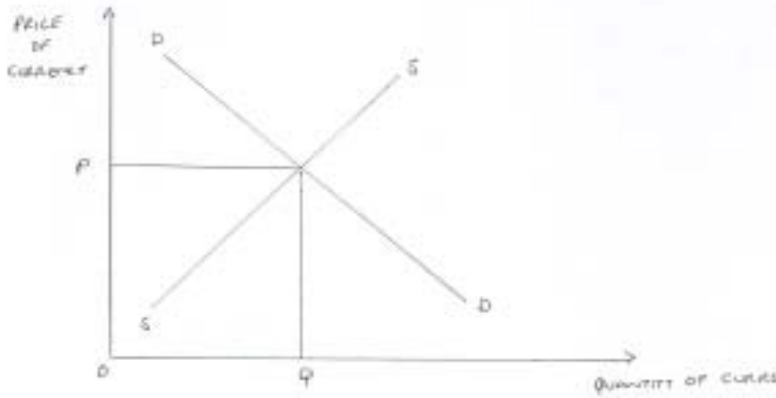


F582

Mark Scheme

January 2010

## F582 The National and International Economy

Question	Answer	Marks	Guidance
1 (a)	2 marks for the price of one currency in terms of another currency/currencies. 1 mark for price/value/worth of a currency/one currency compared to another currency/currencies. 1 mark for example.	2	£1 = \$2 or equivalent would be awarded 1 mark as an example – not explicitly mentioning that it is the price of the currency. Nothing for just 'rate' of a currency.
1 (b)	 <p>1 mark for demand curve correctly labelled.            1 mark for supply curve correctly labelled.            1 mark for equilibrium shown.</p>	3	Accepting straight line demand and supply curves and curved demand and supply curves. The equilibrium can be shown by price and quantity lines (linked to P and Q or price and quantity on the axes) or by an explicitly indicated equilibrium point. An answer which shifts one of the curves can still get three marks if the curves are correctly labelled and an equilibrium is shown.

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Question	Answer	Marks	Guidance
2 (a)	<p>Up to 3 marks for analysing data:</p> <ul style="list-style-type: none"> <li>• Abu Dhabi had a lower inflation rate</li> <li>• Abu Dhabi had a higher real GDP/larger contribution to UAE,s real GDP</li> <li>• Abu Dhabi had a higher real GDP per capita as real GDP is higher and population is lower</li> <li>• Abu Dhabi had a larger trade surplus.</li> </ul> <p>Up to 3 marks for evaluation:</p> <p>* Conclusion that most of the information supports the view that Abu Dhabi was performing better.</p> <ul style="list-style-type: none"> <li>• Dubai had a higher growth rate – this does not support the view.</li> <li>• Reference to other information needed eg the unemployment rate, other years' data.</li> </ul> <p>Maximum of 5 marks.</p>	5	
2 (b)	<p>1 mark for identification and 1 mark for description x 2 e.g.</p> <ul style="list-style-type: none"> <li>• risk of double counting (1) as using the output method, raw materials must not be counted twice (1)</li> <li>• need to exclude transfer payments (1) as only incomes earned in producing products must be included (1)</li> <li>• the existence of undeclared economic activity (1) may mean that real GDP figures understate the true level of the country's output (1)</li> <li>• the need to measure inflation accurately (1) as nominal (money) inflation has to be adjusted to get real GDP. (1)</li> </ul> <p>Maximum of 4 marks</p>	4	<p>Nothing for problems of interpreting real GDP as a measure of living standards e.g. real GDP may not be evenly distributed.</p> <p>1 mark for recognising real GDP has to be adjusted for inflation.</p>

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3	Up to 2 marks: 1 mark for the contribution has fallen/diversified into other areas. 1 mark for it declined most rapidly at the start of the period/less rapidly at the end of the period. 1 mark for it declined by 49% points/98% over the period. 1 mark for at the start of the period it accounted for half of the country's output whereas by the end its contribution was expected to be minimal. 1 mark for recognising 2010 is only a forecasted figure but nothing just for reference to forecasted figure. Maximum of two marks.	2	Nothing for it declined by 49%.
4 (a)	1 mark for exports or investment as an injection. 1 mark for imports or tax or foreign workers sending money home as a leakage.	2	
4 (b)	2 marks for the process by which any change in a component of AD results in a greater final change in real GDP. (Also accept the formula $1/MPW$ for 2 marks, but remember this is not required at this level.) 1 mark for idea that a change in spending has a knock on effect/affected by injections.	2	Also accept any change in an injection/leakage results in a greater final change in real GDP/AD and change in income/change in injection for 2 marks

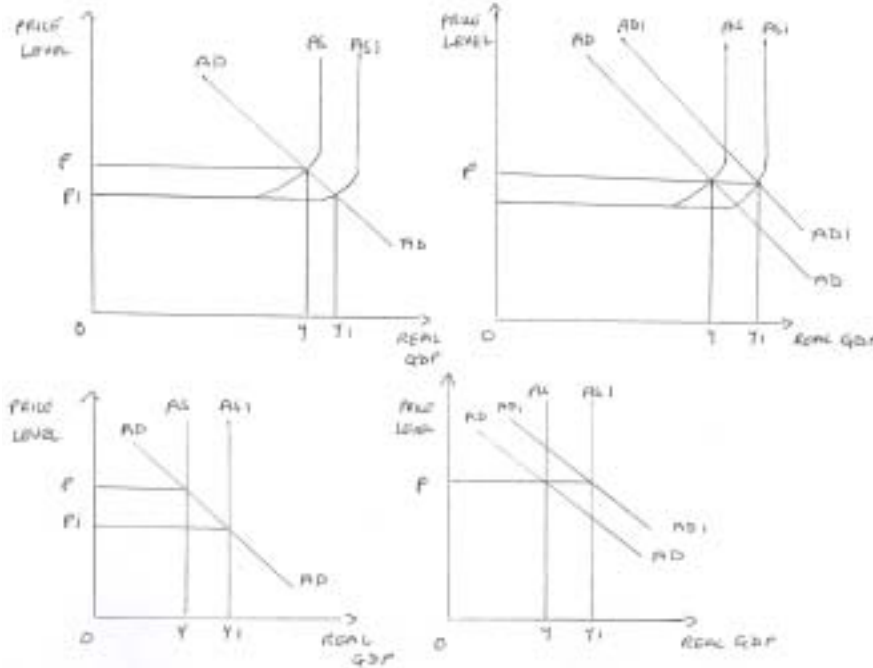
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Question	Answer	Marks	Guidance
5 (a)	<p>1 mark for each of two ways stated eg reduction in/abolition of tariffs, increase in quota levels or abolition of quotas, removal of embargoes, removal of subsidies, joining an international organisation or trade bloc that promotes free trade.</p> <p>Plus up to 2 marks each for each explanation of how the ways would reduce protectionism, eg</p> <ul style="list-style-type: none"> <li>• a reduction in tariffs would lower the price of imports on the domestic market. (1) This would make them more price competitive relative to home produced goods. +(1)</li> <li>• increase in quota levels would allow more imports into the country. (1) If these imports are cheaper or better quality, demand for domestically produced products is likely to fall. (1)</li> </ul>	6	<p>Each of these examples need a clear exemplification of the second explanatory mark.</p> <p>Allow one explanatory mark in each case for explaining the nature of the protectionist measure e.g. explaining a tariff.</p> <p>Nothing for retaliation to force countries to reduce protectionism.</p> <p>Note if no marks are given for one part but two ways are given in the second part, they can be rewarded as two.</p>
5 (b)	<p>Up to 3 marks for analysing the effects eg:</p> <ul style="list-style-type: none"> <li>• exports are a component of aggregate demand./injection into the circular flow</li> <li>• an increase in exports will raise aggregate demand.</li> <li>• higher aggregate demand will encourage firms to expand output.</li> <li>• to raise production, firms may employ more workers/increases employment.</li> </ul> <p>Up to 3 marks for evaluating effects eg:</p> <ul style="list-style-type: none"> <li>• the impact on employment will depend on whether exports rise by more than imports.</li> <li>• another component of aggregate demand may fall.</li> <li>• higher output could result from improved productivity or capital investment and so employment may not rise.</li> <li>• if the economy is operating at full employment, it may not be possible to increase employment.</li> <li>• final effect one employment may be greater than the initial impact due to the multiplier effect.</li> </ul>	6	<p>3 evaluative marks can be gained for one point one well made but: 1 evaluative mark maximum for 'will depend on how much exports increase by'.</p> <p>Maximum 6 marks</p>

Question	Answer	Marks	Guidance
6 (a)	2 marks for 53% ( $0.85m/1.6m \times 100 = 53.125\%$ ) 1 mark for calculating that the size of Dubai's labour force in 2007 was 0.85m or for the correct method but inaccuracy in the answer.	2	
6 (b)	Accurate diagram = up to a maximum of 5 marks. 1 mark for axes correctly labelled (ie macro labels). 1 mark for AD and AS curves are correctly labelled. 1 mark for shift of AS curve to the right. 1 mark for shift of AD curve to the right. 1 mark for original equilibrium. 1 mark for new equilibrium.	8	Labels: for vertical axis, accept general price level, price level, CPI, RPI or RPIX but not inflation; for horizontal axis, accept real GDP, national output, country's output and aggregate output. Equilibriums to be shown by lines to price level and real GDP and indicated by P and Y.



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Question	Answer	Marks	Guidance
	<p>Accurate explanation = up to a maximum of 5 marks.</p> <p>1 mark for recognising that a higher labour force will increase aggregate supply.</p> <p>2 marks for explaining that a higher labour force will increase aggregate supply by raising productive capacity.</p> <p>1 mark for noting that if the extra workers gain employment, AD will increase/ higher population will increase AD.</p> <p>1 mark for noting it will increase potential economic growth.</p> <p>1 mark for noting it may increase actual economic growth/higher GDP</p> <p>1 mark for explaining the effect on the price level.</p> <p>1 mark for explaining that the effect on the price level will depend on the relative shift of the AS curve and AD curve.</p> <p>1 mark for explaining effect will depend on whether there is <u>net</u> immigration/scale of <u>net</u> immigration/age of immigrants.</p> <p>Up to 2 marks for explanation that the effects on the price level and output will depend on the initial relationship between AD and AS.</p> <p>Maximum of 8 marks.</p>		

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Question	Answer	Marks	Guidance
7	<p>This question requires a discussion of how a reduction in the rate of interest may affect consumer expenditure and investment. A reduction in the rate of interest will make it cheaper for consumers and firms to borrow and reduce the return from saving. It will also mean that consumers and firms will have to pay less on past loans. Answers should recognise that the effect will depend on a number of factors and that there are other influences on consumer expenditure and investment.</p> <p><b>Level 4 (13 – 18 marks)</b> For a discussion of the extent to which a reduction in the rate of interest can be effective in increasing consumer expenditure and investment. Answers should evaluate the extent to which a reduction in the rate of interest may affect consumer expenditure and investment. Examples of L4 answers:</p> <ul style="list-style-type: none"> <li>• Changes in the current and expected profit level may have more impact on investment than changes in the rate of interest. Firms will not want to invest even if the rate of interest falls very low if it is thought that investment will not be profitable.</li> <li>• If consumer confidence is low, a fall in the rate of interest may not encourage higher consumer expenditure.</li> <li>• If business confidence is low, firms are unlikely to invest.</li> <li>• Consumer expenditure and investment may not change if it is thought that the lower interest rate will not last.</li> <li>• Borrowers will gain from a lower interest rate whilst lenders will lose. Such a redistribution of income may still lead to higher consumer expenditure and investment as borrowers tend to spend more than lenders.</li> <li>• If the rate is already very low, a cut may have little impact.</li> <li>• A large reduction is likely to have more of an impact than a small cut .</li> </ul>	18	<p>Evaluation must be underpinned by relevant analysis.</p> <p>Note: if a candidate ignores investment or shows a confused understanding of investment, the maximum mark they can gain is 13 (10 for strong analysis on C and a maximum of 3 on evaluation).</p> <p>Note: if a candidate discusses how an increase in the rate of interest might reduce consumer expenditure and investment, award up to a maximum of 8 based on the quality of the answer.</p> <p>For 18 marks, a candidate must have two good evaluative arguments, or three reasonable evaluative points, or one good evaluative argument, one reasonable evaluative argument and one brief evaluative argument.</p> <p>For 16 marks, a candidate must have one good evaluative argument, plus one brief evaluative argument or two reasonable evaluative arguments.</p>

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Question	Answer	Marks	Guidance
7 cont.	<p>For 16+ marks, the discussion must have some depth to the factors influencing the effects and their relative likelihood. For 13 – 15 marks, a discussion that does evaluate but which lacks depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any errors of spelling, punctuation and grammar.</p> <p><b>Level 3 (9 – 12 marks)</b> For an analysis of a reduction in the rate of interest and how it might increase consumer expenditure and investment. Answers should analyse the link between a change in the rate of interest and consumer expenditure and investment. Examples of L3 answers:</p> <ul style="list-style-type: none"> <li>• A cut in the rate of interest may increase investment as the opportunity cost of investing will fall, it will be cheaper to borrow to invest and firms may anticipate higher consumer expenditure.</li> <li>• A lower interest rate may increase consumer expenditure as it will be cheaper to borrow, saving will be less rewarding and borrowers' discretionary income will be higher.</li> </ul> <p>For 11+ marks there should be some depth of analysis on both consumer expenditure and investment. For 9 –10 marks the impact on only consumer expenditure or only on investment may be analysed. Relatively straightforward ideas have been expressed with some 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, but these are unlikely to be intrusive or obscure in meaning.</p> <p><b>Level 2 (5 – 8 marks)</b> For an application of knowledge and understanding of how a reduction in the rate of interest may affect</p>		<p>For 12 marks there should be both some depth and width of analysis on both consumer expenditure and investment. For 11 marks there should be some depth and width of analysis on either consumer expenditure or investment and some depth or width on the other. For 10 marks there should be some depth and width on either consumer expenditure or investment . For 9 marks there should be some depth or width on either consumer expenditure or investment. (Width = two reasons why C/I may increase.</p>

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Question	Answer	Marks	Guidance
7 cont.	<p>consumer expenditure and investment. Answers should recognise how and briefly why a lower interest rate would be likely to affect consumer expenditure and investment. Examples of L2 answers:</p> <ul style="list-style-type: none"> <li>• A reduction in the rate of interest would be likely to encourage consumers to spend more as less return from saving</li> <li>• A reduction in the rate of interest would be expected to increase investment as cheaper to invest..</li> </ul> <p>For 7+ marks, the answer should recognise the effect of a lower interest rate on both consumer expenditure and investment. For 5 – 6 marks, answers may recognise the effect of a lower interest rate on either consumer expenditure or investment. Some simple ideas have been expressed in appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p><b>Level 1 (1 – 4 marks)</b> For knowledge and understanding of consumer expenditure and investment. These answers will show some awareness of the terms. Examples of L1 answers:</p> <ul style="list-style-type: none"> <li>• Consumer expenditure is spending by households on consumer goods and services.</li> <li>• Consumer expenditure is a component of aggregate demand.</li> <li>• Investment is spending by firms on capital goods.</li> <li>• Investment is a component of aggregate demand.</li> </ul> <p>For 3+ marks, there will be both knowledge and understanding of both consumer expenditure and investment. For 1 – 2 marks, the answer will show knowledge and understanding of either consumer expenditure or investment. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>		<p>For 8 marks the answer should identify consumer expenditure would be expected to increase as well as one reason why and investment would be expected to increase as well as one reason why. For 7 marks the answer should identify that both C and I should increase and identify one reason why either may increase. For 6 marks the answer should identify that both C and I should increase. For 5 marks the answer should identify that either C or I should increase.</p>