a government to spend money on benefits/ 	4	<p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.</p> <p>Note: accept increased confidence as a reason.</p>

Question	Answer	Mark	Guidance
	<p>this may result in a rise in government spending on e.g. education and health care (1)</p> <ul style="list-style-type: none"> • increases global influence/influence in international organisations (1) can result in policies beneficial to the economy (1) 		
(b)	<p>Using information in the case study, analyse why Turkey may experience rapid economic growth in the future.</p> <p>Up to two marks for application:</p> <ul style="list-style-type: none"> • rise in population • currently only a small proportion of women are in the labour force • investment may increase • there may be improvements in education and training/use of supply-side policies • higher savings • lower inflation/monetary policies • move from a current account deficit to a surplus <p>Up to four marks for analysis:</p> <ul style="list-style-type: none"> • improved education and training: may increase the skills/quality of workers – raise productivity – increase AS/productive potential – lead to potential economic growth • improved education and training – may arise from higher government spending – G is a component of AD - this will increase AD – may result in higher output/AD • higher population: can increase size of the labour force – increase AS/productive potential – lead to potential economic growth • higher population: can increase consumer expenditure – C is a component of AD - raise AD – 	6	<p>Up to six marks.</p> <p>Up to 4 marks could be gained for strong analysis on one cause.</p>

Question	Answer	Mark	Guidance
	<p>lead to higher real GDP/output</p> <ul style="list-style-type: none"> • more women working/more women joining the labour force/more women seeking employment: increase size of the labour force – increase AS/productive potential – increase AS/productive potential – lead to potential economic growth • higher investment: increase AS/productive potential – lead to potential economic growth • higher investment: I is a component of AD - increase AD – may cause higher real GDP/output • higher savings: more funds for investment/capital goods – increase AS/productive potential – result in potential economic growth • lower inflation: more stability – increase confidence – increase investment – increase AS/productive potential – potential economic growth • lower inflation: more stability – increase consumer expenditure – increase real GDP/output • lower inflation – more international competitiveness – raise net exports – increase AD – increase real GDP/output • change in current account position: increase net exports – raise AD – increase real GDP/output 		
6	<p>Name three influences on consumer expenditure.</p> <ul style="list-style-type: none"> • Income/direct taxation/wages/state benefits • level of personal debt • interest rate • confidence/expectations • inflation/price level/indirect taxation • wealth • unemployment • distribution of income 	3	One mark for each correct identification up to a maximum of three identifications.

Question		Answer	Mark	Guidance
		<ul style="list-style-type: none"> • exchange rate • availability of credit • saving 		
7		<p>Using information in the case study, identify evidence which suggests that the multiplier effect is likely to be different in Turkey than in South Korea.</p> <p>Any two of the points below for identification:</p> <ul style="list-style-type: none"> • for recognising a change in an injection has a bigger effect on the economy/real GDP in Turkey than in South Korea • for government spending has a larger effect in Turkey • for Turkey has a current account deficit whereas South Korea has a current account surplus • for suggestion that South Koreans save a higher proportion of their income than Turkish people//spend a smaller proportion of their income than Turkish people <p>Development of any of these points may include: may lead to a larger multiplier effect in Turkey.</p>	2	<p>Up to two marks.</p> <p>Allow two discrete identified points OR one point which is identified and developed.</p> <p>Note identification points have to compare the two countries.</p>
8	(a)	<p>Using information in the case study, calculate in US\$ Turkey's 2011 current account deficit.</p> <p>US\$68.04bn/US\$68,040,000,000 (3)</p> <p>US\$68.04 or US\$68bn or full correct working (2)</p> <p>Calculating real GDP i.e. US\$756bn (1)</p>	3	<p>Up to three marks.</p> <p>Two marks for full correct working i.e. Turkey's GDP = US\$700bn + 8% = US\$756bn. Deficit = US\$756bn + 9%.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(b)	<p>Discuss whether an economy will always benefit when the current account of the balance of payments moves from deficit to surplus.</p> <p>This question requires a discussion of the possible costs and benefits of a current account surplus and deficit and what factors will influence their effects.</p> <p>Answers may consider the effects will depend on the initial state of the economy, the cause of the movement, what is happening to other components of aggregate demand and how long the surplus lasts.</p> <p>A movement from a current account deficit to a current account surplus may cause a number of benefits. It will increase AD/increase injections and lower leakages which may raise real GDP and employment. It can also bring costs e.g. causing inflation as a result of higher AD and an increase in the money supply and may put upward pressure on the exchange rate. It also means that the country is producing more than it is consuming – living standards could be higher. Answers should evaluate whether such a movement is always beneficial.</p> <p>Examples of possible Level 4 answers:</p> <ul style="list-style-type: none"> If an economy is operating close to full capacity, such a movement may be inflationary. If an economy is operating with spare capacity, it may have a more beneficial effect. 	18	<p>Note: a maximum of 8 marks for an answer which discusses a movement from a current account surplus to a current account deficit.</p> <p>If awarding Level 4 indicate lower band with L4 and higher band with EE.</p> <p>For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing whether the movement will always be beneficial.</p> <p>For 13 – 15 marks, a discussion which does evaluate in terms of a two-sided discussion but which lacks some depth or is narrowly focused.</p> <p>Complex ideas have been expressed clearly and fluently, using a style of words appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling, punctuation and grammar.</p>	<p>Level 4 [13 – 18]</p> <p>For a discussion of whether a movement from a current account deficit to a current account surplus is always beneficial.</p> <p>Note: evaluation must be supported by relevant analysis. For 16 – 18 marks, the discussion must:</p> <ul style="list-style-type: none"> come to a supported conclusion as to whether it will be mainly beneficial or harmful. must analyse both potential benefits and costs of a movement from a current account deficit to a current surplus must be based on strong and relevant analysis and evaluation bringing out, in depth, important influencing factors e.g. initial level of capacity, significance of the cause of the movement, the possibility of the duration of the change being influenced by changes in the exchange rate.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			<ul style="list-style-type: none"> The movement may be the result of a recession in the economy causing consumer expenditure to fall and putting pressure on firms to export more. If the movement is the result of a rise in international competitiveness, it may be more long lasting than if it is the result of changes in income at home or abroad or protectionist measures. A current account surplus may not last long if it results in a rise in the exchange rate which will make exports more expensive and imports cheaper. A current account surplus may not result in an increase in AD if it is offset by, for example, a decrease in government spending. A movement from a small current account deficit to a small current account surplus may have little effect on AD and so on the economy. If the current account deficit was matched by an inflow of FDI, it might not have posed a problem. A current account surplus may be matched by an outflow of FDI or portfolio investment. The effect will be more beneficial if it is the result of domestic firms becoming more competitive than the result of protectionism. If the movement causes inflation which results in a reduction in international competitiveness, this may mean that any beneficial effects are short lived. If the movement causes economic growth 			<p>For 13 – 15 marks, the discussion:</p> <ul style="list-style-type: none"> may analyse both potential benefits and costs of a movement from a current account deficit to a current account surplus may evaluate either costs or benefits must be based on relevant analysis.. <p>Note; it is not sufficient just to state it depends on the size of the deficit and surplus. To gain a mark here, a candidate must bring out why size is significant.</p>

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Question			Answer	Marks	Guidance	
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			<p>which stimulates investment, this can increase AS which can increase any beneficial effects.</p> <p>Answers should analyse the effects of such a movement.</p> <p>Examples of possible Level 3 answers:</p> <ul style="list-style-type: none"> • Net exports are a component of aggregate demand. A movement to a surplus will increase AD/A rise in net exports will increase injections into the circular flow. Higher AD can increase real GDP as firms will be encouraged to increase their output (an AD/AS diagram may be used to illustrate this point). • The higher output which may arise may result in firms employing more workers to produce the extra output. • A movement may increase confidence in the economy which may lead to a rise in investment – domestic and FDI. • Higher AD may result in demand-pull inflation. • It may increase demand for and reduce the supply of the currency. These changes will be likely to raise the exchange rate. • A higher value of products may be leaving the country than entering it. This means the economy is earning more from its domestic output than it is spending. • A current account surplus indicates that 		<p>Show where Level 3 has been awarded with L3.</p> <p>If awarding Level 3, 2 or 1 overall, show where the highest level has been gained.</p> <p>For 11+marks, there must be some depth of analysis covering two or three effects of the movement.</p> <p>For 9 – 10 marks, there may be some lack of depth, covering just one or two effects in sufficient detail.</p> <p>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning.</p>	<p>Level 3 [9 – 12] For an analysis of either the benefits or the costs of a movement from a current account deficit to a current account surplus.</p> <p>The analysis must focus on the actual question set bringing out the effects on the economy of a movement from a current account deficit to a current account surplus.</p> <p>For 11 – 12 marks, there should be analysis of three effects of the movement or well developed analysis of two effects.</p> <p>For 9 – 10 marks, there should be undeveloped analysis of two effects or somewhat undeveloped analysis of one.</p>

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>living standards are lower than could occur with however.</p> <p>Answers should recognise some of the benefits and/or costs of the movement from a current account deficit to a current account surplus.</p> <p>Examples of possible Level 2 answers:</p> <ul style="list-style-type: none"> • the movement may increase AD/increase injections/reduce leakages • it may raise output • it may reduce unemployment • it may increase the exchange rate • it may cause inflation 		<p>For 7 – 8 marks, the answer should recognise at least three or four effects of the movement. For 5 – 6 marks, the answer should recognise one or two effects.</p> <p>Some ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.</p>	<p>Level 2 [5 – 8] For an application of knowledge and understanding of the effects of the movement.</p> <p>To gain 8 marks a candidate needs to identify four effects of the movement or at least two effects with a hint of explanation on at least one of these. To gain 7 marks a candidate needs to identify three effects or at least one with a hint of explanation on this. To gain 6 marks a candidate needs to identify two effects. To gain 5 marks a candidate needs to identify an effect.</p> <p>Note: these points have to be linked to the change in the current account position. No marks if linked e.g. to a budget deficit.</p>

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Question			Answer	Marks	Guidance	
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			<p>These answers will show some awareness of the terms.</p> <p>Examples of Level 1 answers:</p> <ul style="list-style-type: none"> • A current account deficit arises when more money is leaving the country than is entering it/a current account deficit may involve import expenditure exceeding export revenue. • A current account surplus arises when more money is entering a country than is leaving it/a current account surplus may involve export revenue exceeding import expenditure. • A current account deficit is when imports are greater than exports. • A current account surplus is when exports are greater than imports. • The current account includes four parts. • The balance of payments is a record of economic transactions between the country and other countries/money coming into and going out of the economy. 		<p>For 3 – 4 marks, there will be good knowledge of a current account deficit and surplus.</p> <p>For 1 – 2 marks, there will be some awareness of the meaning of a current account deficit or surplus.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive, writing may lack legibility.</p>	<p>Level 1 [1 – 4] For knowledge and understanding of a current account surplus and/or a current account deficit.</p> <p>Note: for a candidate who is in Level 1 up to 2 marks each may be awarded for the first two bullet points and a maximum of 1 mark each for the last four bullet points.</p>

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