AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.2.3.3 INFLATION AND DEFLATION

SCORE	PERCENTAGE
/2020	%

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1.

Areas for discussion include:

- definitions/explanations: macroeconomic performance, depreciation
- explaining the causes of a depreciation in the currency
- explaining the impact of depreciation on the price of imports or exports
- explaining the impact of a depreciation of the pound on economic growth
  - such as the effects on AD
  - such as the potential rise in FDI
- explaining the impact of a depreciation of the pound on unemployment
  - such as a rise in exports and the subsequent increase in the derived demand for labour
- explaining the impact of a depreciation of the pound on inflation
  - such as the impact on demand-pull inflation from rising exports
  - such as the increased cost of raw materials or other imports
- explaining the impact of a depreciation of the pound on the current account of the balance of payments
  - such as increased international competitiveness and a rise in exports
  - such as the relative price of foreign goods becoming more expensive and a fall in imports
- considering the extent of the fall in currency and its subsequent impacts
- considering whether the currency self-corrects to some extent
- considering short-run and long-run implications of depreciation, e.g. on economic growth
- considering the Marshall-Lerner condition, elasticities and the ‘J-curve’ effect
- considering whether it has any impact in the long run, e.g. will the inflationary impact of the depreciation erode its effects?
- considering the short-run and long-run impact of a fall in the exchange rate on living standards.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

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Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principle but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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2. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis but very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Introduction	• Monetary policy • Exchange rates • Macroeconomic performance
Developing the response to the question: **(Application)**	Drawing on the information in the extracts: • Currency wars and potential retaliation **(Extract B)** • Investor confidence **(Extract B)** • Threats to economic growth in the UK and USA **(Extract B)** • Effects of interest rates on exchange rates **(Extract B)** • Methods of reducing trade deficits **(Extract C)** • Effects on other Monetary Policy instruments and targets **(Extract C)** • Problems that Switzerland faced in a fixed system **(Extract C)** • Effects on trade and stability due to stable exchange rates **(Extract C)**
(Analysis)	**Arguments why managing the exchange rate may be beneficial:** • Stability leading to investment • More certainty regarding export revenue for firms • More certainty regarding import prices for firms • Consumers benefitting from stable prices • Possible avoidance of deflationary pressure if revalued • Improving competitiveness of firms if devalued • Increased trade flows with the EU due to increased transparency in prices if fixed to Euro. **Arguments why managing the exchange rate may not be beneficial:** • Loss of ability to use interest rates effectively • May be expensive for government • Loss of BoE's independence and use of policy instruments • Conflicts and trade-offs with other macroeconomic objectives • Potential of choosing "the wrong rate" to fix at • The UK's historical experience with the ERM • Loss of automatic adjustment or stabilisation
Evaluation	• The relative success or lack of success in the use of interest rates in the past • The possible success or lack of success in the use of quantitative easing in the past • The relative importance of the trade deficit in terms of other macroeconomic goals, is it more important to focus on domestic consumption? • Can the government afford to prop up the currency if needed or does this contradict aims to reduce the budget deficit? • Is the currency the major problem with the UK's export competitiveness or is it due to structural problems and a lack of productivity? • Would fixing the exchange rate low lead to a "race to the bottom" with other currencies? *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not not mentioned above.

[25]

3. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Issues and areas for discussion include

Introduction	• Balance of payments • Current account and capital account • Exchange rates • Macroeconomic performance indicators
Developing the response to the question: **(application and analysis)**	**Arguments why an appreciation of the pound against the Euro may be beneficial to the UK's macroeconomic performance** • The effects of cheaper raw materials from Europe on inflation • The effects on competitiveness with the rest of the world if costs are lower • Impacts on UK manufacturing employment of cheaper European raw materials • Potential improvements to productivity in response to more expensive exports • Impacts of non-price competitiveness in response to more expensive exports • Could reduce inflationary pressure if the economy is in a boom • May act as a stabiliser to UK growth **Arguments why an appreciation of the pound against the Euro may be detrimental to the UK's macroeconomic performance** • The effects of cheaper raw materials from Europe on unemployment • Outsourcing to Europe affecting employment and growth • The loss of export competitiveness against Europe • Potential falls in FDI from Europe due to increased costs and its effects on growth
Evaluation	• Depends upon the duration of the change, self-correction may occur • Other issues other than exchange rate may have greater potential impacts on the economy such as domestic fiscal and monetary policy • The Marshall-Lerner condition (not in specification) and the effects of changing exchange rates upon the current account of the balance of payments • Changes to the patterns of trade and the importance of the exchange rate multilaterally rather than bilaterally. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised

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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

4. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Issues and areas for discussion include

Introduction	• Interest rates • Monetary policy • Economic growth (short-run and long-run)
Developing the response to the question: **(application and analysis)**	**Beneficial effects of low interest rates:** • Effects of low interest rates on savings, increased consumption and increased growth • Effects of low interest rates on tracker mortgages, increased disposable income and consumption increasing growth • Effects of low interest rates on credit, consumption and growth • Effects of low interest rates on firms and investment • Effects of low interest rates and its effects on currency and trade flows • Benefits to both short-run and long-run growth. **Negative effects of low interest rates:** • The effect on long-term investment and bank's willingness and ability to lend • The building up of personal debt and future problems • The potential damage that a rise in interest rates may have after such a sustained low rate • The effects on the housing market of inflated volumes of borrowing and other microeconomic arguments • Arguments regarding the long-term damage of sustained low rates. **Other causes of economic growth:** • Consideration of the other factors leading to economic growth such as fiscal / other monetary or supply-side policies or exogenous factors.
Evaluation	• The effects are difficult to quantify due to the economy never having experienced such persistent low rates • The fact that the bank rate is very different from lending and borrowing rates and therefore the private sector sets many of these rates • The effect of the credit crunch and confidence in determining the level of consumption and investment • The so called "liquidity-trap" (not in specification) and the ineffectiveness of interest rate as they reach low levels • The importance of other factors rather than interest rates in determining growth • Time-lags • Effectiveness of interest rates *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised

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[25]

5.

For defining / explaining • Recession • Economic growth • The trade cycle.	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

Award 1 mark for each logical link in the chain of reasoning:

For example Higher unemployment **(1 mark)** much of which will be cyclical unemployment **(1 mark)** due to a lack of AD which causes disposable incomes to fall **(1 mark)** which leads to further negative multiplier effects **(1 mark)** which may mean even less revenue and profits for firms **(1 mark)**. Firms are also likely to be reluctant to hire new staff due to existing spare capacity **(1 mark)** and may just run down existing stocks **(1 mark)** rather than increase output **(1 mark)** which may exacerbate the unemployment problem and lead to both hysteresis **(1 mark)** and further problems of demotivated "long-term" unemployment **(1 mark)**. Other issues include: Effects on inflation, balance of payments on current account, poverty, and investment.	**Up to 15 marks**
Use of diagrams to help support explanations, e.g. trade cycle, AD/AS	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

6. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

Issues and areas for discussion include

Introduction	• Public sector • The UK economy • Macroeconomic performance / living standards
Developing the response to the question: **(application and analysis)**	**Arguments why a smaller public sector may benefit the UK economy:** • Crowding-out arguments (both physical and financial) • The role of potentially lower taxes in affecting growth • The role of potentially lower taxes in supply-side policy • The role of potentially lower taxes on private sector employment and the willingness to work • The role of potentially lower taxes on FDI • Deficit reduction and debt repayment • Potential boosts to the private sector of reduced red-tape and effects on recruitment. **Arguments why a smaller public sector may be damaging to the UK economy:** • An absence of the "crowding in" effect • A lack of public sector employment and negative multiplier effects • Regional effects especially in places reliant upon high levels of public expenditure • The possibility that some unemployment could be structural in nature due to the nature of some public sector jobs • A lack of provision of public services • A lack of correction of market failures • Possible rising inequality.
Evaluation	• Effects may differ depending on income group and stakeholder group depending upon the focus of government policy • The global economy may have a much larger effect for example FDI may not be forthcoming due to global uncertainty • Effects may differ depending on the employment sector (some government spending may be "ring-fenced") • Other factors which may be more important than the size of the public sector • The degree of requirement for the size of the government may vary with the trade cycle (alternatively it could be argued that this should be irrelevant to the trade cycle). *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised

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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

7. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Issues and areas for discussion include

Introduction	• Macroeconomic performance • Trade • Free trade or trading blocs
Developing the response to the question: **(Application)**	• Focussing on improving trade in services (**Extract B**) • Sharing technology (**Extract B**) • Boosting exports, competition and investment (**Extract B**) • Improving international relations (**Extract B**) • Growth of Asian economies in comparison to slow EU growth (**Extract C**) • Problems for trade unions and environmental issues (**Extract C**) • Regional inequality (**Extract C**) • Unfair competition from state subsidised industry (**Extract C**) • Increasing power of MNCs in comparison to elected government (**Extract C**)
(Analysis)	**Arguments why free trade agreements may benefit the UK:** • Effects of increased export opportunities on output and employment • Effects of increased inward investment on output and employment • Impacts on the price of imports / semi-manufactures • Economies of scale and the effects on price level • Boosts to productivity and output • Benefits of competitive markets and sharing of technologies • Boosts to international relations • Improved choice / quality • Comparative advantage and the gains from trade. **Arguments why free trade agreements may damage the UK:** • The UK is unable to use protectionist policies such as quotas, tariffs, export subsidies • Possibly open to more external shocks • Sunrise / sunset industry arguments • May be subject to increased price fluctuations / instability • Loss of potential tariff revenue (although this is not directly received in the EU) • Cultural and strategic industry arguments • May be unable to protect against “dumping” • Environmental issues with increased transportation • Unclear growth and employment effects • Problems for small business in comparison to MNCs • May give an impetus to further deregulation / privatisation.
Evaluation	• The UK being unable to negotiate their own deals due to EU membership at the moment, however after we leave the EU it can conduct its own negotiations. • The EU currently not having deals in place in comparison to other economies • Benefits and costs depending on the various stakeholders points of view and short-term benefits, such as lower prices, may have long-term costs such as increased structural unemployment

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	• Regions of the UK may experience different impacts • Trade deals may be done which don't directly involve the UK but could benefit it or could potentially damage it such as the TPP • References to UK's current situation affecting trade *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

[25]

8. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Issues and areas for discussion include

Introduction	• Productivity improvements • The EU economy • Macroeconomic performance.
Developing the response to the question: **(Application)**	• Improvements to infrastructure & investment **(Extract E)** • Difficult to improve productivity in some jobs **(Extract E)** • Links to living standards **(Extract E)** • Links to wages **(Extract E)** • Improvements in skills **(Extract E)** • Improvements to competitiveness **(Extract F)** • Solutions to unemployment problems **(Extract F)** • Boosts to welfare and lower prices **(Extract F)** • Product and process innovation **(Extract F)** • Structural weakness and lack of investment **(Extract F)**
(Analysis)	**Arguments why productivity improvements may benefit the UK** • Improvements in efficiency • Lower unit costs for firms and potential for increased profits • Improved competitiveness and the impact on the current account of the balance of payments • If UK productivity improvements can be achieved it may attract FDI and improve the capital account of the balance of payments • Higher wages • Economic growth • Possible boosts to tax revenue **Arguments why productivity improvements may not benefit the UK** • Productivity improvements may not require as many workers and impact on unemployment • Other countries may become more competitive at the UK's expense • If other countries are more competitive then it may divert FDI • Productivity improvements don't necessarily improve living standards • Other issues such as exchange rates may distort productivity gains • Opportunity cost of supply-side policies • Difficulties in measuring the impact of supply-side policies
Evaluation	• Potential conflicts between macroeconomic goals are traditionally reduced through productivity improvements. However, due to globalisation this may not always be the case • The UK's membership of the EU allows productivity improvements to be shared easily due to the free movement of workers and capital although this doesn't appear to have helped the UK's current membership • Knowledge transfer and process innovation have improved between economies however, the UK has still remained behind • Competitiveness relies on many other factors which are not covered by productivity • Consideration of UK's decision to leave the EU *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is*

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	important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

9.

Level of response	Response	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles **and/or** good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately	**7 – 9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles **and/or** data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places	**4 – 6 marks**
1	• is very brief **and/or** lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles **and/or** data to the question • may include some very limited analysis but the analysis lacks focus **and/or** becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1 – 3 marks**

An AD/AS diagram is expected, showing a rightward shift of the AS curve, this can either be LRAS or SRAS.

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Relevant issues include

- definitions/explanations: productivity, supply side, deflation, price level
- possible causes of increased productivity
- relating productivity to supply-side policies (interventionist or market-based)
- linking productivity to average costs/costs of the factors of production
- linking productivity to increases in the long-run productive potential
- explaining the link between falling costs of production and the general price-level.

[9]

10. A

[1]

11. D

[1]

12. **Areas for discussion include:**

- definitions/explanations: burden of taxation, taxation, direct/indirect taxation, fiscal policy
- explaining the burden of taxation, expressed, for example, as a % of GDP
- describing the current forms of taxation used in the UK and recent changes
- explaining the principals of taxation such as equity
- giving examples of the various direct and indirect taxes
- identifying the differences between progressive, regressive and proportional tax
- the redistributive impact of direct and indirect taxation
- how falling direct taxes may:
  - incentivise work
  - reduce tax avoidance/evasion
  - influence consumption
  - influence investment
  - any other relevant point
- how rising indirect taxes may:
  - affect inflation
  - reduce consumption of demerit goods
  - affect SRAS
  - affect consumption decisions
  - affect wage demands
- evaluating the size of the shift
- evaluating empirical evidence
- evaluating the period of time over which the shift takes place
- policy myopia and political ideology affecting decisions
- the Laffer curve.

The use of relevant diagrams such as the Laffer curve to support the analysis should be taken into account when assessing the quality of the student's response to the question.

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Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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13.

Areas for discussion include:

- definitions/explanations: unemployment, macroeconomic policy, macroeconomic goals, trade-offs
- explaining the various causes/types of unemployment
- distinguishing between involuntary and voluntary unemployment
- explaining the different policy responses depending upon the nature of the unemployment
- explaining the effects of falling unemployment on:
  - inflation
  - economic growth
  - trade
  - other goals such as the budget deficit
- highlighting the UK's experience in reducing unemployment whilst maintaining stable inflation and a satisfactory balance of payments position
- the role of supply-side policies and productivity improvements in avoiding conflicts
- the effects of economic shocks on the economy and the difficulty of insulating against these
- the short-run Phillips curve
- government policies to reduce unemployment
- considering the relative success of recent government policies in the UK or other economies
- considering the position of the economy in terms of the proximity to the productive potential
- considering the position of the UK in terms of the economic cycle

The use of relevant diagrams such as the short-run Phillips curve and AD/AS diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
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3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

14. C

[1]

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15.

Areas for discussion include:

- definitions/explanations: monetary policy, deflation, developed economies
- deflation and the different types (malign v benign)
- the effects of deflation
- the nature of developed economies and different experiences of deflation
- the role of interest rates and the transmission mechanism
- the effects of interest rates on investment, employment, saving and consumption
- the link between long-term saving and long-term investment
- the effectiveness of interest rates at very low levels including negative interest rates
- consideration of the MPC's role, primarily in targeting inflation but also in targeting growth
- consideration of differences in the two economies which may determine the effectiveness of monetary policy
- the use of quantitative easing and consideration of its success
- the possible role of the exchange rate in stimulating the economy
- the use of fiscal policy and fiscal stimulus
- considering how government debt may affect the ability to use fiscal policy
- considering how private-sector debt may influence the effectiveness of policies designed to combat deflation
- consideration of the potential conflicts in policy
- the significance of economic shocks and their impact on policies to tackle deflation.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

16. A

[1]

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17. **Areas for discussion include:**

- definitions/explanations: budget surplus/deficit, budget, fiscal policy
- explaining arguments in favour of a budget surplus such as:
  - reduction of national debt
  - reducing the burden on future generations
  - the possible improvements to government credit ratings and the effect on coupon rates and debt interest
  - the reduction of crowding out
  - the possible reduction in inflation
- explaining arguments against a budget surplus such as:
  - the possible effects of reduced government spending on merit and public goods
  - the possible effects of reduced spending on the supply side of the economy
  - the possible effects of increased taxation on consumption, and investment
  - the possible effects of increased taxation on international trade
  - the possible effects of a negative multiplier effect
- explaining the possible causes of the UK budget deficit
- explaining the reasons for government spending and types of spending (current, capital, transfer payments)
- the possibility that a budget surplus may be achieved automatically with economic growth rather than discretionary changes
- the debt to GDP ratio may be falling if the economy is growing even if the economy is still running a deficit
- the causes of the deficit may be vital in understanding whether a surplus is desirable, for example, is the deficit a cyclical or structural deficit?
- the state of the economy and position on the economic cycle determines whether a surplus is likely or achievable
- the view that balancing or achieving a small surplus on the current budget is desirable but borrowing to invest isn't a problem
- the issue that borrowing may be beneficial and cheap when coupon rates are low.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

18. D

[1]

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19. **Areas for discussion include:**

- definitions/explanations: interest rates, monetary policy, economic stability, cyclical instability, credit creation
- explaining the possible effects of low interest rates on:
  - saving and borrowing, including loans and mortgages
  - consumption
  - investment
  - the exchange rate
  - confidence
- explaining the benefits of low interest rates for:
  - growth (long-run and short-run)
  - unemployment
  - inflation or avoidance of deflation
  - the current account of the balance of payments
- explaining the drawbacks of persistently low interest rates such as:
  - inflationary pressure and overheating the economy
  - asset-price and speculative bubbles
  - over-complacency in firms and the build-up of private-sector debt
  - effects on financial institutions and the real economy if people/firms default on their debt repayments
  - effects on the housing market if interest rates need to rise
  - effects on people relying on savings such as pensioners
  - possibly leading to malinvestment and sustaining zombie businesses
- considering why interest rates were low in the first place
- explaining the role of the MPC in setting Bank Rate and the factors taken into consideration when setting the rate
- explaining the monetary policy transmission mechanism
- explanation of alternative schools of thought regarding monetary policy
- the role of other aspects of monetary policy (eg forward-guidance or Q.E.) alongside conventional interest rate policy
- the potential short-term benefits of lower interest rates such as household consumption rising compared to long-term financial burden
- the role of the financial authorities in reducing the possibility of households taking on too much debt.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

20. C

[1]

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21.

Level of response	An answer that:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles **and/or** good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7 – 9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	**4 – 6 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used **and/or** is inaccurate in some respects.	**1 – 3 marks**

A short-run Phillips curve diagram is expected with co-ordinates plotted. An AD/AS diagram with an upward sloping AS curve and showing a shift in AD is also acceptable.

Relevant issues include

- definitions/explanations: unemployment, price stability, inflation, trade-off
- explaining how lower unemployment leads to higher disposable incomes
- describing the possible effects on consumption and demand-pull inflation
- describing how a smaller pool of labour may cause labour shortages leading to increased wage demands and cost-push effects
- describing the wage-price spiral.

[9]

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22. **Areas for discussion include:**

- definitions/explanations: trade or current account deficit, trade, balance of payments, macroeconomic performance
- explaining how a trade or current account deficit may impact upon:
  - economic growth
  - unemployment
  - inflation
  - other measures of performance
- considering the causes of the trade or current account deficit
- explaining the difference between trade in goods and services
- considering other parts of the current account of the balance of payments, ie primary and secondary income flows, and their significance
- the role of the capital and financial accounts
- the significance of having a floating exchange rate
- possible government responses to the deficit and their impact on macroeconomic performance
- the UK's past experiences with current account deficits
- the relative importance of the current account deficit in comparison to the other economic goals
- the "persistent" nature of the deficit
- the potential costs and benefits of surpluses on the financial account
- possible structural problems in the UK economy causing the imbalance.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

23. B

[1]

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24. **Areas for discussion include:**

- definitions/explanations: financial markets, macroeconomic stability, financial stability
- relating rules and regulations to the FPC, FCA, and PRA and explaining the functions of each of the regulatory bodies
- explaining both micro and macro prudential regulation
- giving examples, such as explaining the build up to the last major financial crisis in the UK in 2007/08
- explaining systemic risk and the impacts on the real economy in terms of:
  - growth
  - unemployment
  - inflation
  - government finances
- explaining liquidity ratios and the 'stress-testing' of banks
- explaining the role of other economic agents in attempting to create macroeconomic stability
  - such as the MPC's role in price stability and helping achieve the government's objectives for growth and unemployment
  - such as the OBR's role in monitoring the impact of government budgetary changes
  - such as the EU's rules regarding fiscal stability
  - such as the Basel accords
- considering the possibility of government failure in banking or regulatory capture
- considering financial market failure, speculative bubbles and moral hazard
- considering that too much regulation may cause 'banking brain-drain' and damage the UK's financial services industry in the long run
- considering the relative success (or failure) of current regulations or improvements that can be made to the system
- considering the possibility of market failure in banking such as asymmetric information in financial products
- considering that economic stability is much more than just financial stability
- considering that some external economic shocks may not be fully insulated against.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principle but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

25. B

[1]

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26. B

[1]

27. **Relevant issues include:**

- definitions/explanations: inflation, cost-push inflation, demand-pull inflation, the general price-level, price indices
- explaining possible causes of rises in demand-pull inflation through an increase in the components of AD such as:
  - increased consumption due to the falling unemployment
  - increased investment due to falling interest rates
  - increased government spending due to a discretionary policy to raise welfare spending, e.g. pensions
  - increased exports due to higher economic growth in a trade partner
  - decreased imports and increased exports due to a depreciation in the currency
  - a rise in the money supply supporting the monetarist view and using the Fisher equation
- explaining possible causes of rising cost-push inflation through an increase in the costs of the factors of production such as:
  - rising wage costs
  - rising raw material costs
  - rising commodity prices such as oil
- explaining external shocks which may impact upon inflation
- explain microeconomic issues which may impact upon inflation such as rising housing costs affecting the RPI measure or possible collusion in energy markets affecting domestic fuel prices
- explaining possible short-run reasons for increases in prices and long-run reasons.

The use of relevant diagrams to support the analysis such as rising AD/AS should be taken into account when assessing the quality of the student's response to the question.

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Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11 – 15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6 – 10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1 – 5 marks**

[15]

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28.

Areas for discussion include:

- definitions/explanations: inflation, deflation
- explaining the different types of inflation (demand-pull and cost-push)
- explaining the different types of deflation (malign and benign)
- explaining the UK's recent history of inflation and deflation
- explaining the causes of inflation and deflation
- explaining the effects of inflation or deflation upon:
  - individuals, such as inflation causing a higher cost of living
  - borrowers, such as the relative value of debt falling with inflation
  - savers, such as inflation eroding the value of savings
  - those on fixed incomes such as the current government policy of raising JSA at 1% or inflation (whichever is lowest)
  - real interest rates and borrowing
  - firms and investment
  - labour markets, such as individuals with low bargaining power being unable to negotiate higher wages
  - consumption decisions, such as delayed consumption due to deflation
  - international competitiveness
  - activity and stability
- considering the different types of inflation in terms of creeping or hyper-inflation
- considering that inflation may benefit one group but at the expense of another
- considering that the type of deflation may determine the effects
- considering the duration of the inflation or deflation
- considering the ability of the MPC to return to the target of 2% inflation, eg the problem of the lower bound to interest rates (liquidity trap).

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

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Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principle but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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29.

Relevant issues include:

- definitions/explanations: monetary policy, transmission mechanism, Bank Rate, interest rates
- the role of the MPC in achieving 2% +/- 1% CPI inflation and supporting the government's objectives regarding growth and employment
- explaining how a rise in Bank Rate may reduce household consumption:
  - due to a rise in saving
  - due to credit becoming more expensive
  - due to variable rate mortgages becoming more expensive
- explaining how a rise in Bank Rate may reduce investment:
  - due to credit becoming more expensive
  - due to investment appraisal being unfavourable
  - more pessimism
- explaining how a rise in Bank rate may appreciate the exchange rate:
  - due to a rise in demand for the currency and/or a fall in supply of the currency on the FOREX (hot money flows)
- the impact on asset prices and the consequent wealth effects
- explaining how all of the above affect AD.

The use of relevant diagrams such as AD/AS or the supply of and demand for currency, to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11 – 15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6 – 10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1 – 5 marks**

[15]

30. Calculation:
(-0.72 + -0.28 + -0.03 + 0.36 + 2.75 + 0.80) = 2.88 2.88 ÷ 6 = 0.48 = 0.48% to 2 d.p.

Response	Max 2 marks
For a correct answer (0.48%) with the % sign and to 2 d.p.	**2 marks**
For a correct answer but without the % sign **and/or** not to 2 d.p.	**1 mark**

[2]

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1.

Explanation:

For a relevant explanation of circular flow: eg A model which demonstrates the flow of money between households and firms and going on to explain the role of injections/leakages or linking the circular flow to measures of national income/output /expenditure.
For a diagram of the circular flow

Analysis:

For Example: Increased growth in the US could lead to rising disposable income of US citizens who may increase their spending this may be on UK's goods or services which would lead to increased export earnings for the UK which would increase the output of UK firms and therefore AD of which exports are a component which therefore increases the national income of the UK.
Use of appropriate diagrams, eg a diagram showing increased AD on an AD/AS diagram or increased FDI from overseas increasing both AD and AS
Reference to the UK or other economies.

[9]

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2.

Introduction	• The meaning of inequality • Differences between income and wealth • UK economic performance measures.
Developing the response to the question: **Application**	Drawing on the information in the extracts: • the rich having a lower MPC and a higher MPS and if incomes of the poor increased consumption would increase **(Extract B)** • US economic growth and US being the UK's main export partner **(Extract B)** • Increased income inequality due to reduced union power **(Extract C)** • trickle-down effects improving living standards **(Extract C)** • promoting incentives and wealth generation and focusing on financial services **(Extract C)** • economic progress often depends on saving and innovation **(Extract C)** • UK financial services making short term with profits and lacking long term investment **(Extract C)**
Developing the response to the question: **Analysis**	Arguments how inequality impacts on UK performance: • impacts on consumption and AD • US as the UK's main export market + other export markets • how supply side reforms have affected UK macro-performance • UK's comparative advantage in financial services • increased savings linking to investment • policies impacting on consumption and investment and different income groups • entrepreneurship, "wealth generation" and the free market. • equity vs efficiency arguments • impact on FDI • asset bubbles • UK banking system and the pursuit of long term investment Analysis of each of the UK's four main macro-economic goals or other social goals or current government targets could be included.
Evaluation	• Does inequality in other countries really impact on the UK economy? • The relative amount of inequality • Does the marginal propensity to consume have such a big impact or are there more important considerations (does increased saving by the "top 1%" have such an impact?)

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	• The importance of exports and FDI in the economy. • Other considerations such as domestic policy or financial crisis creating bigger impacts. • The relative importance of each macroeconomic performance indicator • Whether Government intervention is necessary for the improvement of the economy and if so in what way?
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

5. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Introduction	• Budget deficit • Trade deficit • The Balance of Payments
Developing the response to the question: **(application and analysis)**	**Arguments why a trade deficit is more damaging than a budget deficit:** • Could indicate lack of productivity • Could cause depreciation of currency • Could cause problems for a country's reserves • A surplus on the financing section of the balance of payments increasing international indebtedness • Deflationary pressure • Could indicate structural weaknesses • Effects on jobs such as structural unemployment **Arguments why a budget deficit is more damaging than a trade deficit:** • Crowding out • Loss of credit status leading to increased costs of government borrowing • Future generations footing the bill (vertically inequitable) • Possibility of tax rises / cuts in spending • Adds to national debt • Could be inflationary
Evaluation	• Both issues are not mutually exclusive, an improved supply-side performance could help both. • The UK's ability to attract FDI will help finance the capital account and may off-set any problems on the trade deficit, however this may also benefit the UK's budget deficit in terms of job creation and generating tax revenue. • Deficits on both may be necessary and advantageous, they may both benefit living standards in terms of more goods being consumed or boosting AD. • Consideration that trade-offs may take place with the other macroeconomic goals, for example reducing the budget deficit may reduce the trade deficit but at the same time harm unemployment or create deflation. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised.

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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

6. D

[1]

9.

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11-15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6-10 marks**
1	**A weak response provides an answer that:** • has one or more relevant issues identified • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1-5 marks**

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Relevant issues include:

- likely to increase the pay of the lowest paid employees
- the effect on the distribution of income
- the effect on employment and unemployment
- the effects on different types of workers
- the effects in a competitive labour market
- the effects in a non-competitive labour market
- the effect on firms' costs, profits and competitiveness
- the effect on productivity
- the effect on growth
- the effect on motivation, absenteeism and labour turnover
- the effect on inflation
- the effect on competitiveness and the balance of payments
- diagrammatic representation of the likely effects

[15]

15.

Areas for discussion include:

- UK experience of recent years
- definitions of inflation and deflation
- why price stability is a key objective
- impact of inflation on UK competitiveness
- impact on growth/employment/trade
- the distributional impact of inflation and deflation
- mild v high inflation
- impact of anti-inflationary policies on the economy
- why deflation may lead to even lower spending by consumers/firms
- impact of deflation on the real value of both public and private sector debt
- impact on confidence of households and firms
- effect on business profits
- benefits of deflation
- impact on other macroeconomic objectives
- malign v benign deflation
- policy options to deal with deflation
- extent and magnitude of each problem
- reference to other economies, e.g. Japan, EU , including differences between the situation in the UK and other economies

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

[25]

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16.

Areas for discussion include:

- nature and size of the UK current account deficit in recent years
- why large current account deficits are seen as undesirable, e.g. indicate a lack of competitiveness
- potential benefits of running a current account deficit, e.g. improves living standards in the short run, inflows of FDI to finance the deficit may stimulate growth
- current account deficit has to be financed in some way – either by attracting foreign direct or portfolio investment, by borrowing or by running down reserves.
- policies to correct the deficit are not necessarily desirable, either depreciation of the currency or deflationary policies
- large current account deficit may be seen as unsustainable and foreign lenders may eventually withdraw their investment, leading to a sterling crisis
- if deflationary measures are needed to reduce deficit and this would usually be undesirable due to the effects on output and employment
- so far, long periods of current account deficit do not seem to have been a barrier to achieving other policy objectives
- the changing size of the deficit could be compared to growth, e.g. if the growth of nominal GDP is higher than growth in the deficit then it is less likely to be a serious problem
- UK is relatively successful in attracting overseas investment due to other factors (e.g. low tax rates, viewed as a stable economy) which means that the deficit can be financed.
- a floating exchange rate mean that the government can allow exchange rate to depreciate allowing partial correction of current account deficit – this option is not available to those with a fixed or pegged currency

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

[25]

17.

Relevant issues include:

- lower AD leading to a fall in the price level
- reduction in consumer confidence and spending
- lower business confidence and investment
- price cutting by firms in a period of recession
- recession/deflation in the rest of the world
- falling world commodity prices
- strengthening exchange rate
- technological breakthroughs lowering costs of production
- impact of cheaper imports from low waged economies
- malign v benign deflation

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

[15]

18.

B

[1]

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20.

Relevant issues include:

- the nature of economic growth
- short-run versus long-run growth
- UK economic growth and living standards
- UK economic growth, tax revenues, public spending and the budget balance
- UK economic growth, inequality and poverty
- UK economic growth and employment
- UK economic growth and inflation
- UK economic growth and the balance of payments, including export-led growth
- the relationship between the government's wider political and social objectives, eg political and military power, the environment.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

[15]

21.

D

[1]

22.

Areas for discussion include:

- nature and causes of the budget deficit in the UK
- recent changes in the UK budget deficit
- cyclical and structural deficits
- the budget deficit and the national debt
- possible approaches to reducing the budget deficit, such as: cutting government spending, raising taxes and generating economic growth
- problems associated with large deficits, eg crowding-out effects, impact on interest rates and the UK's credit rating, 'inability' to borrow if no action is taken, the burden on future generations
- impact on aggregate demand and associated multiplier effects
- impact on the various macroeconomic policy objectives in both the short run and the long run
- the impact of cutting different types of government spending, eg spending on welfare benefits, education and health, capital spending
- Keynesian v neo-classical perspectives
- government spending and long-run growth
- whether growth and/or inflation will eliminate the deficit in the long run without significant cuts in government spending
- if cutting the deficit is deemed necessary, whether it should be achieved through cuts in spending or increases in taxation
- the distributional impact of cutting government spending, eg rich versus poor, regional effects
- equity considerations, including inter-generational equity
- reference to other economies, eg Greece, Japan, USA, including differences between the situation in the UK and other economies.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

[25]

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23.

Relevant issues include:

- different types of taxes, eg direct v indirect, progressive, proportional and regressive
- taxation as a withdrawal from the circular flow of income
- how an increase in taxation affects aggregate demand
- the relationship between aggregate demand and each of the main objectives of UK macroeconomic policy, ie unemployment, growth, inflation and the balance of payments
- the different demand-side impacts of different tax changes, eg an increase in the rate of VAT versus a rise in the top rate of income tax
- multiplier effects
- the impact of tax changes on the pattern of demand and hence resource allocation, eg raising taxes on demerit goods
- the significance of elasticities of demand.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

[15]

24.

C

[1]

25.

Areas for discussion include:

- nature of monetary policy
- the Bank of England/MPC and the operation of monetary policy in the UK
- what is meant by macroeconomic stability and the indicators of macroeconomic performance
- how monetary policy affects macroeconomic performance, eg by influencing aggregate demand, influencing expectations, impacts on financial markets
- monetary policy transmission mechanisms
- role of interest rates in affecting aggregate demand
- limitations of changes in bank rate, eg likely to be less effective when confidence is low, may not be reflected in market interest rates, the lower pound problem
- quantitative easing, Funding for Lending, Forward Guidance and other less conventional monetary measures
- monetary policy as a means of fine-tuning the economy and responding to economic shocks
- monetary policy and long-run growth
- monetary policy, debt and asset prices
- monetary policy and the exchange rate
- monetary policy in a world of floating exchange rates and 'unrestricted' capital flows
- the contribution, or otherwise, of monetary policy to the period of stability (eg 1993-2006)
- the contribution of monetary policy to the credit crunch
- the impact of monetary policy since the credit crunch.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

[25]

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27. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis but very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Introduction	• Inflation / deflation • MPC / target rate • Monetary Policy • Macroeconomic performance
Developing the response to the question: **(application and analysis)**	**Arguments why a low inflation rate may be damaging:** • Indication that an economy may be stagnating and subsequent lack of confidence • Effects on jobs/growth if it is stagnating • Difficulties of policy response to low levels of inflation • Possible damage to investment if firms don't see rising prices • Possible effects on inflationary expectations of low rates of current inflation • Wages may not rise causing problems in the labour market • Inflation may be below target of 2% but still within the boundary of acceptable figures 1-3% • The possibility that very low inflation could lead to deflation and the consequences. **Arguments why a low inflation rate may be beneficial:** • In relative terms it may boost competitiveness if the inflation rate is lower than in other countries and should benefit the current account of the balance of payments • The ability to maintain low interest rates and as a result, the effects on consumer expenditure, employment and economic growth. • The ability to maintain low interest rates and as a result, the effects on investment, employment and economic growth. • The possibility that costs can remain low, and firms do not have to pay higher wages • Cost of living arguments • Possibly allows the government's finances to improve due to not having to raise welfare payments some of which are index linked.
Evaluation	• The cause of the low rates is vital in ascertaining the potential effects • Low inflation could be beneficial in the short run as cost of living remains low, however this must be weighed up against the growth of wages • A vital aspect is how low is "low"? Low rates that are just under target may be more acceptable than low rates close to zero • The extent to which inflation "greases the wheels" of the economy • The duration of the low levels of inflation. It may be that low levels are good if sustained but a volatile low inflation rate may be damaging • The current state of the economy and the government/MPC's ability to be able to respond with credible policy • The possibility that other countries may be suffering deflation and its potential effects • Does the target rate really matter? *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

28.

Explanation

For defining / explaining • Customs union / free trade area • Pattern of trade • Volume of trade • Trade or exports / imports	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

Award 1 mark for each step in a logical chain of reasoning:

For example: Due to the membership of the EU, there are no internal tariffs **(1 mark)** between the UK and the other 27 member states **(1 mark)** so when trading with another country for example France **(1 mark for example)** the cost of doing so is lower **(1 mark)** and firms will experience lower prices if France has exploited its comparative advantage **(1 mark)** as France has a lower opportunity cost than the UK **(1 mark)** in for example the production of wine **(1 mark for example)** which leads to trade creation **(1 mark)** which increases the volume of imports **(1 mark)** from other members of the EU which affects the pattern of trade in terms of who trades what with who **(1 mark)**. **Other examples include:** Potential for exporting products in which the UK holds a comparative advantage in, economies of scale, potential trade diversion due to common external tariff, retaliation, enforced embargoes.	**Up to 15 marks**
Use of diagrams to help support explanations, e.g. tariff diagram, quota diagram, AD/AS, Economies of scale	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

Award a **maximum of 10 marks** if both parts of the question are not attempted i.e. the pattern of trade **and** the volume of trade.

[15]

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29.

Explanation

For defining / explaining • Deflation / Inflation • Malign / Benign deflation • Methods of measurement (CPI/basket of goods)	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

Award 1 mark for each step in a logical chain of reasoning:

For example: The use of supply-side policies **(1 mark)** such as subsidies for research and development **(1 mark)** may lead to the creation of improved efficiency in production techniques **(1 mark)** which may lead to improvements in productivity **(1 mark)** and therefore increase the output per worker **(1 mark)** which may mean fewer workers are needed to produce the same amount of goods **(1 mark)** which will reduce the average unit cost **(1 mark)**. This may be passed on to customers in the form of lower prices **(1 mark)** will lead to a fall in cost-push inflationary pressure **(1 mark)** and potentially benign deflation **(1 mark)**. **Other examples include:** Falling oil and other commodity prices, any component of aggregate demand falling for a reason such as high interest rates affecting consumption, lack of confidence reducing investment, increased international competition, government attempts to reduce the budget deficit by spending cuts or recession in the Eurozone damaging exports.	**Up to 15 marks**
Use of diagrams to help support explanations, e.g. AD falling, SRAS increasing, LRAS increasing	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

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30.

Introduction	• The nature of public sector debt • The relationship between deficits and debt • The EU and fiscal rules.
Developing the response to the question: **Application**	Drawing on the information in the extracts: • Eurozone recovery slowing **(Extract B)** • Taxation affecting investment **(Extract B)** • Ireland creating conditions to increase lending **(Extract C)** • Crowding out **(Extract C)** • High levels of public debt **(Extract C)** • Significant trade partners **(Extract C)**
Developing the response to the question: **Analysis**	Arguments as to how reduced public sector debt in other economies may effect UK: • methods of reducing public sector debt • equity and different income groups • impact on UK exports/FDI • impact on UK growth (short-run and long-run) • impact on the balance of payments on both current and capital accounts. • impact on employment/unemployment • impact on inflation. • impact on investment and confidence • impact on ratings agencies and bond yields • crowding in/crowding out arguments • standards of living • Keynesian multiplier Consideration of how reduced public sector debt domestically is also worthy of credit.
Evaluation	• How 'impact' is measured and the importance of various macroeconomic performance indicators • The differences between the relationships with each nation ie countries which provide us with net exports possibly having a bigger impact • Consideration of 'at the same time' as being with each other or with the UK • The rate at which debts are being reduced • Consideration of whether Government debt is in fact a problem • Consideration of FDI and how this might be affected

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	• Will the private sector actually have more freedom to invest both domestically and abroad with reduced Government intervention • Whether debt reduction causes crowding in or crowding out and the effects on AD. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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1.

Introduction	• Inflation and the types of inflation • The role of the Bank of England • Explanation of the target rate of inflation.
Developing the response to the question: **Application / Analysis**	• Why the UK has inflation targets • The importance of the other macroeconomic goals • How the independent Bank of England has control of the tools to control inflation • The importance of low inflation greasing the wheels of the economy. • Limitations to the use of policy tools • The importance of inflationary expectations • The effects of deflation • Trade-offs in macroeconomic goals • How inflation can affect growth • How inflation can affect the Balance of payments • How inflation can affect unemployment or vice versa • How focusing on other goals may impact on inflation • How the prioritisation may change • How other policies affect inflation • The role of supply side policy in controlling inflation • Short-run vs long-run considerations.
Evaluation	• Whether control of inflation depends on where the economy is operating in the trade cycle • Whether the UK has the ability to control cost push inflation to the same extent as demand pull • How 'independent' is the Bank of England in setting policy • Historical perspectives compared to current economic policies. • The prospects of inflation as opposed to deflation • The effects on the UK when the UK went outside of the target in the past • The relative importance of inflation compared to other goals • Is there an inevitable trade off with unemployment? • Short-run vs long-run considerations. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

2.

- price indices
- UK inflation or deflation.

For explaining aspects of measurement of changes in the price level:

- Use of indices to calculate % rates of changes in prices
- The concept of a 'basket' of goods and the 650 'representative' items.
- Family Expenditure Survey
- The concept of the average family
- The system of weighting. Weights reflect the fact that some items are more important than others in terms of their share of household spending. Price increases for certain items have a larger impact on the overall change in the construction of the 'basket' of goods. Weights are updated each year to reflect changes in household spending and to reflect the introduction of new items or removal of old ones.
- A numerical example Comparisons between different types of UK Price indices.
- Any other valid feature of measurement using indices, eg large representative sample of prices collected each month; price relatives to calculate an individual item in the index.
- Use of diagrams to help support explanations, although diagrams are unlikely to feature in this part of the answer.
- References to UK and other economies

[15]

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3. **Issues and areas for discussion include:**

Introduction	• UK fiscal policy and budgetary positions • general tax principles, eg fairness, ability to pay, incentives • examples of UK taxes and tax rates • the distinction between direct and indirect taxation • different categories of spending, eg capital v current • the nature of UK Government spending cuts.
Developing the response to the question (application and analysis)	• direct taxation and the issue of incentives (income and substitution effects) • corporate taxes v taxation of household income • Laffer Curve analysis (not mentioned in the specification) • indirect taxes and the issue of their regressive nature • equity and equality • supply and demand analysis to show the possible incidence of taxation • the possible effects of increasing tax rates on total tax revenue per tax • public spending and multiplier/reverse-multiplier • government spending cuts and the impact on private sector business • cuts to capital spending and macroeconomic implications • cuts to current spending and transfer spending • use of diagrams • references to the real world.

Evaluation	• the need for a balanced approach to the use of tax and spending policies • relative distributional effects • relative impact on economic recovery • assessment of the use of a particular tax; any increase in its tax rate(s) may be influenced by the degree of change in the rate(s) being imposed • judgments made on the actual effect on living standards by individual taxes or particular aspects of government spending, whatever the ultimate aim is of a budget surplus • the national and international macroeconomic climate in which changes are being made • how tax/government spending changes relate to the supply-side ethos of recent governments • surveys which point to a limited or zero impact on incentives • to work resulting from changes in income tax • welfare-spending cuts and the unemployment trap • tax changes and the poverty trap • the need for coordination of spending and tax policies, eg needing to avoid conflict between welfare benefits and harshly regressive indirect taxes, or assessing if one compensates for the other • the impact of individual taxes on macroeconomic indicators, eg indirect taxes on the rate of inflation • the assessment of both might be affected by the speed with which spending cuts/tax increases are implemented • a final judgment regarding the best policy for the • macroeconomy, individuals, for living standards in general, for the achievement of other macroeconomic objectives. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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4.

Introduction	• Economic growth • The standard of living • The recent global experience.
Developing the response to the question (application and analysis)	• How world economic growth is likely to be achieved • The importance of ensuring that growth is sustainable • Recognition that the impact could be positive or negative in net terms **The UK economy:** • Aggregate demand • Changes to the incentive to invest and the possible impact on such things as productive capacity • Aggregate supply • Inflation • The environment • The ability to sell overseas and hence the impact on exports • Imports • The balance of payments on current account • The prospects for inward/outward FDI • World growth causing changes to wealth creation in the UK • Employment/unemployment • The impact of world commodity prices. **The individual in the UK:** • Trend in average income (income per head) • Distribution of income • A possible sharpening of the “haves and have-nots” distinction • Consumption patterns • The wealth effect associated with rising asset prices in a period of growth • Choice of jobs • Quality of life • Quality of life measures such as the HDI and the “happiness index”.

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Evaluation	• The extent of world economic growth • World economic growth from what starting point, eg years of stagnation? • The importance of considering where in the world growth is taking place and the bearing this may have on the UK economy • The UK's capability to participate in the growth process and in its rewards • The possibility of the UK economy importing the downside of world growth, eg inflation and a deteriorating environment, without enjoying the benefits, eg more jobs and more spending power • It is easier to measure the economic impact on the individual, ie income per head, than it is to measure changes to the quality of life • What of the individual who has the wrong skills or qualifications to allow occupational mobility or cannot become geographically mobile? • Short term v long term impact for both the individual and the economy • Does the UK economy enjoy higher demand without giving due attention to its supply-side? • Is sufficient attention given to the environment both from the individual's point of view and that of the UK economy? • Whether growth elsewhere is likely to cause net economic benefit or net economic damage to the UK. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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5.

Relevant issues/logical chains of analysis include:

- defining economic shock, eg what maybe an unexpected event or one that at least some had predicted which affects an economy either positively or negatively (it is anticipated that the majority of candidates will see shock in negative terms because of the reference to 'harm' and this should not be penalised. Please make sure that credit is not given where the preamble to the question is simply copied out, ie an economic shock is something which can have significant consequences)
- distinguishing a demand-side shock from a supply-side shock, perhaps with examples, such as the euro crisis, the 'credit crunch'; oil price increase or a natural disaster.
- defining economic growth, eg an increase in real GDP or an increase in productive capacity.
- distinguishing between actual and potential growth
- Supply: A significant increase in global oil prices will impact on an economy having to import most or all of its oil from the international market, causing the SRAS curve to shift to the left. Higher oil prices will lead to higher unit costs and hence higher prices and hence cost-push inflation. The impact of inflation on real incomes will affect AD (1mark). Demands from labour for higher wages will worsen the inflation problem. Inflation will cause an increase in unemployment and eventually cause economic growth to falter so that stagflation becomes a real possibility.
- Supply: A significant increase in prices of primary commodities generally and/or food prices.
- Supply: A major war/significant natural disaster/a series of devastating terrorist attacks around the world in major economies.
- Demand: The severity of the Eurozone crisis
- Demand: An unanticipated and sudden downturn in emerging economies such as India and China.
- Demand: credit crunch/crisis in major financial markets
- any other economic shock explained which potentially harms growth
- diagrams to help support explanations, eg AD/AS showing shifts of AD and/or AS, micro supply and demand diagrams, PPF

[15]

6.

Explanation:

Definition: As there is no single definition for this, any suitable definitions can be credited: eg The ability of an economy to sell goods and services in or to other countries and linking to the theory comparative advantage or in terms of lower costs of production or price/non price competitiveness

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Analysis:

For Example: A fall in corporation tax may reduce a firms costs therefore the firms expected profits may rise and improve confidence which may be a catalyst for investment which may increase spending on both human capital and physical capital which may lead to productivity advancements allowing firms to sell goods for cheaper on international markets.
Use of appropriate diagrams, eg AD/AS
Reference to the UK or other economies.

[9]

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7.

Introduction	• The budget and budget deficit • The recent UK experience • Short term long-term • The notion of improvement in economic prospects.
Developing the response to the question (application and analysis)	• Short-term gain versus long-term gain • International credit-agency ratings for the UK and their possible significance • Interest rates and quantitative easing − short term benefit, long-term inflation? • The importance of stabilising the economy • Recession in the short term but the possible long-term weakening of the economy • The contrast with the 'Keynesian solution' • Economic growth • Inflation/deflation • Cost-push inflation at a time of 'austerity' creating problems in the long-term • Competitiveness and the balance of payments on current account • Long-term prospects for employment/unemployment • Cyclical and structural unemployment.
Evaluation	• The severity of reductions in the deficit • The period of time over which so-called fiscal austerity lasts • What is reasonable to consider as 'long-term' when referring to 'long-term economic prospects'? • How the budget deficit is achieved • Whether the improvement in long-term prospects fully compensates for short-term problems arising from the reductions in the deficit • Does the alternative 'Keynesian solution' really hold water under scrutiny? • Are international credit ratings really that significant? • Long-term prospects may improve on one measure, eg inflation, but suffer on another measure, eg growth • The possible self-defeating nature of deficit reduction, ie efforts to reduce a deficit can bring about an increase as the economy worsens *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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8.

Introduction	• Reference to the history of the EU • The history of UK membership of the EU • Changing views about membership over time • The nature of the EU, for example, as a customs union/single market • The possible criteria for making a decision.
Developing the response to the question (Application)	• The estimated total cost to UK of membership **Extract E**(lines 4 & 5) • UK Budget contributions **Extract E** (line 6) • The Single European Market **Extract E** (lines 14 & 15) • Foreign direct investment **Extract E** lines (15 & 16) • The EEA **Extract F** (lines 3−5) • The example of Norway as a non-member of the EU **Extract F** • Trade theory • AD • Economic growth
Analysis	• The notion of economic benefit • Economic growth • Employment • Balance of Payments • Exchange rate • Prices • CAP • SEM • CET • The euro • The EEA.
Evaluation	• The uncertainty surrounding the future outside the EU • Whether a comparison with just one other economy (Norway) is helpful • To what extent, if at all, would trade be affected? • Could the UK re-establish former economic links, for example, with the Commonwealth or is this a myth from non-existent halcyon days? • The difficulty of assessing in a truly objective and precise way the various costs and benefits • The possible UK support for membership to foster and maintain economic ties with the EU in contrast to strong opposition to political ties and loss of national sovereignty • The possible changing views about membership as enlargement of the EU continues • Support for membership increasingly tempered by a fear that the UK will become embroiled in the euro crisis financially when the UK is outside the Eurozone • 'Sitting on the fence' has limitations; should the UK fully embrace all aspects of the EU and become 'full Europeans' including adoption of the euro? • The possibility of the UK joining the EEA or even NAFTA instead. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

9.

Relevant issues/logical chains of analysis include:

- defining/explaining budget/budget deficit/fiscal policy government spending taxes or taxation
- direct taxes are taxes on household and corporate income and include income tax and corporation tax. Raising direct taxes will reduce household disposable income and reduce the profits of companies. This may affect incentives to work and to take risks and hence adversely affect the economy's supply side however higher direct taxes may allow for lower indirect taxes such as VAT or excise duties
- the impact of indirect taxes on the rate of inflation
- the impact of taxes on wage demands
- the impact of tax rises on household demand for goods and services building on the effects of a tighter fiscal policy to a degree not intended by the government
- the distinction between capital, current and transfer spending which the government can use to limit the impact on different groups in society, eg maintaining spending on the NHS and welfare
- cuts in capital spending, eg infrastructure, can go unnoticed for some time in a way that increases in taxation often cannot
- spending cuts can avoid cutting spending on supply-side improvements such as education and training so continuing to lay stronger foundations for recovery
- the relative distributional effects of tax rises v spending cuts
- diagrams to help support explanations, eg Laffer Curve, the relationship between tax revenue and spending and how it may change over time, AD/AS

[15]

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10.

Relevant issues/logical chains of analysis include:

- defining exports and/or the multiplier
- explanation of the link between the multiplier and AD/use of an arithmetical example
- explaining export-led multiplier, eg the impact of a growing export sector on other sectors of the economy, for example, as those employed in the export sector spend their incomes on goods and services; those businesses in the export sector demanding machinery and technology from other businesses outside the export sector
- use of relevant diagrams, eg AD/AS
- An improvement in the macroeconomy of the EU to which over half of UK exports are sold. Fiscal policy may loosen in the EU, so that consumers' disposable incomes rise and hence their demand for UK goods and services. Equally, unemployment may fall in the EU allowing average incomes to rise and hence consumer demand for UK exports
- UK productivity increases lowering unit costs
- UK/EU relative inflation rates are favourable to the UK
- Quality of UK goods and services
- The exchange rate of the £ against other currencies
- Changing comparative advantage favouring the UK
- appropriate diagrams, eg AD/AS, comparative advantage

[9]

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12.

Introduction	• Definition of inflation • Global experiences of inflation • UK inflation and the scenario of 'worsening inflation' • The balance of payments and its various parts.
Developing the response to the question (application)	• Low inflation for achieving economic stability and sustained growth **Extract B** (lines 2–3) • Reference to energy costs and primary commodity prices **Extract B** (lines 12 & 13) • The brake on hesitant recovery **Extract B** (lines 21 & 22) • The dangers of loose monetary policy in the UK **Extract C** (lines 7–11) • The breeding of 'uncertainty' **Extract C** (line 11) • Disruption to trade and investment flows (**Extract B** lines 19 & 20) • Cost-push inflation • Demand-pull inflation • AD/AS analysis • Balance of payments • Competitiveness.
Analysis	• The notion of 'impact' • Measurement of impact in the context of the balance of payments • World commodity prices increases and the UK import bill • UK competitiveness given the authorities' success or failure in controlling inflation • The impact of imported inflation on future balance of payments' performance • Inflation, the UK exchange rate and the balance of payments • The impact of global inflation on the macroeconomy of other countries and how this will inevitably impact on the UK's balance of payments • Investment flows and the capital account.
Evaluation	• Is the problem in almost every part of the global economy and what, therefore, is the relevance of this to the UK balance of payments? • Is the problem one experienced by the UK's major trading partners? • 'Increasing inflation' but is the deterioration still from low initial levels of inflation? • UK inflation compared to inflation amongst our trading partners • A worsening, but still mild, inflation as a stimulant to the world of business, to investment, and the impact on the capital account • An inflation scenario which still compares favourably to the prospect of deflation for the balance of payment • The severity of any anti-inflation policies pursued by other governments which may impact on global demand for UK goods and services • The impact on the current account of success or failure in UK authorities' attempts to deal with any national problem of inflation. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

14.

Relevant issues/logical chains of analysis include:

- defining the price level, eg the average level of prices of all goods and services in an economy; for defining inflation, eg a general sustained rise in the price level, or the rate of inflation, eg the change in average prices in an economy over a given time period. (A definition of inflation on its own and not linked to price level is not credited)
- linking the definition of price level to the RPI and/or CPI
- explaining the basic principle of indices
- explaining that a price index such as the RPI calculates the average price level for the average household
- explaining the Quantity Theory of Money, eg reference to the Fisher equation from which the theory is developed, explaining the components of the Fisher equation, and developing the idea that the velocity and transactions are held constant leading to the central principle of the theory that inflation is caused solely by increases in the money supply through processes such as QE
- Reference to monetarism/monetarists and the basic argument that inflation is demand-pull in nature and the idea that increases in money supply lead to increases in AD and to increases in the price level
- Reference to the Monetary Transmission Mechanism (the term may not be explicitly used because it does not feature in the specification). For example, reference to the impact of increases in money supply on the rate of interest charged by high street institutions to consumers and businesses, and hence the impact on AD
- Low interest rates lowering the exchange rate, causing import prices to rise, perhaps causing higher costs for firms and hence higher inflation
- Any other valid analysis, eg rising MS and falling interest rates raising expectations about future inflation
- appropriate diagrams, eg a diagram showing the impact of money supply increases on the rate of interest; AD/AS diagrams

[9]

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15. **The calculation**

For the correct answer (1.00 percentage point). The 'unit', (per cent or %) **must** be shown. Do not penalise if 'point' is not stated.	**2 marks**
For the correct answer **without** a unit shown	**1 mark**
Any other answer between 0.9 and 1.1 (inclusive) irrespective of decimal places, **with** unit shown	**1 mark**

[2]

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18.

Introduction	• Saving ratio • Macroeconomic performance.
Developing the response to the question: **Application / Analysis**	• Increased consumption benefiting standards of living • Increased short-run economic growth • Positive multiplier arguments • Increased deficits on the balance of payments on current account • Increased problems of personal debt • Demand pull inflationary pressures caused by too much consumption • Over-reliance on credit • Lack of funds in financial institutions for lending and investment • Lack of funds for long-run growth • Effects on confidence • Paradox of thrift arguments (not in specification) • Effects on employment.
Evaluation	• Is the saving ratio important in an economy or is it a by-product of economic conditions? • Has increased economic integration and international finance diminished the importance of the savings ratio? • Savings creating the condition for investment in the long run • Low savings and the effects of future policy changes • Changes in the saving ratio as an effect of having a strong economy rather than the cause of a problem. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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19.

For defining/explaining

- Saving ratio/saving
- Marginal/average propensity to save/consume
- Trade deficit
- Income/disposable income.

For example: During periods of economic prosperity, employment is likely to rise which leads to increased disposable incomes as individuals have more income, consumption increases this often causes a rise in house prices which creates the so called wealth effect and increases consumption even further as individuals now have increased equity in their homes this means that individuals can access more finance due to increased security which leads to an increased marginal propensity to consume as individuals become less risk averse and as a result a falling marginal propensity to save and as such the savings ratio falls.

Other examples could include: The rate of interest, the demographics of the population, time preference, government legislation or consideration of inflation and the real rates of return of saving.

Use of diagrams to help support explanations, eg AD/AS or the trade cycle.

Reference to the UK and/or other economies.

[15]

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20.

Introduction	• Unemployment • Macroeconomic objectives • Trade-offs.
Developing the response to the question: **Application / Analysis**	• The nature of the cause of unemployment • Short-run trade-offs • Different policies which can be used to reduce unemployment • Some objectives are compatible objectives, eg reduced unemployment and growth • Objectives of different policies, i.e. monetary focusing on inflation targets and more recently, growth • Supply-side policy achieving goals simultaneously in theory • Long-run compatibility of objectives • The UK's experiences in recent times (low inflation with growing employment) • External shocks affecting objectives beyond the control of the economy.
Evaluation	• Short-run vs long run considerations • The idea that it may be impossible to avoid conflicts in reality but possible in theory • The acceptability of compromise between objectives – control rather • than complete avoidance • The intensity of any problems arising from conflict • Time lags in the effects of supply-side policy working • Limitations of the effects of policy instruments • Targets of governments may change, and focus may shift between governments depending on ideology • Consideration of the term 'inevitable'. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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21.

Introduction	• Globalisation • UK economy • Stakeholders in the economy, households, firms, government and whole economy.
Developing the response to the question: **Application / Analysis**	**Arguments that the UK benefits from globalisation** • Comparative advantage arguments – job creation in financial services • Endowment of factors of production – access to goods and services difficult to produce domestically • Increased choice • Lower costs of consumer goods/cost of semi-finished goods and commodities • Benefits from transfer of technology • Welfare gains in terms of trade • Economies of scale arguments • Benefits of international co-operation • Increased FDI. **Arguments that the UK loses out due to globalisation** • Outsourcing has led to structural unemployment in regions of the UK • Issues surrounding labour migration • Multinational corporations exploiting tax loopholes • Multinational corporations influence over political decisions • More open to economic shocks elsewhere in the world • Potential for imported inflation • Over-dependence on certain markets/possible strategic markets arguments • Lack of control over markets and goods and services • Environmental issues.
Evaluation	• Benefits and costs depend on viewpoint, eg a firm lowering costs may do so at the expense of an individual's job • Globalisation as a source of competition creating more resilience in UK firms • Short-term benefits in comparison to longer term, for example short-term prices may fall but over-reliance could lead to long term losses • Loss of manufacturing could lead to long-run over-dependence on certain economies

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	• Comparative advantage is dynamic – eg although the UK may benefit in terms of specialising in financial services now, this may not be forever. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

22.

Explanation:

For defining/explaining • Unemployment • Voluntary unemployment, eg structural or frictional • Linking the natural rate to the concept of equilibrium • Linking to NAIRU (a different concept but closely linked).

For example: Due to individuals having trained in specific areas they are made redundant and jobs that are currently available do not match their skill set then they may choose to remain unemployed as the wages that they could gain from taking a different job are significantly lower than what their expectations of a wage are which may further be exacerbated by the tax and benefits system where individuals may fall into the unemployment trap as it would mean that gaining employment may be less financially viable than remaining unemployed as the effects of a loss in benefits such as housing benefit would lead to the individual being worse off than in employment. **Other examples could include**: Issues such as the tax/benefit system, structural changes in the economy, geographical/occupational immobility or trade union power.
Use of diagrams to help support explanations, eg long-run Phillips curve or supply and demand of labour.
Reference to the UK and/or other economies.

[15]

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23.

Explanation:

Definition: Interest rates are the returns to saving or the cost of borrowing whereas figures have been adjusted to take into account inflation so the real interest rate is the nominal interest rate minus the inflation rate.

Analysis:

For example: as interest rates fall as part of a loose monetary policy speculators will decide there is little return from holding money in the currency in question and will move money to where rates of return are better this will lead to a capital flight from that currency to more profitable currencies which increases supply and also a decreasing demand for the original currency and as a result will depreciate the original currency.
Use of appropriate diagrams, eg supply and demand of currency/exchange rates.
Reference to the UK or other economies.

[9]

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24.

Introduction	• Deflation • The EU • Macroeconomic performance indicators.
Developing the response to the question: **Application**	Drawing on information in the extracts: • Central banks' ability to respond **(Extract E)** • Eurozone 'one size fits all' vs UK's and others ability to respond **Extract E** • Delaying spending (**Extract F**) • Effects on debtors (**Extract F**) • Effects on tax revenue (**Extract F**) • Reduced production costs/productivity (**Extract F**) • Improving competitiveness (**Extract F**) • Deterring investment (**Extract F**)
Developing the response to the question: **Analysis**	**Arguments as to how deflation in the EU may benefit the UK economy:** • Effects on competitiveness if UK also experiences deflation • Benign inflation due to improved productivity helping growth and maintaining low prices • Long run, sustainable economic growth achieving deflation • UK's low stable inflation causing stability in comparison to deflation • Deflation in other economies may make UK a relative safe haven for firms from abroad considering FDIMicroeconomic effects such as benefits to first time buyers of possible falling house prices. **Consideration of how deflation in the EU may damage the UK economy:** • If EU experiences deflation and UK doesn't then UK may become less competitive in relative terms • EU deflation delaying spending and causing a fall in UK exports • Lack of FDI across the EU due to uncertainty • Damaging tax revenues in the UK which may reduce ability of UK Government to meet targets • Possibility that QE and other policy responses by the ECB and European economies as a result of deflation may give boosts to these economies. • Microeconomic effects such as falling house prices causing negative equity.
Evaluation	• The UK as part of the EU possibly suffering deflation • The duration of deflation having a major impact

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	• The cause of deflation being vital to understanding the effects • Benign vs malign arguments • The UK's ability to avoid deflation in comparison to other economies • The relative difficulty of combatting inflation when the causes are external in a globalised economy. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Relevant diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

25.

For defining/explaining: • Economic growth (short-run or long-run) • Recession • The trade cycle

For Example: An external shock such as the banking crisis which began in 2007 reduced the ability of the financial sector to lend which caused individuals difficulty in gaining credit and therefore causing consumption to fall as consumption is a large component of aggregate demand as AD falls the real national output of the economy falls which could cause a negative multiplier effect and, if real national output falls for 2 successive quarters this is a recession.
Use of diagrams to help support explanations, eg AD/AS or the trade cycle.
Relevant real world examples and/or relevant reference to the UK and/or other economies.

[15]

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26.

The calculation
314.05 × 0.997 = 313.107 = 313.11 (to 2dp)

For the correct answer (313.11). Allow 313.107. The 'unit', (index points) does **not** have to be shown.	**2 marks**
Any other answer between 313.01 and 313.21 (inclusive) regardless of decimal places.	**1 mark**

[2]

30.

For defining/explaining:

- Quantitative easing.
- Inflation.
- Monetary policy (along with the other instruments).

For Example: The Bank of England (in agreement with the Treasury) by crediting its own account expanding the bank's balance sheet increasing the money supply It then uses this additional credit to purchase previously issued government assets and/or other corporate assets such as bonds from financial institutions. This increases the amount of liquid assets in the banking system. As financial institutions seek profitable returns they increase lending by either reducing lending rates or increasing the availability of credit which may increase consumption and as consumption is a component of aggregate demand this may push the economy towards its productive capacity causing demand pull inflation.

Use of diagrams to help support explanations, eg increased aggregate demand, marginal efficiency of capital (although this is not in the specification) or diagrams linking the money supply and interest rates.

Relevant real world examples and/or relevant reference to the UK and/or other economies

[15]

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1. **Issues and areas for discussion include:**

Introduction	• inflation and deflation defined • the issue of price stability as an objective • the issue of avoidance of deflation, eg the possibility of being able to do so • other macroeconomic objectives • the UK experience • the current inflation target of 2% (CPI).
Developing the response to the question (application and analysis)	• 'benign' v 'malevolent' • the benefits to competitiveness of a period of deflation • the benefits to real income and real purchasing power, boosting AD • the benefits of reflationary policies to correct deflation • the danger of entering a 'liquidity trap' scenario (examiners note that this term is not in the specification) • the impact on the real value of savings • the impact on business and household confidence • postponement of consumption • the impact on profits, for example, if consumption is postponed or wages are 'sticky' downwards, and hence the impact on investment • the ultimate damage to growth and jobs • the impact on creditors/debtors • the ultimate impact on living standards • deflation increasing the real burden of debt • arbitrary distributional effects • possible adverse macroeconomic implications overall worsening the fiscal position • use of diagrams • reference to the UK • reference to other economies.

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Evaluation	• 'a' or 'the' major macroeconomic objective • the degree to which the problem can be anticipated and corrective policies followed • the degree of deflation • the duration of the problem • deflation or inflation? Both to be avoided and the control of both seen as a major economic objective • avoidance of deflation as always needing to be the major objective: an assessment of deflation as the major macroeconomic objective in relation to an assessment of the importance of other macroeconomic objectives, eg deflation and the balance of payments as opposed to deflation and economic growth • the issue of whether equal weight needs to be given to all macroeconomic objectives and their interrelationships recognised • such weighting may change to suit changing circumstances • an assessment of deflation in relation to a possible alternative, ie mild inflation which might be welcomed or runaway inflation which would not • the simultaneous experience of other economies • mild deflation as a minor problem compared to the effects of the authorities over-reacting and reflating too strongly • a final judgment, eg price stability needs to be the major macroeconomic objective with control over changes in the price level whether these are pointing to inflation or deflation because this can be seen as the foundation upon which a strong macroeconomy can be built. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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2.

Introduction	• the economic cycle • the nature of a recovery • interest rates and the role of the MPC • brief reference to other policy options.
Developing the response to the question: **Application / Analysis**	• the relevance of interest rates to bringing about a recovery • consumer credit • investment • housing costs • aggregate demand • economic growth • unemployment • the limitations of interest rate policy • the function of other aspects of monetary policy, e.g. quantitative easing • the potential role of fiscal policy • the importance of a sound supply-side to underpin a recovery • the significance of business and consumer confidence • the potential significance of overseas markets • interest rate changes influencing “hot-money flows” , bringing instability which may impede a recovery but also of potential benefit • ‘hot-money flows’ and the exchange rate • aspects of an economy which may not directly benefit from low interest rates, e.g. structural unemployment • use of diagrams • reference to the UK and / or other economies.
Evaluation	• the extent to which interest rates are allowed to fall • over what period of time low interest rates are tolerated • the support given, if at all, by other aspects of monetary policy • the limitations if, simultaneously, a tight fiscal policy is followed by government • the limitations if business and consumer confidence are very low • low interest rates used to bring about a recovery in an internationally hostile context • business and consumer concern over how long such a policy will be maintained • microeconomic policies may show themselves to be more effective

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	• low interest rates as a cause of inflation which may impede the recovery • a final judgement made on the policy. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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3.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• reference to the quote in the question • the recent experience of rising oil prices • criteria for assessing macroeconomic performance
Developing a response to the question:	• the implications of this for the pattern of production • consequences for the balance of payments on current account • inflation • the impact of inflation on jobs • the impact of inflation on economic growth • rising oil prices and business and consumer confidence • implications for government revenue and expenditure • the impact on export performance
Evaluation:	• whether the oil price increases are simply building on past price increases or whether they represent a supply-side shock of which there has been little or no recent experience • whether or not petrol taxes are reduced to compensate for higher oil prices • mature economies having less dependency on oil • whether price increases are sustained over a long period of time • whether, as in the UK's case, an economy is also an oil exporter as well as an importer • whether rising economic growth and inflation-reducing forces are in evidence to dull the impact of rising oil prices
Also give credit for:	• relevant use of evidence and examples from the UK / other economies • diagrams

[25]

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4.

- inflation, with an explanation perhaps in terms of official UK measurement, how measurement is arrived at, recent experiences, other relevant factors

Explain causes of inflation, eg

included within **cost-push factors** could be:

- the rising cost of oil, which for many firms will be a significant cost of production. As oil costs rise, assuming no fall in other costs of the firm a decision has to be made that either profit margins be narrowed or prices of final output need to rise. One consideration will be the price elasticity of demand for the product in question, i.e. the more inelastic is demand, the more likely consumers will absorb any price increase
- wage costs
- supply-side weaknesses, eg low productivity
- imported inflation, perhaps via exchange rate depreciation

Included within **demand-pull factors** could be

- the demand-pull inflationary process
- the impact of monetary policy
- the impact of fiscal policy
- earnings growth

other factors could also be considered, eg

- expectations
- money supply / monetarist explanation

[15]

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6.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• common macroeconomic policies • economic recovery • the significance of the rest of the EU to the UK • the criteria by which the impact on the UK economy might be assessed.
Developing a response to the question:	• the implications for economic growth • the impact on employment / unemployment • the consequences for the balance of payments on current account • the effects on the £ / € exchange rate • the greater likelihood of avoiding a period of deflation • the dangers of inflationary pressures building up • the further development of the SEM in a period of recovery and increasing prosperity.
Evaluation:	• the possible significance of a slow recovery • the possible supply problems if recovery is too rapid • whether the UK can take advantage of EU recovery • whether the advantage lies more with the rest of the EU in terms of exporting to the UK than for the UK exporting to the rest of the EU • the significance of EU recovery for the UK relative to recovery taking place elsewhere in the world, i.e. in markets which have significance for the UK • whether or not recovery has implications for the movement of labour in and out of the UK and how this affects the UK labour market.
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams

[25]

7.

For • defining budget or budget deficit or inflation • placing the deficit into the context of budgetary positions / fiscal policy • referring to types of inflation

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For explaining how budget deficits might help determine the rate of inflation in an economy

The influence of a budget deficit on AD. A deficit can create a multiplier effect, with government spending greater than tax revenue. As consumer incomes rise so too will spending. Firms might also be motivated by the fiscal expansion. This could generate more investment. Both higher consumer spending and investment will create pressure on prices and raise the rate of inflation.

Deficits causing interest rates to rise as UK creditors demand higher rewards. Interest rates as a potential cost to firms causing prices to rise.
Real-resource ‘crowding out’, by making resources for private sector expansion more expensive, costs and prices may rise.
The deficit spearheading expansion of public and private sector employment; a consequent fall in unemployment creates pressure on wages.
The dangers to inflation of financing deficits through the printing of money.
A deficit allowing extra spending on supply-side reforms which may help reduce the rate of inflation.
Deficits used to expand the welfare state and encourage welfare-dependency, creating spending power not accompanied by output creation.
Any other valid explanation
Use of diagrams, e.g. the Phillips Curve; AD / AS
References to the UK and / or other economies

[15]

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8.

It is hoped that candidates will clarify the criteria by which consequences can be measured and then relate China's growth to the performance of the UK economy in an evaluative way.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• recession • economic growth • criteria for assessing consequences
Developing a response to the question:	• reference to the growth performance of the Chinese economy • reference to the problems of the UK economy • why continued growth of a major economy may be important to another country in recession • economic growth • the balance of payments • employment / unemployment • investment flows • inflation • China's growth perhaps causing inflation exacerbated by the UK pursuing a potentially inflationary policy of quantitative easing and fiscal expansion • the impact on the UK of China taking increasing control over world resources by its investment • China's contribution to the IMF which might ultimately be of benefit to the UK • impact on the exchange rate.
Evaluation:	• the extent to which China wishes to share the 'proceeds' of growth with other countries by importing more goods • although the phrase 'global recession' is used it may be that some other UK markets are not faring too badly, so making China's contribution to UK economic performance less significant • the ability of the UK to maintain / increase market share in China • China is pushing ahead with export-led growth which may not be in the long-term interests of UK manufacturing • the extent to which the UK economy welcomes Chinese investment in its economy and whether China reciprocates. *Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of growth and with no attempt to place it into the context of the UK/China.*

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	However, this must be considered as low-level evaluation and awarded accordingly.
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams

[25]

9.

Explanation:

explain the concept of global investment, eg

- define global investment in terms of international capital flows, perhaps with a reference to the role of multinational companies in this respect
- explain the growth of global investment, eg in terms of outsourcing, utilising cheap labour, establishing ownership of raw materials and energy supplies
- define / explain the term global investment, eg expenditure to generate future income; spending on capital equipment to increase output, perhaps to displace labour; human capital
- simply define global investment in terms of 'total investment in the world'.

Analysis:

explain the concept of global investment, eg

- it promotes economic growth in that it is an injection into the circular flow of income, generating higher AD through the multiplier process but also adding to the productive capacity of the recipient economy
- its impact on the further economic development of less-developed economies
- human capital formation helping to promote skills within a country's workforce
- financing innovation
- helping to improve productivity
- a general improvement in business efficiency

[9]

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11.

Introduction	• macroeconomics • macroeconomic objectives • brief reference to relevant policies • the notion of 'conflict'.
Developing the response to the question: **Application / Analysis**	• long run v short run • potential conflict between economic growth and stable prices • potential conflict between economic growth and a healthy balance of payments on current account • inflation beginning to impede growth • inflation damaging employment prospects • inflation and the balance of payments on current account • attempts to correct a balance of payments on current account harming employment and growth, at least in the short term • attempts to stabilise prices causing harm to employment • attempts to achieve full employment causing inflation to rise (Phillips Curve analysis) • economic growth and the environment • economic growth and income distribution • the significance of the supply side in reducing or avoiding conflict • the possible need for compromise • use of diagrams • references to the UK and / or other economies.
Evaluation	• the idea that avoidance might be utopian in a complex modern economy • the acceptability of compromise between objectives – control rather than complete avoidance • the intensity of any problems arising from conflict • the degree of persistence of conflict or a short-term phenomenon • the importance of supply-side reforms and the time taken for them to become effective in the context of conflict • a particular objective may have key importance in an economy's economic strategy in a certain period of time and will be pursued for this reason irrespective of conflict and without any attempt made at avoidance • given any set of macroeconomic policies what is the net impact of them and is this acceptable? For example, limited environmental controls in the context of needing to secure economic growth • a final judgement on the idea of conflict avoidance.

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	Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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12.

Introduction	• criteria for measuring economic consequences • nature of potential problems • nature of potential opportunities • the EU • the issue of enlargement of the EU.
Developing the response to the question: **Application**	• Turkey's geographical position (line 3) • an expected population in Turkey of 100m by 2020 (line 10) • Turkey's vast economic potential (line 11) • Turkey's impressive growth for at least 5 years, 2002 – 2007 = 7% (lines 14 – 15), 2010 first quarter = 11% (lines 13 – 14) • Turkey's reputation for economic instability (line 20) • high inflation in some recent years in Turkey (lines 20-21) • an attractive centre for investment (line 24) • migration and the impact on UK PPF • consequences for UK AD as the EU expands • export-led multiplier.
Developing the response to the question: **Analysis**	• the diverse nature of member countries of the EU • the UK approach to the EU and to enlargement in particular • demands upon the EU budget and hence upon individual members • Turkey as part of the SEM and the likely flow of cheap imports to UK • cheap migrant labour impacting on the UK labour market and social and economic infrastructure • Turkey as an additional market for the UK • investment opportunities • investment income coming back to the UK • the benefits of its established links with Asia • UK economic growth • UK unemployment • UK balance of payments • UK inflation / deflation • reference to other economies • use of diagrams.
Evaluation	• Turkish membership may be seen as the "straw which breaks the camel's back" as EU enlargement gathers pace

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	• short term v long term considerations • the ability of the UK to take up opportunities successfully • the UK's possible inability to take up opportunities in the context of having to shoulder some of the problems which Turkey's membership may give rise to in the EU • the possibility that the UK macroeconomic indicators do not all head in the same direction (for example, Turkey as a stimulus to economic growth but migrant labour causing an unemployment problem) • the difficulty of giving "values" to pros and cons pre-membership and therefore being unable to take up a decisive stance with confidence • the impact could change over time as circumstances change • continuing enlargement, including Turkey, potentially providing ammunition to the Euro-sceptics in government and beyond causing the UK to remain by choice on the sidelines of the EU. An assessment of the significance of this issue for the UK • a final judgement on the overall impact on the UK economy. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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13.

For

- defining supply side or supply-side factors
- government policy or business initiatives
- defining economic growth or sustained economic growth
- explaining the connection between supply-side factors and sustained economic growth, ie supply-side generated growth is less likely to bring conflict with other objectives.

Supply-side factors will have an impact on both the long- and short-run aggregate supply curves of an economy shifting them to the right, indicating that the productive potential of the economy has increased. The production possibility frontier will also shift to the right, indicating that the economy has gained more resource or is using existing resources more efficiently. The trend rate of growth should therefore show an improvement.
The impact of investment.
The impact of productivity.
Education and Training.
Welfare Reform.
Occupational and geographical mobility.
Any other valid point.
Use of diagrams to help support explanations, e.g. AD/AS, PPF

Reward references to the UK economy.

Where a candidate does little more than list a number of supply-side factors in the explanation, award a maximum of 7 marks for the answer as a whole.

[15]

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16.

Introduction	• macroeconomic performance • the possible nature of major global events such as sports competitions, natural disasters and economic downturns.
Developing the response to the question: **Application**	• the stimulus to countries hosting major events benefiting other countries (lines 5-8) • the distinction between predictable and unpredictable evens (lines 16-19) • the importance of such events forging stronger economic ties between countries (lines 13-15) • the need for a strong economy in order to take advantage of opportunities (lines 29-30) • US financial crisis (line 19) • the Japanese earthquake and tsunami in 2011 (line 23). • use of AD / AS analysis • the multiplier • economic cycle
Developing the response to the question: **Analysis**	• economic growth • stability of prices • employment / unemployment • the balance of payments on current and capital accounts • creating a strong economy in order to be able to respond to the stimuli of global events • the possibility of global events having a negative impact and the ability of an economy to respond • analysis of fundamental factors such as productivity, quality of resources, flexibility • references to the UK and / or other economies • use of diagrams.
Evaluation	• what we might regard as “significant” • what we decide to be the key measure(s) of “significance” • the likelihood of major global events not being good news, e.g. disruption to oil supplies • how we might be perceived to be economically weak by other countries because of our possible inability to play a key role as an event unfolds • is the impact of any major global event nothing more than transitory? • with so many potential “players” internationally any one country

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	can't always expect to have a significant role to play • the short term impact of an "event" in contrast to long term sustaining of, and benefits from, trade and investment links • possible contrasting abilities to respond to positive events as opposed to negative ones or vice versa • a final judgement on the overall significance. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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17.

Introduction	• the trade in goods • the balance of payments on current account – deficits and surpluses • criteria for assessing the impact of a deficit • the potential nature of the problem in the context of the UK economy.
Developing the response to the question: **Application / Analysis**	• the possible determinants of a successful export performance • possible determinants of imports • whether competitiveness in world markets is an underlying issue and is the real cause for concern • Whether global macroeconomic conditions provide part of the answer and whether they will be a temporary phenomenon • whether deficits arise from a loss of comparative advantage • the part played by the exchange rate at any one time and whether this is a temporary difficulty • whether non-price factors must be seen as a cause for concern • deindustrialisation as part of the explanation over the long term • the impact of deficits on other macroeconomic indicators – growth and employment • the compensatory role of invisibles • the compensatory role of capital flows • the possibility that a deficit might be a reflection of rising living standards in a country • use of diagrams • reference to the UK and/or other economies
Evaluation	• how persistent the deficit is • how large the deficit is, for example, in relation to GDP • whether it has an impact on the exchange rate and the consequences of this • the ability to borrow, if necessary, to finance the deficit • whether, in reality, it has had any lasting adverse impact on growth or jobs • whether the attempts to reduce it cause more problems, e.g. deflation of AD • whether the deficit brings higher living standards, if only in the short term • is the deficit indicative of a country 'living beyond its means'? • it may lead to calls for increased protectionism which may cause

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	long term problems • the need to distinguish actions to control the deficit from actions to bring about a long term solution • international opinion of the deficit • whether it brings intervention by the IMF • a final judgement. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

[25]

18.

For • defining unemployment • making reference to official measures of unemployment • explaining types of unemployment

The impact on AD as average incomes fall reducing household spending power and a consequent fall in confidence discouraging business investment. In contrast, AD will be influenced if businesses may make greater efforts to secure export markets, while government spending may increase to help the unemployed.
Changes in government spending and taxation and the economic impact of these.
Impact on government finances as spending increases but tax revenues fall.
Overall impact on economic growth.
The problem of rising inequality.
The waste of resources so that the economy operates at less than full capacity.
Any other valid point.

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The effect on living standards generally as consumption of goods and services, such as food and alcohol, is curtailed. The quality of life is affected as spending limits are placed on, for example, heating and holidays. The type of housing may need to be reconsidered as a mortgage or existing rent become unaffordable.
The level of income in particular and the impact on living standards.
The reluctance to claim, but the necessity of claiming, welfare benefits − perhaps further demoralising the individual.
Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance.
Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance.
The dangers of long-term unemployment.
The need for geographical and/or occupational mobility (with implications for re-training).
Long-term financial implications in terms of savings and pensions.
Any other valid point.

Use of diagrams to help support explanations, e.g. AD/AS, PPF.

Reward references to the UK economy.

Where more than two problems are considered for either the individual or the economy, reward the best two problems.

Award a maximum of 10 marks if only the individual or the economy is considered.

[15]

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19.

Introduction	• the nature of the EU perhaps with reference to institutions • the UK position within the EU • fiscal policy and budgetary positions • criteria for assessing consequences.
Developing the response to the question: **Application**	• Lines 1–3: the remedial Keynesian approach now denied to member states • Line 4: the abandonment of fiscal rules • Lines 11–14: the crisis in Greece arising from fiscal looseness • Lines 19–23: the UK Government seeming to be a step ahead of some in the EU especially with the setting up of the OBR. • Keynesian multiplier • Budgetary positions • Current account deficits.
Developing the response to the question: **Analysis**	• the general economic consequences any individual economy might expect in trying to achieve a balanced budget • the consequences for the EU as a whole of achieving that position • the idea of 27 nations being required to follow the same policy • the reasons for the policy • the impact on economic growth • the impact on living standards in the short term and long term • the impact on employment/unemployment • the impact on the UK's balance of payments on current account • the impact on inflation • the possibility of deflation • the impact on types and levels of government spending • the changes in taxation and the possible impact of the changes • use of relevant diagrams • reference to other economies.
Evaluation	• whether or not the policy is introduced for economic reasons or to reflect a particular political philosophy may influence judgement on the policy • the time given for any one country to achieve a balance • the UK's original fiscal position at the time the policy is introduced • for how long a country will be expected to continue with the policy • whether or not the policy will be effectively enforced • whether the UK pursues the policy mainly through tax increases or

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	public spending cuts or a combination of both • whether it will be short-term 'pain' for long-term benefit • the differing impact on particular sections of the UK population • whether additional private sector activity will compensate • whether monetary policy has the same constraints imposed • the problems which 'one-size-fits-all' policy tends to generate for individual nations • a final judgement on the overall impact on the UK economy. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

[25]

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20.

Introduction	• economic growth • other macroeconomic performance indicators • the contrasting economies of India and the UK.
Developing the response to the question: **Application**	• Line 3: reference to increased exports • Lines 6–8: impressive quarterly growth which, if maintained, could create spin-offs for the UK • Line 18–19: GDP, multiplier, accelerator • Line 19: inward investment from India • Lines 24–28: benefits for the UK from India's infra-structure development • Line 31: the limitations for the UK if India remains 'fiercely protective'.
Developing the response to the question: **Analysis**	• how it is expected that India might develop in the future • the current importance of India to the UK and how this might change in the future • the potential impact on UK economic growth • the potential impact on the UK balance of payments both on current and capital accounts • the potential impact on employment/unemployment • UK structural change influenced by economies such as India • the impetus that stronger links with India may give to supply-side reforms • the impact on productivity and competitiveness • the impact on investment flows • use of diagrams • reference to other economies.
Evaluation	• India needs to be put into the context of other significant fastdeveloping nations which may all eventually play a part in UK macroeconomic performance • India needs to be put into the context of our currently important trading partners – the US and the EU • India may decide to remain protectionist in terms of certain types of investment and trade • how more effective, if at all, some of our competitors are in penetrating the Indian economy • the net trade flow • the net investment flow

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	• whether the UK produces what India's development requires, and, if not, whether the UK is able and willing to carry out the required structural change • how supportive the UK government is of private sector efforts in penetrating the Indian economy • whether or not India's growth and development continues in the current global economic climate • a final judgement on the overall likely importance of India to the UK economy. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

[25]

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21. **Issues and areas for discussion include**

Introduction	• interest rates • role of MPC • inflation and government target • understanding of 'high inflation' • cost-push/demand-pull inflation.
Developing the response to the question (analysis and application)	• aggregate demand • aggregate supply • cost-push inflation • Phillips Curve theory • macroeconomic indicators • liquidity trap (examiners note: this is not in the specification) • interest rates and the transmission mechanism • the impact of low interest rates, eg on consumer credit, investment • interest rates as a cost of production • the importance of identifying the prime cause of inflation • other macroeconomic problems at the time of high inflation • the function of interest rates in controlling inflation • analysis of the possible irrelevance of interest rates to inflation given the known cause of inflation • the impact of high interest rates on other aspects of the macroeconomy if they were to be used to control inflation, e.g. unemployment • other anti-inflation policies when interest rates are being kept low • use of diagrams • references to the real world perhaps including the stats included in the preamble to the question, as well as others known by the candidate.
Evaluation	• the importance of having low interest rates because of the condition of the macroeconomy, eg the perceived need to prevent recession and future deflation • interest rate policy as a possible irrelevance given the type of inflation which is prevalent • high inflation seen as a manageable problem irrespective of what happens to interest rates • how permanent/temporary the high inflation is seen to be • the duration of the era of low interest rates • the possible importance of having a favourable exchange rate in world markets which can be achieved through low interest rates • an assessment of the potential contribution of other policies to the battle against inflation, eg supply side, fiscal, so that high interest rates are not so vital even if the inflation arises from high demand • the extent of inflation in an international context: 'high' may be in a historical context domestically, possibly in relation to a government

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	inflation target, rather than in the current international context • a final judgement perhaps in the context of recent UK experience. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

23.

For defining the concept of trade-off, inflation, demand-pull inflation, cost-push inflation, economic growth, or any other relevant definition.

How rising aggregate demand as a result of the growth process might put pressure on prices, leading to demand-pull inflation, and hence cause action to be taken to reduce AD.
How economic growth might increase pressure of demand on resources, cause producer costs to rise, causing in turn price increases and hence cost-push inflation. Action might then be taken to limit growth in order to reduce pressure of demand on resources.
For use of relevant diagrams, e.g. AD/AS, Phillips Curve.

Loose monetary policy such as lower interest rates and increased money supply causing AD to rise because of, for example, cheaper consumer credit, causing prices to rise if AS cannot respond.
Loose fiscal policy such as lower taxation.
Supply-side shocks such as rising oil prices.
Other cost pressures such as rising wage costs.
Rising expectations of future price rises.
Analysis in terms of demand-pull factors generally.
Analysis in terms of cost-push factors generally.
Any other valid analysis.

Make use of appropriate diagrams in the analysis, e.g. AD/AS, Phillips Curve

[9]

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24. **Issues and areas for discussion include**

Introduction	• definition of supply-side reforms • the balance of trade in goods • improvement: reduced deficits or from deficit to surplus.
Developing the response to the question (analysis and application)	• aggregate supply • aggregate demand • productive capacity • cost-push/demand-pull inflation • productivity • the concept of competitiveness • supply-side reforms in outline • objectives of reforms, e.g. flexibility, mobility, quality, lower unit costs, choice, structural change • individual reforms relevant to the trade in goods • the significance of overseas demand for UK exports and UK demand for imported goods • other policies not linked to the supply side • use of diagrams • references to the real world.
Evaluation	• the nature, extent and effectiveness of UK reforms in relation to those of other countries • whether or not supply-side reforms can in any way compensate for decades of deindustrialisation so that imported goods are an inevitability • the long-term nature of reforms so that deficits may persist in the short and medium terms • the significance of changing tastes in world markets • supply-side reforms at a time of a sustained global downturn • supply-side reforms concentrating on lowering unit costs rather than quality and choice, so imports remain attractive, exports no more attractive • whether supply-side reforms will always be a story of 'too little, too late' • relative merits of supply-side policies to other policies that can be used to reduce deficits eg significance of exchange rates • a final judgement, perhaps in the context of recent UK experience. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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26.

Relevant issues/logical chains of analysis include:

- defining/explaining the balance of trade, visibles/invisibles, the balance of payments on current account,(persistent) deficit/surplus
- high exchange rate which has perhaps appreciated steadily over time. It has made the price of exported goods more expensive and the price of imported goods cheaper. If the price elasticity of demand for exports and imports is elastic less export revenue can be expected. Expenditure on imports will show an increase and hence a balance of trade deficit emerges, all other things being equal
- persistent inflation which compares unfavourably to that of trading partners
- high income elasticity of demand for imports
- supply-side weaknesses such as low productivity
- limited structural changes in the economy so that it no longer produces what world markets want
- deindustrialisation making increased imports of imported goods inevitable
- quality of goods compared to other countries
- economic downturns amongst our trading partners not experienced within the UK so that export sales become more difficult while imports of goods stay buoyant or even increase especially if overseas suppliers are desperate to sell and reduce their overseas prices
- comparative advantage
- protectionism in trading partners not replicated in the UK
- diagrams to help support explanations, eg AD/AS, comparative advantage, tariffs/quotas

[15]

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27. **Issues and areas for discussion include**

Introduction	• economic growth • general causes of economic growth • the EU • 'the best hope' in relation to what?
Developing the response to the question (Application)	• economic growth theory • trade cycle and recession • fiscal policy and deficit-reduction policy • application to recent/current events so heavily represented in the media • the EU tumbling back into recession (lines 4–6) • variation in prospects between EU member countries (lines 7–8) • strict fiscal policies in UK and in much of the rest of the EU (lines 20–22) • recovery in the global economy (lines 35–36) • hopes for stabilisation in the eurozone (lines 40–41).
Analysis	• how the EU can help UK GDP growth, eg demand for exports, euro and other currencies strengthening against the pound • stimulus from those EU economies recovering more quickly than others • the EU and the single market • stimulus from other parts of the world, eg the emerging markets • UK supply-side reforms giving a competitive edge in albeit depressed markets • the contribution of domestic demand within the UK, eg if fiscal constraints are relaxed on spending, tax cuts are introduced, consumers begin to show a stronger response to low interest rates • the impact of any increase in domestic wage increases should they occur after a period of restraint • UK private sector beginning to more than compensate for the contraction of the public sector • investment trends in the UK • trends in the exchange rate of the £ against other currencies impacting on UK global exports • use of diagrams • references to the UK and/or other economies.

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Evaluation	• whatever growth is seen within the EU, other parts of the world may grow more strongly and offer more opportunities to the UK • the speed of recovery particularly in the eurozone • the persistence/exacerbation of economic problems for the UK should the eurozone begin to break up • whether or not the UK is competitive enough against the emerging markets • greater reliance for growth from within the UK if recovery becomes more rapid, perhaps on the back of a looser fiscal policy, increased consumer and business confidence, a stronger government growth strategy • the dangers of discussing just in terms of eurozone/non-eurozone countries; analysis must be of individual EU economies to assess their potential contribution to UK growth in the future and their past importance to the UK economy • in more stable times, the size of population in the EU, total spending power, and the benefits to the UK of the single market • whatever the UK prospects for growth emanating from the EU, the long term sense of limiting UK reliance on one area of the world and developing stronger links elsewhere • a final judgement on the prospects for the UK *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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30. **Issues and areas for discussion include**

Introduction	• criteria for assessing 'significant strengthening of the economic importance' • identification of one or more MENA economies • the range of economic experience in the MENA economies.
Developing the response to the question (Application)	• comparative advantage • labour productivity • production possibilities • supply of resources from the resource-rich MENA economies (line 6) • opportunities for UK financial services (lines 12-13) • the threat from MENA manufacturing (lines 13-14) • further investment opportunities for UK in the MENA economies (lines 18-20) • the potential significance of free trade agreements between MENA and other economies (lines 24-26) • potential benefits to the UK of higher living standards in MENA countries (lines 27-30).
Analysis	• economic growth • employment and unemployment • balance of payments on current account • supply-side reforms • AD/AS analysis • comparative advantage • further structural change in the UK economy • living standards • direction of investment • use of diagrams • references to the UK and/or other economies.

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Evaluation	• 'concern' needs to be measured against opportunities in the MENA economies • continuing political instability in the MENA region may dilute any threats to the UK and any opportunities for the UK in the MENA economies • the inflexibility of the UK economy may mean lost opportunities • if and when importance strengthens, the MENA economies' more powerful negotiating position regarding prices of resources needed by developed countries • MENA economies in relation to other opportunities elsewhere in the global economy • opportunities/threats in the UK domestic economy compared to those presented by the MENA economies • how the UK might compare to other economies with similar aims of gaining a foothold in the MENA economies, eg, the emerging markets • the significance of relative inflation rates between MENA economies and the UK, and between the UK compared to other economies showing interest in the MENA economies • the possible greater impact on the UK and a cause for concern if the UK's major markets, the EU and US, continue to have problems • the threat the MENA economies pose to the UK in established UK markets especially in the long term • a final judgement on the economic consequences. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

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1.

Define the concept of macroeconomic policy objectives in terms of reference to the criteria by which macroeconomic performance is measured

Explain macroeconomic policy objectives, e.g.

- economic growth can be defined as increases in the productive capacity of an economy. Such increases will determine the long-run trend rate of growth and will shift the LRAS curve and the PPC to the right. Actual growth can be measured by GDP
- price stability
- full employment or low unemployment
- improving the performance of the balance of payments on current account
- exchange rate stability
- fiscal stability

Explain the importance of macroeconomic policy objectives to an economy, eg

- price stability and international competitiveness
- economic growth and living standards
- the balance of payments on current account
- the importance of reducing unemployment
- an essential requirement for efficient policy making
- they establish benchmarks against which the authorities, NGOs, economists, business can measure success / failure within the economy
- they allow policies to be formulated in good time if objectives seem increasingly unlikely to be met
- because of the inherent weaknesses there may be in an economy, it is vital to have objectives which give a sense of direction and which provide the prospect of being able to remedy those weaknesses
- if achieved, they create a stable economic climate for the private sector

[15]

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2.

- define imports;
- relate import performance to export performance, perhaps with an invisible/visible
- reference;
- explain imports in the context of the balance of payments on current account, perhaps referring to imports explicitly as a debit item;
- put imports into the context of the circular flow of income

explain determinants of a country's demand for imports, eg

- income which allows consumers to demand more goods and services, assuming disposable income also increases with gross income. Some will be purchased from overseas sources, given that UK consumers traditionally display a high propensity to import. This may be for reasons such as consumer preference, as characteristics such as quality and after-sales service are seen to be stronger in imports or because the goods or services in question are no longer produced/supplied in the domestic economy.
- relative prices (terms of trade)
- protectionist policies
- cheaper credit helping to finance purchases
- deindustrialisation
- raw material, component and energy requirements
- the impact of the Single European Market
- exchange rate trends
- cyclical factors, e.g. recession
- a change in comparative advantage

Reward references to the UK economy

[15]

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3.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• common macroeconomic policies • economic recovery • the significance of the rest of the EU to the UK • the criteria by which the impact on the UK economy might be assessed.
Developing a response to the question:	• the implications for economic growth • the impact on employment / unemployment • the consequences for the balance of payments on current account • the effects on the £ / € exchange rate • the greater likelihood of avoiding a period of deflation • the dangers of inflationary pressures building up • the further development of the SEM in a period of recovery and increasing prosperity.
Evaluation:	• the possible significance of a slow recovery • the possible supply problems if recovery is too rapid • whether the UK can take advantage of EU recovery • whether the advantage lies more with the rest of the EU in terms of exporting to the UK than for the UK exporting to the rest of the EU • the significance of EU recovery for the UK relative to recovery taking place elsewhere in the world, i.e. in markets which have significance for the UK • whether or not recovery has implications for the movement of labour in and out of the UK and how this affects the UK labour market.
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams

[25]

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4.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• reference to the quote in the question • the recent experience of rising oil prices • criteria for assessing macroeconomic performance
Developing a response to the question:	• the implications of this for the pattern of production • consequences for the balance of payments on current account • inflation • the impact of inflation on jobs • the impact of inflation on economic growth • rising oil prices and business and consumer confidence • implications for government revenue and expenditure • the impact on export performance
Evaluation:	• whether the oil price increases are simply building on past price increases or whether they represent a supply-side shock of which there has been little or no recent experience • whether or not petrol taxes are reduced to compensate for higher oil prices • mature economies having less dependency on oil • whether price increases are sustained over a long period of time • whether, as in the UK's case, an economy is also an oil exporter as well as an importer • whether rising economic growth and inflation-reducing forces are in evidence to dull the impact of rising oil prices
Also give credit for:	• relevant use of evidence and examples from the UK / other economies • diagrams

[25]

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5. **Issues and areas for discussion include**

Introduction	• government borrowing put into its fiscal context • the basic functions of government borrowing, e.g. to finance spending in a way that negates the need to raise taxes or to help supplement the revenue from tax as tax rates are raised • the recent UK experience and/or that of other countries • the significance of the Budget and Pre-Budget reports in the UK
Developing the response to the question:	• an outline of the criteria for assessing concern • the potential impact on inflation/deflation • economic growth • employment • cyclical reasons for borrowing, perhaps argued as essential in the circumstances • business and consumer confidence • the exchange rate • interest rates • the impact on the private sector, e.g. complacency • 'crowding-out' • the potential difficulty of financing a large borrowing requirement • the possible impact on the money supply • the potential impact on future tax-payers • any other valid issue
Evaluation	• the level of concern/acceptability of borrowing may depend on the economic circumstances at the time • concern may depend on the actual level of borrowing • assessment may be coloured by the decisions made by other countries • borrowing needs to be related to the National Debt to help any assessment • the uses to which the borrowed money is put • whether borrowing creates a necessity to raise taxes in the future or to cut spending • whether it breaks any fiscal rules and, in turn, whether this is seen as important (up to mid-2008 the UK Code for Fiscal Stability and the on-going EU Stability and Growth Pact) *Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of increased spending which has led to the need to*

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	borrow more. However, this must be considered as low-level evaluation and awarded accordingly.
Also give credit for:	• relevant use of evidence and examples from other economies • diagrams • an overall judgement on the issues raised

[25]

6.

- inflation, with an explanation perhaps in terms of official UK measurement, how measurement is arrived at, recent experiences, other relevant factors

Explain causes of inflation, eg

included within **cost-push factors** could be:

- the rising cost of oil, which for many firms will be a significant cost of production. As oil costs rise, assuming no fall in other costs of the firm a decision has to be made that either profit margins be narrowed or prices of final output need to rise. One consideration will be the price elasticity of demand for the product in question, i.e. the more inelastic is demand, the more likely consumers will absorb any price increase
- wage costs
- supply-side weaknesses, eg low productivity
- imported inflation, perhaps via exchange rate depreciation

Included within **demand-pull factors** could be

- the demand-pull inflationary process
- the impact of monetary policy
- the impact of fiscal policy
- earnings growth

other factors could also be considered, eg

- expectations
- money supply / monetarist explanation

[15]

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7. **Issues and areas for discussion include**

Introduction	• protectionism v free trade • the UK balance of payments on current account • the work of GATT/WTO • the Doha Round of talks • types of protectionism
Developing the response to the question:	• an overview of UK exports/imports; manufactures v services • competitiveness of exports, e.g. productivity trends, innovation, design, other non-price factors which might compensate for increased protectionism or mean that we are at a greater disadvantage if these factors remain weak • the potential significance of the exchange rate • supply and demand elasticity conditions as far as exports and imports are concerned • the danger of further deindustrialisation and the consequent impact on the balance of payments on current account • the potential significance of the EU trade bloc and whether even more of our trade is with the EU as protectionism elsewhere increases • account in the context of impediments to trade of various kinds • any other valid issue
Evaluation	• the impact on the balance of payments may depend on the extent of the increased protectionist policies • the impact may depend on the level of protectionism which existed before the further increase in trade barriers • the degree of impact may depend on the flexibility of the supply-side of the UK economy to take appropriate action given the specific nature of increased protectionism • the economic conditions in which the strengthening takes place around the world will be significant • given that the UK may be part of the process of strengthening, it will have to consider the impact on import flows compared to the impact on export performance • of some importance will be the particular elasticity conditions for exports and imports • the different parts of the current account might be affected in different ways *Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of protectionism. However, this must be considered as*

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	low-level evaluation and awarded accordingly.
Also give credit for:	• relevant use of evidence and examples from other economies • diagrams • an overall judgement on the issues raised

[25]

8.

Define/explain:

- deflation
- monetary policy, e.g. interest rates, money supply control, exchange rates
- in the current (2010) climate, refer to the liquidity trap in explaining the possible limitations of interest rate policy
- explain how monetary policy might be used to prevent a period of deflation, eg
  - interest rates will help determine the use of credit by consumers and the level of business borrowing for investment. The Monetary Policy Committee sets Bank Rate and by doing so is indicating its wish that other financial institutions follow suit. Both consumption and investment are components of aggregate demand. Assuming no reduction in the other components of AD (X – M, G) a fall in interest rates, for example, will lead to higher AD which may lead to a rise in the general price level assuming that AS does not increase to meet the higher AD
  - the use of exchange rate policy to influence export and import demand and generate an export-led multiplier
  - increases in money supply (note the current policy of 'quantitative easing') with an explanation, perhaps including a reference to the Quantity Theory of Money

Reward references to the UK economy

[15]

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9. **Issues and areas for discussion include**

Introduction	• deflation v inflation • criteria for assessing the economic impact of deflation • the relevance of the issue to the last few years
Developing the response to the question:	• the shorter term benefits in terms of consumer demand for goods and services falling in price • competitiveness • impact on profits and hence possibly on investment and on sustainability of businesses • the impact on confidence, especially where deflation is a feature of a recession • economic growth • employment • trade flows and the impact on the balance of payments on current account • inward investment • UK experience • the potential impact on consumer demand • the impact on the real value of debt, important particularly in light of high UK home ownership • the impact on the exchange rate • any other valid issue
Evaluation	• whether or not deflation has set in worldwide or just nationally • the extent of the deflation • the duration of the deflation • the flexibility/resources the government/central bank has to deal with the problem • the extent of damage to consumer and business confidence • how much it impacts on profits • whether deflation causes consumers to keep delaying purchases hoping for even lower prices *Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of deflation. However, this must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• relevant use of evidence and examples from other economies • diagrams

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	• an overall judgement on the issues raised

[25]

10. **Issues and areas for discussion include**

Introduction	• explanation of globalisation • how benefit can be measured • macroeconomic performance criteria
Developing the response to the question:	• economic growth • employment/unemployment • inflation/price stability/deflation • trade flows • investment flows • balance of payments • competitiveness • any other valid issue
Evaluation	• not knowing what might have happened to the UK economy had globalisation not become so evident • the assessment may depend on the view taken of how significant or essential globalisation has been in bringing about various domestic supply-side reforms • whether cyclical factors have sometimes prevented the UK from obtaining the full benefit of globalisation *Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of globalisation. However, this must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

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11.

For candidates who:

Define / explain inflation and / or index numbers in a general sense and / or refer to UK inflation

Explain how inflation is measured in the UK with reference to, eg:

- the concept of a 'basket' of goods and services to include all types of household spending, including food, restaurant meals, tobacco but with some exclusions from the RPI, for example, interest charges on credit cards. The prices of a large and varied sample of products in the basket are gauged. A wide range of retail venues is chosen in about 150 places around the UK. The goods and services for which prices are recorded are known as 'representative items' of which there are 650. Their movement is taken to represent the price changes for all goods and services covered by the index.
- an inflation index as a measure of average prices and of price changes not price levels. So, for example, for RPI with Jan 1987 = 100, the index was 209.8 in January 2008 compared to 201.6 a year earlier. An annual inflation rate of 4.1% can be calculated from these data
- Family Expenditure Survey
- the concept of the 'average family'
- the system of weighting
- comparison between indices, eg the RPI, CPI, RPIX, TPI (only the first two are cited in the specification)
- any other valid feature of measurement using indices.

Make use of diagrams **in the analysis**.

[15]

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12.

It is hoped that candidates will briefly explain the macroeconomic criteria by which consequences can be measured, before providing some discussion of the potential impact of appreciation and arriving at a final judgement.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction	• appreciation versus depreciation of currency • criteria for measuring macroeconomic consequences • exchange rate systems.
Developing the response to the question:	• the potential impact on economic growth as exports perhaps become more difficult to sell overseas • the possible stimulus to growth as imports of raw materials and energy become cheaper • the possible benefits to inflation as lower demand for exports reduces pressure on domestic production and resources and imports of goods and services are cheaper • the impact on employment as cheap imports threaten domestic production and hence jobs and as the overseas demand for exports falls away • the impact on a significant tourist industry in the economy concerned and hence on growth and jobs in an expanding sector of an increasingly service economy • the impact on the balance of payments on current account given relative changes in exports and imports of goods and services • the strong currency making inward investment less attractive, perhaps affecting growth and jobs.
Evaluation	• the extent of the rise in the exchange rate • the external value of the currency from which the rise begins to take place • the significance of the exchange rate factor compared to other influences on the macro-economy • whether or not exports have been an important, or sole, cause of growth for an economy • elasticity conditions for exports and imports • the period of time in which the appreciation lasts • the role of speculators in terminating the rise • the effectiveness / speed of a corrective market mechanism or a decision to ‘dirty float’

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	• the state of the world economy as the appreciation takes place, eg might a prosperous world merely absorb higher prices arising from a country's exchange rate appreciation? *Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of appreciation, but with minimal reference to the macro-economy. However, this must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• reference to the UK / other economies • diagrams • an overall judgement on the issues raised

[25]

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13.

It is anticipated that candidates will review the various consequences of both inflation and deflation, a review interspersed with evaluative comments, before arriving at a final judgement. Examiners should reward well informed, relevant discussion and conclusion.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction	• the concept of price stability / price instability • definitions of inflation and deflation • the UK experience of recent years • the UK Government's setting of an inflation target • price stability as a desired objective and its relationship with other macroeconomic objectives.
Developing the response to the question:	• inflation damaging competitiveness with a potential impact on the balance of payments on current account • anti-inflation policies which are potentially harmful to the economy • the impact on business and household confidence • the impact on real income and hence real spending power • the ultimate damage to economic growth and jobs • deflation as being far less common than inflation in many economies • the impact on real incomes and real purchasing power • the dangers of consumer postponement of purchases hoping that prices will fall further • the impact on profits • the impact of lower profits and lower business confidence on investment • the potential benefits of reflationary policies • the benefits of falling prices to competitiveness • the possible harm done to growth and jobs • the impact on creditors / debtors • whether one is more / less anticipated than the other
Evaluation	• the extent of the problem, i.e. how significant the rate of inflation or deflation is • the length of time in which prices rise or fall • the potential benefits of mild inflation which might not be said of mild deflation

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	• the relative ease / difficulty of executing, and making effective, policies to deal with either of the problems • the simultaneous experience of other countries • whichever problem prevails, the danger of the authorities overshooting targets, eg. quantitative easing and low interest rates bringing too much reflation and hence more inflation • the difficulty of making a judgement without more detailed information on an actual occurrence and the events surrounding it • both inflation and deflation have redistributive effects and it is impossible to predict which might be the more beneficial • a realistic conclusion is that, whatever the relative impact, neither may be desirable and the authorities should be aiming for a period of sustained price stability *Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of inflation and / or deflation, but with no attempt to place them into the context of the question or to prioritise them explicitly. This must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• reference to the experiences of other economies • diagrams • an overall judgement on the issues raised

[25]

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14.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• macroeconomic objectives in contrast to microeconomic • the meaning of conflicts between macroeconomic policy objectives • how objectives might be ranked in order of importance by any one government
Developing a response to the question:	• examples of potential conflict, eg ◦ economic growth and price stability ◦ full employment and price stability ◦ demand-led growth and the balance of payments on current account ◦ attempted corrections to the balance of payments deficit on current account and economic growth and / or employment • the differing impact of expenditure-switching and expenditure-dampening policies • supply-side policies
Evaluation:	• some ways of trying to reconcile conflict may not be politically expedient, eg increasing unemployment in order to control inflation • government may attempt to reconcile conflict through fine-tuning which does not have a good track record • conflict can be short term, supply-side remedies long term • limiting growth in order to stabilise prices might harm material living standards • supply-side improvements may be made, eg productivity, but may not bring a reduction of conflict if other countries have seen improvements to a greater extent, eg economic growth increases the flow of imports. An export drive to balance this may be unsuccessful if our productivity improvement is outpaced by that in other countries. • the rate of inflation may be controlled but inflation may still be higher than in the economies of our trading partners, perhaps limiting the desired improvement to the current account (inflation having caused a deterioration) • the policy constraints for members of the eurozone which won't apply to those members of the EU, including the UK, who have not adopted the euro
Also give credit for:	• relevant use of evidence and examples from the UK / other economies

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	• diagrams

[25]

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15.

It is hoped that candidates will be able to display a good knowledge of recent supply-side reforms (both government policy and private sector initiatives) and then be able to arrive at an informed judgement by relating the impact of them to demand-side initiatives.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction	• the economic cycle with particular reference to recession • the nature of supply-side reforms • brief reference to alternative policies for helping recovery • macroeconomic objectives.
Developing the response to the question:	• more detailed references to supply-side reforms such as welfare-to-work, mobility policies, training and education • the way in which supply-side reforms may help reduce conflict between macroeconomic objectives such as growth and inflation • supply-side reforms helping to achieve sustained growth • supply-side reforms and the UK experience • policies designed to influence aggregate demand (AD) • a balanced approach to managing the economy, for example, managing AD with the short / medium term in mind while developing supply-side reforms designed to have a long-term impact.
Evaluation	• consequences may all depend on the nature and scale of the reforms • is 'avoidance' wishful thinking when alleviation is probably a more realistic aspiration, especially when placed in an international context? • supply-side reforms can give an underlying strength to an economy which might help avoid recessions • the net effect may be small if Africa compensates for the decline of other UK markets (temporary or permanent) • global recession which impacts on any one economy may require an immediate (perhaps Keynesian) response on the demand side and continuing demand management policies • the limited immediate relevance of supply-side reforms whatever the economic shock suffered • the inability of markets to deal at all with serious shocks to the macro-economy even where there have been supply-side reforms • such a response may also be seen as most appropriate even if a downturn is peculiar to one economy

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	• the benefits of supply-side reforms becoming apparent in a global recession when other economies begin to recover • a strong impetus for supply-side reforms may only appear because of a recession rather than as a consequence of recession (and so the changes in the economic cycle come first) • the prospect that supply-side reforms can help sustain periods of high economic growth and prevent any downturn, e.g. they help avoid or control inflation as an economy grows. • it should not always be assumed that recessions have no benefits, eg providing an impetus to efficiency drives and structural reform, and supply-side reforms may ease this process • the value of comparing interventionist versus free-market supply-side measures. *Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of supply-side reforms, but with no attempt to place them into the context of the question or to prioritise them explicitly. This must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• reference to the experiences of other economies • diagrams • an overall judgement on the issues raised

[25]

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16.

Define / explain economic growth and / or recession, perhaps with reference to GDP, criteria for identifying parts of the economic cycle, the UK experience of recent years

Explain possible reasons, eg

- an economic shock such as higher oil prices. Higher oil prices may then impact on inflation since oil can be a significant cost of production and can adversely affect households' cost-of-living. Anti-inflation policy may need to be used such as higher interest rates but such a response, especially if too severe, might slow the economy too much. This and the declining confidence of households and businesses may bring about a downturn and eventual recession
- other external economic shocks, such as the global banking crisis or recession amongst our major trading partners for whatever reason
- deterioration in domestic leading sectors such as construction and the car industry
- high levels of demand domestically causing demand-pull inflation and remedial action by the authorities follows which inadvertently plunges the economy into recession
- government failure to take remedial action quickly enough or the wrong type of action or inadequate action as the macroeconomy deteriorates for whatever reason
- a slump in private sector investment with no compensatory activity in the public sector
- any other valid point.

Make use of diagrams in the analysis.

[15]

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17.

It is hoped that candidates will place the answer firmly into the context of the EU and not simply base the answer on the impact of the UK borrowing requirement, so that any final judgement is sufficiently comprehensive and relevant.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction	• government borrowing • budget deficit • PSNCR as one technical measure • the EU fiscal position as a whole • the Stability and Growth Pact • proposals for some regulation of fiscal policy independent of government • criteria for measuring the impact.
Developing the response to the question: Application	• line 3 reference to Keynesian economics and tolerance of deficits because of the benefits they can bring • lines 21-22 reference to the multiplier process and aggregate demand • lines 28-29 the potential impact of borrowing on interest rates and (line 40) on inflation • lines 36-39 EU fiscal stimulus counterbalancing any loss of business and consumer confidence
Developing the response to the question: Analysis	• the reasons behind the increased borrowing • the benefits of government spending • the benefits of tax cuts • the potential impact of increased borrowing on interest rates within the EU and whether greater differences emerge between interest rates in the euro area members of the EU and non-euro members of the EU • the dangers of 'crowding-out' of private sector activity amongst member countries • the uncertainty that increasing borrowing can create for households and businesses • the potential impact on the nation's international credit rating and hence on its ability to borrow in the future on favourable terms • the possibility of seeking help from, for example, the IMF and the impact of this • the economic pain associated with eventual remedial measures

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	such as spending cuts and tax increases • the impact on the UK if EU fiscal expansion generally provides a stimulus to the UK economy • the impact on the value of the euro and the implications of this for the external value of the pound • any problems which emerge may become EU-wide problems making recovery even harder to achieve • measuring the impact in terms of growth, jobs and prices.
Evaluation	• the relevance of the scale of borrowing • assessment in terms of the net impact, eg do the benefits clearly outweigh any problems? • the economic context in which the borrowing is taking place, eg recession or recovery • whether the fiscal policy is accompanied by monetary expansion and the possible impact of this combination of expansionary policy • the perceived costs associated with fiscal balance or surplus • the speed with which borrowing can be reduced • the confidence that households and businesses have in government efforts to stabilise the fiscal position • whether the EU is at one with fiscal policy around the world or very much out on a limb. *Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of borrowing, or of higher public spending and / or higher taxation, but with no attempt to place it into the context of the UK and the EU. However, this must be considered as low-level evaluation and awarded accordingly. If these pros and cons are put into the context of the UK and EU, perhaps with an explicit attempt to prioritise, greater credit can be given.*
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

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18. **For candidates who:**

Define/explain

- exports/imports
- balance of trade in goods and services
- define / explain the term global investment, eg expenditure to generate future income; spending on capital equipment to increase output, perhaps to displace labour; human capital
- the balance of trade in goods and services in the context of the current account or the balance of payments as a whole
- the possible nature of a country's exports and imports given its own stage of development
- the UK may adopt a strategy of export-led growth. This may be because it is perceived as the most rapid way of achieving economic growth and/or because it feels itself to be very competitive in world markets. It may recognise that a good export performance will initiate a multiplier effect which should benefit the economy beyond the export sector and that exports may well encourage supply-side improvements such as innovation and higher productivity to sustain good external performance
- favourable terms of trade (examiners note that this term is not included in the specification but candidates may well discuss relative export/import prices even if the term is not used)
- the need for imports of raw materials, energy and/or finished goods, e.g. because the UK has lost so much of its industrial base
- a sustained favourable exchange rate motivates an export drive
- absolute/comparative advantage, e.g. UK comparative advantage in financial services
- the impact on UK exports of overseas recession, especially the US and the EU as far as the UK is concerned
- exchange rate movements
- relative inflation rates
- relative rates of productivity (traditionally unfavourable for the UK) and impact on competitiveness
- the ability of the UK to impose protectionist policies

[15]

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20. The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• the balance of trade in goods and services • the balance of payments accounts • surplus/deficit.
Developing a response to the question:	• supply-side policies • exchange rate manipulation • protectionist policies • controlling aggregate demand in order to constrain import growth and release more output to the export sector • adoption of an export-led growth strategy • control of inflation if this is perceived to be the cause of the problem • expenditure-switching policies compared to expenditure-dampening policies.
Evaluation:	• the need to distinguish between those policies which offer a possible short-term improvement and those which offer a potential cure for the problem in the long term (e.g. a reference to expenditure-dampening v expenditure switching). • the need to distinguish policies which can be regarded as realistic in the current climate, e.g. supply-side policies, from those which might be politically unacceptable, e.g. protectionism • some policies may not bring immediate improvement, eg the long-term nature of supply-side policies; exchange rate manipulation and the J-curve effect • there may be less significance attached to the deficit if it is seen as part-and-parcel of a maturing economy which, although successful in the trade in services, has lost much of its industrial base, thus needing to import more finished goods • the underlying issue of whether or not a deficit really matters if it does not impede economic growth and job creation and does not damage investor and business confidence.
Also give credit for:	• relevant use of evidence and examples from the UK / other economies

[25]

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