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AS

Economics

7135/2 Paper 2 The National Economy in a Global Context
Final Mark scheme

7135
June 2017

Version/Stage: v1.0

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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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SECTION A

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

KEY LIST

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

	Total
A	2
B	8
C	3
D	7
	20

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Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

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The levels of response grid below should be used when marking the 25 mark questions.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21–25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16–20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgments but these are not well-supported by arguments and/or data.	**11–15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited, application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes attempted evaluation which is weak and unsupported.	**6–10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1–5 marks**

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SECTION B

Context 1 Managing the UK Economy **Total for this Context: 50 marks.**

2 1 *Define the term 'real interest rate' **Extract B** (line 5).*

[3 marks]

Level of response	Response	Max 3 marks
3	• A full and precise definition is given.	**3 marks**
2	• The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.	**2 marks**
1	• Some fragmented points are made.	**1 marks**

Examples of acceptable definitions, worth 3 marks:

- real interest rate is the cost of borrowing and/or reward for saving money as a percentage of sum borrowed/saved which has been adjusted to take into account the rate of inflation
- the percentage of the sum borrowed and/or saved that is charged to borrowers/paid to savers with the effects of inflation removed

Examples of a definition worth 2 marks:

- the cost of borrowing money with the effects of inflation removed
- the reward for lending/saving money adjusted for inflation

Examples of a definition worth 1 mark:

- defines only interest rate (e.g. cost of borrowing or reward from saving), may or may not include % of the sum borrowed or saved
- defines only the term 'real'

Note:

Full and precise understanding can be demonstrated by referring to either saving and/or borrowing

MAXIMUM FOR QUESTION 21: 3 MARKS

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2 2 *The price of a television is £500 without VAT. Use **Extract C** to calculate the decrease in the amount of VAT that would have to be paid on this television as a result of the tax cut introduced by Alistair Darling.*

[4 marks]

Response	**Max 4 marks**
For a correct answer: £12.50 or £12.5	**4 marks**
Omitting the £ sign but figure is correct, 12.50 or 12.5	**3 marks**
Calculates old VAT £87.50 **and** the new VAT of £75.00 but not the decrease with or without £ signs	**2 marks**
For a valid attempt at a calculation, even though the answer is incorrect – must show a valid attempt at calculating VAT at either 17.5% or 15% Calculates only one of the VAT figures with or without £ signs	**1 mark**

Note:

£500 x 0.175 = £87.50
£500 x 0.15 = £75.00 -
£12.50

MAXIMUM FOR QUESTION 22: 4 MARKS

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2 3 *Use **Extract A** to identify **two** significant points of comparison between the growth of mortgage lending and the growth of consumer credit over the period shown.*

[4 marks]

Award up to 2 marks for <u>each</u> significant point of comparison made.

Response	**Max 4 marks**
Identifies a significant point of comparison Makes accurate use of the data to support the point of comparison identified. Unit of measurement given accurately	**2 marks**
Identifies a significant point of comparison of the data but only one piece of data is given when two are needed **and/or** no unit of measurement is given **and/or** the unit of measurement is inaccurate **and/or** the wrong date is given. **OR** Identifies a significant feature of one data series with accurate use of data (including the unit of measurement) but no comparison is made.	**1 mark**

If a candidate identifies more than 2 significant comparisons, reward the best two.

Significant comparisons include:

- the increase in mortgage lending was highest in 2004 at 13.1% whilst the increase in consumer credit was also highest in 2004 at 14.1%
- the growth in mortgage lending was lowest in 2009 and/or 2010 and/or 2011 at 0.5% whereas the growth in consumer credit was also lowest in 2009 and/or 2010 at -1.3%
- the increase in mortgage lending and consumer credit were both lower at the end of the period than at the beginning. The growth in mortgage lending decreased from 13.1% to 2.6% whilst the growth in consumer credit decreased from 14.1% to 8.6%
- throughout the period the percentage change in mortgage lending was always positive, its lowest value being 0.5% in 2010 whilst the change in consumer credit was negative between 2009 and 2012, its lowest was in 2010 at -1.3%
- the greatest difference between the growth in mortgage lending and the growth in consumer credit occurred in 2015 when mortgage lending grew at 2.6% and the growth in consumer credit was 8.6% a difference of 6%

Notes: allow a margin of ± 0.5%

Do not reward comparisons with lending to businesses

MAXIMUM FOR QUESTION 23: 4 MARKS

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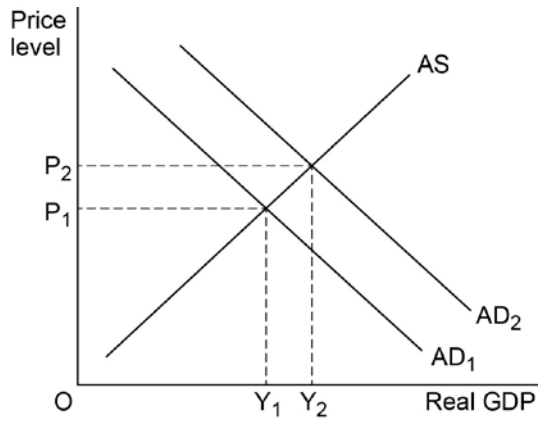
2 4 ***Extract B*** *(line 8-10) states 'House prices have been rising over the past few years and this has increased homeowners' wealth.'*

Draw an AD/AS diagram to show the impact of an increase in household wealth on both real national income and the price level.

[4 marks]



Accept either LRAS and/or SRAS curve.

Response	**Max 4 marks**
Accurately drawn AD/AS diagram showing a rightwards shift in AD, Original equilibrium shown, P_1Y_1 and new equilibrium price level and output eg P_2Y_2, with both axes and all curves and coordinates labelled.	**4 marks**
Accurately drawn AD/AS diagram showing a rightwards shift in AD, with one label missing.	**3 marks**
Accurately drawn AD/AS diagram showing a rightwards shift in AD, with two or more labels missing	**2 marks**
Accurately drawn AD/AS diagram showing an initial equilibrium point with both axes, both original curves and both original coordinates labelled, eg P_1Y_1	**1 mark**

Notes:

Labels refer to axes and / or coordinate labels.

Label of axis can be 'Real GDP', 'Real Output,' 'Output,' 'Y,' 'RNO,' 'NI' and 'National Output.'
Do not reward Quantity or Q.

Label of axis can be 'Price Level,' 'PL,' 'Inflation' and '£'.
Do not reward Price or P.

MAXIMUM FOR QUESTION 24: 4 MARKS

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2 5 ***Extract B*** *(line 12) states 'The average debt per household, including mortgages was £53 904 in December 2015.'*

*Explain **two** factors that influence the willingness of UK households to borrow.*

[10 marks]

Level of response	Response	Max 10 marks
3	• is well organised and develops one or more of the key issues that are relevant to each of the two factors • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • may include a relevant diagram to support their explanation	**8 - 10 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram to support their explanation	**4 - 7 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate	**1 - 3 marks**

Relevant issues include:

- what is meant by borrowing, wealth or any relevant term
- consumer confidence
- cost of borrowing
- level of existing debt
- income
- age, young households will tend to have more debt relative to assets and income
- general attitudes towards debt
- ease/difficulty of obtaining credit/loans.

MAXIMUM FOR QUESTION 25: 10 MARKS

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2 6 ***Extract C*** *(lines 13 to 15) states 'A tighter fiscal policy was adopted to reduce the budget deficit. Meanwhile, loose monetary policy was used to bring about a recovery of the UK economy.'*

Use the extracts and your knowledge of economics to assess the contribution that fiscal policy ***and*** *monetary policy can make in sustaining the recovery of an economy, such as the UK.*

[25 marks]

Areas for discussion include:

- monetary, fiscal policy and recovery, or other relevant terms
- loose monetary policy and/or tightening fiscal policy
- examples of fiscal and monetary policy measures
- key indicators of a recovery
- the transmission mechanisms of monetary and fiscal policy
- an appreciation of direct and indirect taxation
- awareness of confidence of both consumer and business spending
- implications of a rate rise given levels of debt
- availability and cost of credit
- impact of policies on key performance indicators
- assessment of policies on different groups within society and their significance for a recovery of the economy
- time lags
- reference to negative interest rates
- application to recent changes and the current state of the UK economy
- consumption-led recovery financed by debt v. export-led or discussion of structural rebalancing
- influence of external factors such as commodity prices, performance of major trading partners.
- references to and discussion of supply-side policies, long term investment, savings etc
- students' evaluation is likely to focus on the effectiveness of the policies and the impact on the current economic situation but may also consider equity of the policies, winners and losers

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response the question.

Use the levels mark scheme on page 5 to award candidates marks for this question.

MAXIMUM FOR QUESTION 26: 25 MARKS

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Context 2 UK Wages and Competitiveness **Total for this Context: 50 marks**

2 7 *Define the term 'deficit on the balance of trade in goods and services' **Extract E** (line 14).*

[3 marks]

Level of response	Response	Max 3 marks
3	• A full and precise definition is given.	**3 marks**
2	• The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.	**2 marks**
1	• Some fragmented points are made.	**1 mark**

Examples of acceptable definitions, worth 3 marks:

- the value of exports of goods and services is less than the value of imports of goods and services
- the amount spent on our exports of goods and services is less than the amount we spend on importing goods and services

Example of a definition worth 2 marks:

- the value of imports is greater than the value of exports
- the amount/quantity of exports of goods and services is less than the amount/quantity of goods and services imported

Example of a definition worth 1 mark:

- the amount of imports are greater than the amount of exports
- imports are greater than exports
- the difference between the value of exports of goods and services and the value of imports of goods and services

MAXIMUM FOR QUESTION 27: 3 MARKS

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2 8 *Use **Extract E** to calculate, to **two** decimal places, the percentage change in the median real wage between 2004 and 2015.*

[4 marks]

Response	**Max 4 marks**
For a correct answer: -3.81% or a fall of 3.81%	**4 marks**
For omitting the % sign: -3.81 For omitting the minus sign but has %: 3.81% For a figure shown to 1dp: -3.8%, including the minus and % sign For a figure incorrectly rounded to -3.80%, including the minus and % sign	**3 marks**
Correct figure but omitting the minus sign and the %: 3.81 Correct figure to 1dp: 3.8, without either the minus and/or % sign For a figure incorrectly rounded to: 3.80, without either the minus and/or % sign	**2 marks**
For a valid attempt at the calculation, even though the answer is incorrect, e.g. for showing the correct method (there might be an error in one of the figures but it is clear that the candidate understands how to calculate the percentage change)	**1 marks**

Note:

£527.70 - £548.60 = - £20.90

$$\frac{-£20.90}{£548.60} \times 100 = -3.81\%$$

MAXIMUM FOR QUESTION 28: 4 MARKS

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2 9 *Use **Extract D** to identify **two** significant points of comparison between the balance of trade in goods and the balance of trade in services over the period shown.*

[4 marks]

Award up to 2 marks for <u>each</u> significant point of comparison made.

Response	**Max 2 marks**
Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified. Unit of measurement given accurately.	**2 marks**
Identifies a significant point of comparison but only one piece of data is given when two are needed **and/or** no unit of measurement is given **and/or** the unit of measurement is inaccurate **and/or** the wrong date is given. **OR** Identifies a significant feature of one data series with accurate use of the data (including the unit of measurement) but no comparison is made.	**1 marks**

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

Significant points include:

- the largest deficit on the balance of trade in goods was in December 2014 at £13.5bn whilst the largest surplus on balance of trade in services was in Nov and/or Dec 2014 at £8bn
- the smallest deficit on the balance of trade in goods was in June 2015 at £8.3bn whilst the smallest surplus on the balance of trade in services was in January 2014 at £6.2bn
- the largest deficit on the balance of trade in goods was in December 2014 at £13.5bn whilst the smallest surplus on balance of trade in services was in January 2014 at £6.2bn
- the balance of trade in goods had a range of £5.1bn whilst the range for the balance of trade in services was lower at £1.8bn
- the balance of trade in goods was always in deficit whilst the balance of trade in services was always in surplus. The smallest deficit for trade in goods was £8.3bn in June 2015 whereas the smallest surplus for trade in services was £6.2bn in Dec 2015
- the balance of trade in goods fluctuates more than the balance of trade in services. The biggest change in the balance of trade in goods was between June 2015 and July 2015 with an increase in the deficit of almost £4bn whilst for the balance of trade in services the biggest change was between March 2014 and April 2014 when the surplus rose by just over £0.4bn
- the surplus on the balance of trade in services is higher at the end of the period (£7.5bn) than at the start of the period (£6.2bn) (ie it improves) whereas the deficit on the trade in goods is higher at the end of the period (£11.0bn) than at the start of the period (£10.2bn) (ie it deteriorates)

Notes: Allow a margin of ± £0.5bn

- £13.5bn (Dec 2014) can be accepted as the largest deficit, the lowest balance or the highest balance (of trade in goods)

- £8.3bn (Jun 2015) can be accepted as the smallest deficit, the highest balance or the lowest balance (of trade in goods)

Minus sign must be given when referring to the balance (of trade in goods), but not if they state it is a deficit (on trade in goods)

MAXIMUM FOR QUESTION 29: 4 MARKS

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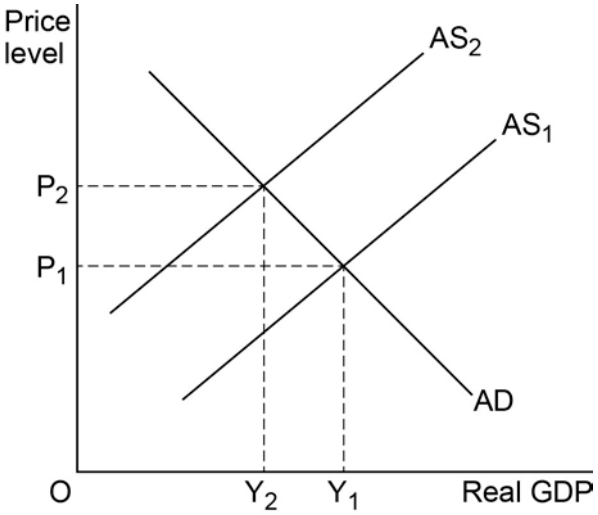
3 0 ***Extract E*** *(lines 1-2) states '…the causes included a stronger pound, higher energy prices.'*

Draw an AD/AS diagram to show the impact of higher energy prices on the price level and real output.

[4 marks]



Allow a shift in AS or SRAS but not LRAS

Response	**Max 4 marks**
Accurately drawn AD/AS diagram showing a leftwards shift in AS, new equilibrium price level and output e.g. P_2Y_2, with both axis and all curves and coordinates labelled.	**4 marks**
Accurately drawn AD/AS diagram showing a leftwards shift in AS, with one label missing.	**3 marks**
Accurately drawn AD/AS diagram showing a leftwards shift in AS, with two or more labels missing.	**2 marks**
Accurately drawn AD/AS diagram showing an initial equilibrium point with both axes, both original curves and both original coordinates labelled, eg P_1Y_1.	**1 marks**

Notes:

Labels refer to axes and / or coordinate labels.

Label of axes can be 'Real GDP', 'Real Output,' 'Output,' 'Y,' 'RNO,' 'NI' and 'National Output.'
Do not reward Quantity or Q.

Label of axes can be 'Price Level,' 'PL,' 'Inflation' and '£'.
Do not reward Price or P.

MAXIMUM FOR QUESTION 30: 4 MARKS

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3 1 ***Extract F*** *(lines 7–8) states 'productivity remains a key issue in improving competitiveness and aiding the recovery of the economy.'*

*Explain **two** factors that may have contributed to low productivity in the UK.*

[10 marks]

Level of response	An answer that:	Max 10 marks
3	• is well organised and develops one or more of the key issues that are relevant to each of the two factors • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well–focused analysis with a clear, logical chain of reasoning • may include a relevant diagram to support their explanation.	8 – 10 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram to support their explanation.	4 – 7 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.	1 – 3 marks

Relevant issues include:

- explaining what is meant by productivity
- invention, innovation, technological change, R&D and productivity
- inadequate investment in the capital stock
- government investment, or lack of, in infrastructure – transport, internet etc
- education – changes to examinations, attainment levels etc
- training and its impact on productivity
- flexible labour markets, part-time, temporary workers and the possible impact on productivity
- labour hoarding during recession

MAXIMUM FOR QUESTION 31: 10 MARKS

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3 2 ***Extract F*** *(lines 16-17) states 'there is much to be done if the UK is to pay its way with the rest of the world.'*

Use the extracts and your knowledge of economics to assess the policies that could be used to reduce the UK's balance of trade deficit.

[25 marks]

Areas for discussion include:

- explanation of the term balance of trade deficit
- recent UK experience in relation to the balance of trade
- factors that affect the balance of trade with particular reference to the UK
- exchange rate policy and how it affects the balance of trade
- demand-side policies and how they affect the balance of trade
- supply-side policies and how they can affect the balance of trade
- promoting and developing trade links with other countries
- the significance of the BREXIT vote & subsequent developments
- some may consider tariffs, quotas, export subsidies and other protectionist measures (BUT not expected since it is not part of the AS Specification)
- factors that determine the effectiveness of the various policies, e.g. elasticities
- the likely short-run and long-run effectiveness of the various measures
- the impact of the different measures on other policy objectives, e.g. reducing AD to reduce imports is likely to reduce growth and increase unemployment
- the most appropriate policy depends on the current state of the economy, e.g. reducing AD may be better than generating a fall in the exchange rate if the economy is experiencing high inflation
- the link between the cause of the deficit and the most appropriate policy response

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 5 to award candidates marks for this question.

MAXIMUM FOR QUESTION 32: 25 MARKS