



**General Certificate of Education**

**Economics 1141**

**ECON2: The National Economy**

**Mark Scheme**

*2009 examination - January series*

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 meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting 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 the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting 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.

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Set and published by the Assessment and Qualifications Alliance.

**Advance Subsidiary Economics Unit 2****Section A: Objective Test****January 2009**

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

**KEY LIST**

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

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## Advanced Subsidiary Economics Unit 2

### Section B: Data Response

January 2009

#### 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 parts (a), (b) and (c) 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 part (d) 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 to 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 (e.g. 14 marks for Level 3). Move up or 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 level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

## THE LEVELS MARK SCHEME FOR AS

### Level Descriptions

In part (d) of the data response questions, approximately half the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 13 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. It is not necessary for the answer to identify a wide range of issues to score the top mark. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

#### Level 1: A very weak answer

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. There might be some evidence of organisation in the answer but generally it fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

**0 to 6 marks**

*Mid-Point 4 marks*

#### Level 2: A poor answer but some understanding is shown

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused and analysis will therefore be very limited. There may be some attempt to present alternative points of view but any attempt at evaluation is limited or superficial. There is some logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

**7 to 11 marks**

*Mid-Point 9 marks*

#### Level 3: An adequate answer with some correct analysis but very limited evaluation

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated and there is some evidence that the candidate can analyse issues. There will be some attempt to present alternative points of view and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand, but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

**12 to 16 marks**

*Mid-Point 14 marks*

#### Level 4: Good analysis but limited evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Some appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

**17 to 21 marks**

*Mid-Point 19 marks*

#### Level 5: Good analysis and evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

**22 to 25 marks**

*Mid-Point 24 marks*

### 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.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

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**EITHER**

**26 PRODUCTIVITY**

**Total for this question: 50 marks**

<b>26 (a)</b> Define the term 'labour productivity' ( <b>Extract B</b> , lines 1-2). (5 marks)
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**For an acceptable definition** (eg, output per worker per period of time, output per person employed, total output divided by the number of people employed) **5 marks**

**NB** Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'labour productivity' even if the definition is not exactly the same as the three acceptable examples quoted above)

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

How much people can produce in a given amount of time **4 marks**

Output produced for every input used **3 marks**

A measure of output (or the amount produced) **2 marks**

A measure of efficiency **2 marks**

Candidates who confuse productivity with production can be awarded **up to 2 marks**.

**This mark scheme does not allow examiners to award 1 mark for a point. Examiners must award either 0 or 2 for each point made by the candidate.**

**MAXIMUM FOR PART (a): 5 MARKS**

**26 (b)** Using **Extract A**, identify **two** main features of the annual rate of growth of UK labour productivity for the period 2002 to 2007. **(8 marks)**

**Award up to 4 marks for each valid point (two marks for identification and two marks for supporting reference(s) to the data). These include:**

- the volatility of the data from late 2003 (ranging from a high of 3.1% to a low of around 0.5%)
- the highest rate of growth was in mid-2004 at over 3%
- the lowest rate of growth was about 0.5% in mid-2005
- for the period overall, the rate of growth of labour productivity rose from just under 1% in 2002, to almost 3% in the first quarter of 2007
- 2002 to the end of 2003 and mid-2005 to mid-2006 are periods of increases in the rate of growth of labour productivity, e.g. from under 1% of growth in 2002 to almost 3% rate of growth at the end of 2003
- mid-2004 to mid-2005 is the longest period of decline in the rate of growth of labour productivity from just over 3% to under 1% rate of growth
- the values are positive throughout the period
- the rate of growth of labour productivity gives the appearance of being cyclical and lies within the range of 0 and 3% of growth

Where a candidate quotes percentage figures, allow a margin of error of 0.2 percentage points either way in relation to the figures given above.

Where a candidate persistently confuses the rate of growth of labour productivity with the absolute level of labour productivity, e.g. labour productivity over the period increased from 1% to 3%, labour productivity award a **maximum of 4 marks**.

**Up to 4 marks** may be awarded if there is no use of statistics to support the points made or if candidates simply trawl through the data

**Up to 6 marks** may be awarded where there is evidence of an overview being taken, even though parts of the answer give the impression of a trawl through the data.

**Where a candidate has included more than two points, award marks to the best two points.**

**MAXIMUM FOR PART (b): 8 MARKS**

**26 (c) Extract B** (line 6) suggests that 'international studies provide explanations for differences in labour productivity'.

Explain **two** determinants of labour productivity.

*(12 marks)*

**For candidates who:**

For relevant definitions, other than labour productivity

**2 marks**

explain determinants of labour productivity, e.g.

- investment in new machinery in a particular industry (2 marks), will usually mean fewer breakdowns (2 marks), allowing labour to feel more confident of having the expected production time and finding use of new equipment more rewarding (2 marks) and so being able to produce more per production period (2 marks)
- technological progress arising from R&D programmes
- pay incentives, e.g. bonuses for exceeding production targets, profit sharing
- moving resources from less productive to more productive uses
- a more enterprising business culture whether or not government inspired
- the rate of growth of employment when compared to the rate of growth of output
- improved working practices, e.g. multi-skilling, job satisfaction programmes
- the macroeconomic climate (as long as candidates explain the relevance of this to productivity, e.g. greater business confidence to invest in new equipment)
- investment in human capital

**up to 8 marks (2 + 6) per reason explained.**

**Within the 8 marks, up to 4 marks (2 marks for curve/axes labelling, 2 marks for the information shown) for use of relevant diagrams accurately drawn.**

It would be quite legitimate for candidates to write in terms either of factors bringing an increase or a decrease in productivity.

If candidates explain more than two determinants award marks to the best two explanations.

While reference to the data should be given due credit, candidates who do not go beyond simply copying from Extract B when explaining a determinant, should be awarded a maximum of **2 marks**.

**MAXIMUM FOR PART (c): 12 MARKS**

**26 (d)** Using the data and your economic knowledge, assess the importance of higher labour productivity in bringing about improvements to UK macroeconomic performance. **(25 marks)**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *For this question they might comment on the extent of any improvement; what impact this might have on the productivity gap; that we cannot put too much weight on any one factor but must see productivity as part of a wider picture; the extent to which productivity improvements are cancelled out by a rising rate of inflation and/or an appreciating exchange rate; productivity improvements become meaningless if we cannot sell any extra output in world markets for whatever reason, eg recession or poor quality.*

A maximum of **21 marks** should be awarded if there is no **explicit** reference to the data.

**Issues and areas for discussion:**

- definition of macroeconomic performance
- components of the macroeconomy
- economic growth
- price level
- employment/unemployment
- the balance of payments on current account assuming improved productivity benefits unit costs
- labour productivity and how it might affect one or more of the above components
- the productivity gap
- the UK experience
- the significance of the rate of inflation
- the significance of exchange rate trends
- the significance of macroeconomic conditions in the UK's overseas markets
- the significance of the rate of growth of AD
- better productivity being unable to disguise the deindustrialisation that has taken place in the UK
- the importance of considering in which sectors of the economy the greatest improvements in productivity are taking place
- the extent of any improvement in labour productivity
- the dangers of isolating, and putting significant weight upon, just one factor such as labour productivity

The issues identified above are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Also give credit for:**

- Use of diagrams
- Relevant use of the data
- Reference to the UK and/or other economies
- Real world examples

**USE THE LEVELS MARK SCHEME ON PAGES 5 AND 6**

**MAXIMUM FOR PART (d): 25 MARKS**

**TOTAL FOR THIS QUESTION: 50 MARKS**

OR

## 27 HOUSEHOLD SAVINGS

**Total for this question: 50 marks**

**27 (a)** Define the term 'savings' (**Extract F**, line 1).

*(5 marks)*

**For an acceptable definition** (eg Income minus consumption ( $S = Y - C$ ), the portion of income that is not spent, the portion of income that is not passed on around the circular flow of income) **5 marks**

Another acceptable definition is the amount of money held by households in financial institutions such as bank, i.e savings as a stock

**NB** Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'savings' 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:**

For stating that savings is a withdrawal from the circular flow of income **2 marks**

For stating one or more examples of savings **2 marks**

Acceptable examples of savings include:

- funds deposited in a bank account
- funds deposited in a building society account
- purchase of shares
- purchase of government securities
- funds put into a pension scheme
- funds put into a life assurance policy

Reward any other reasonable examples but do not reward the purchase of real assets such as property, antiques, vehicles and consumer durables.

**This mark scheme does not allow examiners to award 1 mark for a point. Examiners must award either 0 or 2 marks for each point made by the candidate.**

**MAXIMUM FOR PART (a): 5 MARKS**

**27 (b)** Using **Extract D**, identify **two** main features of the UK household savings ratio for the period 2004 to 2007. **(8 marks)**

**Award up to 4 marks for each valid point (two marks for identification and two marks for supporting reference(s) to the data). These include:**

- the savings ratio fluctuates over the period with a range of values from 2.1% to 6.3%
- both 2004 and 2006 see an overall decline in the savings ratio, e.g. in 2004 from 4.5% to 3.7%
- 2005 is the only year to see a sustained increase in the savings ratio, from 4.6% to 6.3%
- for the period overall the values ranged from 4.5% to 3.2%
- Both 2005 and 2006 see the highest value for the savings ratio of the period (6.3%)
- 2007 sees the lowest value (2.1%)
- the values are positive throughout the period
- 2006 sees the biggest change in the ratio (from 6.3% to 3.9%) suggesting some volatility in the ratio, 2004 the smallest (3.1% to 4.5%)

Where a candidate quotes percentage figures, allow a margin of error of 0.2 percentage points either way in relation to the figures given above.

Where a candidate persistently confuses a rise/fall in the savings ratio with a rise/fall in household savings, award a **maximum of 4 marks**.

**Up to 4 marks** may be awarded if there is no use of statistics to support the points or if candidates simply trawl through the data.

**Up to 6 marks** may be awarded where there is evidence of an overview being taken, even though parts of the answer give the impression of a trawl through the data.

**Where a candidate has included more than two points, award marks to the best two points.**

**MAXIMUM FOR PART (b): 8 MARKS**

**27 (c) Extract E** (lines 1-2) states that ‘the rate at which households are saving has plunged to the lowest level in almost half a century’.

Explain **two** determinants of saving by households.

*(12 marks)*

**For candidates who:**

For relevant definitions, other than savings

**2 marks**

explain determinants of household saving, e.g.

- a rising rate of interest (2 marks) which creates a higher opportunity cost of consumption over savings (2 marks), in that more interest income can now be gained from saving (2 marks), as institutions such as banks and building societies follow any increase in bank rate set by the MPC (2 marks)

- family income within a household

- a rising rate of interest means higher monthly payments for those with variable-rate mortgages and less income to use at their discretion for consumption or saving

- a changing tax burden affecting disposable income and the ability to save

- changing expectations, e.g. the greater threat of redundancy causing people to increase savings

- the rate of inflation influencing the real value of savings and causing households to adjust their decisions over saving

- to finance future consumption, e.g. a new car or a house

- the attraction or otherwise of savings schemes offered by financial institutions or by government

- the attractiveness of pension schemes or, as in recent years, severe doubts about their track-record

**up to 8 marks (2 + 6) per reason explained.**

**Within the 8 marks, up to 4 marks (2 marks for curve/axes labelling, 2 marks for the information shown) for use of relevant diagrams accurately drawn.**

It would be quite legitimate for candidates to write in terms either of factors bringing an increase or a decrease in savings.

If candidates explain more than two determinants award marks to the best two explanations.

While reference to the data should be given due credit, candidates who do not go beyond simply copying from Extract E when explaining a determinant should be awarded a maximum of **2 marks**.

**MAXIMUM FOR PART (c): 12 MARKS**

**27 (d) Extract F** (lines 7-8) argues that ‘the potential significance of household savings for UK macroeconomic performance needs to be recognised’.

Using the data and your economic knowledge, evaluate the significance of household savings for UK macroeconomic performance. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *For this question candidates might comment on the need to draw a distinction between the short run (changed savings decisions affecting AD) and the long run (changed savings decisions affecting the rate of growth given the impact on investment); domestic savings not having the significance they might once have had for investment because of much greater FDI; in practice, changes in household savings don't seem to have had a major impact on the UK's growth performance or it is difficult to isolate savings as a factor when considering changes in the macroeconomic performance of the UK.*

A maximum of **21 marks** should be awarded if there is no **explicit** reference to the data.

**Issues and areas for discussion:**

- the savings ratio
- the UK experience
- the division of household income into consumption and saving
- definition of macroeconomic performance
- components of macroeconomic performance
- economic growth
- prices
- employment/unemployment
- the balance of payments on current account
- how savings might affect the above components
- the need to draw a distinction between the short run (changed savings decisions affecting AD) and the long run (changed savings decisions affecting the rate of growth given the impact on investment)
- domestic savings not having the significance they might once have had for investment because of much greater inward investment from overseas
- in practice, changes in household savings don't seem to have had a major impact on the UK's growth performance or it is difficult to isolate savings as a factor when considering changes in the macroeconomic performance of the UK.

The issues identified above are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Also give credit for:**

- Use of diagrams
- Relevant use of the data
- Reference to the UK and/or other economies
- Real world examples

**USE THE LEVELS MARK SCHEME ON PAGES 5 AND 6**

**MAXIMUM FOR PART (d): 25 MARKS**

**TOTAL FOR THIS QUESTION: 50 MARKS**