OCR
Oxford Cambridge and RSA

GCE

Economics

Unit **H060/02:** Themes in Macroeconomics

Advanced Subsidiary GCE

Mark Scheme for June 2016

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Annotations

Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
✓	Tick
✗	Cross
BOD	Benefit of doubt
EVAL	Evaluation
AN	Analysis
?	Unclear
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague

<table>
<tr><th>Levels of response / Level descriptors</th><th>Knowledge and understanding/ Application</th><th>Analysis</th><th>Evaluation</th></tr>
<tr><td>Strong</td><td rowspan="2">Precision in the use of the terms in the question and applied in a focused way to the context of the question.</td><td>An explanation of causes and consequences, fully developing the links in the chain of argument.</td><td>A conclusion is drawn weighing up both sides, and reaches a supported judgement.</td></tr>
<tr><td>Good</td><td>An explanation of causes and consequences, developing most of the links in the chain of argument.</td><td>A conclusion is drawn weighing up both sides, but without reaching a supported judgement.</td></tr>
<tr><td>Reasonable</td><td>Awareness of the meaning of the terms in the question and applied to the context of the question.</td><td>An explanation of causes and consequences, which omit some key links in the chain of argument.</td><td>Some attempt to come to a conclusion, which shows some recognition of the influencing factors.</td></tr>
<tr><td>Limited</td><td>Awareness of the meaning of the terms in the question.</td><td>Simple statement(s) of cause and consequence.</td><td>An unsupported assertion.</td></tr>
</table>

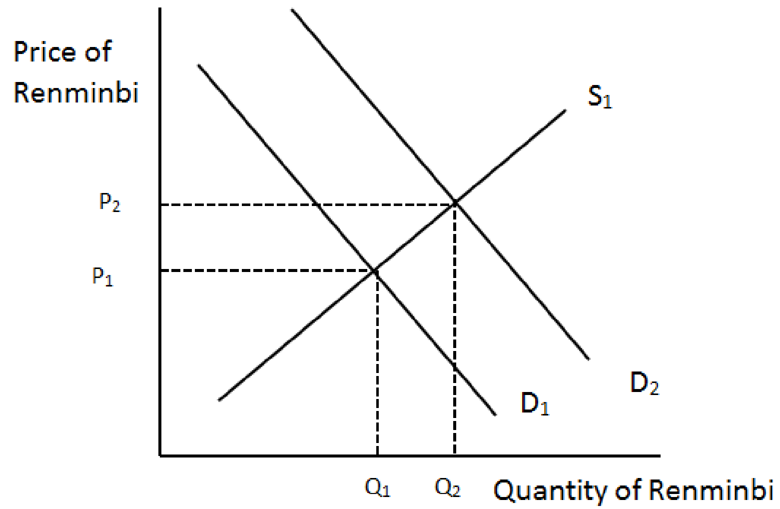
Q	Key
1	D
2	C
3	C
4	D
5	A
6	D
7	A
8	C
9	C
10	A
11	B
12	C
13	D
14	B
15	D

Q	Key	Rationale	AO	Quantitative Skills
1	D	**A** This is no specific term for a reduction in a current account deficit. **B** This is a depreciation or devaluation. **C** This is deflation. **D** ***Correct:*** A recession is a fall in the country's output over a period of six months or more..	1	
2	C	**A** This will cause a shift to the left of the AD curve. **B** This will cause a movement along the AD curve. **C** ***Correct:*** Exports are a component of AD. An increase in exports would shift the AD curve to the right. **D** This would cause a shift to the right of the AS curve.	2	
3	C	**A** A cause of demand-pull inflation. **B** A cause of demand-pull inflation. **C** ***Correct:*** An increase in the price of raw materials would raise firms' costs of production. **D** A cause of demand-pull inflation.	1	
4	D	**A** This would cause an increase in SRAS – a shift to the right of the SRAS curve. **B** This would cause an increase in SRAS – a shift to the right of the SRAS curve. **C** This would cause an increase in AD – a shift to the right of the AD curve. **D** ***Correct:*** This would increase costs of production and so cause a shift to the left of the AS curve.	1	
5	A	**A** ***Correct:*** Exports, government spending and taxation are all injections. **B** Although government spending and investment are injections, savings is a leakage. **C** Investment is an injection but savings and taxation are leakages **D** Imports, savings and taxation are all leakages.	1	
6	D	**A** This is an example of capital government expenditure. **B** This is an example of capital government expenditure. **C** This is an example of capital government expenditure. **D** ***Correct:*** Current government expenditure is spending on items such as raw materials and wages. It is short term spending that has to be renewed each year. In contrast, capital spending is spending on physical assets and is long term.	1	
7	A	**A** ***Correct:*** mpc is $\Delta C/\Delta Y = 100/250$. **B** This is mps. $\Delta S/\Delta Y = 150/250$. **C** This is apc. $C/Y = 500/750$. **D** This is new spending/original income. 500/500.	3	x

Q	Key	Rationale	AO	Quantitative Skills
8	C	**A** Prices are multiplied by weights to give a weighted price index. **B** The CPI does not reflect quality changes. **C** ***Correct:*** The weights give greater importance to changes in the prices of products that households have devoted a high proportion of their expenditure. **D** The CPI is seasonally adjusted but this is not the function of the weights.	1	
9	C	**A** This is a quality of a good tax. **B** This is a quality of a good tax. **C** ***Correct:*** This a characteristic of money but not a feature of a good tax. **D** This is the quality of a good tax.	1	
10	A	**A** ***Correct:*** The price level rose over the period 2012 to 2015 and so it was at its lowest in 2012. **B** The price level did fall in 2014 but it was still higher than in 2012. **C** The economy experienced deflation in 2014 but over the period the price level rose. **D** The value of money fell over the period as the price level rose.	2	x
11	B	**A** This is a credit item but it appears in the income/primary income section of the current account of the balance payments. **B** ***Correct:*** This is a credit item as it is money entering the country. It appears in trade in services under the title 'travel' of the current account of the balance payments. **C** This appears in trade in services but as a debit item of the current account of the balance payments. **D** This is a credit item but it appears in the financial account of the balance of payments.	2	
12	C	**A** Incorrect calculation: 105/120 **B** Incorrect calculation: 120/105 **C** ***Correct***: Index of export prices/index of import prices x 100 = 105/120 x 100. **D** Incorrect calculation: 120/105 x 100.	2	x
13	D	**A** Country X has the absolute advantage in producing corn but there is no comparative advantage as its opportunity cost of producing one unit of corn is the same as in Country Y i.e. ¼ mobile phone, **B** Country Y does not have the absolute advantage in producing corn. **C** Trade would benefit neither country. They could each get the same number of extra mobile phones by shifting resources internally. **D** ***Correct:*** There is no comparative advantage in this case. The opportunity cost of producing 1 mobile phone is 4 units of corn in both countries.	3	x

Q	Key	Rationale	AO	Quantitative Skills
14	**B**	**A** This is the initial price i.e. $300/1.5. **B** ***Correct:*** $300/1.2. **C** This would be the case if the exchange rate changed to £1 = $1. **D** This is $300 x 1.2.	2	**X**
15	**D**	**A** A decrease in labour productivity and an appreciation of the currency would both be likely to increase the relative price of domestically produced products. **B** A decrease in labour productivity would be likely to reduce it by raising wage costs. Although a depreciation of the currency would increase international competitiveness by reducing export prices and increasing import prices. **C** An increase in labour productivity would increase international competitiveness but an appreciation of the currency would reduce it. **D** ***Correct:*** An increase in labour productivity and a depreciation of the currency would reduce the relative price of domestically produced products. This would be likely to make domestically produced products more internationally competitive.	2	

Question			Answer	Marks	Guidance
16	a		**State one other method of measuring GDP.** Expenditure or income method.	1 (A01)	Statement of the AD equation can be credited.
16	b		**Explain what is meant by GDP per capita.** The income/expenditure/output of a country (1) divided by its population (1).	2 (A01 x 2)	Accept average income of population or GDP/population for 1 mark [GDP must be explained for second mark]
16	c		**Using Fig.2, calculate Germany's unemployment rate in 2014.** 5%	2 (A02 x 2)	1 mark for correct calculation: 2.25m/45m x 100. Or for '5' on its own. *Do not award the calculation mark to answers which state the labour force as 42.75m as the denominator.*
16	d		**Using information from the case study, compare how Germany and the UK are likely to be affected by a slowdown in the growth of the Chinese economy.** China's investment overseas may fall (1), which will harm the UK more than Germany as China invests more in in the UK than Germany (1) China will demand less imports/demand for UK/German exports will fall (1), which will harm Germany more than the UK because it sends more exports to China than the UK (1)	4 (A01 x 2 A02 x 2)	*Up to 1 mark can be awarded for **either** a simple statement about economic growth falling **or** unemployment rising as a result of the slowdown in China.*

Question			Answer	Marks	Guidance
16	e		**Show, using a diagram, the effect of an increase in China's exports on China's exchange rate.** • Correct labelling of the axes and demand and supply curves. (1) • Labelling the initial equilibrium point. (1) • Rightward shift of the demand curve. (1) • Labelling the new equilibrium point (1)	4 (A01 x 2 A02 x 2)	Accept value of the currency, price of the renminbi (yuan), exchange rate or value of renminbi in term of another currency (or appropriate symbols) on the vertical axis. **No marks** should be awarded to an answer with ***macro labels*** – eg. price level, AD/AS. If axes labelled ***P and Q***, **axes mark cannot be awarded**, but candidate can access the remaining three marks.  *NB. Candidates who argue the exchange rate will not change as a result of the central bank shifting the supply curve to the right to keep the exchange rate fixed should be fully rewarded.*

Question			Answer	Marks	Guidance
16	f		**Using information from the case study, explain one reason why total saving was expected to rise in the USA in 2016.** A fall in unemployment (1) would increase income and this would increase the ability to save (1). A rise in the rate of interest (1) would increase the reward for saving (1). Improvement in US economic performance (1) might mean higher levels of income and saving (1)	2 (AO1 x1) (AO2 x1)	One mark for identification and one mark for development. 'High interest rates' or 'low unemployment' should not be rewarded – answer must be dynamic. Simply stating that higher interest rates encourage people to save is not enough for the second mark – a reason why people are encouraged to save is needed.

Question			Answer	Marks	Guidance
16	g		**Evaluate whether a large cut in direct taxes will always increase investment.** **Level 3 (7-10 marks)** **Good** – **strong** analysis of direct taxes and their impact on investment. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good to strong** evaluation on whether a cut in direct taxes will always increase investment, weighing up both sides/comparing alternatives. **Strong evaluation** should include a supported judgement. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 2 (4-6 marks)** **Reasonable** analysis of how a cut in direct taxes can increase investment. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis	10 (A02 x 1 A03 x 4 A04 x 5)	*Analysis could include* A reduction in income tax will increase disposable income, raising consumption and AD. This will make investment more profitable and result in firms' investment increasing. A reduction in corporation tax means firms keep a greater proportion of their profits. This increases the return to investment, incentivising firms to invest more. *Evaluation could include* If confidence is low/the economy is in recession, consumers will save additional income rather than spend it and firms will be wary of increasing investment. If firms have significant spare capacity they can utilise this rather than increase investment. Ceteris paribus may not hold – eg. if a firm's costs of production/interest rates are rising investment may not increase. *NB. No credit for comments related to the size of the cut in direct taxes as the question refers to a large cut.* *Macro analysis of the outcomes of investment is NAQ.*

Question			Answer	Marks	Guidance
			Reasonable evaluation on whether a cut in direct taxes will always increase investment considering both sides/ comparing alternatives. *There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence* **Level 1 (1-3 Marks)** **Limited** analysis based on application of knowledge and understanding of how a large cut in direct taxes can increase investment. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Any relevant diagram(s) may not be present or are incorrectly labelled **Limited** evaluation in the form of an unsupported assertion **or no** evaluation. *Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.* **0 marks** no response worthy of credit		

			Descriptor	Award mark
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>17</td><td></td><td></td><td>Evaluate, with the aid of an appropriate diagram(s), the extent to which it is possible for a government to reduce unemployment without causing a rise in the price level.

Level 4 (16 – 20 marks)

Good knowledge and understanding of the impact of government policy measures on unemployment and the price level.

Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.

Strong evaluation on the extent to which it is possible to reduce unemployment without causing a rise in the price level weighing up both sides/comparing alternatives and reaching a supported judgement.
There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.

Level 3 (11-15 marks)

Good knowledge and understanding of the impact of policy measures on unemployment and inflation.

Good analysis of how policy measures can affect unemployment and inflation. There is correct analysis in the form of developed links. These links are developed through a clear chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</td><td>20

(A01 x 3)
(A02 x 4)
A03 x 6
A04 x 7)</td><td>Analysis could include:

Expansionary fiscal policy, such as cutting taxes or increasing government spending, will increase AD. Cutting taxes will increase real disposable income, causing consumption to increase. This may bring about associated increases in investment. Government spending is also a component of aggregate demand. This will cause the AD curve to shift to the right. This will increase output and reduce unemployment.

Expansionary monetary policy, for example cutting the interest rate or the exchange rate, will increase AD. This will increase output and reduce unemployment.

Supply-side policies will shift AS to the right, which will raise employment and possibly reduce unemployment (such as retraining schemes reducing structural unemployment).

Evaluation could include:

Demand-side policies will be inflationary when the economy is close to full capacity, but if there is significant spare capacity it is possible to reduce unemployment without causing a rise in the price level.

If supply side policies are implemented alongside demand side policies then unemployment can be reduced without causing inflation. However, given the time lags involved in supply side policies there is likely to be a period of time in which inflation occurs.</td></tr>
</table>

Question			Answer	Marks	Guidance
			Good evaluation on the extent to which it is possible to reduce unemployment without causing a rise in the price level weighing up both sides/comparing alternatives but without reaching a supported judgement. *There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.* **Level 2 (6-10 marks)** **Reasonable** knowledge and understanding of the impact of policy measures on unemployment and inflation. **Reasonable** analysis of how policy measures influence unemployment and inflation. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** on the extent to which a policy measure may reduce unemployment without causing inflation considering both sides/comparing alternatives. *The information has some relevance and is presented with limited structure. The information is supported by limited evidence.* **Level 1 (1-5 marks)** **Limited** knowledge and understanding of the effect of policy measures to reduce unemployment on the price level.		

Question			Answer	Marks	Guidance
			Limited or no analysis of how policy measures affect unemployment and inflation. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled. **Limited or no** evaluation in the form of an unsupported assertion. *Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.* **0 marks** no response worthy of credit		

			Descriptor	Award mark
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Meets most of the criteria with some inconsistencies	Middle of level
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

Question			Answer	Marks	Guidance
18			**Evaluate, with the aid of an appropriate diagram(s), the effect of a reduction in a budget deficit on the economy.** **Level 4 (16 – 20 marks)** **Good knowledge and understanding** of the impact of a reduction in the budget deficit on the economy. **Strong analysis** of how the impact of a reduction on the budget deficit on the economy and linked to analysis to demonstrate how it may influence unemployment, economic growth, the current account position and inflation. **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis **Strong** evaluation on the extent to which a reduction in a budget deficit will increase a government's ability to achieve its macroeconomic objectives weighing up both sides/comparing alternatives and reaching a supported judgement. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 3 (11-15 marks)** **Good knowledge and understanding** of the impact of a reduction in the budget deficit on the economy.	20 (A01 x 3 A02 x 4 A03 x 6 A04 x 7)	*Analysis could include:* A reduction in the budget deficit will come through either taxes rising or government spending falling. Both of these will reduce AD, causing AD to shift left, reducing output and increasing unemployment. This could enact a negative multiplier effect, causing further reductions in AD. A reduction in government spending could also result in AS shifting left, reducing the productive capacity of the economy and further reducing output. The associated reduction in the price level could improve the current account (through improved international price competitiveness). A reduction in benefits may increase inequality/poverty. *Evaluation could include:* In the long term improved confidence in the state of the government's finances could increase investment and consumption, increasing AD. It depends upon which type of government spending is reduced – if the welfare budget is cut then this may improve incentives to work and increase AS. If reducing the budget deficit results in unemployment rising then the policy will be ineffective as it will result in the deficit rising through increased social security spending.

Question			Answer	Marks	Guidance
			Good analysis of how the impact of a reduction on the budget deficit on the economy and linked to analysis to demonstrate how it may influence unemployment, economic growth, the current account position and inflation There is correct analysis in the form of developed links. These links are developed through a clear chain of reasoning which addresses the question. The relevant diagram(s) are present, predominantly correct and linked to the analysis. **Good evaluation** on the extent to which a reduction in a budget deficit will increase a government's ability to achieve its macroeconomic objectives weighing up both sides/comparing alternatives but without reaching a supported judgement. *There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.* **Level 2 (8 – 10 marks)** **Reasonable** knowledge and understanding of the impact of a reduction in the budget deficit on the economy, **Reasonable** analysis of the impact of a reduction on the budget deficit on the economy and linked to analysis to demonstrate how it may influence unemployment, economic growth, the current account position and inflation. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.		An increase in tax could harm incentives to work, resulting in the budget deficit worsening in the long term as a result of declining tax revenue. .

Question			Answer	Marks	Guidance
			Reasonable evaluation on the extent to which a reduction in a budget deficit will increase a government's ability to achieve its macroeconomic objectives considering both sides/comparing alternatives. *The information has some relevance and is presented with limited structure. The information is supported by limited evidence.* **Level 1 (1-5 marks)** **Limited** knowledge and understanding of how a reduction in the budget deficit may affect the economy. **Limited or no analysis** of the impact of a reduction on the budget deficit on the economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled. **Limited evaluation** in the form of an unsupported statement on the extent to which a reduction in a budget deficit will increase a government's ability to achieve its macroeconomic objectives or **no** evaluation. *Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.* **0 marks** no response worthy of credit.		

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