AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.2.4.1 THE STRUCTURE OF FINANCIAL MARKETS AND FINANCIAL ASSETS

SCORE	PERCENTAGE
/49	%

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Mark schemes

1. B

[1]

2. B

[1]

3. B

[1]

4. D

[1]

5. **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]

7. B

[1]

8. C

[1]

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9. **Relevant issues include:**

- definitions/explanations: commercial banks, financial markets
- distinguishing between a commercial bank and an investment bank
- giving examples of major commercial or high street banks
- explaining the role of commercial banks:
    - accepting deposits (current accounts and savings accounts)
    - lending and credit (loans and mortgages)
    - access to cash
    - currency trading
    - business advice
    - insurance
    - cheque and credit card processing
    - share trading
    - safety/security
    - providing an efficient means of payment
    - promoting saving
- explaining the assumption that commercial banks are profit seeking
- explaining that the basic model of commercial banks is that they lend with higher interest than the interest paid on saving
- explaining how consumption and therefore aggregate demand (AD) can be affected by commercial banks
- explaining how investment and therefore AD and aggregate supply (AS) can be affected by commercial banks
- explaining the role of commercial banks in credit creation.

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 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]

10. A

[1]

11. D

[1]

12. D

[1]

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