

New Format Exemplar Questions Unit 3 – Mark Scheme First Examination from Summer 2003

Question 1

Section	Scheme	Marks
(a) (i)	RPI as a measure of the cost of living (1 mark). Explain need for survey of households to determine expenditure patterns (1 mark) Explain weighting (1 mark). Nature of an index (1 mark).	4
(a) (ii)	Award any two of the following: Some people have a very untypical expenditure patterns so the weights of the RPI will be inappropriate for them. Changing technology raises the quality of goods within each expenditure category. People will shift out of goods categories where prices are rising quickly before the weights are revised. Up to 2 marks for each of two points to a maximum of (3 marks).	3
(b) (i)	The total demand for goods and services produced in the UK (2 marks), disaggregated as C+I+G+X-M (1 mark).	3
(b) (ii)	Real GDP decelerated, i.e. the level of output grew but less quickly. (1 mark), appropriate reference to the actual data (1 mark)	2
(b) (iii)	The passage indicates that there has been a fall in the stock market 10.2% (extract 2) and a forecast of a surge in house prices of 7% in 2002. Relation to level of AD through confidence and wealth – and clarity that these are moving in different directions. (6 marks). Evaluation: any one evaluative point 2 marks: house prices a larger component of wealth than equities, this pattern was more marked in 2002, other things not equal etc (2 marks).	8
(c) (i)	Very high growth rates may be unsustainable and require painful corrective measures with adverse real effects on the economy. Likelihood of inflation if growth is too rapid. Up to 3 marks for each of two points to a maximum of (5 marks).	5
(c) (ii)	Divide the 15 marks available into 9 marks for knowledge application and analysis and 6 marks for evaluation. Knowledge, application and analysis: Correct use of AD/AS analysis (preferably with diagrams) (4 marks) Identification of likely transmission routes, eg rising demand for UK exports, confidence, effect on the exchange rate etc (5 marks)	

	<p>Evaluation: relevance of elasticities eg the income elasticity of demand for UK goods by euro-zone countries, other things may not be equal, lagged effects etc. Any two evaluation points 3 marks each (6 marks)</p> <p style="text-align: right;">Total Mark for Question 1: 40</p>	15
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Question 2		
Section	Scheme	Marks
(a) (i)	Monetary policy is the use of interest rates, the money supply or the exchange rate to influence the economy (1 mark) . Fiscal policy is the use of tax rates or the level of government spending. (1 mark) . A cut in interest rates, a rise in income tax would be appropriate examples. (2 marks) .	4
(a) (ii)	The data shows that nominal (1 mark) retail sales are expected to grow by 2.3% between Jan 2001 and Jan 2002. (1 mark) .	2
(a) (iii)	Retail spending is a key component of consumption in AD (1 mark) . A shift to the right of the level of AD threatens a rise in the price level (2 marks) Reference to inflation target of 2.5% (1 mark)	4
(b)	Some recognition of an output gap (candidates do not have to use this term), with resulting spare capacity (1 mark) in the form of unused resources eg unemployment (1 mark) . Thus possible scope for increases in aggregate demand without threatening other macroeconomic objectives such as inflation. (3 marks) .	5
(c)(i)	Award any two credible items of information from the wide basket of indicators used by the monetary policy committee. For each item (1 mark) for identifying it (1 mark) for explaining significance in terms of AD. Award a further (2 marks) for the evaluation of the chosen indicators.	6
(c) (ii)	At least two transmission routes should be identified (1 mark each) and explained in relation to AD (1 mark each) . For example, cheaper loans, reduced mortgage interest repayments, rising wealth (through higher house prices or stock market values), depreciation of the exchange rate stimulating exports and reducing imports, increases in investment.	4
(d)	<p>Divide the 15 marks available into 9 marks for knowledge, application and analysis and 6 marks for evaluation.</p> <p>Correct use of AD/AS analysis to show rise in AD (4 marks) together with description of consequent multiplied expansion (2 marks) and longer term potential rise in AS (3 marks)</p> <p>Evaluation of likely impact. Reward any relevant discussion. Eg the extra spending on education (about £2bn) is not that large in relation to the economy as a whole, appreciation that overall impact will</p>	6

	<p>depend on marginal propensities to save, tax, import etc (these do not have to be named as such), likelihood that other events will intervene (eg changes in monetary policy), crowding out effects. (3 marks) each for any two evaluative points.</p> <p style="text-align: right;">Total Mark for Question 2: 40</p>	15
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