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Mark Scheme (Results)
Summer 2008

GCE

GCE Economics (6353)

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6353 01 Mark Scheme Summer 2008

Question Number	Answer	Mark
1(a)(i)	Output per unit of input per hour (2 marks) Output per hour (1 mark) Productivity definition, output per unit of input or sense of efficiency, productiveness (1 mark) Production or output in total (0 marks)	**(2)**

Question Number	Answer	Mark
1(a)(ii)	Trend: Description of how the data **changes over the period shown** (1 mark). Allow 'productivity is falling in France' Data comparison: If the data provided is given relative to Britain award (up to **2 marks**, of which 1 may be for a valid calculation) e.g. French productivity is rising less quickly than British productivity. Concept that 'Britain = 100' means it is the base or comparator, or that other figures are given as a percentage relative to Britain. (1 mark) **Do not award marks for reference to Britain as having constant productivity**	**(3)**

Question Number	Answer	Mark
1(b)(i)	**Award three factors. At least one should be taken from the passage (the following factors):** • Lack of skills • Full employment/inelastic aggregate supply • Service-based economy • Lack of space (retailing) • Planning restrictions • Transport problems • Increasing size of government • Underinvestment, particularly in research and development. • Heavier taxes • Regulation Also allow factors not in the passage, which might include: • Labour market issues – e.g. strike action, national minimum wage • Tax rates – corporation tax a disincentive to cut costs? • Over spending by public sector e.g. crowding out issues For identifying 3 valid factors (2 marks) If two valid factors only (1 mark) Award up to (4 marks) for link to **productivity** (not production). Evaluation (2 marks, or 1 + 1). At least one point: • Honda example of higher productivity in Swindon. • Public sector productivity is hard to measure, and often low. • Services in America have higher productivity. • The gap is closing • There may be more improvement in some countries than others • Award prioritisation with justification.	**(8)**

Question Number	Answer	Mark
1(b)(ii)	For each effect allow up to (2 marks) Diagram up to (2 marks) showing rightward shift (or downward shift) in AS. For the first mark there should be a correct shift. For the second diagram mark the fall in price level and the increase in real GDP must be shown. Effects via AS (1 mark identification, 1 mark explanation) might include: • There has been a rise in real output • Changes in employment or unemployment • Increased wages • Current account improves • Britain becomes more competitive internationally (AS shift to right) • Inflation (cost push) slows or price level falls • Increase in investment or FDI • Standards of living increase • Firms may become more profitable Award no marks for reasons why productivity is low, or why it has improved. For a convincing answer explaining that AD might shift to the right via X or increased investment internationally then the full marks for diagram and explanation are available.	**(6)**

Question Number	Answer	Mark
1(c)(i)	Award (2 marks) answers such as: • Everyone willing and able to work has a job at the current wage • The demand = supply of labour at the market rate • There is no involuntary unemployment • There is only frictional unemployment • 2-5% of people who would like a job can't find one (allow natural rate of unemployment argument). • All resources are employed as on PPF curve • equilibrium in the labour market	**(2)**

Question Number	Answer	Mark
1(c)(ii)	Identification of relevant factor (1 mark). Explanation of link between full capacity and the factor (up to 3 marks). Reason why this is a problem (up to 2 marks). Factors might include: • Inflation, e.g. demand pull and/or cost push • Raise in the interest rate by MPC • Wage pressures/costs pressures for firms • Current account worsening • Reduced incentives for those in work as income differentials narrow • Environmental impact • Infrastructure problems • Reduced or slowing growth in investment • Social impact of immigration **Do not award answers which refer to the effect on productivity**	**(4)**

Question Number	Answer	Mark
1(d)	Definition or implicit understanding of supply side or other relevant policies, e.g. tax breaks or action by government as a major employer such as performance related pay. (1 mark) Diagram showing effects of AS shift to the right, or equivalent verbal analysis showing a fall in price level and an increase in real output. (2 marks) 6 marks (2 x 3 marks or 3 x 2 marks) effects of supply side or other relevant policies. Evaluation 6 marks (2 x 3 marks or 3 x 2 marks). Factors might include: • Weighing up benefits and costs • Time lag, or other long run effects being different from short run • Contrast with demand side approaches. Perhaps interest rates are too high? • Other things are not equal, for example high oil prices, weak currency might outweigh any action by government. • Limited scope for further supply side policies in the UK. • Side effects of policies • Difficulty in assessing productivity There is no mark cap for those referring to production, not productivity, in this question.	**(15)**

Question Number	Answer	Mark
2(a)(i)	Total expenditure, spending, or output (1 mark) on goods and services (1 mark) Allow components C+I+G+(X-M) (1 mark) Allow 'planned' (1 mark)	**(2)**

Question Number	Answer	Mark
2(a)(ii)	For each factor: 1 mark identification, 1 mark explanation of the process involved. (2x2 marks) Mechanisms might include • C or Consumption changes (the following are sensitive to changes in interest rates and will affect consumption - savings, loans, hire purchase, mortgage interest repayments etc.) • I or Investment changes (investment levels change with interest rates, for example if interest rates go up there will be less investment as rewards are reduced. Award 'marginal efficiency of capital') • X-M or Exports – Imports, or net exports changes (changes in costs of production owing to interest rate changes can make exports and imports more or less competitive, or exchange rate arguments: e.g. if the interest rate goes up the pound will get stronger so exports will more expensive and imports less expensive).	**(4)**

Question Number	Answer	Mark
2(a)(iii)	Analysis (6 marks) of which 2 marks for the diagram. Interest rates have risen i.e. data mark (1 mark); AD will fall shown on appropriate diagram (2 marks, first mark for shift to the left and second mark for changes on the axes) so price level will fall (1 mark) and output will fall (1 mark). Award 2 marks for further explanation such as multiplier, application of text, e.g. 'slowing consumer spending growth … to 2.25%', cooling house markets, AS effects or other developed analysis beyond basic transmission mechanisms. Evaluation (2 marks) might include: • Time lag – some of these effects might not happen straight away, e.g. if mortgages are fixed • The steps are small but the overall effect over the year much greater • Many other things determine shifts in AD, e.g. consumer confidence • Elasticity of AS curve • Award prioritisation with justification	**(8)**

Question Number	Answer	Mark
2(b)(i)	The pound has become stronger or 'appreciated' (1 mark) with data reference, e.g. increasing trend, rate of increase, 26-year high, £1 = $2 (1 mark)	**(2)**

Question Number	Answer	Mark
2(b)(ii)	Concept of *net trade* as X-M or similar (1 mark) Exports will be relatively expensive (1 mark) Imports will be relatively cheap (1 mark) The balance worsens (1 mark) Changes in the pattern of trade (1 mark) *Also allow further analysis points (up to 2 marks), which might include* • The pound has not risen against the euro (or equivalent data observation) up to 2 marks • The context is narrow – need a wider picture of trade and exchange rates • The exchange rate is not the only factor determining net trade AD likely to fall (diagram or equivalent analysis)	**(5)**

Question Number	Answer	Mark
2(b)(iii)	e.g. labour market pressures, commodity prices, finance markets, exchange rates For each factor (2 x 2 marks): Factors might include: • 'Credit crunch' or other credit problems • unemployment/employment levels • debt • savings • change in retail sales • exogenous shocks • regional data • the fiscal stance • money supply growth • commodity prices • skills shortages • inflation (for explanation mark there must be reference to expected rates or pattern of inflation) • performance in other countries • level of confidence in the economy • allow economic growth figures • consumer spending • house price changes • export and imports levels • investment • government spending 1 mark for identification (do not allow interest rates unless convincing analysis given!) 1 mark for link to PRICE LEVEL or inflationary pressures Allow max 1 mark for inflation as a source, with a further mark If linked to projected ranges. **Do not allow exchange rates as a source of information**	**(4)**

Question Number	Answer	Mark
2(c)	Definition or implicit understanding of **tight** demand side policy (1 mark) 2 marks diagram showing effects of AD shift to the left (1 mark) with price level falling and real output falling (1 mark) or equivalent verbal analysis 6 marks (2 x 3 marks) for identification of macroeconomic objectives and explanation (1+2 marks for each). Objectives might include: • inflation control • growth • employment/low unemployment • balance of payments equilibrium or improvement • reduction in income inequalities • environmental objectives Evaluation 6 marks (2 x 3 marks or 3 x 2 marks). Factors might include: • Elasticity of AS curve • Monetary policy or fiscal policy might be a blunt instrument • Time lag, or implementation lag, or other long run effects being different from short run • Contrast with supply side approaches. Perhaps high interest rates have side effects, e.g. on AS or external economy • Size of the multiplier • Side effects of policies • Allow discussion of trade-offs (although not required at AS level) • Other things are not equal, for example high oil prices, weak currency might outweigh any action by government.	**(15)**

Specification Grid

	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
ai	2				2
aii	1	2			3
bi		2	4	2	8
bii	2	2	2		6
ci	2				2
cii	2	2			4
d	3	4	2	6	15
Total	12	12	8	8	40
Question 2					
ai	2				2
aii	2	2			4
aiii		4	2	2	8
bi	2				2
bii	1		4		5
biii	2	2			4
c	3	4	2	6	15
Total	12	12	8	8	40