

**GCE**

**Economics**

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

Advanced Subsidiary GCE

**Mark Scheme for June 2017**

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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.

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## Annotations

Annotation	Meaning
	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
	Comment
	Benefit of doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Omission
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule

## Subject-specific Marking Instructions

### INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

### Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

If a candidate has written two answers for Section C, mark both answers and award the highest mark achieved.

### USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

## INSTRUCTIONS TO EXAMINERS:

### A INDIVIDUAL ANSWERS

- 1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Using 'best-fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
  - Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
  - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
  - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline' but they have only achieved some of the qualities in the band descriptors.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

### B TOTAL MARKS

- 1 Transfer the mark awarded to the front of the script.
- 2 The maximum mark for the paper is 60.

3 The quality of the extended response is assessed on this parts of the question paper which are identified with the use of an asterisk (\*). The assessment of this skill is embedded within each of the levels of response and it must be considered when determining the mark to be awarded within the appropriate level.

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

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Mark scheme

Multiple Choice Questions	Answer
1	D
2	B
3	D
4	B
5	B
6	A
7	A
8	A
9	D
10	B
11	D
12	A
13	D
14	B
15	A

Q	Key	Rationale	AO	Quantitative Skills
1	D	<b>Rationale</b> <b>A</b> A factor income. <b>B</b> A factor income. <b>C</b> A factor income. <b>D</b> <b>Correct:</b> Unemployment benefits are a transfer payment.	1	



2	B	<b>Rationale</b> <b>A</b> This may discourage some people from entering the labour force. <b>B Correct:</b> Some of the immigrants are likely to be of working age. <b>C</b> This may act as a disincentive to work. <b>D</b> This will reduce the number of people of working age and so reduce the labour force/	1	
3	C	<b>Rationale</b> <b>A</b> This is an example of voluntary unemployment. <b>B</b> This is an example of seasonal unemployment. <b>C</b> This is an example of demand-deficient unemployment. <b>D Correct:</b> Automation changes the type of work available and the skills required.	2	
4	B	<b>Rationale</b> <b>A.</b> Consumer expenditure is part of the circular flow. <b>B. Correct:</b> Exports are an injection as they add to spending in the economy. <b>C.</b> Savings are a leakage/withdrawal of spending from the economy. <b>D.</b> Taxation is a leakage/withdrawal of spending from the economy	1	
5	C	<b>Rationale</b> <b>A</b> $0.1 + 0.1 + 0.05 = 2.5$ . <b>B Correct:</b> $1/0.1 + 0.1 + ? = 2.5$ . So $1/0.4 = 2.5$ . $0.4 - 0.2 = 0.2$ . <b>C</b> $0.1 + 0.1 + 0.2 = 0.4$ . <b>D</b> $2.5 - 0.2$ .	2	√
6	A	<b>Rationale</b> <b>A Correct:</b> The government will have to borrow less if the budget deficit falls. More workers paying higher rates of income tax will likely cause tax revenues to rise in the short run. This will cause the PSNCR to decrease. <b>B</b> If the country enters a recession, tax revenues will fall while spending on unemployment benefits will increase. This will increase a budget deficit and so the need to borrow. <b>C</b> The government embarking on a programme of capital spending increases government spending. In the short run, this will increase a budget deficit and so the need to borrow. <b>D</b> Cutting direct taxation will reduce tax revenue in the short run and so increase a budget deficit.	2	

7	A	<b>Rationale</b> <b>A Correct:</b> An increase in the base rate of interest will reduce the return on investment whilst increasing the cost of borrowing for investment. An increase in the base rate will cause an appreciation due to hot money flows. <b>B</b> Investment will decrease but the exchange rate will depreciate. <b>C</b> Investment will decrease. <b>D</b> Again investment will decrease.	1	
8	A	<b>Rationale</b> <b>A Correct:</b> A measure designed to increase the efficiency of markets. <b>B</b> A monetary policy measure. <b>C</b> A fiscal policy measure. <b>D</b> A monetary policy measure.	1	
9	D	<b>Rationale</b> <b>A</b> 100. <b>B</b> 95.5. <b>C</b> 94.74. <b>D Correct:</b> $\frac{\text{Index of Export Prices}}{\text{Index of Import Prices}} \times \frac{100}{1} = \frac{118}{114} \times \frac{100}{1} = 103.51$	2	√
10	B	<b>Rationale</b> <b>A</b> If those on the lowest income see a fall in their income then income inequality will increase <b>B Correct:</b> if wages fall then firms will experience lower costs of production <b>C</b> If the minimum wage is lower <b>more</b> people may opt for voluntary employment instead of paid. <b>D</b> spending on social protection may increase if more people move into poverty	2	
11	D	<b>Rationale</b> <b>A</b> This will cause a decrease in aggregate demand (AD).. <b>B</b> This will cause an increase in AD and AS. <b>C</b> This will cause an increase in AD. <b>D Correct:</b> Wage levels are a determinant of AS. A rise in wage levels will increase the costs of production causing SRAS to fall	1	√

12	A	<b>Rationale</b> <b>A Correct:</b> Country X can produce sofas at a lower opportunity cost ( $\frac{1}{2}$ television) than Country Y ( $\frac{3}{4}$ television). <b>B</b> Country Y has the comparative advantage in the production of TVs, Its opportunity cost is $1\frac{1}{3}$ sofas whereas it is 2 in the case of Country X. <b>C</b> Country X has the absolute advantage in producing both products – it can produce more of both. <b>D</b> Country X has the absolute advantage in producing both products – it can produce more of both.	3	√
13	D	<b>Rationale</b> <b>A</b> This will affect the financial affect rather than the current account. <b>B</b> This will increase earnings from services and so would reduce a current account deficit.. <b>C</b> This will affect the financial affect rather than the current account. <b>D Correct:</b> More foreign aid will increase the value of debit items in the secondary income (current transfers) section of the current account of the balance of payments.	2	
14	B	<b>Rationale</b> <b>A</b> A decrease in the exchange rate would be expected to increase exports as their price will fall in terms of foreign currency.. <b>B Correct:</b> A reduction in specialisation may reduce the quality and raise the price of exports. Greater diversity of the products produced and lower export revenue may reduce imports, <b>C</b> Higher incomes abroad would be likely to increase spending on the country's exports. If incomes at home rise, demand for imports is likely to increase. <b>D</b> Trade liberalisation policies, by removing restrictions, are likely to increase international trade.	1	
15	A	<b>Rationale</b> <b>A Correct:</b> This will reduce demand for the currency as it will discourage hot money flows. Lower demand for the currency will cause it to depreciate possibly back to the level required. <b>B</b> This would reduce demand for goods and services including imports. A reduction in imports will cause a reduction in the supply of the currency on foreign exchange markets and so a rise in the exchange rate. <b>C</b> This would be likely to increase exports and so demand for the currency. Higher demand for the currency will cause a rise in the exchange rate. <b>D</b> This would increase demand for the currency and so would be likely to cause an appreciation in the exchange rate.	3	√

Question			Answer	Marks	Guidance
16	a		<p><b>Using Fig. 1, compare the average economic growth rate of the five countries with the average global economic growth rate.</b></p> <p>On average the five countries have faster/higher/above rate than the global economy</p>	<p><b>1</b> (AO2 x 1)</p>	A narrative of figures should not be rewarded.
16	b		<p><b>Using information from the case study, explain one benefit of lower oil prices in India.</b></p> <p>1 mark available for identifying impacts from the data: 'increase household real disposable income', "help to drive down the rate of inflation"</p> <p>1 mark for developing a clear chain of reasoning that <b>goes beyond</b> the information supplied in the case study.</p>	<p><b>2</b> (AO1 x2)</p>	<p>Examples:</p> <p>Lower oil prices will lead to rising household incomes/drive down rate of inflation. (1)</p> <p>Lower oil prices may lead to a fall in the price of consumer goods therefore driving down inflation. (2)</p> <p>Lower oil prices may lead to lower production costs thus improving productivity/competitiveness/higher oil exports thus improving the balance of payments. (2)</p>
16	c		<p><b>Using Fig.2, explain what happened to the value of the Indian rupee between 2011 and 2015.</b></p> <p>The value fell/depreciated (1).</p> <p>More rupees had to be given to purchase a US\$ over the period (1).</p>	<p><b>2</b> (AO1 x 1 AO2 x 1)</p>	
16	d	i	<p><b>Using Fig.3. describe the relationship between India's current account balance and its unemployment rate over the period shown.</b></p> <p>While the current account deficit <b>fell</b> from -3% of GDP to -1% (improved by 2%) unemployment <b>fell</b> from 11% to 9% (or by 2%) (2)</p> <p>There is a direct/positive relationship between falling current account deficit/falling imports and falling unemployment (1)</p> <p>There is an inverse relationship between rising exports and falling unemployment (1)</p> <p>Both unemployment and the deficit fell [no figures] (1)</p>	<p><b>2</b> (AO1 x 1 AO2 x 1)</p>	<p>A statement of two figures is insufficient. The candidate needs to specify that the deficit and unemployment both <b>fell</b>.</p> <p><b>To receive two marks, appropriate figures must be quoted</b></p>

16	d	ii	<p><b>Using Fig.3, explain how the change in India's current account balance between 2013 and 2015 may have influenced the country's unemployment rate.</b></p> <p>A decline in the deficit could be caused by a fall in imports/rise in exports (1).  A rise in net exports would result in higher aggregate demand (1).  A rise in AD is likely to produce a higher level of employment/to produce more goods and service for export (1)  so more workers need to be employed/unemployment falls (1)</p> <p>The fall in inflation could have made exports more competitive (1).  The depreciating rupee will have made exports more competitive (1)</p>	<p><b>4</b>  (AO1 x 2  AO2 x 2)</p>	<p>Credit "deficit" if not rewarded in 16(d)(i) (1)  Credit any reasonable application or explanation</p>
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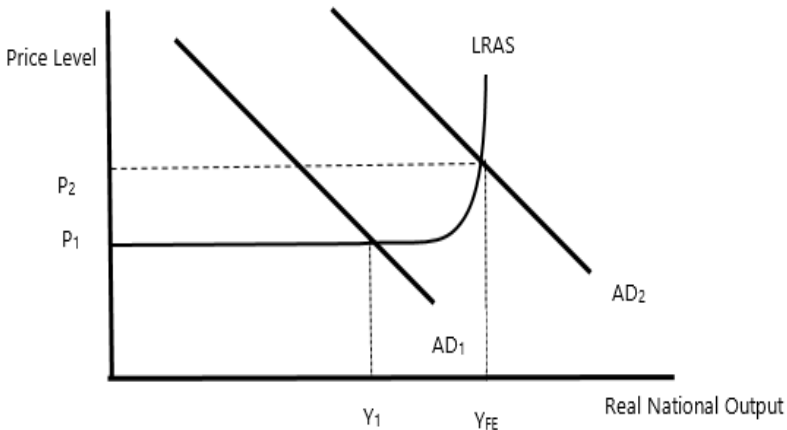
16	e	<p><b>Using a diagram, explain how an increase in spending on infrastructure in India could lead to economic growth.</b></p> <p>Knowledge of/example of infrastructure (1)</p> <p>Diagram (up to 2 marks) Accurate labelling of axes and curves (1). A rightward shift in AS or AD or both or PPC (1).</p> <p>A transmission mechanism:</p> <p>increased government spending or private investment on infrastructure with increased output/short run economic growth (2)</p> <p>OR accept two reasonable explanations, one for AD and one for AS</p> <p>Lower transport costs/faster internet/more roads increases capacity/long run economic growth (2)</p> <p>A simple statement that AS or AD shifts to the right if already drawn does not gain a mark. Explanation is required.</p>	<p><b>4</b> (AO1 x 2 AO2 x 2)</p>	<div data-bbox="1294 193 1704 448"> </div> <div data-bbox="1765 193 2072 288"> <p>Accept a PPF diagram shifting outwards from X to Y.</p> </div> <div data-bbox="1261 496 1704 823"> </div> <div data-bbox="1765 496 2072 592"> <p>or an AD/AS diagram for long-run economic growth.</p> </div> <div data-bbox="1261 863 1682 1182"> </div> <div data-bbox="1765 831 2072 895"> <p>Or short run economic growth</p> </div>
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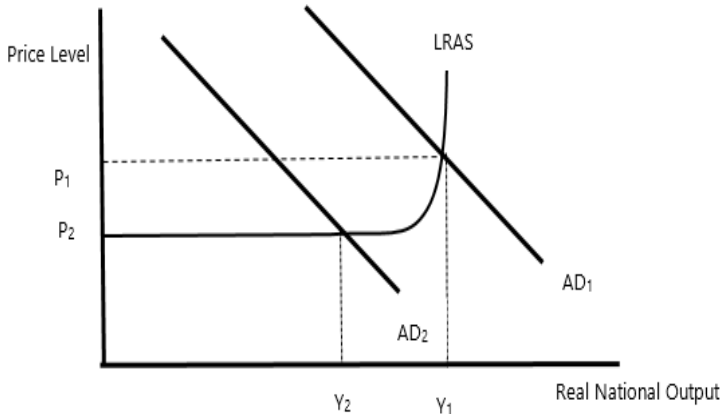
Question		Answer	Marks	Guidance
16	f	<p><b>Evaluate the consequences of a fall in the rate of inflation in India on the performance of the Indian economy.</b></p> <p><b>Level 3 (7-10 marks)</b></p> <p><b>Good – strong</b> analysis of the consequences of a fall in the rate of inflation. Good analysis 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. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p> <p><b>Good - strong</b> evaluation of the consequences of a fall in the rate of inflation, including the potentially negative effects. Strong evaluation should include a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (4-6 marks)</b></p> <p><b>Reasonable</b> analysis of the consequences of a fall in the rate of inflation. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any</p>	<p><b>10</b></p> <p>(A02 x1 A03 x 4 A04 x 5)</p>	<p>A fall in the rate of inflation may increase the <b>international competitiveness</b> of Indian exports. Their prices may be lower than their trading partners and exporters.</p> <p>More competitive domestic prices relative to more expensive imports may <b>reduce dependence on imports</b>.</p> <p>Both help to improve net exports, a component of aggregate demand.</p> <p>Increased consumption of domestically produced goods and services and investment to increase capacity will <b>increase income and reduce unemployment</b>.</p> <p>A low inflation may <b>reduce uncertainty</b> and so may encourage investment and economic growth.</p> <p>Low and stable inflation is also associated with <b>low interest rates</b>, which helps to keep costs low for firms who need to borrow for investment purposes.</p> <p>Inflation may fall but may still be above that of rivals.</p> <p>A lower inflation rate is not necessarily a stable inflation rate. A fluctuating inflation rate can discourage investment.</p> <p>If the inflation falls to a low level, there may be a concern that it will move to deflation. If consumers expect prices to fall in the near future, they may delay consumption in anticipation of lower prices. This reduction in consumption could threaten levels of economic growth. However, relatively high inflation rates in India currently may not lead to the type of behaviour seen in Japan.</p>

		<p>relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of the consequences of a fall in the rate of inflation, considering both sides/comparing alternatives.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 1 (1-3 marks)</b></p> <p><b>Limited</b> analysis based on application of knowledge and understanding of the consequences of a fall in the rate of inflation. 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.</p> <p><b>Limited</b> evaluation of the consequences of a fall in the rate of inflation in the form of an unsupported statement or <b>no</b> evaluation.  <i>Information is basic and communicated in an unstructured way.</i></p> <p><i>The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		<p>The cause of the fall in inflation will influence the impact it has. If this is due to increased use of technology and productivity levels there can be lower rates of inflation and higher economic growth. If it is due to falling level of aggregate demand, then India will experience lower economic growth.</p>
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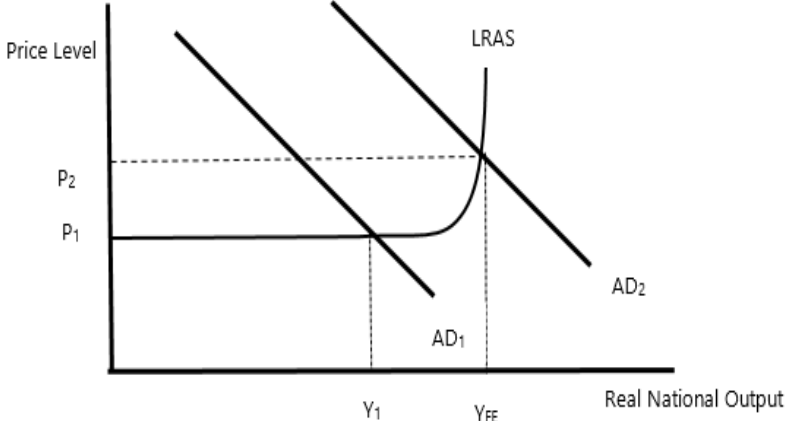
			<b>Descriptor</b>	<b>Award mark</b>
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance 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

Question	Answer	Marks	Guidance
17	<p>In the March 2016 budget the Chancellor of the Exchequer increased both the threshold at which people pay income tax and the threshold at which people pay the top rate of income tax.</p> <p>Evaluate, with the aid of an appropriate diagram (s), the effectiveness of the use of fiscal policy as a method of achieving the UK's macroeconomic objectives.</p> <p><b>Level 4 (16-20 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives.</p> <p><b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p> <p><b>Strong</b> evaluation of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives, weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic</p>	<p>20 (AO1*3 AO2*4 AO3*6 AO4*7)</p>	<p>To encourage economic growth, the government can pursue an expansionary fiscal policy through increased government expenditure to stimulate increases in national income. Discretionary cuts in taxation can also be used to stimulate increases in investment and consumer expenditure. As components of aggregate demand increases in investment and consumption can lead to a shift in aggregate demand from <math>AD_1</math> to <math>AD_2</math> in the diagram and an increase economic growth. The increase in output from <math>Y_1</math> to <math>Y_2</math> leads to an increase in the derived-demand for labour, leading to a fall in the rate of unemployment.</p>  <p>Deflationary fiscal policy can also be used to reduce inflation (particularly demand-pull inflation), in order to bring inflation down to low levels, ideally within the target rate of 2 per cent. This could involve increasing taxation rates and reducing</p>

		<p>objectives.</p> <p><b>Good</b> analysis of the effect of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives.</p> <p>There is correct analysis 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.</p> <p><b>Good</b> evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b></p> <p><b>Reasonable</b> knowledge and understanding of the use of fiscal policy to achieve the UK's macroeconomic objectives.</p> <p><b>Reasonable</b> analysis of the effect on the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives.</p> <p>There is correct analysis largely in the form of single links. These address the question <b>but</b> 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.</p>	<p>government spending in order to reduce the levels of consumer expenditure, investment and overall increase in national income within the economy. This leads to a shift in aggregate demand from <math>AD_1</math> to <math>AD_2</math>, resulting in a fall in the price level from <math>P_1</math> to <math>P_2</math>.</p>  <p>Deflationary fiscal policy can influence the current account on the balance of payments. In the short run a deflationary fiscal policy such as increasing indirect or direct taxation can be used in order to reduce consumer expenditure, including the consumption of imports. This may also encourage domestic firms to find new export markets due to the reduction in demand domestically. In order to discourage the demand for imports, the government can impose a tariff (tax on imports) on non-domestic products. This helps to increase net exports which in the long term can boost aggregate demand.</p> <p>The value of the multiplier is uncertain. This means that it is difficult to use fiscal policy to accurately adjust the level of aggregate demand in the economy by the correct amount. If</p>
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		<p><b>Reasonable</b> evaluation of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1-5 marks)</b></p> <p><b>Limited</b> knowledge and understanding of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives.</p> <p><b>Limited or no</b> analysis of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives.</p> <p>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.</p> <p><b>Limited</b> evaluation of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives, in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>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.</i></p> <p><b>0 marks</b> no response worthy of credit</p>	<p>aggregate demand is boosted too much within a short period of time, then this can cause demand-pull inflationary pressures. A deflationary fiscal policy used when the economy is operating beyond the full-employment level of output may actually decrease output more than anticipated, causing greater falls in output and unemployment as a consequence. This can occur as a consequence of failing to anticipate the impact of automatic stabilisers on aggregate demand.</p> <p>There may be unintended consequences. Reflationary fiscal policy implemented to boost economic growth and unemployment may lead to demand-pull inflation and increase a current account deficit on the balance of payments. Furthermore, increases in taxation may create disincentives to work or reduce the profit incentive for firms. This will have an impact on aggregate supply in the long run.</p> <p>A government may have insufficient and/or inaccurate information. If the most relevant or up-to-date data is not obtained to make decisions on fiscal policy, then the effectiveness of fiscal policy will be reduced. As fiscal policy is relatively inflexible with budgets often set annually, it is difficult to accurately predict the variables which will have an impact on the policy in the future. For example, the impact of external shocks such as international conflicts or natural disasters are difficult to predict.</p> <p>There can be time lags with the implementation of government capital expenditure on hospitals, schools or transport projects for example. Furthermore, it can take time to introduce changes to the level of taxation. It will take time before these changes are implemented, and for economic agents to adjust their spending or investment behaviour as a result of the changes. As a consequence of the time lag, policies introduced to influence particular macroeconomic indicators (such as discretionary measures of reducing taxation to increase output, economic growth and reduce unemployment) may not have the intended</p>
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					effect, as aggregate demand may have already increased in the time since the policy was initially decided by policy makers.
			<b>Descriptor</b>	<b>Award mark</b>	
			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	<p>In the period September – December 2015 the rate of unemployment in the UK fell to its lowest level in more than ten years to 5.1%. The number of people out of work fell by 99,000 to 1.68 million in the same three-month period.</p> <p>Evaluate, with the aid of an appropriate diagram (s), the consequences of a fall in the rate of unemployment for the UK economy.</p> <p><b>Level 4 (16-20 marks)</b></p> <p><b>Good</b> knowledge and understanding of the consequences of a fall in the rate of unemployment for the UK economy.</p> <p><b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p> <p><b>Strong</b> evaluation of the extent of the consequences of a fall in the rate of unemployment for the UK economy, weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b></p>	<p>20 (AO1*3 AO2*4 AO3*6 AO4*7)</p>	<p>A fall in unemployment would be likely to increase the income for individuals and households if employment increases, which can lead to an increase in living standards.</p> <p>Increased spending in local businesses as a result of increased disposable incomes may provide a boost to local regions and create a positive multiplier effect.</p> <p>Increased incomes may increase the amount of consumer spending. As a component of aggregate demand, an increase in consumption will lead to an increase in aggregate demand from <math>AD_1</math> to <math>AD_2</math>. This also leads to an increase in output from <math>Y_1</math> to <math>Y_{FE}</math> as shown in the diagram below. It also increases the price level from <math>P_1</math> to <math>P_2</math>.</p>  <p>With more individuals in work, the government may gain increased tax revenue from income tax, national insurance contributions and value added tax (VAT) from the increased consumer expenditure. This additional revenue can be spent on areas such as education or healthcare.</p> <p>There may be less spending by government on transfer payments such as Job Seekers Allowance (JSA) or Universal Credit which forms and increase in government spending on</p>

		<p><b>Good</b> knowledge and understanding of the consequences of a fall in the rate of unemployment for the UK economy.</p> <p><b>Good</b> analysis of the consequences of a fall in the rate of unemployment for the UK economy. There is correct analysis 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.</p> <p><b>Good</b> evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b></p> <p><b>Reasonable</b> knowledge and understanding of the consequences of a fall in the rate of unemployment for the UK economy.</p> <p><b>Reasonable</b> analysis of the consequences of a fall in the rate of unemployment for the UK economy. There is correct analysis largely in the form of single links. These address the question <b>but</b> 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.</p> <p><b>Reasonable</b> evaluation of the extent of the consequences</p>		<p>social protection. This spending could be allocated to areas such as education and healthcare or reducing the budget deficit.</p> <p>A fall in unemployment can bring some disadvantages. There may be a decreased pool of labour for employers to choose from, which may cause skills shortages in some regions or industries and possibly higher wage demands as a consequence, acting as a constraint on further output by firms. Falling unemployment may lead to demand-pull inflation due to the impact of increased consumption on aggregate demand as the economy approaches full-employment. Labour shortages may also cause cost-push inflationary pressures. However, if the economy is just coming out of recession, aggregate supply is likely to be price elastic as there is still spare capacity. The impact of lower unemployment depends of the level of job creation and the rate of employment in the economy. Following the recent recession there was an increase in self-employment as well as those who withdrew from the labour market and became economically inactive. Many jobs may be part-time or with unpredictable hours on zero hours contracts which may represent underemployment, despite the fall in headline unemployment figures. Increased consumption due to rising incomes may lead to increasing demand for imports. Unless this is matched by a rise in exports sales, the trade balance on the current account may worsen.</p>
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		<p>of a fall in the rate of unemployment for the UK economy, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1-5 marks)</b></p> <p><b>Limited</b> knowledge and understanding of the consequences of a fall in the rate of unemployment for the UK economy.</p> <p><b>Limited or no</b> analysis of the consequences of a fall in the rate of unemployment for the UK economy.</p> <p>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.</p> <p><b>Limited</b> evaluation of the consequences of a fall in the rate of unemployment for the UK economy in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>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.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		
		<b>Descriptor</b>	<b>Award mark</b>	
		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

**OCR (Oxford Cambridge and RSA Examinations)**  
**1 Hills Road**  
**Cambridge**  
**CB1 2EU**

**OCR Customer Contact Centre**

**Education and Learning**

Telephone: 01223 553998

Facsimile: 01223 552627

Email: [general.qualifications@ocr.org.uk](mailto:general.qualifications@ocr.org.uk)

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