

AQA A-LEVEL ECONOMICS • 7136

ECONOMICS



EXAM QUESTION PACK

3.2.3.4 CONFLICTS BETWEEN MACROECONOMIC POLICY OBJECTIVES

SCORE

/927

PERCENTAGE

%

STEMUP

These questions belong to AQA, not to us.

The examination questions, mark schemes and examiner reports in this pack were written and published by AQA. They are past assessment materials, reproduced here so that students can revise from them.

What we do not own

STEMUP is not affiliated with AQA and does not own, and makes no claim to own, any of the question, mark scheme or examiner report material in this pack. AQA has not endorsed, approved or been involved in the production of it. AQA and the qualification titles used here belong to their respective owners and appear for identification only.

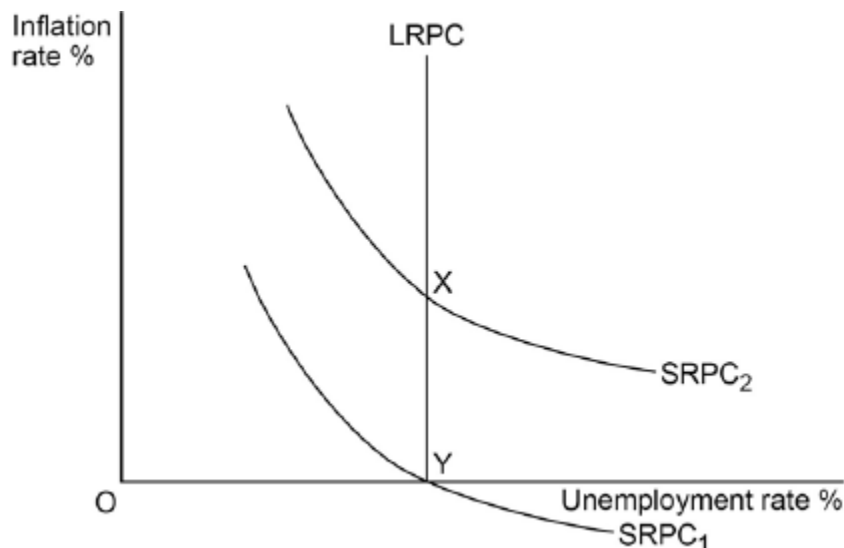
Where to find the originals

AQA publishes its past papers, mark schemes and examiner reports free of charge. Always check the current specification at aqa.org.uk before you revise, because content and wording can change between series.

If you hold the rights to any material in this pack and would like it amended or removed, contact admin@stemup.co.uk and we will act on it.

1.

In the diagram below, $SRPC_1$ and $SRPC_2$ represent short-run Phillips curves and $LRPC$ represents the long-run Phillips curve.



Which one of the following would explain a movement from point X to Y?

- A A fall in taxation
- B An increase in government expenditure
- C A cut in real interest rates
- D Reduced inflationary expectations

☐
☐
☐
☐

[1 mark]

2.

The Balance of Payments Extract F (lines 21–22) states: ‘The UK’s large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation’.

Using the data in the extracts and your knowledge of economics, evaluate the significance of a large and persistent deficit on the current account of the balance of payments for the UK economy.

[25 marks]

3.

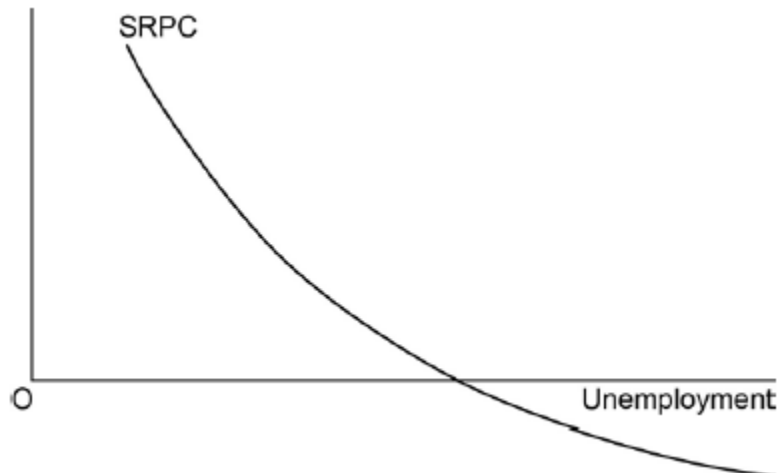
Many people were surprised when UK unemployment fell during 2013. The government’s policy of deficit reduction was expected to prevent significant falls in unemployment and some called for the government to reverse its policy of planned cuts in expenditure.

Evaluate the view that a policy of budget deficit reduction will make it harder to reduce unemployment further.

[25 marks]

4.

In the diagram below, SRPC is a short-run Phillips curve.



The vertical axis measures the

A rate of interest.

☐

B price level.

☐

C percentage change in aggregate demand.

☐

D rate of inflation.

☐

[1 mark]

5.

In 2013, two key aims of the UK Government were: to move the budget deficit towards a surplus over the course of the Parliament and to ensure that the main burden of deficit reduction would be through reduced government spending, rather than increased taxation.

Evaluate the view that the UK Government's policy of deficit reduction through lower government spending is unnecessary and undesirable.

[25 marks]

6.

Many people were surprised when UK unemployment fell during 2013. The government's policy of deficit reduction was expected to prevent significant falls in unemployment and some called for the government to reverse its policy of planned cuts in expenditure.

Explain why low unemployment is a key objective of economic policy for the UK and most other governments.

[15 marks]

7.

In May 2014, the European Central Bank (ECB) President, Mario Draghi, warned that there was a risk of deflation across economies in Europe.

Evaluate the view that the UK government should give higher priority to preventing deflation rather than controlling inflation.

[25 marks]

8.

The Balance of Payments

Extract F: Warning on UK's current account deficit

The UK is one of only eight countries to see its current account deficit increase since 2008, and its deficit has increased the most. Should overseas investors be worried? The UK has lived with large current account deficits for decades. From the 1940s to the early 1970s, when the country was operating a fixed exchange rate system, the UK was forced to use contractionary policies to keep the balance of payments in check and had to devalue the pound sterling in 1949 and 1967. From the 1980s onward, with the exchange rate floating, persistent current account deficits stopped being a cause for concern.

In the boom years before the global financial crisis, the current account deficit remained large, exceeding 3% of GDP in 2006. With hindsight, this should have rung alarm bells that the economy had become seriously unbalanced, with foreign money flowing into the UK to fund unsustainable public and private sector consumption rather than investment. After the crash, it was widely assumed that the UK economy would recover through higher exports and higher business investment. Indeed, the government's 2010 budget forecasted a current account surplus of 0.9% in 2013, driven by a surge in exports. This forecast proved highly inaccurate as the current account deficit increased.

Although surveys show that business confidence is high, investment fell in the year to the end of September 2013, and the UK's export performance has been poor, despite the depreciation of sterling by approximately 25% in the immediate aftermath of the financial crisis. In contrast, other European economies have seen strong export growth.

The UK's large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation.

Source: news reports, February 2014

9.

Taking into account the news report, **Brazil: The Hot 'BRIC' Extract D** and the original evidence, do you recommend that the company should invest in Brazil? Justify your recommendation.

[25 marks]

10.

Extract E (lines 15–17) states: 'Policies were put in place to reduce the money supply and reduce government spending. The control of inflation became the main target of UK government macroeconomic policy.'

Using the data in the extracts and your knowledge of economics, evaluate the view that achieving a low and stable rate of inflation should be the main economic objective of governments.

[25 marks]

11.

In 2013 Ethiopia had a relatively high real GDP growth rate of 7% but only 42% of its population had access to improved water sources and life expectancy was only 63 years.

Discuss the view that free trade is more effective than aid in promoting economic development in developing countries such as Ethiopia.

[25 marks]

12.

In 2013, two key aims of the UK Government were: to move the budget deficit towards a surplus over the course of the Parliament and to ensure that the main burden of deficit reduction would be through reduced government spending, rather than increased taxation.

Explain the possible demand-side consequences of an increase in taxation in the UK.

[15 marks]

13.

In 2013 Ethiopia had a relatively high real GDP growth rate of 7% but only 42% of its population had access to improved water sources and life expectancy was only 63 years.

Using examples to illustrate your answer, explain the difference between economic growth and economic development.

[15 marks]

14.

In recent years, growth rates in the UK have been low and unemployment has risen. For example, in 2012 output was still below its peak of 2008 and unemployment had risen from 6.4% from 7.8%.

Explain why economic growth is a key objective of UK Government economic policy.

[15 marks]

15.

Government policy Extract F (lines 14–17) states ‘Investment forecasts are being revised downward and on top of speculation of interest rate rises and criticism of the UK’s quantitative easing programme, the outlook is not looking as good as forecasts first indicated.’

Using the data in the extracts and your economic knowledge, evaluate the effectiveness of monetary policy in achieving macroeconomic stability in the UK.

[25 marks]

16.

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

Explain how government policies can reduce the natural rate of unemployment.

[15 marks]

17.**Government policy****Extract F: Austerity remains**

The Chancellor, George Osborne, has ruled out the possibility that the UK's improving economy will lead to immediate tax cuts or spending increases when he said reducing the budget deficit would be the priority of his Autumn Statement. The Chancellor said that the UK was still borrowing too much and that any increase in tax revenues generated from faster growth would be used to reduce the budget deficit and the national debt.	1
The move comes as no surprise, with the Chancellor stating, "I would just remind everyone that I still sit down at the table at the G20 with one of the highest budget deficits. The UK still continues to have some very serious public finance challenges that need to be addressed."	5
This week, the IMF revised up its forecasts for UK growth in both 2013 and 2014, six months after its chief economist, Olivier Blanchard, warned Osborne that he might cause more damage with his austerity plan. However, Osborne responded, "We have a clear plan and we are sticking to that plan."	10
The Chancellor's announcement may not be good for UK firms. It is common for business investment to lead the way when emerging from recession, but not this time. Investment forecasts are being revised downward and, on top of speculation of interest rate rises and criticism of the UK's quantitative easing programme, the outlook is not as good as forecasts first indicated.	15
In explaining its forecast downgrades for net investment over the last three years, the Office for Budget Responsibility (OBR) cites two main factors. Firstly, problems in credit markets have made it difficult for firms to borrow to invest. This may have particularly affected small and medium-sized firms that tend to be more reliant on bank financing. This will only be made worse if interest rates rise. Secondly, the uncertainty generated by the eurozone crisis and other events has stifled investment.	20

Source: News reports, 2013

18.

It is now nearly a decade since the financial crisis caused a recession in the UK. In March 2009, the Monetary Policy Committee (MPC) set the UK Bank Rate at 0.5%, which was a record low, in order to stimulate economic growth.

Discuss the importance of low interest rates in bringing about sustained economic growth in an economy such as the UK.

[25 marks]**19.**

Extract F (lines 4 – 6) states: 'some are now arguing that further improvements in the unemployment statistics can only be gained through improvements in the supply-side of the economy, rather than relying on demand.'

To what extent do you agree that a further reduction in the UK's unemployment rate is most likely to be achieved by improvements in the supply-side rather than the demand-side of the economy? Use the data and your own knowledge of economics, to justify your answer.

[25 marks]

20.

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]

21.

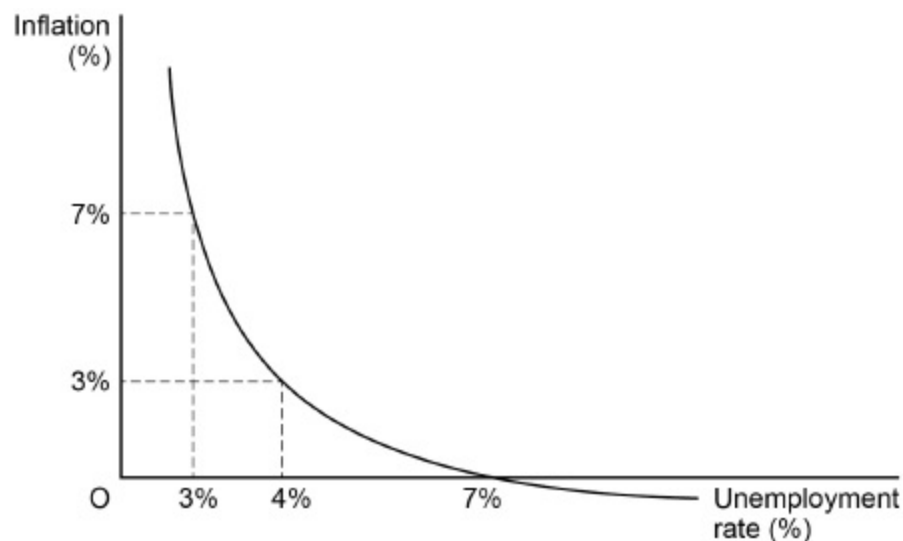
Extract F (lines 19–20) states ‘What is not clear is what should be done if low inflation turns to bad deflation.’

Using the data in the extracts and your knowledge of economics, evaluate the view that monetary policy is the most effective way of tackling deflation in developed economies such as the UK and Japan.

[25 marks]

22.

The short-run Phillips curve below illustrates the relationship between unemployment and inflation in an economy.



The Phillips curve shows that in this economy

- A high inflation leads to high unemployment.
- B there is an inversely proportional relationship between unemployment and inflation.
- C the trade-off for reducing inflation from 7% to 3% is a 4% increase in unemployment.
- D the trade-off for reducing unemployment from 7% to 4% is 3% inflation.

☐☐☐☐

[1 mark]

23.

In the 2016 Autumn statement, the UK Chancellor of the Exchequer, Philip Hammond, officially abandoned the government's policy of trying to achieve a budget surplus by 2020. While some criticise the government for failing to achieve its fiscal target, others argue that the government should be doing more to help the supply side of the economy.

Evaluate whether achieving a budget surplus is a desirable objective of economic policy.

[25 marks]

24.

Extract E (lines 16–17) states 'However, some argue that trying to maintain stable prices and low unemployment could create trade-offs.'

With the help of a diagram, explain why a trade-off between price stability and low unemployment might occur.

[9 marks]

25.

Extract F (lines 10–12) states 'The Austrian economist, Friedrich Hayek, highlighted artificially low interest rates and excessive credit creation as being the main causes of cyclical instability.'

Using the data in the extracts and your knowledge of economics, evaluate the view that maintaining low interest rates for a sustained period of time may be damaging to the UK's macroeconomic stability.

[25 marks]

26.

Since 1998, the Bank of England has had responsibility for the operation of monetary policy and maintaining price stability. In response to the financial crisis of 2007–08, the Financial Services Act 2012 gave the Bank of England overall responsibility for financial stability. This was designed to reduce systemic risk and the impact on the real economy of problems that arise in financial markets.

Evaluate the view that strict rules and regulations on financial markets are essential to help create a more stable economy.

[25 marks]

27.

The long-run Phillips curve shows that

- | | | |
|----------|--|-----------------------|
| A | the expected rate of inflation is zero. | ☐ |
| B | there is an inverse relationship between unemployment and inflation in the long run. | ☐ |
| C | there is no trade-off between reducing inflation and lower unemployment in the long run. | ☐ |
| D | unemployment can only be reduced in the long run by an increase in aggregate demand. | ☐ |

[1 mark]

28.

Between 2014 and 2018, the pound fell by more than 20% against the dollar and euro. Some argued that this would benefit the UK's macroeconomic performance, but others claimed that a lower exchange rate will cause problems.

Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

[25 marks]

29.

During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK's prosperity.

Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.

[25 marks]

30.

Which one of the following changes in macroeconomic performance is most likely to involve a trade-off, at least in the short-run, between the objectives of government macroeconomic policy?

- A** Economic growth increases and the deficit on the balance of payments on current account is eliminated
- B** Inflation declines to match its target rate and the government's budget position moves into balance
- C** The distribution of income becomes more equal as economic growth increases
- D** The government's budget deficit increases as the rate of unemployment is reduced

☐☐☐☐

[1 mark]

Mark schemes

1.

D

[1]

2.

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]

3.

Areas for discussion include:

- definitions of unemployment and deficit reduction
- different types of unemployment
- policies that can be used to reduce unemployment
- methods by which deficit can be reduced, eg tax increases and/or spending cuts by the government
- reasons for current deficit-reduction policy
- effects of deficit reduction on aggregate demand, output and employment
- multiplier effects
- how different methods of reducing the deficit will affect unemployment, e.g. tax increases, cuts in welfare, cuts in direct government spending on goods and services
- recent changes in unemployment in the UK
- supply-side policies can help to reduce unemployment
- how a reduction in the deficit can affect different types of unemployment
- how other components of AD may rise as the government's contribution to AD falls
- factors that may boost AD to replace the effect of lost government expenditure, eg crowding-in effects
- size and pace of any planned deficit reduction
- cuts in government expenditure may or may not fall on areas that affect employment significantly
- time lag between the deficit-reduction policy and the effect on employment
- the impact of events in the rest of the world
- the impact of changes in the sterling exchange rate
- monetary policy may help to offset policy of deficit reduction, eg low UK interest rates and unconventional monetary policy measures have supported the expansion of AD since 2008/9

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]

4.

D

[1]

5.

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]

6.

Relevant issues include:

- definition of unemployment
- voluntary and involuntary unemployment
- why some unemployment is inevitable
- UK unemployment levels in recent years
- unemployment leads to a loss of output and is a waste of scarce resources
- unemployment and living standards
- benefits of reduced unemployment on the tax and welfare expenditure of government
- unemployment and inequality
- benefits of reduced unemployment on social cohesion
- personal costs of a period of prolonged unemployment
- problem of long-term unemployment, eg hysteresis
- conflict of reducing unemployment with other macroeconomic objectives, eg growth and inflation

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]

7.

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]

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 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 good application of relevant economic principles 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 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 principles but some errors are likely • includes some limited application of relevant economic principles 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 analysis which is, at best, very weak • includes attempted evaluation which is weak and unsupported.	1-5 marks

Relevant issues and areas for discussion include:

- the stability of the Brazilian economy
- political and social stability
- the rule of law and corruption
- whether the investment is likely to be profitable and whether it is secure
- the nature of any capital controls
- the infrastructure in Brazil
- the skills and abilities of the workforce
- financial and other support from the government
- regulations on business
- the tax regime; both corporate and individual taxes
- availability of finance
- the prospects for future growth of the Brazilian economy
- the size of the Brazilian car market and the potential for future growth
- access and proximity to businesses that can support the car industry, eg component suppliers
- potential for exporting cars from Brazil, eg access to other markets in the Americas
- the prospects for the value of the Brazilian currency, the real, and its stability

[25]

10.

Areas for discussion include:

- definitions/explanations: inflation, low-stable inflation, government economic objectives
- explaining the other main macroeconomic objectives of governments: economic growth, minimising unemployment and a stable balance of payments on current account
- other economic objectives such as the reduction of inequalities or protection of the environment
- the role of central banks, such as the Bank of England or Monetary Policy Committee (MPC) and inflation targets
- ways that central banks can use monetary policies such as interest rates and the transmission mechanism
- ways that central banks can use other variables such as forward guidance, operational independence and forecasting to influence inflationary expectations
- other policies such as supply-side policies which may create low inflation
- other policies such as contractionary or expansionary fiscal policies in attempting to maintain low, stable rates of inflation
- the possible beneficial effects of maintaining low stable inflation such as:
 - the creation of confidence and stability
 - the avoidance of wage-price spirals
 - the avoidance of deflation and possible creation of delayed consumption
 - allowing economic agents to factor in changes to decision making and the effects on consumption and investment
 - maintaining international competitiveness
 - the avoidance of hyperinflation
 - the effects on households, such as those on fixed incomes and the effects on savings
 - effects on government finances
- the possible negative effects of maintaining low stable inflation such as:
 - the possible trade-off with unemployment if inflation is too low
 - the possible trade-off with growth if inflation is too low
 - the focus on achieving low, stable inflation may impact upon certain groups more than others for example borrowers with variable rate mortgages
- considering the effectiveness of policies to control inflation
- the relative merits and problems of policies designed to create low stable inflation
- external shocks such as the pandemic, may force governments to alter economic targets
- the possibility that objectives may be achieved simultaneously
- whether deflation is more of a concern than low stable inflation
- whether the control of inflation depends upon the stage of the economic cycle and priorities may change
- the importance of other objectives of economic policy

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 judgments 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1–5 marks

[25]

11.

Areas for discussion include:

- the difference between economic development and economic growth
- the nature of free trade and preferential trading arrangements
- the role of multinational companies in global trade and economic development
- examples of how global trade policies impact on the economic development of a country, eg removal of tariff barriers into the EU provide an opportunity for greater exports
- factors that contribute to economic development, eg investment in infrastructure, investment in human capital, better health care and sanitation
- export-led growth
- exports as an injection into the circular flow of income with associated multiplier effects
- how export earnings generate foreign currency that can be used to finance imports that are necessary for development
- free trade leads to cheaper imports and can promote improvements in the competitiveness of domestic producers
- trade and comparative advantage
- trade may allow sectors within an economy to develop economies of scale and create opportunities to access new technology
- the view that exports promote self-reliance, whereas aid promotes dependency
- free trade may inhibit the development of infant industries
- free trade may lead to reliance on a limited range of products, maybe a few primary products, and lead to instability
- free trade may result in large, unsustainable current account deficits
- aid might damage domestic producers, eg food aid and agriculture
- aid may be directed at prestige projects and be misappropriated by corrupt officials
- aid can be effective in improving basic living standards and allow people to escape from poverty and disease
- effectiveness of aid depends on the type of aid and how it is distributed.

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.

The use of examples of developing economies should be taken into account when assessing the quality of response.

[25]

12.**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]**13.****Relevant issues include:**

- definitions of economic growth and economic development
- measures of economic growth
- measures of economic development
- concept of human development
- factors influencing economic growth
- factors influencing economic development
- limitations of GDP as an indicator of welfare
- difficulties of measuring development
- how growth can take place without development.

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.

The use of examples of other economies to illustrate these differences should be taken into account when assessing the quality of response.

[15]

14.**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]**15.****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]

16.

Relevant issues include:

- definitions/explanations: unemployment, government policies, the natural rate of unemployment
- linking the natural rate to equilibrium in the labour market
- identifying the natural rate as being caused by mainly “voluntary” unemployed workers
- linking the natural rate to structural, frictional or real wage unemployment
- explaining the nature of the supply and demand for labour
- explaining the role of supply-side policies in reducing the natural rate
- considering interventionist or laissez-faire approaches to reducing the natural rate
- explaining the role of wage and inflationary expectations in altering the natural rate
- explaining any of the following:
 - the level of JSA
 - the level of taxation
 - the NMW
 - training schemes
 - transferable skills
 - occupational mobility
 - geographical mobility
 - trade union reform
 - labour market flexibility
 - childcare assistance
 - reducing hysteresis/long-term unemployment
 - reducing wage expectations
 - or any other valid reason.

The use of relevant diagrams to support the analysis such as a long-run Phillips curve or a labour market diagram should be taken into account when assessing the quality of the candidate'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]

18.

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

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 <i>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.</i>
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]

19.

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

Introduction	• Unemployment • Demand-side / Supply-side • Types of unemployment
Developing the response to the question: (Application)	Drawing on the information in the extracts: • Labour market reforms (Extract E and Extract F) • EU possibly recovering (Extract E and Extract F) • Supply-side reforms (Extract E) • Effects on firms / workers (Extract E) • Comparisons with other EU countries (Extract E) • The current state of the UK labour market and wage growth (Extract F) • Subsidies / training / introduction of living wage (Extract F) • Benefits cap and limiting JSA (Extract F)
(Analysis)	Arguments as to why demand-side factors may cause further falls: • Rising real incomes in the UK • Increased confidence • Possible increases in domestic investment • Possible increases in FDI • Multiplier effects • Improved export opportunities (if the EU grows) Arguments as to why supply-side factors may cause further falls: • Consideration of the “voluntary” nature of some types of unemployment • Changes to incentives • Changes to benefits forcing people into low paid jobs • Consideration that living wage may actually entice more people into jobs market • So called “carrot and stick” approaches • Changes to structural unemployment • Improvements to mobility (occupational and geographical) • The UK’s experiences under the “Work Programme” and government policy • Focus on particular groups, such as the 16-24 age group or the long term unemployed.
Evaluation	• The UK could be approaching NRU / NAIRU / full capacity, the supply-side may be vital in order to gain further improvements • Both approaches are not mutually exclusive, improvements could be made on both at the same time • Some factors may be beyond the control of the UK, e.g. external demand in the EU, is trade a significant issue? • Consideration of regional aspects – unemployment rates mask a regional issue which is very difficult to solve with policies which aren’t targeted • Consideration that more jobs may be created but the incomes or conditions provided by those jobs maybe are not as good as others <i>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.</i>

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 mentioned above.

[25]

20.

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
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]

21.

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]

23.

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]

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]

25.

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]

26.

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]

27.

C

[1]

28.

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.

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]

29.

Areas for discussion include:

- definitions/explanations: macroeconomic objectives, trade-offs, macroeconomic policies
- explaining each of the macroeconomic objectives, sustainable economic growth, low stable inflation, low unemployment and a strong current account on the balance of payments
- explaining why economic objectives may conflict with each other such as:
 - rising aggregate demand and disposable incomes leading to a worsening deficit on the current account of the balance of payments
 - contractionary monetary policy designed to reduce inflationary pressure causing rising unemployment rates
 - expansionary fiscal policy causing short-run economic growth but leading to demand-pull inflation
 - protectionist policies designed to reduce the deficit on the balance of payments could lead to retaliation and rising unemployment
- explaining supply-side policies and how they can achieve the macroeconomic objectives simultaneously
- considering long-run economic growth as opposed to short-run economic growth and how this may impact on each of the objectives
- considering the Phillips curve and distinguishing between the short-run and long-run
- considering external factors and the difficulties of external shocks
- considering globalisation and the impact of other nations on the UK
- considering possible 'secondary' objectives such as issues regarding the government's fiscal position, inequality, poverty or the environment
- considering the experience of the UK in periods such as the 'NICE' decade.

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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

30.

D

[1]

1.

In 2014, George Osborne revived the idea of 'full employment' as a macroeconomic goal but what is actually meant by full employment is often debated by economists, with some arguing that a natural rate of unemployment exists.

Evaluate the view that reducing unemployment inevitably has trade-offs with other macroeconomic objectives.

[25 marks]

2.

'For a strong recovery there is a need to encourage spending, ideally by businesses but also by households in the short term.'

Discuss the importance of low interest rates in bringing about a recovery from recession in an economy such as the UK.

[25 marks]

3.

'While it is necessary to have macroeconomic policy objectives, such as price stability and full employment, they can sometimes prove difficult to reconcile.'

Discuss ways in which government economic policies can be used to try to reconcile conflicts between macroeconomic objectives.

[25 marks]

4.

'While it is necessary to have macroeconomic policy objectives, such as price stability and full employment, they can sometimes prove difficult to reconcile.'

Explain the various macroeconomic policy objectives **and** their importance to an economy.

[15 marks]

5.

'Oil, as a form of energy, reigns supreme but it has brought significant problems to economies in terms of inflation in particular, and the potential for economic instability in general.'

Explain the main causes of inflation.

[15 marks]

6.

'UK government policy might not always be able to achieve fully all the macroeconomic objectives which are regarded as important.'

Evaluate the view that, in the long run, conflict between the major macroeconomic objectives can be avoided.

[25 marks]

7. UK exports of goods which, in 2002, were valued at £187 billion, had risen to £228 billion in 2009.
The deficit on the UK balance of trade in goods rose from £48 billion in 2002 to £82 billion in 2009.

Evaluate the view that an increasing deficit in UK trade in goods is a major problem for the UK economy.

[25 marks]

8. In November 2011, the UK inflation rate was 4.8%, the rate of unemployment was 8.3%, while Bank Rate remained at 0.5%.

To what extent are low interest rates appropriate in the UK at a time of high inflation?

[25 marks]

9. Sustained economic growth can often benefit a country's living standards through higher income per head. In the UK from 2001 to 2007, the annual average growth in real income per head was +3%.
For 2008 and 2009, it was -3%.

Discuss the view that the main reason for a country wanting to achieve sustained economic growth is to bring about an increase in private sector consumption.

[25 marks]

10. **The Global Context Extract B** (line 10) suggests that 'there is often a trade-off' between inflation and economic growth.

Explain why there might be a trade-off between inflation and economic growth **and** analyse **one** cause of inflation.

[9 marks]

11. 'The avoidance of price deflation must always be the major macroeconomic objective.'

Evaluate the view that the avoidance of price deflation should always be the major macroeconomic objective.

[25 marks]

Extract B: A passage to India

In July 2010, the UK Prime Minister led a Government delegation to India. The hope was that India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports. 1

India's growth in 2010 is expected to be about 9%. Its GDP per capita is \$3100, although over 400 million Indians live below the international poverty line of \$1.25 per day. It has a labour force of almost 500 million but an official rate of unemployment of 11%. Quarterly sector growth is impressive: 1.8% in services, 2.2% in manufacturing and 1.7% in agriculture between January and March 2010. 5

For the Indian Government, inflation and economic growth are top of the agenda. Unfortunately, there is often a trade-off between these two macroeconomic indicators. Inflation jumped from 1.3% in October 2009 to almost 5% in November 2009. However, food inflation was 19%. As in other countries, rising oil costs are also amongst the causes of inflation for the Indian economy. 10

The UK Government still hopes to promote increased UK economic involvement in India. Certainly Indian business has become more involved in the UK. *Tata*, one of India's oldest companies, is now the UK's leading manufacturer through its ownership of *Corus Steel and Jaguar Land Rover*. India is now more likely to be creating jobs in the UK through direct investment rather than 'stealing' them, for example through call-centre activity relocated from the UK. UK business needs to rise to the challenges and opportunities presented in India. Companies such as *Vodafone* (telecommunications) and *BAE Systems* (defence and aerospace) are amongst the recent success stories and it is widely believed that India's increased demand for world-class services, for example financial and legal, can be met by the UK. 15 20

Infrastructure investment is urgent. Each year, about 40% of India's agricultural produce rots before arriving at market because of inadequate storage facilities and poor road and rail links. The Indian Government's plans to spend \$500bn between 2010 and 2013 on new ports, roads, rail links and airports will help to improve the situation. This investment is an export opportunity for UK firms specialising in infrastructure projects. The growth of the Indian economy will also help UK service exporters such as banking, education and health-care businesses. Currently, India accounts for only 1% of UK exports. 25 30

However, India remains fiercely protective, and investment and trade flows from the UK could remain limited. Progress will depend on whether a long-awaited EU-India trade deal becomes a reality and on the outcome of the *World Trade Organization's* global trade talks. Many argue that India can only benefit from increased international trade.

The UK Government said at the time of the Prime Minister's July 2010 visit to India that the UK had a vital stake in India's rise to becoming a global power and in its future prosperity. At the same time, a view was also expressed that the UK needs India much more than India needs the UK. It is hoped that all aspects of the UK's macroeconomy can eventually benefit as India develops further. 35

Source: news reports, 2010

13.

In March 2011, the UK Office for Budget Responsibility (OBR) forecast that the budget deficit would fall from 7.9% of GDP in the financial year 2011-2012 to 1.5% in 2015-2016.

Discuss whether the UK Government should **either** raise taxes **or** cut government spending to achieve its 2015-2016 fiscal objective.

[25 marks]

14.

'Economic shocks can bring with them significant consequences for macroeconomic performance, as the UK knows only too well.'

Evaluate the likely impact of world economic growth **both** on the UK economy **and** on individuals in the economy.

[25 marks]

15.

The Global Context Extract B (lines 21–22) suggests that 'targeted programmes in the labour market are vital' in order to reduce unemployment.

Using the data and your economic knowledge, to what extent would you agree that such programmes are likely to be the most effective way of reducing unemployment in developed economies such as the UK? Justify your answer.

[25 marks]

16.

The European Union Context Extract E (lines 1–2) states: 'In recent years, growing disenchantment with the EU has led to calls for the UK to leave the organisation.'

Do you agree with the view that the UK economy would benefit if the UK left the EU? Justify your answer using the data and your economic knowledge.

[25 marks]

Extract B: Worrying times across the world for unemployment

In August 2011, it was reported that unemployment in the US economy had fallen in July from 9.2% to 9.1% of the labour force. This was seen by some as a turning point, a time when stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting. Oil price increases, banking crises and interest rate rises are examples of such shocks. At a time when global unemployment was around 6%, many saw the US unemployment statistic as just a tiny bright spot in an otherwise depressing picture, both in America and globally.

Data from the *International Labour Organisation* (ILO) show a picture of increasing unemployment in developed economies for the period 2007 to 2009, with some levelling out in 2010 and 2011. UK unemployment in mid-2011 was around 8%. Some had anticipated that this figure would be far higher given a significant tightening of fiscal policy in the UK, severe debt problems in parts of the eurozone and a US economy stubbornly refusing to recover. Both the eurozone and the US economies are important trading areas for the UK. Further increases in UK unemployment were seen as inevitable despite job creation taking place. The number of people in work in the UK rose by 184 000 between April and June 2011, taking the total in work to over 29 million.

The UK Government has argued that its policy of fiscal restraint is the correct one in order to reduce the budget deficit, although the Managing Director of the *International Monetary Fund* (IMF) has argued that recovery in aggregate demand is 'the single best cure for unemployment'.

However, the Managing Director of the IMF has also argued that targeted programmes in the labour market are vital, even to the extent of wage subsidies paid to employers for vulnerable groups such as the young unemployed. The more people in work, he argued, the greater the spending power available to help recovery by raising demand for goods and services. The teaching of new skills and the encouragement of occupational and geographical mobility are a vital part of such programmes. For example, in the UK, the Government's Work Based Learning Programme includes apprenticeship programmes aimed at unemployed young people. Another targeted UK scheme is the Work Programme. This is designed to help the long-term unemployed of whatever age to find a job.

Such supply-side measures are regarded by some as an irrelevance in the short term when stimuli to aggregate demand are seen to be so urgently needed. However, all economies need to look at their long-term performance, and supply-side measures can create a stronger labour market. Economic recovery is then more likely to occur.

Source: official statistics, 2011

'Economic shocks can bring with them significant consequences for macroeconomic performance, as the UK knows only too well.'

Using at least **one example of each**, explain how demand-side and supply-side shocks might harm a country's economic growth.

[15 marks]

19.

In July 2012, the Office for Budget Responsibility concluded that UK Government measures to cut the budget deficit have improved the UK's long-term economic prospects.

To what extent do you agree, if at all, that the implementation of a budget deficit reduction programme will improve the UK's long-term economic prospects? Justify your answer.

[25 marks]

20.

THE GLOBAL CONTEXT

Extract B: Will growing inequality damage the US economy?

Some economists are predicting that the US will play a leading role in driving world economic growth and, as the country which is the UK's main export partner, this may provide an injection into the UK's circular flow of income. However, since the 2008 financial crash, there has been debate in the US over whether or not economic growth can be strengthened and, if so, how best to achieve this. Within this debate, there are growing concerns about the specific issue of income inequality. The top 1% of earners have received 95% of the increase in income since the financial crisis. Since 2009, the top 1% have seen their incomes rise on average by 31.4%, whereas the rest of the population has seen a rise of only 0.4%.

The economist, Joseph Stiglitz, has highlighted inequality as one of the prime reasons why the US has continued to struggle to recover. His basic argument is that the rich have a lower marginal propensity to consume (the proportion of any increase in income spent) and a higher marginal propensity to save (the proportion of any increase in income not spent) than the poor.

Such inequality also creates unsustainable 'property-price bubbles' as wealthy individuals increase the demand for property to let out on the rental market which further fuels inflation. Tax receipts, which could be injected into the economy, also end up being reduced, as the rich are able to exploit loopholes to avoid payment of tax. For this reason, Stiglitz argues that it is necessary for the US Government to intervene to deal with inequality. If the incomes of the poor were raised, increased consumption would occur. This argument is refuted by Paul Krugman, who states that there are some European economies with much lower income inequality which are also in a mess.

Source: News reports, 2013

21.

Since the start of the financial crisis of 2007–2008, the UK, the Eurozone and the USA have adopted quantitative easing (QE) in an attempt to stimulate their economies.

To what extent do you agree that maintaining inflation at the target rate of 2% should be the top priority of UK macroeconomic policy? Justify your answer.

[25 marks]

22.**THE EUROPEAN UNION CONTEXT****Extract E: Would the UK be left out in the cold by saying goodbye to the EU?**

In recent years, growing disenchantment with the EU has led to calls for the UK to leave the organisation. Supporters and opponents of UK membership have presented coherent arguments. 1

A study by the so-called Bruges Group, which opposes the EU, estimated the annual cost of UK membership to be £65bn. This included an estimated cost to businesses of £28bn to comply with EU regulations and an annual net contribution to the EU Budget of £14.6bn. A member of the EU Commission in 2011 estimated that the Common Agricultural Policy (CAP) causes the UK consumer to pay up to three times as much for food than if the CAP did not exist. The common external tariff raises prices of imports into the EU, including the prices of consumer goods and resources used by businesses. It also protects inefficient, high-cost EU producers. 5 10

Those supporting UK membership point, for example, to the 3.5 million UK jobs created from trade with the EU, either within the export sector or, more widely, through the operation of an export-led multiplier. The Single European Market has helped trade creation and has allowed EU labour to move to the UK, to the benefit of UK businesses. Despite not being in the eurozone, the UK has continued to attract a large share of the world's investment funds so that it is now the third largest recipient internationally. It is claimed that a large part of this is due to EU membership. The EU as a whole has also exerted much greater influence than could any individual EU country in negotiations to further global free trade. One business organisation has argued that non-membership would be like 'sitting outside in the corridors rather than at the decision table'. 15 20

Sources: various, 2012

23.

The Global Context Extract B (lines 1–3) states: 'some economists are predicting that the US will play a leading role in driving world economic growth and, as the country which is the UK's main export partner, this may provide an injection into the UK's circular flow of income.'

Explain the term 'circular flow of income' **and** analyse how economic growth in the US may lead to increased national income in the UK.

[9 marks]

Mark schemes

1.

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'. <i>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.</i>
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]

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

- | | |
|--|--|
| | <ul style="list-style-type: none">• 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]

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:	• 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

4.

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

5.

- 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]

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.

<i>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.</i>
--

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

[25]

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

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]

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

- | | |
|--|---|
| | <p>inflation target, rather than in the current international context</p> <ul style="list-style-type: none">• 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]

Introduction	• sustained economic growth • public sector v private sector origins • private sector consumption • standard of living • measures of living standards.
Developing the response to the question: Application / Analysis	• higher living standards as the ultimate objective in securing sustained economic growth which will include, importantly, private sector consumption • the other benefits of growth in terms of the balance of payments on current account, the attractions of a growing economy to overseas investors, and to employment, but some of these ultimately have a link with private sector consumption • economic growth and material well-being • economic growth and the quality of life • economic growth and the increased resources available for environmental purposes • measures such as the Human Development Index showing that income per head is one small part of a bigger picture • reference to the UK and/or other economies • use of diagrams.
Evaluation	• the necessity of sustaining the growth process if there is to be a significant impact on income per head • negative economic growth causing average incomes to come under pressure • the motivation/reasons for securing sustained growth will vary with the individual country and government with the ultimate objective perhaps being more political rather than economic. • the weakness of certain aspects of the macroeconomy may be the reason for securing growth and the secondary impact on private sector consumption seen as a bonus • the benefits to income per head may pale into insignificance if sustained growth really has meant environmental protection and conservation of resources, rather than, as some view it, just growth without conflict with other macroeconomic objectives such as stable prices • individuals may welcome the initial boost to incomes but then recognise that this has come at a price in terms of their quality of life • a final judgement on whether sustained growth is really only sought for securing higher income per head.

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]

10.

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]

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.

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 reflation 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. <i>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.</i>
-------------------	---

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

[25]

13.**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. <i>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.</i>
-------------------	--

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

[25]

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”.

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. <i>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.</i>
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]

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

Introduction	• unemployment defined • types of unemployment • the meaning of 'targeted programmes' • developed economies.
Developing the response to the question (Application)	• reference to global unemployment of 6% (line 5) • the value of the programmes in light of possible fiscal restraint in the UK, for example (lines 11–12) • the IMF assertion that stimuli to AD is the single best cure (lines 19–20) • reference to wage subsidies to lower the cost to employers of hiring labour (line 22–23) • the importance of skills and mobility (lines 25–26) • the multiplier • the accelerator • aggregate demand.
Analysis	• examples of supply-side targeted programmes • the objectives of such programmes • the possible limitations of such programmes • the alternative demand-side approach to curing unemployment • analysis of such policies • a comparison of both approaches • references to the real world • diagrams
Evaluation	• the importance of identifying the main type of unemployment • the possibility of different types of unemployment existing at one time, eg structural and cyclical, so that a combination of demand-side and supply-side policies is needed • the importance of the programmes to productivity improvements and hence competitiveness in world markets as economies recover • the extent of the resources going into such programmes • the duration of such programmes • long term v short term considerations • the need for individual developed economies to get the balance right between demand-side and supply-side approaches to unemployment to suit particular circumstances • a final judgment on the role of the programmes. <i>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.</i>

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

[25]

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. <i>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.</i>

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]

18.

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]

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 <i>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.</i>
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]

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. <i>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.</i>

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]

23.

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]