AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.2.5.1 FISCAL POLICY

SCORE	PERCENTAGE
/1125	%

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1.

Relevant issues/logical chains of analysis include:

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

[15]

2.

- defining living standards, eg the general well-being of a country's population;
- economic welfare
- GDP and per capita income
- aspects of social welfare
- indices such as the HDI
- distribution of income
- any other relevant aspect explained.
- a definition of government spending/fiscal policy/budget surplus/deficit.
- **Explanation:**
  - welfare spending might have a very direct effect on living standards because cuts in benefits will lower disposable income so lowering spending and consumption. Job Seeker's Allowance and Child Benefit come into this category
  - the impact on public sector employment and increases in earnings which do not match inflation
  - weakening any government stimulus to AD and hence to employment generally
  - fiscal contraction and average income
  - less spending on merit goods such as health and education
  - the possibility of a reallocation of spending which helps to improve welfare of more people even though government spending is being cut
  - any other effect explained.
- Use of diagrams to help support explanations, eg AD/AS
- References to the UK and/or other economies

[15]

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

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

[25]

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6.

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

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7.

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

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

[25]

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8.

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

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

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9.

For defining/explaining

- Globalisation
- Balance of payments on current account
- Trade deficit
- Import controls.

For example: By carrying out supply-side policies such as training and education this would hopefully improve productivity in the domestic market which should improve the potential output per worker which increases the long run productive potential of the economy. This could reduce the general price level which makes domestic goods and services more competitive abroad which may lead to other countries increasing demand for the UK's exports such as financial services in which the UK holds a comparative advantage and if the value of imports remains the same this may reduce the balance of payments on the current account.

Other examples could include: issues such as exchange rate depreciation, expenditure reducing policies or export subsidies.

Use of diagrams to help support explanations, eg LRAS increasing or exchange rate depreciation.

Reference to the UK and/or other economies.

[15]

10.

For defining/explaining

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

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For example: During periods of economic prosperity, employment is likely to rise which leads to increased disposable incomes as individuals have more income, consumption increases this often causes a rise in house prices which creates the so called wealth effect and increases consumption even further as individuals now have increased equity in their homes this means that individuals can access more finance due to increased security which leads to an increased marginal propensity to consume as individuals become less risk averse and as a result a falling marginal propensity to save and as such the savings ratio falls. **Other examples could include**: The rate of interest, the demographics of the population, time preference, government legislation or consideration of inflation and the real rates of return of saving.
Use of diagrams to help support explanations, eg AD/AS or the trade cycle.
Reference to the UK and/or other economies.

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11.

Explanation:

For a relevant explanation of progressive tax: tax rates rise as a proportion of income as income increases and going on to explain that the average tax rate is less than the marginal tax rate or that it is likely to be a direct tax levied on the income of an individual or profits of a firm.
For providing a numerical example of how a progressive tax works.

Analysis:

For Example: As tax rates rise, it increases the disincentive to pay tax which creates an incentive to reduce hours worked or attempt tax avoidance to reduce the total tax liability and could lead to a brain drain as people leave the country in order to find countries with more generous tax systems.
Use of appropriate diagrams, eg Laffer curve or supply of labour diagrams
Reference to the UK or other economies.

[9]

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12.

Introduction	• The nature of EU single market • Origins of the EU • How 'beneficial' may be measured in terms of macroeconomic performance.
Developing the response to the question: **Application**	**Drawing on the information in the extracts:** • Electoral success **(Extract B)** • Lower taxes creating growth **Extract B** • Balancing budget helped by growth (**Extract B**) • Reduced size of the state (**Extract B**) • What goods and services the state provides (**Extract C**) • Health, education and welfare in terms of living standards (**Extract C**) • Benefiting certain income groups (**Extract C**) • The effect of shifting from direct to indirect taxation (**Extract C**)
Developing the response to the question: **Analysis**	**Arguments why direct tax cuts may be beneficial for growth and living standards:** • Increased consumption possibilities • Increased AD as a result of increased consumption and short-run economic growth • Possible increase in firms profits and its role in stimulating investment • Individuals are able to spend more on what they wish, improving welfare • Reduced tax rates leading to more tax revenue (Laffer curve arguments) • Links between economic growth and living standards • Reducing crowding out • Possible multiplier effects. **Arguments why direct tax cuts may be damaging for growth and living standards:** • Possibly leading to reduced state intervention • Reduction in provision of both public and merit goods • Possible increased inequality • Rich having a larger marginal propensity to save, therefore not spending as much, reducing the circular flow • Possible negative multiplier effects • Lack of crowding in • Costs of economic growth in terms of living standards (eg pollution).

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Evaluation	• Short-run vs long run considerations • Are growth and living standards always necessarily directly linked? • How can living standards be judged and what factors need to be considered in their measurement? (This could include HDI or other suitable measurements). • The role of the state and the effects of merit and public goods on living standards • Differences between New Zealand's and UK's experiences, eg New Zealand linked to fast growing Asia-Pacific region. • The idea that living standards and growth encompass a wide range of factors beyond that which domestic governments have control. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Relevant diagrams • An overall judgement on the issues raised.

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

[25]

15.

For defining/explaining:

- Economic growth (short-run or long-run)
- Recession
- The trade cycle

For Example: An external shock such as the banking crisis which began in 2007 reduced the ability of the financial sector to lend which caused individuals difficulty in gaining credit and therefore causing consumption to fall as consumption is a large component of aggregate demand as AD falls the real national output of the economy falls which could cause a negative multiplier effect and, if real national output falls for 2 successive quarters this is a recession.

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

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

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16.

Explanation:

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

Analysis:

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

[9]

17. C

[1]

18. A

[1]

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19.

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

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

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

[25]

21.

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]

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22.

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]

23.

Relevant issues include:

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

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

[15]

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24.

Areas for discussion include:

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

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

[25]

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25.

Areas for discussion include:

- UK unemployment and how it is measured
- different causes of UK unemployment
- nature of supply-side policies, interventionist v free-market policies
- supply-side policies and the natural rate of unemployment
- the impact of different supply-side policies on unemployment, eg reducing the replacement ratio, measures to improve labour mobility, reductions in corporation tax
- supply-side policies and real wage unemployment
- supply-side polices and long-term unemployment, eg when there is significant structural change, the problem of hysteresis
- relating supply-side policies to unemployment in the UK
- problems and limitations of supply-side policies as a means of reducing unemployment, eg impact on the budget deficit, time lags, effectiveness, government failure
- the benefits of using supply-side policies to reduce unemployment
- demand-side policies as a way of reducing unemployment, ie expansionary monetary and fiscal policy
- exchange-rate policy as a means of reducing unemployment
- benefits and limitations of demand-side policies
- potential conflicts with other policy objectives and ways of reconciling these conflicts
- circumstances when demand-side and/or supply-side policies are most appropriate
- issues relating to equity, inequality and poverty.

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

[25]

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1.

Areas for discussion include:

- definitions/explanations: cyclical instability, economic cycle, policies
- explaining reasons why cyclical instability is damaging
- explaining the benefits of cyclical stability
- explaining how monetary policy can be used to reduce cyclical instability such as:
  - independent Bank of England
  - pre-emptive use of Bank Rate
  - forecasting and forward guidance
  - using quantitative easing when needed
- explaining how fiscal policy can be used to reduce cyclical instability such as:
  - automatic stabilisers
  - demand management policies
  - Keynesian multipliers
- explaining how supply-side policy can be used to reduce cyclical instability such as:
  - creating a flexible workforce that can adapt to changing demand conditions
  - creating the conditions suitable for investment to increase productive capacity
- explaining how financial regulation can be used to reduce cyclical instability such as:
  - use of regulators (FPC, PRA, FCA)
  - reduction of systemic risk by splitting investment and commercial banking activities
  - stress-testing of banks
  - use of reserve asset ratio’s
- explaining how global shocks, such as a pandemic, may lead to unavoidable cyclical instability
- explaining how the appropriate response may depend upon the cause of the instability
- considering the effectiveness of each method with possible reference to historical aspects
- considering the issue that shocks are often unanticipated and whether the economy can cope with external changes
- considering the relative time-lags involved in carrying out different policies
- considering the view that ‘stability is destabilising’ and that some degree of instability can help economic agents avoid complacency.

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 aren't well-supported by argumentsand/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]

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

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

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

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

[25]

3.

Explanation

For defining/explaining • Budget deficit • Government spending / Taxation • Fiscal policy	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

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

For example: As an economy goes into recession **(1 mark)** there may be decreased investment **(1 mark)** as firms have spare capacity **(1 mark)** which will lead to reduced purchases purchases of capital goods **(1 mark)** which reduces firms outputs **(1 mark)** and also creates a rise in unemployment **(1 mark)** as labour is in derived demand **(1 mark)** which increases government spending on JSA **(1 mark)** and also provides reduced revenue in the form of decreased income tax **(1 mark)** which may cause a fall in consumption **(1 mark)** which means fewer goods and services would be sold **(1 mark)** which reduces indirect tax revenue in the form of VAT **(1 mark)** and possibly firms profits reducing corporation tax **(1 mark)**. Other examples include: Increased reliance on public services / social provision, discretionary government spending, increased cost of government borrowing due to loss of credit rating, nationalisation / re-nationalisation, economic shocks, fiscal mismanagement.	**Up to 15 marks**
Use of diagrams to help support explanations, AD/AS, trade cycle	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

4.

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

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

Issues and areas for discussion include

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

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

[25]

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

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

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

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

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

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

[25]

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

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

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Issues and areas for discussion include

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

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

[25]

7. D

[1]

8.

For defining / explaining • Government spending by area • Current / capital / transfers • The budget or fiscal policy.	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

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

For example As a method of redistributing income **(1 mark)** where taxation has been raised (allow 1 mark for taxation as a source for spending) enabling government to spend on means-tested **(1 mark)** such as housing benefit (**1 mark for examples**) or universal **(1 mark)** benefits such as the winter-fuel allowance **(1 mark)** which will reduce inequality **(1 mark)** by increasing the incomes of the poorest in society **(1 mark)** and correcting a potential market failure **(1 mark)**. Other examples include: boosting AD, Keynesian multipliers, supply-side policy, influencing the pattern of economic activity through subsidies, provision of merit goods, public goods and correcting other market failures.	**Up to 15 marks**
Use of diagrams to help support explanations, e.g. AD increasing, LRAS increasing, trade cycle, correcting market failures (such as positive externalities in consumption) or subsidy.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

9. A

[1]

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10.

Areas for discussion include:

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

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

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

[25]

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11.

Relevant issues include:

- definitions/explanations: government spending, taxation, economic activity
- explaining the different forms of government spending such as capital/current /transfers
- explaining the levels of government spending
- explaining the reasons for government spending i.e. the redistribution of income and wealth, merit good provision etc.
- explaining how changes in government spending and taxation can influence aggregate demand both directly and indirectly
- explaining discretionary policy
- explaining automatic stabilisers

- explaining the effects of the economic cycle on government spending and taxation
- explaining how changes in government spending could change aggregate supply such as:
  - capital spending on infrastructure
  - training and education
  - subsidies/grants for research and development
  - subsidies/grants for investment
  - tax credits
  - assisted childcare and the effects on labour supply
  - any other relevant point
- multiplier and possible accelerator effects
- explaining the different types of taxation
- explaining how changes in taxation could change aggregate supply such as:
  - reducing income tax creating incentives to work
  - reducing corporation tax allowing firms to retain more profit for investment
  - reducing taxation, possibly making UK firms more competitive abroad and effects on supply
  - using taxation (tariffs) as a form of protectionism, aiding domestic supply
  - any other relevant point.

The use of relevant diagrams such as AD/AS, or labour market diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Note: Unless a candidate considers both government expenditure and taxation, they are unlikely to have 'developed a selection of key issues that are relevant to the question' and therefore unlikely to achieve level 3.

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

[15]

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12.

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]

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13.

Areas for discussion include:

- definitions/explanations: the balance of payments, the current account, current account deficit
- explaining the difference between a surplus or deficit on current account
- explaining the composition of the current account of the balance of payments
- explaining the historical experience of the UK's current account
- explaining the causes of deficits
- explain possible measures to reduce the deficit such as:
    - exchange rate manipulation
    - changes in interest rates potentially affecting the exchange rate
    - expenditure-reducing policies
    - expenditure-switching policies
    - the role of protectionism
    - government role in export promotion/trade deals
    - the role of fiscal and monetary policy
    - supply-side improvements which might begin to provide a solution to the weakness, such as:
        - competitiveness/unit labour costs
        - investment (human and physical capital)
        - technology, R&D and productivity
        - infrastructure
- consideration of the UK's membership of the WTO and EU restricting its ability to use protectionism
- consideration of whether the deficit is a problem if the capital account is in surplus
- consideration of the impact on other macroeconomic goals of trying to reduce the deficit on the current account of the balance of payments.

The use of relevant diagrams such as AD/AS 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]

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14.

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]

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15.

Areas for discussion include:

- definitions/explanations: economic development, market-based strategies, interventionist strategies
- differences and links between economic growth and economic development
- examples of market-based strategies such as privatisation, deregulation, liberalisation of foreign trade, removing restrictions on international investment
- examples of interventionist strategies such as government spending on infrastructure, protectionist policies and government spending on health and education
- the pros and cons of market-based approaches to achieving development
- the pros and cons of interventionist approaches to achieving development
- difficulties in measuring development in terms of economic/human development
- the potential barriers that may hinder India's development
- analysis of the impact of development on formal employment/informal employment
- the progression from the primary sector to secondary sector employment
- whether growth and development are sustainable
- economic/social/political freedom arguments
- costs of development **and/or** growth and their impact on living standards
- the effectiveness of policies that might stimulate development
- protectionism as an aid to development
- the role of investment (domestic and foreign direct)
- key industries in 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.

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

[25]

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16.

Level of response	Response	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles **and/or** good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately	**7 – 9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles **and/or** data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • 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 micro diagram showing a rightward shift in supply is expected. The candidate could demonstrate the effects of increased exports, due to the subsidy, using an AD/AS diagram. Provided there is valid explanation, accept either a rightward shift in the SRAS or a rightward shift in AD.

Relevant issues include

- definitions/explanations: export subsidy, exports, trade, economic growth
- impact of an export subsidy on price, quantity, the volume and value of trade
- impact of an export subsidy on employment in particular industries
- linking trade to aggregate demand
- impact of export subsidies on investment
- linking export subsidies to both short-run and long-run economic growth

[9]

17. A

[1]

18. C

[1]

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19. **Relevant issues include:**

- definitions: fiscal policy, government spending, taxation, supply-side policy
- explaining how government spending can help the supply-side through:
  - the provision of education and training
  - the provision of infrastructure
  - grants and subsidies for R+D and investment
  - increased spending on transportation to increase geographical mobility
  - industrial and regional policy
  - reduction of out-of-work welfare benefits to reduce the replacement ratio and increase labour supply
  - the use of in-work welfare benefits
- explaining how taxation can help the supply side through:
  - reducing corporation tax to encourage enterprise and FDI
  - reducing business rates to encourage investment
  - reducing income tax to encourage labour participation
  - altering income tax rates and thresholds to encourage labour participation
  - using reduced taxation, such as business rates, as part of regional policy.
- explaining how supply-side policies improve the quantity and quality of the factors of production
- explaining how supply-side policies can target both labour and product markets
- explaining how supply-side policies can be interventionist or market based

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]

20. D

[1]

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21.

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**

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Relevant issues and areas for discussion include:

- adequate housing as a basic human need, indicated by the mention of housing as a merit good in **Extract E**
- population growth, leading to more households, outstripping the growth in the UK's housing stock
- different methods of dealing with the problems experienced in the housing market, some of which involve more government spending on housing, eg relaxing planning controls, eliminating other impediments to private sector provision of more houses, making it easier for people to borrow, cutting SDLT, making it more expensive for people to buy and own a second home, discouraging housebuilders from sitting on building land, 'encouraging' local authorities to build more houses, subsidising housing associations, increasing 'housing benefits' paid to people on low incomes, rent controls, measures to encourage the provision of low-cost housing, encouraging innovation and improvements in productivity in the construction of houses
- an assessment of the pros and cons of some of the above
- the impact of more government spending on housing on the budget deficit and the national debt
- the significance of the type of government spending and whether it affects the 'current budget balance' or the overall budget balance, ie ceteris paribus, more capital spending will increase the overall budget deficit but not the current deficit
- the macroeconomic consequences of an increase in the budget deficit and national debt
- possible opportunity cost of an increase in government spending on housing, eg reduced spending on other programmes, higher taxes, crowding out of the private sector
- the case for more government borrowing for capital projects when government borrowing costs are low
- are there sufficient resources, eg construction workers, available to increase the number of houses built?
- increased spending on house building and short-run economic growth, including possible multiplier effects
- increased spending on house building and long-run economic growth
- market failure in the housing market and the possibility that state intervention may result in government failure
- the case for more state provision and ownership of the housing stock versus encouraging more private-sector provision
- should private-sector provision be encouraged by deregulation and relaxing planning controls or by the state giving financial support to the sector and/or homebuyers?
- are measures that make housing more affordable likely to help by encouraging private sector providers to build more homes or are they likely to just bid up house prices, adding to the problem?

Good answers are likely to present and evaluate arguments for and against the government increasing its spending on housing. They are also likely to discuss other methods of dealing with the problems of the UK housing market. The significance of and the impact on the macroeconomy of increasing spending on housing are likely to be considered, as well as possible microeconomic effects of specific policies identified. The response should include a supported recommendation which could be either for or against the government increasing its spending on housing. The recommendation might also include an alternative policy or set of policies.

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

An answer that does not include ANY evaluation must not be awarded more than 13 marks.

[25]

22. A

[1]

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23.

Level of response	Response	Max 25 marks
Level 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**
Level 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**
Level 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**
Level 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**
Level 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**

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Relevant issues and areas for discussion include:

- explanation of the NLW as a legal minimum wage for those over 25
- analysis of the impact of a minimum wage in competitive labour markets
- the significance of the wage elasticities of the demand and supply of labour for the impact on employment/unemployment
- factors which may affect the elasticities of demand and supply of labour
- analysis of the impact of a minimum wage in a labour market where employers have monopsony power
- possible impact of a minimum wage on aggregate demand, given the different propensities to consume of different income groups
- evidence of the impact of minimum wage controls on unemployment in the UK, and possibly in other countries
- the significance of new technologies (eg AI) and how they may impact on workers who are affected by a substantial increase in the NLW
- discussion of the impact of a substantial increase in the NLW on costs, prices, profits and competitiveness
- discussion of ways in which the NLW may affect productivity, offsetting the impact on costs and competitiveness
- the impact on inequality and living standards, perhaps making use of the evidence in **Extract D**
- discussion of whether a substantial increase in the NLW is an effective way to reduce poverty and inequality
- the impact on wage differentials and the implications for the economy
- relevant use of the data to support analysis and evaluation of arguments presented
- normative arguments relating to a substantial increase in the NLW
- impact on tax revenue and government spending on welfare
- discussion of whether the organisation should be promoting other policies to improve living standards rather than focusing its efforts on pushing for a substantial increase in the NLW
- weighing up the arguments on both sides before coming to a well-supported recommendation

Good answers are likely to include arguments both for and against a further substantial increase in the NLW and a well-supported recommendation which could be for or against a substantial increase in the NLW.

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

An answer that does not include any evaluation or a supported recommendation must not be awarded more than 13 marks.

[25]

24. D

[1]

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25. **Areas for discussion include:**

- definitions/explanations: budget deficit, current account deficit, balance of payments, macroeconomic performance
- arguments why a budget deficit may need to be reduced:
  - it adds to national debt
  - it could cause crowding out
  - possible loss of credit status leading to increased costs of government borrowing
  - future generations facing rising tax rates
  - possibility of future cuts in spending on merit/public goods
  - it could be inflationary
- arguments why a current account deficit may need to be reduced:
  - it could indicate lack of productivity
  - it could cause depreciation of currency
  - possible risk of capital flight
  - it could cause problems for a country's reserves
  - a surplus on the financial section of the balance of payments increasing international indebtedness
  - deflationary pressure
  - it could indicate structural weaknesses
  - effects on jobs such as structural unemployment
- considering that both issues are not mutually exclusive, an improved supply-side performance could help both
- considering whether the budget deficit is cyclical or structural
- considering the components of the current account of the balance of payments
- considering the UK's ability to attract FDI will help finance the capital account and may off-set any problems on the trade deficit. However, this may also benefit the UK's budget deficit in terms of job creation and generating tax revenue
- deficits on both may be necessary and advantageous, they may both benefit living standards in terms of more goods being consumed or boosting AD
- considering that trade-offs may take place with the other macroeconomic goals

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]

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1.

For defining spending, fiscal policy, recession, or any other relevant definition.

How government spending might help raise AD, especially if compensating for lower private sector spending, perhaps with reference to the multiplier process.
The potentially most effective types of spending for this purpose.
For use of relevant diagrams, e.g. AD/AS, economic cycle, output gap (s).

Spending may be used to influence the distribution of income so helping to alleviate poverty perhaps through the provision of welfare benefits such as Job Seeker's Allowance or through job-creation schemes or through spending in regions particularly hard-hit by long-term unemployment.
Provision of public goods.
Provision of merit goods.
Introduction/development of supply-side reforms.
Any other valid analysis
Make use of appropriate diagrams in the analysis, e.g. AD/AS, MPC/MPC − MPB/MSB.

[9]

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

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

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	• an overall judgement on the issues raised

[25]

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

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

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

[25]

4.

- defining living standards, eg the general well-being of a country's population;
- economic welfare
- GDP and per capita income
- aspects of social welfare
- indices such as the HDI
- distribution of income
- any other relevant aspect explained.
- a definition of government spending/fiscal policy/budget surplus/deficit.
- **Explanation:**
  - welfare spending might have a very direct effect on living standards because cuts in benefits will lower disposable income so lowering spending and consumption. Job Seeker's Allowance and Child Benefit come into this category
  - the impact on public sector employment and increases in earnings which do not match inflation
  - weakening any government stimulus to AD and hence to employment generally
  - fiscal contraction and average income
  - less spending on merit goods such as health and education
  - the possibility of a reallocation of spending which helps to improve welfare of more people even though government spending is being cut
  - any other effect explained.
- Use of diagrams to help support explanations, eg AD/AS
- References to the UK and/or other economies

[15]

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5.

- define government expenditure;
- place expenditure into the context of the Budget and hence taxation;
- explain the difference between 'level' and 'distribution' of government expenditure

explain reasons for changes in the level of expenditure, e.g.

- cyclical: in a recession, for example, welfare spending will automatically increase as more of the population become eligible, but government may also decide to spend more over and above this in order to minimise the recession and initiate a multiplier effect through capital project schemes
- new decisions made over the provision of merit goods
- new decisions made over the provision of public goods
- to influence the distribution of income
- changed priorities regarding the drive to reduce poverty and the general standard of living of the population
- to underpin key sectors of the economy, e.g. financial services, the car industry
- changing taxation revenue allows an increase in, or makes it necessary to reduce, government spending
- changing views on government borrowing to finance spending plans

explain reasons for changes in the distribution of government expenditure, e.g.

- changing economic circumstances, brought about by changing domestic or international conditions, which in addition to changing the level of spending, may cause governments to have to re-distribute spending, e.g. reducing defence spending in order to give more support to domestic sectors of the economy, e.g. banks or postponing capital projects in order to increase welfare payments
- the changed priorities of a new government compared to the previous government or a long-standing existing government trying to breathe new life into itself, e.g. action on poverty might cause less spending on transport
- demand-determined items of expenditure (perhaps reference to a cyclical/structural distinction)
- the impact of an ageing population
- changing levels of concern internationally over environmental issues forces the UK government to commit more spending to the problem which could reduce, for example, the government financial support for the arts/culture etc
- public or private sector investigations and reports highlight failings in key parts of the public sector, notably education and the NHS, and these are therefore given priority in spending over defence, for example
- the topical issue of interest payments on the National Debt

Reward references to the UK/other economies

It should be possible for an A-Level student to disaggregate government spending and address the issue of distribution, rather than just consider the level of spending.

[15]

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6.

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

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

Issues and areas for discussion include:

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

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

[25]

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7.

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

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

Issues and areas for discussion include:

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

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

[25]

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8.

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

Issues and areas for discussion include:

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

[25]

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9.

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

Explain possible reasons, eg

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

Make use of diagrams in the analysis.

[15]

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

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

Issues and areas for discussion include:

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

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

[25]

12.

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

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

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

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

[15]

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13.

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

Issues and areas for discussion include:

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

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	• diagrams

[25]

14.

- 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]

15.

For
• defining exports or export of goods
• value v volume
• placing exports into the context of trade in goods and services
• placing exports into the context of the balance of payments on current account.

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Comparative advantage is established or strengthened where an economy can produce a good at a lower opportunity cost than another country and therefore has a greater likelihood of improved competitiveness and more efficient use of resources, so that sales should rise in foreign markets. In the UK the financial services sector has developed this advantage. Reward an illustrative numerical example of comparative advantage.
Rising incomes overseas.
Improved productivity in the exporting economy.
A lower rate of inflation compared to trading partners or perhaps deflation in contrast to competitors' inflation.
Government support for the export sector.
Exchange rate depreciation.
Changes in export prices.
Any other valid cause.
Use of diagrams to help support explanations, e.g. comparative advantage, exchange rates.

Reward references to the UK economy.

Award a maximum of 12 marks if 3 reasons are not considered.

If more than 3 reasons are considered, reward the best 3.

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16.

Introduction	• high unemployment • types of unemployment • exchange rate • depreciation/appreciation.
Developing the response to the question: **Analysis and Application**	• the impact of changes in the exchange rate • the possible benefits of exchange rate depreciation to employment – cheaper exports, more expensive imports • the export-led multiplier • why exchange rate depreciation may not work • solution to the problem versus temporary relief • world trading conditions • the ability to meet higher demand for exports arising from exchange rate depreciation (elasticity of supply) • the importance of supply-side reforms • the impact of protectionism and the wisdom of it to help protect jobs • the types of unemployment which may be helped by exchange rate depreciation • reference to the UK and/or other economies • use of diagrams.
Evaluation	• by how much the exchange rate falls may be significant • the duration of the weakened exchange rate • whether exchange rate changes can ever provide a solution • the cause(s) of the depreciation may be significant, e.g. lower interest rates which may be the more important impact on unemployment than the change in the exchange rate itself • how bad the unemployment is and its causes in order to assess the relevance of a lower exchange rate • the state of overseas markets • the extent to which exporters pass on the benefits of the lower exchange rate in overseas prices • the importance of elasticity of demand for exports and imports • the importance of a sound supply-side underpinning any advantage given by the exchange rate • whether the impact of higher import prices, for example, on inflation, negates any benefit to employment through the exchange rate depreciation • a final judgement on to what extent exchange rate depreciation is really of any significance.

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

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17.

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

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

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18. **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.

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

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

[25]

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

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

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

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