

**ADVANCED GCE ECONOMICS (9121)**

**JUNE 2003**

**UNIT 6 MARK SCHEME – 6356**

**Qu.1 (a) Britain had a deficit in its trade in goods balance of £34bn in 2002.**

**Examine the likely causes of this deficit.**

**LEVEL 5**

**28-40 marks**

Candidates may consider both price, non-price factors and state of the economy.

**Lack of price competitiveness might be caused by:**

- Low productivity relative to other countries
- Relatively high inflation (but not really true now)
- High value of £ relative to other currencies
- Relatively high costs e.g. wages; non-wage costs such as employers' National Insurance contributions and the need to meet health and safety regulations

**Non-price factors include:**

- Poor design
- Low quality
- Lack of availability
- Poor reliability
- Poor after sales service

**State of the economy:**

- If aggregate demand is increasing then imports will be increasing
- If the world economy is in recession then UK exports may be falling.
- The impact of 9/11.

**Evaluation points could include:**

- Candidates may recognise the significance of low productivity
- Impact of high value of the £ depends on PED for imports and exports
- UK has a high marginal propensity to import. Therefore, the state of the UK economy might be a significant factor i.e. higher demand for imports when economy is doing well.

For a L5 mark: 3 factors and at least one evaluation point.

Max 28 marks if no evaluation.

Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one point.

- (b) Evaluate measures which could be pursued by both individual firms and by the government to improve the competitiveness of British goods.

**Level 5**

**42- 60 marks**

**Policies by firms:**

- Improvement in quality of goods (moving upmarket)
- Increase productivity
- Rationalisation
- Relocate component production abroad
- Source raw materials from overseas
- Improves overseas promotion e.g. trade fairs

**Evaluation points could include:**

- Costs of new machinery
- Costs of redundancy programmes and relocation
- Significance of price elasticity of demand could be considered

**Policies by the government:**

Emphasis likely to be on supply side policies e.g.

- Education and training
- Privatisation
- Tax breaks for investment and R&D
- Measures to increase labour flexibility
- Reductions in unemployment benefits
- Reduction in top rates of income and corporation tax
- Awards e.g. for exports

Only credit discussion of tariffs etc if rejected as unrealistic.

Also, discussion of reduction in value of £ must be treated with caution

**Other evaluation points could include:**

- Take a long time to have an effect e.g. education & training
- Increases inequality (cutting benefits and income tax rates)

For a L5 mark: Discussion of 4 points (at least 1 for firms & 1 for government) and any 2 evaluation points.

Max 42 marks if no evaluation

Award a L4 mark (36-41 marks) if only 3 points + evaluation

OR if only firms or government measures discussed

Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.

**Qu.2** Since the early 1990s, the UK rate of inflation has been less than 5% in every year while unemployment has fallen from over 2.7 million to less than 1 million in 2002.

**(a) To what extent do these data contradict the Phillips curve analysis?**

**Level 5**

**28 -40 marks**

- Description of Phillips curve (expect a diagram)
- Explanation of reasons for existence of trade off in the past
- Comment that UK is in a low inflation and low unemployment era

**Evaluation points include:**

- This is a relatively short time period: need to consider longer time span
- Special factors are relevant e.g. impact of technological advances
- More flexible labour markets as a result of supply side policies

For a L5 mark: Outline of Phillips curve analysis; reasons why it does not appear to be relevant now and at least one evaluation point.

Max 28 marks if no evaluation.

Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a L2 mark (16-19 marks) for outline of Phillips curve analysis only or for superficial response.

**(b) Examine the factors which might explain why the UK has experienced low inflation and low unemployment in recent years.**

**LEVEL 5**

**42-60 marks**

**Discussion could include the following:**

- UK has been continuous recovery since recession in 1991-2
- This has led to falling unemployment
- Inflation has been subdued because of: high value of the £; technological advances reducing prices of electronic goods; increased international competition
- Application of supply side policies has had an impact e.g. privatisation: regulation changes
- Independence of the Bank of England: role of the Monetary Policy Committee

**Evaluation points could include**

- Consideration of relative significance of above points;
- Differences in goods and service sectors of the economy;
- State of world economy might be the most significant factor explaining

- the low inflation rate;
- It has become more difficult to claim unemployment benefit, so the claimant count measure of unemployment is artificially low.

For a L5 mark: Discussion of 4 points and two evaluation points.

Max 42 marks if no evaluation

Award a L4 mark (36-41 marks) if only 3 points + evaluation

Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.

**Qu. 3(a) Examine the significance of the single currency for decisions by multinationals to invest in EU countries.**

**Level 5**

**28-40 marks**

**The single currency is important for MNCs because:**

- Transactions costs are eliminated especially if the base is used for exporting to the rest of eurozone area
- Exchange rate fluctuations are reduced leading to greater certainty
- It will avoid the problems associated with the overvaluation of a Currency (e.g. the £)
- Value of Euros against other currencies
- Credit answers which analyse reasons why MNCs might not invest in the UK

**Evaluation points:**

- Wage costs and non-wage costs may be more significant than transactions costs
- Government grants might be very significant
- UK economy more flexible outside the eurozone
- UK is still the largest recipient of FDI in European Union

For a L5 mark: Discussion of 3 points and at least one evaluation point.

Max 28 marks if no evaluation.

Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one point.

- (b) The UK is the largest recipient of inward foreign investment within the EU. Evaluate the benefits of such foreign investment for the UK economy. (60 marks)

**Possible benefits include:**

- Credit on B/P capital account
- Future benefit on B/P current account if exports rise and imports fall
- For economic growth: multiplier effects
- Increased employment
- New methods of production and working practices: impact on UK producers
- Tax revenue to government

**Evaluation points might include:**

- Negative impact on B/P (investment income to shareholders abroad)
- Increased competition for domestic producers: unemployment? Net employment affect might be small
- Increased dependence of economy on decisions made by managers overseas. Significant if investment is withdrawn in the future.
- Impact on the economy might be small (if there is little value added in the UK)
- FDI is a small % of GDP.

For a L5 mark: Discussion of 4 points and two evaluation points.

Max 42 marks if no evaluation

Award a L4 mark (36-41 marks) if only 3 points + evaluation

Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.

**Question 4:**

- (a) Distinguish between tariffs and quotas.

Tariffs: taxes on imports.

Quotas: Restrictions on quantity of goods imported.

Definitions 2 marks, comments 2 marks.

2 x 2 marks

(4 marks)

6356 June 2004 MARK SCHEME

**Question 1**

- (a) **Examine possible factors which might have led to changes in the value of the pound sterling against the euro in recent years.**

**Level 5**

**28-40 marks**

Factors include:

- Interest rates in UK higher than in eurozone
- UK economy stronger than eurozone's
- Independence of Bank of England increase confidence in management of UK economy
- Relatively low inflation rate in UK

*Evaluation points might include:*

- *Discussion of relative importance of factors*
- *Comment on the significance of hot money flows*
- *Comment on reasons for lack of confidence in the euro.*

**For a L5 mark (28-31):** Discussion of 3 points and one evaluation point.

**A Level 5\*mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points with 2 pieces of evaluation. .

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focussing on one point.

**(40 marks)**

- (b) Evaluate the likely economic effects of a significant fall in the value of the pound against the euro.

Level 5

42-60 marks

Economic effects include consideration of impact on:

- Impact on competitiveness of UK goods
- The B/P on current account
- The level of unemployment
- The rate of economic growth
- The rate of inflation
- Possibility of UK joining the euro made easier

*Evaluation points might include:*

- *Consideration of extent of fall in value of £*
- *Effect on B/P depends on Marshall-Lerner condition*
- *Relative importance of different effects*
- *Two evaluation points are required.*
- *J curve effect*

**For a L5 mark (42-47):** Discussion of 4 points and two evaluation points.

**A Level 5\*mark (48-60)** should be awarded for answers which meet the Level 5 convincingly e.g. 4 points and three pieces of evaluation.

**Max 42 marks** if no evaluation

**Award a L4 mark (36-41 marks)** if only 3 points + evaluation

**Award a L2 mark (24-29 marks)** for identification of points only **(60 marks)**  
or for narrow response focussing on one or two points.

**Question 2**

- (a) **Examine the impact of the European Union's Common Agricultural Policy on the world trade in agricultural goods.**

**LEVEL 5**

**28-40 marks**

Responses could include:

Outline of CAP

Effects include:

- guaranteed prices on EU producers leading to development of surpluses
- dumping of surpluses on world market, depressing prices
- production in countries outside EU disrupted by dumping of surpluses
- limited access to EU markets
- no exit of inefficient producers
- potential impact on trade relations with other countries
- trade diversion
- trade creation.

*Evaluation points might include:*

- *magnitude of effects*
- *reduction of surpluses in recent years due to quotas, set aside*
- *conclusion: inefficient resource allocation*

**For a L5 mark (28-31):** Discussion of 3 points and one evaluation point.

**A Level 5\* mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g 3 points with two pieces of evaluation.

**(40 marks)**

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focussing on one point.



- (b) Evaluate the implications of a significant reduction in barriers to the trade in goods and services for the global economy.

**LEVEL 5**

**42-60marks**

Implications include:

- Higher output and higher living standards: application of law of comparative advantage
- For consumers: lower prices; more choice
- For Producers: possible benefits of larger markets and economies of scale
- External costs

*Evaluation points might include:*

- *Critique of assumptions behind law of comparative advantage*
- *Differential effects on developing countries compared with developed countries*
- *Growth of multinationals might limit benefits of lower prices and greater choice*
- *Welfare analysis*

**For a L5 mark (42-47):** Theoretical analysis and 2 other points and two evaluation points..

**A Level 5\* mark (48-60)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. As above and 3 pieces of evaluation.

**Max 42 marks** if no evaluation

**Award a L4 mark (36-41 marks)** if only 3 points + evaluation

**Award a L2 mark (24-29 marks)** for identification of points only or for narrow response focussing on one or two points.

(If no reference to theoretical analysis then maximum Level 3 (30-35 marks). **(60 marks)**)

- 3 (a) In 2002, the unemployment rate in Spain, France and Italy was significantly higher than in the UK. Examine the factors which might explain why the UK's unemployment rate was lower than in these countries.

**LEVEL 5**

**28-40 marks**

Factors include:

- Stronger economic growth in UK
- More successful in attracting FDI (until recently)
- More flexible labour market
- Lower labour and non-labour costs
- Greater application of supply side policies
- Euro countries need to conform to stability and growth pact.

*Evaluation points might include:*

- *Relative importance of factors*
- *Differences in unemployment benefits*
- *Consideration whether this is a short term or long term situation*
- *UK has a lower natural rate of unemployment*

**For a L5 mark (28-31):** Discussion of 3 points and one evaluation point.

**A Level 5\* mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g 3 points and 2 pieces of evaluation.

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focussing on one point. **(40 marks)**

- (b) **To what extent might the pursuit of full employment conflict with other economic objectives?**

**LEVEL 5**

**42-60 marks**

Consideration of possible conflicts with:

- Stable prices
- Analysis using Phillips curve may count as 2 points
- Balance of Payments equilibrium
- Economic growth
- Clean environment
- Income equality

Analysis including possible conflicts = 2 pts

Evaluation points might include:

- Comment on reasons for co-existence of low inflation and low unemployment in recent years e.g. new technology resulting in increased productivity
- Full employment might not conflict with B/P equilibrium if there is export led growth
- Full employment might conflict with economic growth if there is very low productivity
- Changing government priorities

**For a L5 mark (42-47):** Discussion of 4 points and two evaluation points.

**A Level 5\* mark (48-60)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.

**(60 marks)**

**Max 42 marks** if no evaluation

**Award a L4 mark (36-41 marks)** if only 3 points + evaluation

**Award a L2 mark (24-29 marks)** for identification of points only or for narrow response focussing on one or two points.

## Unit 6 MARK SCHEME - 6356/01

1.

(a) Examine the significance of the factors which have contributed to increased globalisation in recent years.

### LEVEL 5

28-40 marks

Factors include:

- Reduction/removal of trade barriers; reference to WTO
- Growth in trading blocs, especially economic unions adopting a single currency
- Improvements in communications
- Growth in use of internet
- Increased significance of multinational companies
- Increased capital mobility
- Collapse of Soviet Union

*Evaluation might take the following form:*

- *Discussion of relative significance of points made*
- *View that globalisation is not a recent phenomenon*

**For a L5 mark (28-31 marks):** Discussion of 3 points and at least one evaluation point.

**A Level 5\* mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points with at least 2 pieces of evaluation.

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focusing on one point.

- Economics 1 June 10*
- (b) Evaluate the likely implications for the world economy of the predicted decline in non-renewable energy resources.

**LEVEL 5**

**42-60 marks**

Implications include:

- Increased price of energy leading to increased costs of production
- Fall in aggregate supply leading to higher rates of inflation and fall in real output
- Increased unemployment
- Implications for Balance of Payments depend on the degree of dependence on imported energy
- Search for new technology
- Reduction in External Costs

*Evaluation points include:*

- Price rises might be offset by more efficient use of energy or
- new methods of production requiring less energy or
- greater use of renewable energy resources
- Impact on GDP and employment depend on elasticity of AD curve
- Discussion of short run/long run effects
- Differential effects between countries

NB: If answer focuses solely on the UK economy, then award up to a max of 35 marks.

**For a L5 mark (42-47 marks):** Discussion of 4 points and two evaluation points (at least one benefit and at least one cost should be included).

**A Level 5\* mark (48-60)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and at least 3 pieces of evaluation.

**Max 42 marks** if no evaluation.

**Award a L4 mark (36-41 marks)** if only 3 factors + evaluation

**Award a L2 mark (24-29 marks)** for identification of points only or for narrow response focusing on one point.

2. (a) Examine the factors which affect the international competitiveness of the UK's goods and services.

**LEVEL 5**

**28-40 marks**

Factors include:

**Price competitiveness influenced by:**

- Value of pound against other currencies (trade weighted exchange rate)
- Relative productivity performance - impacting on unit costs
- Relative inflation rates
- Relative wage costs and non-wage costs e.g. Employers' National Insurance contributions
- **Non-price factors include: e.g.**
  - Quality
  - Design
  - Reliability
  - Availability
  - After sales service

Evaluation points might include:

- Relative significance of above factors
- Changing significance of factors over time.

**For a L5 mark (28-31 marks):** Discussion of 3 points and at least one evaluation point.

**A Level 5\* mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points with at least 2 pieces of evaluation and should consider both price and non-price factors.

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focusing on one point.

**(40 marks)**

(b) Evaluate the likely economic effects of a fall in the UK's competitiveness.

42-60 marks

**LEVEL 5**

Implications include:

- Unemployment (fall in exports, increase in imports)
- Deterioration in the UK's Balance of Payments
- Subsequent fall in the value of the Pound
- Fall in the rate of economic growth
- Impact on the price level?
- Impact on investment

*Evaluation points include:*

- Consideration of relative significance of above points
- Difference between short run and long run effects
- Consideration of significance for economic policy
- Consideration on different parts of the current account

For a L5 mark (42-47 marks): Discussion of 4 points and two evaluation points.  
A Level 5\* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and at least 3 pieces of evaluation.

Max 42 marks if no evaluation.

Award a L4 mark (36-41 marks) if only 3 factors + evaluation

Award a L2 mark (24-29 marks) for identification of points only or for narrow response focusing on one point.

(60 marks)

3. The average tariff on industrial goods is 4% in the USA, 14% in Brazil and 30% in India.  
(a) Examine the reasons why a country might wish to restrict imports.

**LEVEL 5**

**28-40 marks**

Reasons include:

- To protect employment in domestic industries
- To prevent dumping
- To raise tax revenue (in the case of tariffs)
- To correct a Balance of Payments deficit on current account
- To protect industries of strategic importance
- To protect infant industries
- To allow time for geriatric industries to revive.

*Evaluation points might include:*

- *Dumping artificially distorts comparative advantage and is therefore a valid reason that can be used to justify protectionism*
- *Protectionism unlikely to protect jobs in long run*
- *Protectionism might harm other domestic industries*

**For a L5 mark (28-31 marks):** Discussion of 3 points and at least one evaluation point.

**A Level 5\* mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points with at least 2 pieces of evaluation.

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focusing on one point.



(b) Evaluate the likely economic implications of an increase in protectionism on a country's economy.

#### **LEVEL 5**

Allow different question interpretations i.e. EITHER increase in protectionism in world as a whole OR one country increasing protection.

Implications include impact on:

- Output and living standards (analysis based on the law of comparative advantage and empirical evidence of countries following protectionist policies)
- Prices for consumers and welfare (analysis based on tariff diagram)
- Levels of unemployment
- Economies of scale for firms
- Analysis based on AD/AS - e.g. on inflation
- Retaliation by other countries

Evaluation points could include:

- Short run/long run effects
- Extent of dependency on world trade
- Extent of increase in protectionism
- Nature of protection e.g. tariffs, quotes.

**For a L5 mark (42-47 marks):** Discussion of 4 points and two evaluation points.

**A Level 5\* mark (48-60)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and at least 3 pieces of evaluation.

**Max 42 marks** if no evaluation.

**Award a L4 mark (36-41 marks)** if only 3 factors + evaluation

**Award a L2 mark (24-29 marks)** for identification of points only or for narrow response focusing on one point.

## Unit 6 Mark Scheme 6356

### Qu.1

- (a) Trading blocs are the most significant factor contributing to globalisation. To what extent do you agree with this view?

#### LEVEL 5

(28-40 marks)

Explanation of trading blocs and the significance of trading blocs for globalisation.  
The above discussion could count as 2 points if covered well.

Consideration of other factors influencing globalisation e.g.

- Reduction in trade barriers - role of WTO
- Growth of multinational companies
- Improved communications e.g. the internet; transport
- Capital mobility

*For evaluation there should be a conclusion and/or consideration of how significant trading blocs are to the process of globalisation.*

**For a L5 mark (28-31):** Consideration of trading blocs and 2 other factors together with 1 evaluative point.

**A Level 5\* mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focussing on one or two points.

(b) Evaluate the likely economic effects of a decision by the UK to withdraw from the European Union.

**LEVEL 5**

**(42-60 marks)**

Consideration of impact on:

- Possibility of reduced trade with EU countries  
*But: EU countries are likely to want to keep trading relationships with UK because they have a net trade surplus with UK*
- Change in pattern of trade e.g. increased trade with countries outside the EU  
*But: in practice special arrangements might be made because the UK is an important market for EU products*
- Employment - could decrease if exports fall  
*But: depends on how successful UK is in developing new markets*
- Foreign direct investment - could decrease  
*But other factors might be more significant e.g. availability of skilled labour force;*
- Agriculture - UK no longer part of CAP. Therefore, lower food prices.  
*But: food prices might be more unstable*
- Public finances: might improve because no further contributions to EU budget  
*But: if unemployment increases, public finances might deteriorate.*
- Impact on rest of EU economies: e.g. slower growth

**For a L5 mark (42-47):** Discussion of 4 points and 2 evaluative points.

**A Level 5\* mark (48-60)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.

**Award a L4 mark (36-41 marks) if only 3 points + evaluation**

**Max 42 marks (top L4) if no evaluation**

**Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.**

## Qu.2

- (a) Both the USA and the UK's balance of payments accounts are recording large deficits on their trade in goods balances.  
Do such deficits matter? Justify your answer.

LEVEL 5

(28-40 marks)

May be argued from either viewpoint.

Deficits matter because:

- Might indicate lack of competitiveness of goods, resulting in higher unemployment  
*But surplus on service sector might offset deficit*
- Problem of financing deficit  
*Not a problem if money flowing into capital and financial accounts*
- Might cause sharp fall in exchange rate  
*But this would help to correct the deficit*
- Danger of inflation following a fall in exchange rate  
*But other factors might limit inflationary pressures*
- Could cause loss of confidence in economy  
*But unlikely if these economies are otherwise performing well.*

*Other evaluation points could include: consideration of magnitude of effects; difference between short run and long run effects; the differing impact of different countries within the EU*

For a L5 mark (28-31): 3 factors and 1 evaluative point.

A Level 5\* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation

Max 28 marks if no evaluation.

Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.

- (b) Compare the effectiveness of supply side and fiscal policies to correct deficits a country's current account of the balance of payments.

**LEVEL 5**

**(42-60 marks)**

Understanding of supply side and fiscal policies.

Supply side policies might help to increase competitiveness e.g. by

- Improvements in training and education
- Labour market reforms
- Measures to improve competition in the product market such as Competition policy

*Evaluation points could include:*

- *Reference to time lags*
- *Education and training might not be appropriate*
- *Measures might be ineffective if cause is over-valued exchange rate*

*If answered holistically, could count as 2 points*

Fiscal policy would involve deflating the economy by reducing public expenditure and increasing taxes. Outline of transmission mechanism.

NB Allow consideration of tariffs and subsidies but these should be evaluated.

*Evaluation points could include:*

- *Problem of increased level of unemployment*
- *Disincentive effects of higher taxes*
- *Reduction in quality of public services*
- *Scale and scope of measures taken*

*If answered holistically, could count as 2 points*

*Evaluation: must include some element of comparison for a Level 5 mark.*

**For a L5 mark (42-47):** should consider at least 4 points (both supply side and fiscal policy) + 2 evaluative points.

**A Level 5\* mark (48-60)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.

**Max 42 marks (top L4)** if no evaluation.

**Award a L4 mark (36-41 marks)** if only 3 points + evaluation

**Award a L2 mark (24-29 marks)** for identification of points only or for narrow response focussing on one or two points.

### Qu.3

- (a) In 2000/01 the UK's public expenditure was 37 per cent of GDP. This is forecast to increase to over 42 per cent of GDP by 2007/08. Examine the likely economic implications, apart from increased taxation, of this trend.

**LEVEL 5**

**(28-40 marks)**

Factors include:

- Improved public services  
*But: money might go on increased wages or administration*
- Crowding Out: resource and financial  
*But: not a problem if unemployed resources*
- Reduction in freedom and choice  
*But: might enable the poor to experience more freedom and choice*
- Danger of inflation if increased expenditure is financed by borrowing from the Bank of England  
*But: other factors might reduce inflationary pressures e.g. China*
- Increased economic growth
- Increased employment in the public sector

**For a L5 mark (28-31):** 3 factors and 1 evaluative point.

**A Level 5\* mark (32-40)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation

**Max 28 marks** if no evaluation.

**Award a L4 mark (24-27 marks)** if only 2 factors + evaluation

**Award a L2 mark (16-19 marks)** for identification of points only or for narrow response focussing on one or two points.

- (b) Evaluate the economic effects of a significant increase in taxation on the UK economy.

**LEVEL 5**

**(42-60 marks)**

Effects include:

- Decrease in aggregate demand and real output  
*But: depends on what is happening to public expenditure*
- Possibility of a lower rate of inflation  
*But: could lead to inflationary wage demands*
- Disincentives to work if income tax is increased  
*Depends on relative strength of substitution and income effects*
- Improvement in the balance of trade in goods and services  
*But: other factors might be more significant in influencing the balance of trade*
- Reduction in fiscal deficit and so less need for borrowing  
*But: higher unemployment might have a detrimental effect on the public finances. Also Laffer curve analysis.*
- Significance of tax increases relative to other countries - this is likely to be used as an evaluative point.

**For a L5 mark (42-47):** should consider 4 points + 2 evaluative comments.

**A Level 5\* mark (48-60)** should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.

**Max 42 marks (top L4)** if no evaluation.

**Award a L4 mark (36-41 marks)** if only 3 points + evaluation

**Award a L2 mark (24-29 marks)** for identification of points only or for narrow response focussing on one or two points.