PEARSON EDEXCEL A-LEVEL ECONOMICS A · 9EC0

# ECONOMICS



## MARK SCHEME

### 2.6 MACROECONOMIC OBJECTIVES AND POLICIES

| SCORE | PERCENTAGE |
| --- | --- |
| /1034 | % |

STEMUP

# These questions belong to Pearson Edexcel, not to us.

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

## What we do not own

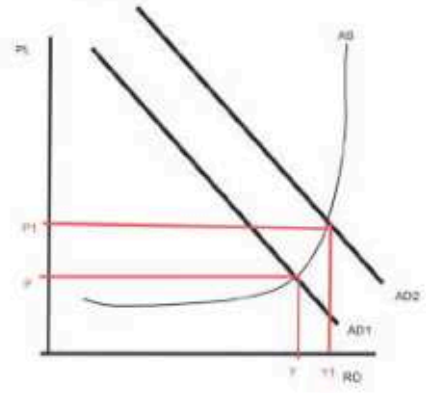
STEMUP is not affiliated with Pearson Edexcel and does not own, and makes no claim to own, any of the question or mark scheme material in this pack. Pearson has not endorsed, approved or been involved in the production of it. Pearson, Edexcel and the qualification titles used here belong to their respective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

## Where to find the originals

Pearson publishes its past papers and mark schemes free of charge. Always check the current specification at qualifications.pearson.com before you revise, because content and wording can change between series.

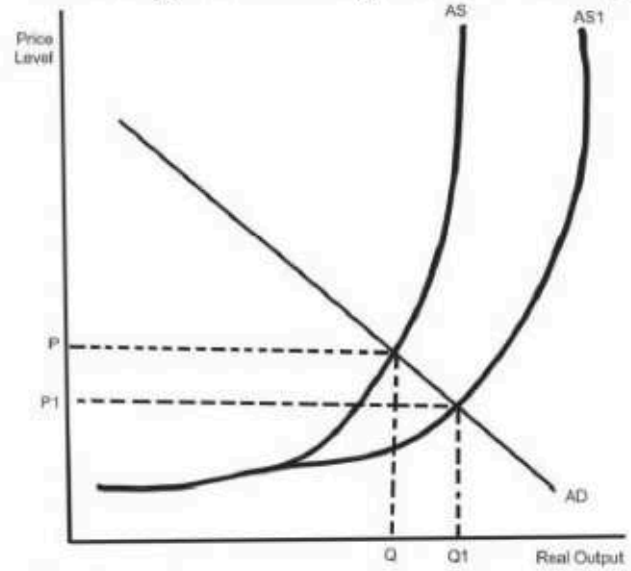
If you hold the rights to any material in this pack and would like it amended or removed, contact admin@stemup.co.uk and we will act on it.

Q1.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 2, Application 2**<br><br>**Knowledge/understanding:**<br>Accurate diagram with correct labels on axes (1) and lines (1)<br><br><br><br><br>**Application:**<br>Correct shift of line(s) (1) showing change in price level and/or real output (1)<br>For example:<br><br>N.B. Other AS curves are acceptable. Allow outward shift of both AD and AS. | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **The only correct answer is A**<br><br>***B*** *is not correct because it is not infrastructure*<br><br>***C*** *is not correct because it is spending on salaries, not infrastructure*<br><br>***D*** *is not correct because it is spending on welfare, not infrastructure* | **(1)** |

Q2.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 2, Application 1, Analysis 1**<br><br>**Knowledge** 2 marks e.g.<br>• Aggregate supply will increase (1)<br>• Improvement in UK's capital (1)<br>• Increase in productivity/efficiency of UK economy (1)<br>• Correct diagram illustrating an increase in AS (2), e.g.:<br><br><br>**Application** 1 mark, e.g.<br>• Reduce journey times by as much as 50%<br>• £56bn spending<br><br>**Analysis** 1 mark for linked development e.g.<br>• Faster journey times means people can get to work quicker, increasing their productivity<br>• Moving freight more quickly will increase efficiency for firms | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **The only correct answer is B**<br><br>***A*** *is not correct because it is a decision by the government to spend this money*<br><br>***C*** *is not correct because this is capital, not current, expenditure*<br><br>***D*** *is not correct because this is not an example of transfer payment* | **(1)** |

Q3.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge:**<br>1 mark for identification of a possible reason and 1 mark for its relevance to a fall in the value of the currency.<br><br>Possible reasons:<br>• Fall in demand for peso (1) with reason (1)<br>• Increase in supply of peso (1) with reason (1)<br>• Current account balance:<br>  ○ Fall in the value of X (1) because export prices have fallen (1)<br>  ○ Rise in the value of M (1) because of economic growth (1)<br>• Decrease in interest rates (1) in Chile relative to other countries (1)<br>• Fall in FDI (1) with reason e.g. reduced foreign investment in Chilean mining (1)<br>• Change in hot money flows (1) with reason e.g. speculative selling of peso (1)<br>• Rise in value of other countries' exchange rates (1) with a change in relative rates (1)<br>• Relatively high inflation in Chile (1) compared to other countries with which it trades (1) | |

| | | |
|---|---|---|
| | **Application:**<br>2 marks for data references e.g.<br>• Copper prices have fallen, Fig. 1 (1) e.g. to $5000 (1)<br>• The Chilean peso has decreased in value (1)<br>• Calculation based on data (award a range of answers because the data is given for the whole year) e.g. 0.2 to 0.14 = 30% fall (or similar) (1 + 1)<br>• Inflation 5% in Chile (1)/above 2-4% target (1)/ e.g. because of higher unit labour costs (implied by high truck drivers' wages, Extract B) (1)<br>• Fall in FDI as mining dries up, therefore reduced demand for peso<br>• Application of an exchange rate diagram e.g. with peso on vertical axis with shift (1)<br><br>**Analysis:**<br>• 1 mark for explanation of the process linking to the cause to the identified change e.g. fall in copper prices means that the value of exports fall because demand is price inelastic (1) or imports rise in value because of economic growth sucking in imports (1) diagram showing shifts in demand or supply of pesos linked to correct explanation (1)<br><br>**NB only award 1 mark in total for use of a diagram** | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**NB an answer might provide positive externalities as KAA and negative externalities as evaluation**<br><br>**NB do not award effects on copper mining firms, unless an indirect effect.**<br><br>**NB an answer which does not relate both to firms and communities is limited to 5/6 KAA marks.**<br><br>**NB do not award externalities themselves, e.g. pollution, the environment. Award the *impact*.**<br>**Knowledge and Analysis**<br><br>Knowledge/ implicit understanding of externalities **(1)**<br>e.g. knowledge that externalities are an effect on third parties, or outside (or not accounted for by) the market mechanism, or the difference between private and social costs or benefits<br><br>Firms (in businesses other than mining)<br>Points showing the impact on **firms** might include:<br>• farms lacking water because mining companies are using it **(1+1)**<br>• high demand for energy means that other firms will face high energy costs **(1+1)**<br>• high exchange rate can cause problems for other exporting firms **(1+1)** | |

Communities
Points showing the impact on **communities** might include:

- problems of water access for households **(1+1)**,
- large-scale transport causes noise, air pollution **(1+1)**,
- people have to move away to find work (social dislocation) **(1+1)**
- impact on employment and incomes as mining declines **(1+1)**
- impact on firms that supply the mining sector **(1+1)**

Some impacts could be seen as firms and communities, e.g. impact on wider economy of higher wages as firms have to compete with unionised highly paid copper miners for employment.

**Application:**

- **Externality diagram** illustrating negative or positive impact using marginal analysis (up to 2 marks: 1 mark for correct MSC and MPC drawn, 1 mark for correct equilibrium shown/deadweight loss)
- Water has to be pumped 200km (Extract B paragraph 4) which uses fossil fuels/is noisy/ugly/affects tourist areas
- Mines are deeper and use more fuel (carbon emissions have impact on climate and therefore on welfare of many)
- Desalination plants might affect other firms or consumers (this might be negative or positive)

**Evaluation** (2 marks for any relevant point, two points 1 +1):

- Positive externalities, e.g.
  - impact of local multiplier on economy, improved infrastructure affects other industries
  - Improved wages and working conditions for workers (in businesses other than mining)
  - The copper mining has already helped to fund improvements in welfare, such as the financial system and pensions
  - Benefits of higher value of currency, e.g. terms of trade improvement
- Difficult to know how large the externalities are or who is bearing the cost
- The benefits might outweigh the costs, e.g. reduction in poverty, improved fiscal powers, strength of financial markets, improved local infrastructure
- Other standard evaluation points, e.g. Extract B a drought has made the problem more severe, time to acquire environmental impact assessments (Extract B paragraph 5) might not be a reliable indicator

**(8)**

| Question Number | Indicative content | Mark |
|---|---|---|
| (c) | **Knowledge 2, Application 2, Analysis 4**<br><br>• Link between falling copper prices and falling incomes and government revenue e.g. dramatic loss of government revenue from peak of $11.5 billion<br>• Exposure to risk e.g. high proportion of GDP and exports dependent on copper so this could cause risk of falling incomes<br>• Price volatility e.g. might cause reduced FDI/investment<br>• Impact of declining terms of trade might be used<br>• Successful exports of copper might force up the exchange rate, other 'Dutch disease' issues e.g. impact on non-copper sector<br>• Falling demand for copper might cause peso to fall in value, causing declining terms of trade/cost push inflation<br>• May use diagram to illustrate effects of low PES, PED<br>• Award use of concepts or theories such as Prebisch-Singer, with link to terms of trade and changing world incomes.<br>• Firms may close down e.g. Extract A lines 8-9: award a microeconomics diagram showing shutdown point<br><br>**NB Do not award any parts of answers which are related to externalities**<br><br>**A KAA point referring to changes in tax revenues can only be awarded Level 3 if a specific link is made to the source of the tax revenue e.g. – corporation tax or profits of a state-owned enterprise**<br><br>**For a Level 3 answer there must be reference to dependency rather than just falls in copper prices, and the wider economy rather than just copper mining firms** | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 3–5 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 6–8 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** continued | **Evaluation 4**<br>• Advantages of copper dependency for Chile's economy:<br>  ○ Copper dependency is an advantage when copper prices are high e.g. they have been high for a prolonged period, with many advantages<br>  ○ Use of data to support this, e.g. $11.5 bn a year tax revenue, or percentage changes in prices Figure 1<br>  ○ Low national debt, falling levels of poverty, inward direct investment<br>• Other industries thriving e.g. salmon industry<br>• Chile's economy 'best run in the region' and has financial strength to overcome copper price changes, relative to other countries who are dependent on primary products e.g. Venezuela<br>• The fall in the exchange rate corrects the problem of over dependency<br>• Copper prices are far less volatile than 2007-2011 | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Indicative content | Mark |
|---|---|---|
| (d) | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>16 marks for KAA, for effects of policies:<br>Microeconomic effects may include:<br>• fiscal, e.g. 'mildly expansionary policies' such as cutting income tax will increase real wages<br>• monetary e.g. cutting interest rates can reduce the costs of borrowing for individuals and firms.<br>• supply side policies, e.g. privatisation, free trade can make markets more competitive<br>• growth and development strategies e.g. education, debt relief etc. can further alleviate poverty<br>• price controls<br><br>Macroeconomic effects may include:<br>• Cutting interest rate might cause the peso to further decrease in value, which would cause inflation / increase the value of exports leading to current account improving<br>• Privatisation or other supply side policies can increase international competitiveness<br><br>**NB for a Level 4 response there must be reference to both economic growth (e.g. rising incomes) and economic development (e.g. longer life expectancy through improved living standards) and a focus on effects for Level 3 and above.**<br><br>9 marks for evaluation – might include:<br>• Expansionary fiscal policies might involve an improvement in the redistribution of income<br>• Objectives might conflict, e.g. cutting interest rates can cause inflation or widen inequality, or increased government spending to produce growth might cause inflation (e.g. Phillips Curve)<br>• Policies might conflict, e.g. increasing length of time to gain a permit to reduce externalities can cause a negative supply side impact e.g. by raising production costs for firms. | **(25)** |

| **Knowledge, application and analysis** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>Demonstrates knowledge and understanding of terms, concepts, theories and models. |
| Level 2 | 5–8 | Shows ability to apply economic ideas and relate them to economic problems in context.<br>Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis. |
| Level 3 | 9–12 | Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others.<br>Shows ability to apply economic ideas and relate them directly to the broad elements in the question. |
| Level 4 | 13–16 | Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| **Evaluation** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of evaluative comments without explanation. |
| Level 2 | 4–6 | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>**This mark scheme is based on an increase in I, but answer can be given from the point of view of a decrease**<br><br>Up to 16 marks for effects:<br><br>Microeconomic effects may include:<br>• Effects on workers – higher incomes, more jobs<br>• Effect on firms, e.g. increase in productivity, or for firms that produce capital goods, a change in demand<br>• Increase in demand as consumer and business confidence improves<br>• Improved quality of life as a result of research into and development of products<br><br>Macroeconomic effects may include:<br>• Shift (increase) in AD, with multiplier effects, increasing real GDP<br>• Shift (increase) in AS increasing capacity e.g. through investment in education (Extract A paragraph 5) (LRAS shift only, may be implicit)<br>• Inflation, if linked to expansionary macroeconomics policies<br>• Balance of payments – e.g. effects of inward FDI: short term improvement on financial account, long term impact on current account<br><br>Award Keynesian and Classical approaches with equal weight. The opposing viewpoints may be used as evaluation.<br><br>**NB a Level 4 answer refer to *changes in* investment rather than levels. This may be implicit e.g. through a fall in AD**<br><br>**NB do not award for impact other than on Chile. Do not award for causes rather than effects.** | |

| | | |
|---|---|---|
| | Up to 9 marks for evaluation points include:<br>• Investment in capital might decrease employment<br>• Investment in human capital e.g. education in Extract A, is hard to measure in terms of effectiveness<br>• Data points to both increases and decreases in investment. Other forms of injection into the circular flow might be more sustainable, e.g. G<br>• Depends if the investment is internal or FDI as to the effects on the balance of payments<br>• Depends on whether there is a demand deficiency (Keynesian viewpoint) or failings in the supply side | **(25)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>Demonstrates knowledge and understanding of terms, concepts, theories and models. |
| Level 2 | 5–8 | Shows ability to apply economic ideas and relate them to economic problems in context.<br>Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis. |
| Level 3 | 9–12 | Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others.<br>Shows ability to apply economic ideas and relate them directly to the broad elements in the question. |
| Level 4 | 13–16 | Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of evaluative comments without explanation. |
| Level 2 | 4–6 | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning.<br>Evaluation recognises different viewpoints and can be critical of the evidence provided. |

Q4.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 1, Application 2, Analysis 2**<br><br>**Knowledge/Understanding:**<br>Identifying data 0.95 & 0.75 (1)<br><br>**Application:**<br>• Correct percentage change formula (1)<br>• Correct data inputted into formula (1)<br><br>**Analysis:**<br>Calculation of the percentage change in the exchange rate:<br>0.75-0.95 / 0.95 X 100 = -21% (2)<br><br>**N.B. award full marks for correct answer between -21% and -21.1%**<br><br>**NB If no reference to minus/fall/decrease then maximum 4 marks** | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/understanding:** 2 marks for identification of two factors (1+1), e.g.<br>• falling oil prices<br>• falling commodity prices<br>• changing relative exchange rates<br>• government fiscal tightening<br>• low consumer or business confidence<br>• increase in savings<br><br>**Analysis:** 2 marks for linked explanation of how these explain the fall in Eurozone inflation (1+1), e.g.<br>• Falling oil prices in the world economy reduce key costs of production such as transportation, reducing prices of many products in the economy<br><br>**Application:** 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g.<br>• From figure 2, Eurozone inflation 0.1% in 2015 (1)<br>• ECB predicts Eurozone inflation to rise 'by just 1 per cent in 2016' (extract A) (1)<br>• Figure 2 shows disinflation occurring (1)<br>• Inflation fell from just over 3% in 2011 (1) to less than 0.25% in 2015 (1)<br><br>**Evaluation:** 2 marks for evaluation (1+1 / 2)<br>• Inflation likely to rise in the future, with ECB expecting 1.6% in 2017<br>• Oil prices are very volatile and could easily rise rapidly due to world events such as instability in the Middle East<br>• Rising GDP in the Eurozone may mean more demand-pull inflation in the future<br>• Depends on extent of fiscal tightening by government<br>• Oil prices a significant cost of production for businesses | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| (c) | **Knowledge 2, Application 2, Analysis 2,**<br><br>Likely impacts on the current accounts include:<br>• Reduced demand for Eurozone exports as they appear more expensive when converted into other currencies.<br>• Increased demand for Eurozone imports as they appear cheaper when converted into other currencies. | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no link between causes and consequences. |
| Level 2 | 3–4 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance. |
| Level 3 | 5–6 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** continued | **Evaluation 4**<br>• Euro may not have appreciated against all currencies.<br>• Euro may have appreciated against currencies of countries who do not receive many Eurozone exports.<br>• Magnitude discussion<br>• May change in the long term<br>• Marshall-Lerner condition<br>• J-curve effects<br>• Non-price factors may be more important | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(d)** | **Knowledge 2, Application 2, Analysis 4,**<br><br>ECB QE programme is effective:<br><br>• Explanation of process of QE<br>• should encourage banks to increase lending and thus hopefully increase consumption/investment<br>• Inflation/GDP may well have been much lower without QE<br>• Confidence of markets would have been much lower without QE<br>• QE programme to be extended for a further 6 months<br>• Lower interest rates encourages consumption/investment, thus increasing AD and therefore inflation<br>• Low government bond yields for Eurozone countries<br>• Depreciation of the Euro affecting X-M<br><br>NB One side of this argument should count as KAA and the opposing argument as Evaluation | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 3–5 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 6–8 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(d)** continued | **Evaluation 4**<br><br>ECB QE programme isn't effective:<br>• Inflation likely to remain below target into at least 2017<br>• Low inflation is largely down to factors outside the central bank's control (e.g. oil prices)<br>• Lack of confidence among firms and consumers meaning they are not responding as the ECB would like to the QE programme<br>• Banks are still reluctant to lend money to firms and consumers<br>• Time lags<br>• Extension of QE programme suggests that it hasn't worked<br>• Other policies may be more effective<br><br>NB One side of this argument should count as KAA and the opposing argument as Evaluation | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

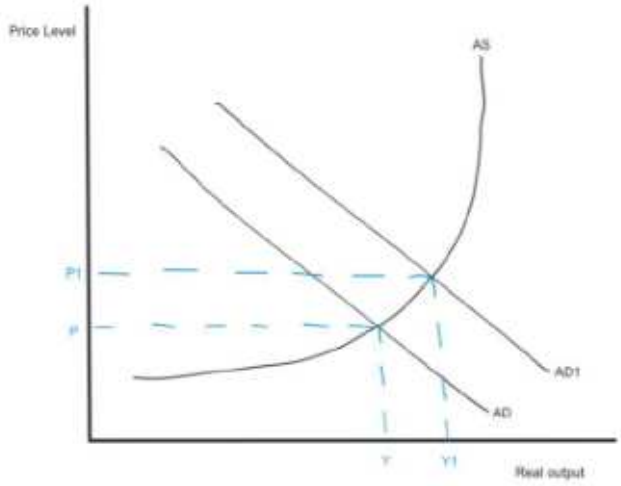
| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** | **Knowledge 3, Application 3, Analysis 3**<br><br>**Potential policies may include:**<br>• Fiscal policies, e.g. reduced corporation tax to increase investment and therefore increase AD<br>• Supply-side policies, e.g. increased investment in education to create a more highly-skilled and therefore more productive workforce<br><br>N.B. Candidates may discuss more than one of each type of policy<br><br>N.B. Candidates must discuss both fiscal and supply-side policies for level 3 | **(9)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 7–9 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** continued | **Evaluation 6**<br><br>Evaluation of the policies, e.g.<br>• Governments in many Eurozone countries are having to focus on reducing national debt and can't afford policies such as tax cuts<br>• Supply-side policies take a long time to have an impact on the economy | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant chain of reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

Q5.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Application 2**<br><br>**Application**<br>2 marks for, e.g.<br>• Correct rightward shift in AD: (1)<br>• Correct new equilibrium point showing higher price level and higher real output (1)<br><br><br><br><br>NB Allow shift in AS curve to the right with lower price level and higher real output (1 + 1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Knowledge 1**<br><br>**Knowledge/understanding**<br>1 mark for, e.g.<br>• Tax on **income / earnings** (1)<br>• Tax on business **profits** (1) | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| (c) | **C** | **(1)** |

Q6.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 1, Application 1, Analysis 1**<br><br>**Knowledge/understanding**<br>1 mark for identifying one relevant factor, e.g.<br>• Expected inflation rate (1)<br>• Confidence (1)<br>• Growth rate (1)<br>• House prices (1)<br><br>**Application**<br>1 mark for reference to the chart, for e.g.<br>• Global Financial Crisis of 2008 (1)<br>• Interest rate has decreased from 5.5% in 2008 to 0.5% in 2009 or has decreased by 5 percentage points (1)<br>• Brexit decision 2016 (1)<br><br>**Analysis**<br>1 mark, e.g.<br>• Consumer and business confidence: can indicate turning points in the business cycle (1)<br>• GDP growth rate and spare capacity: ensure that AD grows in line with productive potential (1)<br>• House prices and share prices: that help decide household wealth, which translates through to borrowing and spending (1) | **(3)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **The only correct answer is C**<br><br>**A** is not correct because quantitative easing will increase AD and therefore economic growth<br><br>**B** is not correct because quantitative easing increases the money supply as the central bank buys government bonds<br><br>**D** is not correct because quantitative easing would lead to increase in AD and a fall in the level of unemployment as real output increases | **(1)** |

Q7.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 1, Analysis 1**<br><br>**Knowledge** 1 mark e.g.<br>• Fall in UK economic growth (1)<br>• Reduction in UK business confidence (1)<br><br>**Analysis** 1 mark for linked development e.g.<br>• Fall in growth means economy may need more government support for longer to ensure stable growth (1)<br>• Less business confidence likely to lead to less private sector investment and so government may need to counteract this (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Knowledge 1, Analysis 1**<br><br>**Knowledge** 1 mark e.g.<br>• National debt will continue to increase (1)<br><br>**Analysis** 1 mark for linked development e.g.<br>• Running a budget deficit means expenditure is greater than tax revenue (1)<br>• Government will have to finance a budget deficit by borrowing money (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| (c) | **The only correct answer is B**<br><br>***A*** *is not correct because this is monetary policy not fiscal policy*<br><br>***C*** *is not correct because this would involve a budget deficit*<br><br>***D*** *is not correct because this is monetary policy not fiscal policy* | **(1)** |

Q8.

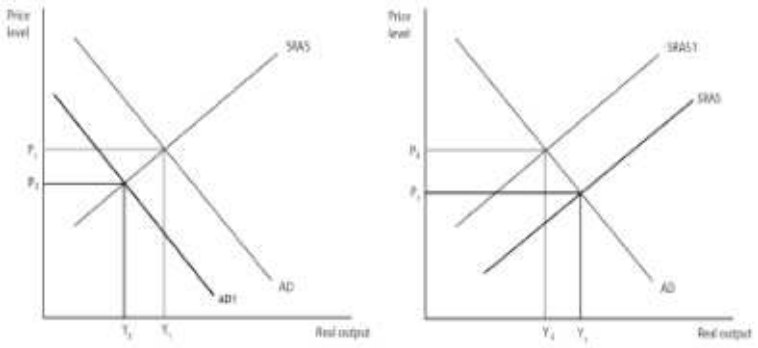
| Question Number | Answer | Mark |
|---|---|---|
| (a) | **The only correct answer is D**<br><br>***A*** *is not correct because exports is an injection into the circular flow of income*<br><br>***B*** *is not correct because government spending is an injection into the circular flow of income*<br><br>***C*** *is not correct because investment is an injection into the circular flow of income* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Application 2**<br><br>1.5 X 800 billion (1)<br><br>= 1 200 billion / $1 200 billion<br><br>Award two marks for correct answer<br><br>Award 1 mark if candidate has put $1 200 | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| (c) | **Knowledge 1, Analysis 1**<br><br>**Knowledge/understanding (1):**<br>• Identify increase in national debt<br>• Definition of national debt<br><br>**Analysis:**<br>1 mark for linked development:<br>e.g.<br>• Fiscal deficit means spending is greater than taxation<br>• The government will need to borrow more money to fund this spending<br><br>**NB** Analysis must be linked to national debt | **(2)** |

Q9.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 1**<br><br>**Knowledge/understanding:**<br>1 mark for definition, e.g.<br>• Cost of borrowing (1) /<br>• Reward for saving (1) | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Application 2**<br>**Application:**<br>2 marks for, e.g.<br>• Correct leftward shift of AD (1)<br>• Correct new equilibrium point (1)<br>**OR**<br>• Correct shift of SRAS (1)<br>• Correct new equilibrium point (1)<br> | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| (c) | **The only correct answer is B**<br><br>**A** is not correct because contractionary fiscal policy involves the government increasing tax rates and reducing government spending<br><br>**C** is not correct because expansionary fiscal policy involves the government reducing tax rates and increasing government spending<br><br>**D** is not correct because an expansionary monetary policy involves reducing interest rates and increasing asset purchases (quantitative easing) | **(1)** |

Q10.

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Arguments that cutting taxes will **positively** impact the economy:<br>• Firms will have more profit to reinvest into their companies, therefore increasing investment, aggregate demand, and therefore output<br>• Consumers have higher disposable income so consumption will increase<br>• Greater injections into the circular flow of income<br>• Less withdrawals form the circular flow of income<br>• Relevant AD/AS diagram illustrating an increase in AD<br>• Increase in size of multiplier<br>• Less incentive for tax evasion/avoidance<br><br>Arguments that cutting taxes will **negatively** impact the economy:<br>• Firms may not reinvest money, many other factors affect investment decisions- e.g. confidence<br>• Consumers may save any extra disposable income, thus withdrawing it from the circular flow of income<br>• Likely to result in higher government debt leading to increased crowding out<br>• Government will have less money to spend on infrastructure/education etc. that may negatively affect economic growth<br><br>One side of the argument should count as KAA and the other as EV. | **(25)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 5–8 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only. |
| Level 3 | 9–12 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 13–16 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q1.

| Question Number | Answer | Mark |
|---|---|---|
| | **Knowledge 2, Application 2**<br><br>**Knowledge**<br>2 marks for, e.g.<br>• Income is money received as payment for work (1)<br>• Real means adjusted for inflation/purchasing power of income (1)<br><br>**Application**<br>2 marks for, e.g.<br>• Real income has fallen (1)<br>• From approximately £675 in 2008 to £615 in 2013 (1) | **(4)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 2, Application 2, Analysis 2**<br><br>• Lower incomes means lower consumption<br>• Consumer confidence falls<br>• Aggregate demand therefore falls<br>• Fall in standard of living<br>• Falling demand for firms means lower profits; rising unemployment<br>• Less ability to save & possible consequences of this, e.g. mortgage deposit; confidence<br><br>Candidates may illustrate this with an accurate AD/AS diagram showing AD decreasing | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no link between causes and consequences. |
| Level 2 | 3–4 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance. |
| Level 3 | 5–6 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| continued | **Evaluation 4**<br>• Depends on other factors in the economy, such as government spending or demand for exports<br>• Changes in benefits and/or tax allowances may offset fall in real income<br>• Only short-term fall (Figure 1 shows slight increase in 2013)<br>• Inflation falling recently, improving likelihood of real income rises<br>• Could be due to firms keeping wages low rather than making redundancies, thus people's standard of living higher than it would be if they lost their job | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Answer | Mark |
|---|---|---|
| | **Knowledge 1, Application 2, Analysis 2**<br><br>**Knowledge/understanding**<br>1 marks, e.g.<br>• Definition of aggregate demand<br>• Understanding of a rise in value of the pound<br><br>**Application**<br>2 marks (1+1), e.g.<br>• Aggregate demand will fall (1)<br>• Lagged effect (1)<br>• Declining imported food and commodity prices (1)<br><br>**Analysis**<br>Linked development (1+1), e.g.<br>• Imports become cheaper so aggregate demand falls (1)<br>• Exports become expensive so aggregate demand falls (1) | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| | **Knowledge 2, Application 2, Analysis 2**<br><br>**Knowledge**<br>Identification of two reasons (1+1)<br>• Falling energy prices<br>• Falling telecommunication prices<br>• Falling shipping costs<br>• Falling non-energy industrial goods prices<br>• Slowdown in world economic growth<br>• Slowdown in consumer spending<br>• Slowdown in house construction<br><br>**Application**<br>2 relevant pieces of application from Extract B (1+1), e.g.<br>• inflation at 0.3% (1)<br><br>**Analysis**<br>Linked development of how reasons identified cause falling inflation rate (1+1)<br>e.g.<br>• falling oil prices makes transport of goods cheaper (1)<br><br>N.B. Falling inflation rate does not necessarily mean prices are falling, so students may talk about reasons for disinflation and/or deflation | **(6)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 3, Application 3, Analysis 3**<br><br>The MPC **should** be concerned because:<br><br>• Risk of deflationary spiral; hard to 'escape' from such a situation<br>• Example of Japan<br>• Consumer expectations of very low/falling prices become embedded<br>• Limited ability of the MPC to get the economy out of deflation (interest rates already only 0.5%)<br>• Harder for MPC to react to/influence supply-side factors such as falling oil prices<br><br>Diagrammatic analysis may also be used as part of an answer.<br><br>NB Candidates may, alternatively, argue that the MPC should **not** be concerned about deflation for KAA and that they **should** for evaluation | **(9)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 7–9 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| continued | **Evaluation 6**<br><br>MPC **should not** be concerned because:<br><br>• Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year<br>• Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy<br>• Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy<br>• Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand<br>• May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD<br><br>NB Candidates may, alternatively, argue that the MPC should **not** be concerned about deflation for KAA and that they **should** for evaluation | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced.<br>Evaluative comments with supporting evidence/reference to context and a partially–developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant chain of reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 6,**<br><br>• Changing interest rates and quantitative easing/asset purchases to influence money supply as monetary policies<br><br>• AD/AS diagram could be used to aid effective analysis<br><br>MPC has been successful at controlling inflation:<br>• According to Figure 2 highest inflation rate was only just over 5%, good by historical standards<br>• Independent of government<br>• Regular monthly MPC meetings implies flexibility<br>• Willingness to use other unorthodox tools such as QE and forward guidance to additionally control inflation<br>• QE helped to avoid risk of deflation during global economic crisis<br>• Powerful transmission mechanisms<br>• Contrast with Japan.<br><br>MPC has **not** been successful at controlling inflation:<br>• Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target<br>• MPC struggles to respond to supply-side factors, e.g. rising food/commodity prices in 2008/9 and now falling prices in 2014<br>• Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation<br>• Banking failure<br>• In the period shown, interest rates have been 0.5% but inflation has continued to fall<br><br>NB Candidates may, alternatively, argue that the MPC **has not** been successful for KAA and that they **have** been successful for evaluation | **(14)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two-stage chains of reasoning only. |
| Level 3 | 7–10 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 11–14 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| continued | **Evaluation 6**<br><br>MPC has **not** been successful at controlling inflation:<br>• Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target<br>• MPC struggles to respond to supply-side factors, e.g. falling food and commodity prices in 2014<br>• Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation<br>• Banking failure<br>• In the period shown, interest rates have been 0.5% but inflation has continued to fall | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement. |

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 6,**<br><br>• Understanding of demand-side policies to include monetary and/or fiscal policy<br>• Understanding of Global Financial Crisis of 2008 in UK and/or other countries<br><br>• AD/AS diagram may be used to aid effective analysis<br><br>Examples of demand-side policies that students may discuss. These need to be clearly linked to responding to a financial crisis:<br><br>• Reduction of interest rates to boost aggregate demand in a recession.<br>• Quantitative easing to increase liquidity<br>• Bailout of banks<br>• Increase in government spending e.g. infrastructure<br>• Cut in taxation | **(14)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two-stage chains of reasoning only. |
| Level 3 | 7–10 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 11–14 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| continued | **Evaluation 6**<br>• Short run/long run issues, e.g. interest rates take at least a year to have a full effect<br>• Interest rates cannot be cut much further; relative interest rates are important<br>• The uncertainty of the impact of QE, e.g. do banks pass on the credit, is it inflationary?<br>• Size of the multiplier<br>• Problems in financing government deficit/fiscal austerity issues<br>• Impact of different tax cuts, e.g. income tax vs. VAT<br>• Relative success of US or other country's policies in response to the crisis compared to the UK | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement. |

Q2.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2**<br><br>**Knowledge/understanding**<br>2 marks for, e.g.<br>• Investment is an increase in the capital stock (1).<br>• Real means adjusted for inflation (1).<br><br>**Application**<br>2 marks for, e.g.<br>• Investment has fallen (1).<br>• Data reference from Figure 1, e.g. by approximately £20bn in 2011 and 2012 (1). | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Knowledge 1, Application 2, Analysis 2**<br><br>**Knowledge**<br>1 mark for, e.g.<br>• An appreciation means that one pound becomes worth more US dollars (1).<br><br>**Application**<br>2 marks for two data references from Figure 2, e.g.<br>• the pound has appreciated from £1 = $1.52 on 1 July 2013 (1), to £1 = $1.65 on 1 January 2014 (1).<br><br>**Analysis**<br>2 marks for, e.g.<br>• The British pound price of goods and services imported from the US will be lower (1).<br>• The US dollar price of goods and services exported from the UK will be higher (1). | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| (c) | **Knowledge 2, Application 2, Analysis 2**<br><br>**Knowledge/understanding**<br>• Identification of two reasons (1+1).<br><br>**Application**<br>• Reference to Extract 1 (1+1).<br><br>**Analysis**<br>Linked development of why each factor led to increased consumption (1+1), e.g.<br>• delayed impact of the cut in the bank rate (1) to 0.5% (1), making borrowing cheaper and providing less incentive to save (1)<br>• the Funding for Lending Scheme (1) meant that high street banks became more willing to lend to consumers/to lend at lower rates of interest (1), reducing the cost of borrowing (1)<br>• rising consumer confidence (1): the FLS led to rising house prices (1), which created a positive wealth effect/raising consumers' confidence and making them more likely to spend (1). | **(6)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(d)** | **Knowledge 2, Application 2, Analysis 2**<br>Interest rates:<br>• current rates will influence the cost of servicing loans (interest payments)<br>• expectations of future interest rates may influence cost projections and project viability<br><br>Other factors to consider might include:<br>• willingness of banks to lend to firms (FLS)<br>• company profitability<br>• level of cash held by firms<br>• business confidence<br>• sustained consumer spending (may be linked to rising real incomes)<br>• rate of depreciation of capital<br>• inflation rate (current and future expectations)<br>• cost of raw materials / wage rates. | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no links between causes and consequences. |
| Level 2 | 3–4 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance. |
| Level 3 | 5–6 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(d)** continued | **Evaluation 4**<br>• Expectations of future values as important as current values (e.g. interest rates).<br>• Weighing up of different factors – extract implies confidence is the most important.<br>• Different factors may be more important for different firms/different regions of the UK. | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by chains of reasoning and appropriate reference to context<br>Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| (e) | **Knowledge 3, Application 3, Analysis 3**<br><br>• Understanding of inflationary pressures/inflation.<br><br>The effect of a lack of investment:<br>• a lack of new investment may mean that depreciation occurs at a quicker rate than investment, reducing the productive potential of the economy<br>• this could lead to a decrease in the economy's level of aggregate supply/an inward shift of its PPF<br>• candidates may draw an AS/AD diagram to show the effects of a reduction in (LR)AS<br>• cost-push inflationary pressures would build in the economy.<br><br>The effect of a stronger pound:<br>• a stronger pound makes imports cheaper. The price of imported goods in the CPI basket should fall, reducing inflationary pressures<br>• cheaper imports and more expensive exports may lead to a worsening of the trade balance, reducing UK aggregate demand (this may be illustrated on an AS/AD diagram). This would lead to a fall in demand-pull inflationary pressures<br>• imported raw materials become cheaper (particularly oil, which is priced in US dollars). This could reduce firms' production costs, leading to an increase in (SR)AS, and a reduction in cost-push inflationary pressures.<br><br>NB Level 3 responses must consider the effect of both the lack of investment and the appreciation of the currency. | **(9)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 7–9 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** continued | **Evaluation 6**<br>• It depends on the rate of depreciation of capital.<br>• It depends on the level of spare capacity in the economy.<br>• It depends on the elasticity of the AD curve, and/or whether a lack of investment reduces AD too.<br>• Comment on the significance of the appreciation.<br>• The effect on the trade balance and hence AD of the appreciation depends on the PED for imports and exports. | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant chain of reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(f)** | **Knowledge 4, Application 4, Analysis 6, Evaluation 6**<br><br>• Understanding of economic growth.<br>• Understanding of macroeconomics objectives.<br><br>Candidates may address this question in different ways.<br>• Explanation of the likely benefits of economic growth to:<br>o consumers<br>o firms<br>o the government<br>o income distribution<br>o the environment<br>o current and future living standards<br><br>• Explanation of the likely costs of economic growth to:<br>o consumers<br>o firms<br>o the government<br>o income distribution<br>o the environment<br>o current and future living standards<br><br>• Explanation that economic growth may support the achievement of some of the government's other macroeconomic objectives:<br>o low unemployment<br>o balanced government budget<br>o achieving environmental goals<br><br>• Explanation that economic growth may conflict with the achievement of some of the government's other macroeconomic objectives:<br>o balance of payments equilibrium<br>o low, stable inflation<br>o reduced income inequality<br>o achieving environmental goals | **(20)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two-stage chain of reasoning only. |
| Level 3 | 7–10 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 11–14 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement. |

| Question Number | Answer | Mark |
|---|---|---|
| (g) | **Knowledge 4, Application 4, Analysis 6, Evaluation 6**<br>• Understanding of monetary policies.<br>• Understanding of macroeconomic objectives.<br>Candidates may consider either the impact of two monetary policies on one or more macroeconomic objectives each, or the impact of one monetary policy on all of the macroeconomic objectives.<br><br>In evaluation, candidates may consider either the macroeconomic objectives that wouldn't be met through the use of monetary policies, or may consider the significance of their arguments more generally.<br><br>Monetary policies which may be considered:<br>• change in the interest rate<br>• change in the value of asset purchases to affect the money supply.<br><br>The effect of loose monetary policy on the macroeconomic objectives:<br>• an increase in AD should lead to an increase in real GDP, creating economic growth for the economy but this depends on the level of spare capacity in the economy, as well as consumer and business confidence levels<br>• demand-pull inflationary pressures would be increased, affecting the low, stable inflation objective but inflation rates also depend on the level of cost-push inflationary pressures in the economy<br>• unemployment should fall in the economy<br>• time lag – unemployment tends to be a lagging indicator, particularly if firms already have spare capacity<br>• government budget balance would improve in the long run if the policy was successful in generating economic growth but contractionary fiscal policy might be more effective at achieving this objective, certainly in the short run<br>• the environment might be harmed by the increased levels of economic activity generated<br>• in developed economies such as UK, economic growth tends to reduce the level of environmental degradation<br>• income inequality might worsen as economic growth tends to widen the gap between high and low income earners but lower interest rates tend to redistribute income from savers to borrowers, which would tend to improved income distribution | **(20)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two-stage chain of reasoning only. |
| Level 3 | 7–10 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 11–14 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement. |

Q3.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge:**<br>2 marks for identification of how intervention might work e.g.<br>• Raising/lowering interest rates (1) which affects exchange rates/hot money flows (1)<br>• Buying/selling foreign currencies (1) which affects their exchange rate (1)<br>• Buying/selling domestic currencies (1) which affects their exchange rate (1)<br>• Quantitative easing/changing the money supply might be used (1)<br>• Sets a ceiling and floor (1)<br><br>**Application:**<br>2 marks for data references e.g.<br>• Use of Figure 1 to show interest rate changes: e.g. central bank rose rates to 6.25 percentage points in 2018 (1) which caused the lira to appreciate 11% (1) lira has lost a third of its value against the dollar in 2018 (1)<br>• Use of text to give example of Turkish government buying and selling: e.g. the country is highly indebted on foreign currency (1)<br>• This might be shown by an exchange rate diagram (1) | |

| | | |
|---|---|---|
| | **Analysis:**<br>1 mark for explanation e.g.<br>• Process by which the intervention affects exchange rate/interest rate e.g. the government buys US dollars to decrease the price of Turkish lira (1) by increasing the supply of lira on the forex market (1) or raises interest rate in increase the price of Turkish lira (1)<br><br>**NB a diagram can be seen as application or analysis, if used in a valid context.** | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/ implicit understanding:**<br>2 marks (1+1) for each reason and explanation e.g. a lower exchange rate can:<br>• Reduces financial risks<br>• To bring stability/security in the economy<br>• Harms borrowers who have borrowed in foreign currency<br>• Causes inflation as import costs rise<br>• Worsens the terms of trade<br>• Worsens living standards<br>• Short term J-curve effects on current account of the Balance of Payments<br><br>**Application:** (2 marks: 1+1 or 2)<br>• Turkish inflation 25%<br>• Lira has lost a third of its value of US dollar 2018 (1)<br>• Turkey is highly indebted in foreign currency (1)<br>• Government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks (1)<br>• The financial market faces difficulties in trying to restore *foreign investors'* confidence (1) | |

| | | |
|---|---|---|
| | **Analysis:**<br>2 marks (1+1) for linked development of each point<br>e.g.<br>• A weaker currency can lead to cost push inflation as import prices rise<br>• A weaker currency worsens the terms of trade as export prices fall relative to import prices<br>• There will be less investment if there is a loss of foreign investors' confidence/AD shift<br><br>**Evaluation** (2 marks: two points 1+1 or 2). Points might include:<br>• Inflation is very high (25%) so this should be main reason not to allow a fall in the exchange rate<br>• Inflation is showing signs of reversing so a fall in the exchange rate may be less problematic<br>• Problems caused by inflation might be outweighed by the other benefits such as export-led growth/improved competitiveness<br>• Benefits of weak exchange rate, e.g. exports cheap,<br>• Other benefits of weak currency e.g. stimulus of economy, increased competitiveness, higher employment and FDI | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| (c) | **Knowledge 2, Application 2, Analysis 4**<br><br>**Knowledge/implicit understanding:**<br>Policies identified might include:<br>• Indirect tax/charges<br>• Ban or other regulation<br>• Free bags/nets or other state provision<br>• Fines<br>• Behavioural economics policy<br><br>**Application:**<br>• Tax or charge on each item. Might be illustrated through a specific tax diagram or similar.<br>• Ban in some parts of Turkey for specific types (carcinogenic black bags). Might be supported by a limit on supply diagram.<br>• Fines for consumers and retailers in some parts of Turkey<br>• Free bags/nets or other state provision in e.g. 20 000 in Corlu near Istanbul<br>• 950 tonnes of plastic waste<br><br>**Analysis:**<br>• Explanation of process linking the intervention to the reduction in use of bags.<br>• This might be shown through a diagram(s). | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 3–5 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 6–8 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** continued | **Evaluation 4**<br>• Charges work in other countries, e.g. UK<br>• Emerging economies/countries might have more problems facing the cost of interventions e.g. inequality issue, poverty<br>• The problem is much wider than plastic/single use bags, and the interventions will only affect a few on-street purchases<br>• Likely to succeed because it taps into the social conscience of consumers and even a small charge may have a dramatic impact as in the UK<br>• The tax/charge makes up a small proportion of income so many have minimal impact. PED is very inelastic/close to zero<br>• Unintended consequences: e.g. multiple-use/ bags for life often contain more plastic and unless used many times can be more environmentally damaging<br>• First paragraph suggests they are everywhere so given habitual behaviour people may continue to use them despite charges/ tax<br>• opportunity cost of giving away 20 000 bags in a month – is this socially efficient? | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Indicative content | Mark |
|---|---|---|
| (d) | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>16 marks for KAA, for effects of increased interest rates.<br><br>Microeconomic effects may include:<br>• Fixed costs to firms will rise. May cause shut down/loss of competitiveness<br>• Fall in consumer demand as consumption expenditure falls - likely reduction in AR for normal goods<br>• Other costs to consumers/firms/a government e.g. increased burden of debt and loan repayments/servicing costs<br>• Fall in investment by firms - reducing dynamic efficiency in the economy as less funds for R&D<br>• Impact on Turkish housing market<br><br>Macroeconomic effects may include:<br>• Link between higher interest rates and lower investment and lower consumption- reducing AD: inward shift of AD (or slowing outward shift) with multiplier effects with macroeconomic impacts e.g. unemployment<br>• Rise in the value of the lira – worsening of current account of the Balance of Payments – possibly with effects on other countries<br>• Redistribution of income e.g. from borrowers to savers/lenders, from asset holders to renters<br>• Cost of financing public deficit/debt (may refer to opportunity cost) may mean less government spending elsewhere, e.g. limited ability to spend on education<br><br>**NB for a Level 4 response there must be micro and macro effect (s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** | |

| | | |
|---|---|---|
| | 9 marks for evaluation – points might include:<br>• Interest rate might not be the most significant cost for firms<br>• Contractionary monetary policies already very tight. Depends on the interest rates in other markets<br>• Inflation has peaked and there are signs that it will fall so the rise in interest rates is not necessary<br>• Trade-off between objectives or prioritisation e.g. lower inflation at the cost of higher unemployment might be shown with critical use of a Phillips Curve<br>• Depends on interest rates in other markets- do we mean lending rates in other countries.<br>• Turkey's private sector is resilient - they may refer to this explaining that shut down is less likely<br>• Impact on housing market will depend on whether people own homes and are mortgaged or whether they rent, or whether mortgage is fixed or variable rate<br>• Magnitude the interest rate change - Figure 1 suggests large increases and therefore significant impact/large changes are unable to have much further effect | **(25)** |

| **Knowledge, application and analysis** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>Demonstrates knowledge and understanding of terms, concepts, theories and models. |
| Level 2 | 5–8 | Shows ability to apply economic ideas and relate them to economic problems in context.<br>Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis. |
| Level 3 | 9–12 | Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others.<br>Shows ability to apply economic ideas and relate them directly to the broad elements in the question. |
| Level 4 | 13–16 | Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of evaluative comments without explanation. |
| Level 2 | 4–6 | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br>16 marks for KAA, for effects of increased infrastructure spending<br>Microeconomic effects may include:<br>• Wages higher<br>• Improved infrastructure affects firms e.g. businesses' fixed or variable costs fall as transport costs fall<br>• Investment seen to boost business confidence, lead to further investment and spending within firms<br>• External benefits/external costs associated with the project - especially given the size, number of runways and amount of traffic outlined in Extract C.<br>• External economies of scale<br>• Accept answers based on impact on costs and/or revenues if the building occurs in the private sector, with appropriate diagram<br><br>Macroeconomic effects may include:<br><br>• Redistribution of incomes<br>• Outward shift of AD/injection (I or G) into circular flow (or further outward shift in AD) with multiplier effects, with macroeconomic impacts e.g. employment and incomes rising<br>• AS shift right with a movement in capacity of the productive economy shown (Keynesian or Classical AS)<br>• Fiscal loosening – effects of increased budget deficit if funded without increase in tax<br>• Effects of a rise in tax, if linked to government decision to raise tax to fund the projects | |

| | | |
|---|---|---|
| | **NB for a Level 4 response there must be micro and macro effect (s). Some factors could be seen as micro or macroeconomics, such as a rise in tax, increased FDI, redistribution and confidence.**<br><br>Up to 9 marks for evaluation. Points might include:<br>• Opportunity cost of spending on infrastructure e.g. schools, or higher taxes,<br>• Crowding out – financial or resource<br>• Might be a white elephant project<br>• Depends on relations with EU/other countries as to whether the airport will reach full capacity<br>• Depends on the size of the multiplier effect<br>• Depends on the state of the financial sector<br>• True costs not accounted for - externalities ignored<br>• Large projects require a lot of coordination and getting behind schedule putting lives at risk.<br>• Difficulty in placing value on external benefits and costs associated with the project | **(25)** |

| **Knowledge, application and analysis** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>Demonstrates knowledge and understanding of terms, concepts, theories and models. |
| Level 2 | 5–8 | Shows ability to apply economic ideas and relate them to economic problems in context.<br>Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis. |
| Level 3 | 9–12 | Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others.<br>Shows ability to apply economic ideas and relate them directly to the broad elements in the question. |
| Level 4 | 13–16 | Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of evaluative comments without explanation. |
| Level 2 | 4–6 | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q4.

| Question Number | | Mark |
|---|---|---|
| (a) | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge**<br>1 mark for identification of a possible cause and 1 mark for its relevance to energy use<br>Possible causes:<br>• Increase in world population (1)<br>• Increase in devices requiring electricity (1)<br>• Increase in world GDP and living standards (1)<br><br>**Application**:<br>2 marks for data references from Figure 1 (identifying the forecast change):<br>• Demand for nuclear and renewable more than double<br>• Demand for gas doubles<br>• Demand for coal and oil increase by between 30% and 50%<br>• Comment on increase in overall demand<br><br>**Analysis:**<br>• 1 mark for explanation of the link between the identified case and energy use | **(5)** |

| Question Number | | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge and analysis**<br>• Increasing injections (exports) **(K)** may lead to a boost to the circular flow and an increase in AD if not offset by greater leakages **(A)**<br>• Decreasing leakages (imports) **(K)** may lead to a reduction in the circular flow and reduce AD **(A)**<br><br>**Application:**<br>• Exports increasing, imports decreasing, but until 2020, leakages still greater than injections so overall leakage from circular flow (2)<br>• Or 2 specific data references from figure 4<br><br>**Evaluation** (2 marks for any relevant point):<br>• These are forecasts so the impact on the circular flow may be different from that described above<br>• Other injections and leakages influence the circular flow which may offset the changes described above | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| (c) | **Knowledge 2, Application 2, Analysis 4**<br><br>• recognition that gas and solar energy/nuclear energy are substitutes<br>• application of cross elasticity of demand:<br>definition or formula<br>value will be positive<br>• use of information provided to draw conclusion (reference to first paragraph, Extract 2): a fall in the price of gas will lead to a fall in the demand for solar energy and nuclear energy. | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 3–5 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 6–8 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** continued | **Evaluation 4**<br>• much will depend on relative price of gas in relation to solar and nuclear energy<br>• recognition that there will be a time lag before any impact on market for other forms of energy because supply very price inelastic<br>• investors will want to be certain that change in relative prices is long term<br>• impact may be limited due to the rising demand for global energy | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(d)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects:<br>• on price of gas to consumers – impact on consumers' surplus<br>• on price of gas to producers – impact on producers' surplus<br>• implications for producers of other forms of energy<br>• external costs – on environment and water supply<br><br>Macroeconomic effects:<br>• on investment – multiplier effect on GDP so promoting economic growth<br>• on employment – an estimate that 35 000 jobs will be created<br>• balance of payments on current account e.g. competitiveness may increase if fracking results in lower energy prices leading to an improvement in exports. Also, less need to import energy from abroad<br>• rate of inflation may fall – lower energy prices<br><br>Possible evaluation points include:<br>• Impact on price of energy may be less significant than in the USA<br>• Impact on other forms of energy – much will depend on how much gas is obtained from fracking<br>• Difficult to forecast the magnitude of external costs or to place a monetary value on them<br>• Impact on macroeconomic variables (growth, employment, balance of payments) dependent on amount of gas found, the price at which it sells, changes in prices of other forms of energy | **(25)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Marks | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays ability to apply knowledge in context but will focus on a small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>Demonstrates knowledge and understanding of terms, concepts, theories and models |
| Level 2 | 5–8 | Shows ability to apply economic ideas and relate them to economic problems in context.<br>Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis |
| Level 3 | 9–12 | Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others.<br>Shows ability to apply economic ideas and relate them directly to the broad elements in the question. |
| Level 4 | 13–16 | Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation | | |
|---|---|---|
| Level | Marks | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of evaluative comments without explanation. |
| Level 2 | 4–6 | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning.<br>Evaluation recognises different viewpoints and can be critical of the evidence provided. |

| Question Number | Indicative content | Mark |
|---|---|---|
| (e) | **Knowledge 4, Application 4, Analysis 8**<br>Microeconomic effects:<br>• impact on revenues and profits of energy companies<br>• impact on investment decisions by firms in the energy market<br>• impact on wages of workers in energy industries<br>• impact on consumer real incomes and on demand for other goods and services.<br><br>Macroeconomic effects:<br>• lower costs of production<br>• lower global rates of inflation (AD/AS analysis)<br>• impact on global growth rates<br>• impact on balance of payments on current account of different countries<br>• increase in $CO_2$ emissions: consideration of impact on climate change on different countries, reference to external costs<br>• impact on consumers and producers of the main countries supplying energy. | |
| | Possible evaluation points include:<br>• impact on different industries will depend on their energy costs as a proportion of total costs<br>• impact on households will depend on cost of energy in household budgets<br>• impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt<br>• impact on inflation rates and growth rates depends on elasticities of AD and AS curves<br>• impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of energy<br>• impact on external costs depends on how different energy sources are affected | **(25)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Marks | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays ability to apply knowledge in context but will focus on a small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>Demonstrates knowledge and understanding of terms, concepts, theories and models |
| Level 2 | 5–8 | Shows ability to apply economic ideas and relate them to economic problems in context.<br>Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis |
| Level 3 | 9–12 | Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others.<br>Shows ability to apply economic ideas and relate them directly to the broad elements in the question. |
| Level 4 | 13–16 | Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation | | |
|---|---|---|
| Level | Marks | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of evaluative comments without explanation. |
| Level 2 | 4–6 | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning.<br>Evaluation recognises different viewpoints and can be critical of the evidence provided. |

Q5.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2**<br><br>**Knowledge/understanding**<br>1 mark for e.g.<br>• Exports – imports / X – M (1)<br>2 marks for e.g.<br>• Difference between total **value** of a country's exports and imports (2)<br><br>**Application**<br>2 marks for e.g.<br>• The UK net trade was -2% (1)<br>• The UK has a trade **deficit** (1)<br>• China has a trade **surplus** (1)<br>• China's net trade was 3% (1)<br><br>**e.g.** Germany had a trade surplus of 6% = 2 marks | **(4)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2**<br><br>• Data reference to figure 1 of -2% for net trade<br>• Strong value of the pound<br>• Rising real income<br>• Slow growth in the world economy<br>• Low productivity in the UK e.g. around 20 percentage points below the G7 average | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no link between causes and consequences. |
| Level 2 | 3–4 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance. |
| Level 3 | 5–6 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(b)** continued | **Evaluation 4**<br>• Export of services has grown<br>• Productivity difficult to measure e.g. especially large service sector<br>• Investment is increasing so productivity may rise in the future<br>• Time period under consideration e.g. the pound is weakening against various currencies | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by chains of reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Answer | Mark |
|---|---|---|
| **(c)** | **Knowledge 1, Application 2, Analysis 2**<br><br>**Knowledge**<br>1 mark for, e.g.<br>• Business confidence (1)<br>• Interest rates (1)<br>• Access to credit (1)<br>• Rise in demand for UK exports (1)<br><br>**Application**<br>2 marks for relevant references to context or one reference to context plus development, e.g.<br>• 5% growth in investment (1)<br>• Output rising at the fastest rate in the G7 (1)<br>• GDP growth has remained strong (1)<br>• Unemployment continued to drop (1)<br><br>**Analysis**<br>Linked development (1+1), e.g.<br>• Lower interest rates reduces cost of borrowing incentivising firms to invest | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| (d) | **Knowledge 2, Application 2, Analysis 2**<br><br>**Knowledge/understanding**<br>Identification of two reasons (1+1)<br>• Rising UK population relative to Germany's<br>• Falling productivity in UK<br>• Lack of exports in UK<br>• Increased imports in UK (largely due to increased domestic consumption)<br>• Change in relative cost of living<br>• Different inflation rates in UK and Germany<br>• Changes to PPP method of calculation, e.g. items in basket of goods<br>• Change in value of US Dollar used for PPP calculations<br><br>**Application**<br>2 marks for two data references from Figure 2 and/or extract A, or application of a diagram (1+1), e.g.<br>• UK current account deficit 6% of GDP in third quarter 2014 (1)<br>• Identify difference in growth of GDP per capita in Figure 2 e.g. 7 percentage points between 2010 and 2013 for the UK (1)<br><br>**Analysis**<br>Linked development of reasons (1+1). e.g.<br>• falling UK productivity increases average cost of UK exports, making them more expensive relative to Germany's | **(6)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| (e) | **Knowledge 3, Application 3, Analysis 3**<br><br>Policies may include:<br>• Improved education/training to increase skill level of workforce<br>• Increase in provision and quality of apprenticeships<br>• Improved healthcare to ensure workers take less time off/are healthier at work<br>• Improved infrastructure, e.g. roads, railways, ports, airports, to reduce delays in transporting goods around the country/abroad<br>• Improved telecommunications infrastructure (e.g. faster broadband internet) so businesses can work quicker, communicate with foreign firms better, etc.<br>• Relaxing the planning system to improve house-building and efficiency in construction industry; improve labour mobility<br><br>**NB For a Level 3 response, answers must make clear links to increases in productivity rather than production or output** | **(9)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 7–9 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** continued | **Evaluation 6**<br><br>Points may include:<br>• Many of these policies will have quite a long time lag e.g. nursery school vouchers will have short term and long term impacts on different stakeholders<br>• Magnitude of the impact of the policies e.g. Crossrail just affects London<br>• Opportunity cost of the policies<br>• Conflicts between objectives e.g. impact on the environment<br>• Conflicts between policies e.g. increased spending on apprenticeships may have fiscal implications | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant chain of reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| (f) | **Knowledge 4, Application 4, Analysis 6**<br><br>• Explicit or implicit understanding of economic growth – a measure of the increase in either real GDP or real GDP per head or potential GDP<br>• Relevant diagram e.g. AD/AS diagram showing rightward shift in AD and/or AS curve<br>• Increased tax revenues for the government which may be used to improve public services or redistribute incomes<br>• Higher profits for companies which may be used to improve quality products or to produce new products<br>• Consumers' living standards improve e.g. can afford to buy more goods and services and/or have more leisure time<br>• More employment opportunities/lower unemployment<br>• If there is export–led growth, then the current account of the Balance of Payments would improve<br>• Real economic growth increases LRAS and could lower inflation<br>• An increase in business confidence which may lead to increase in investment<br>• Investment in sustainable technology can have environmental benefits<br><br>**NB the benefits of growth can be seen as KAA or evaluation and the costs of growth vice versa.**<br>**NB For a level 4 response there must be explicit reference to "a number of concerns" which include:**<br>• **current account deficit**<br>• **decline in rate of return on UK investments**<br>• **low export growth**<br>• **growth lower than target**<br>• **struggling goods industries**<br>• **output falling in construction/manufacturing**<br>• **growing household debt**<br>• **imbalance of consumer driven growth**<br>• **low productivity**<br>• **skills shortage**<br>• **house shortages**<br>• **burdens on UK manufacturers** | **(14)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two-stage chain of reasoning only. |
| Level 3 | 7–10 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 11–14 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(f)** continued | **Evaluation 6**<br>• Demand pull inflation – may be shown by a rightward/upward shift in AD curve<br>• Greater inequality e.g. companies may not invest but distribute profits to shareholders<br>• Growth might involve depletion of natural resources<br>• External costs of growth<br>• Lack of sustainability<br>• Short run/long run effects e.g. technological unemployment<br>• Growth could cause a deterioration in the Balance of payments since Britain has a high marginal propensity to import<br>• Growth from supply side improvements may reduce inflationary pressure<br>• Social impact of increased economic activity e.g. work-life balance | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(g)** | **Knowledge 4, Application 4, Analysis 6**<br><br>• High percentage of consumption in UK's aggregate demand in contrast to other countries in Figure 1<br>• Lack of export-led growth, resulting from the state of the global economy so the UK government's £1 trillion target is unrealistic<br>• Falling rate of return on investments abroad<br>• Rising consumer indebtedness<br>• Dependence of consumer confidence on rising house prices which may not be sustainable<br>• Size of UK government budget deficit/national debt may create problems as interest rates start to rise<br>• Relevant diagram e.g. trade cycle<br>• Fall in real incomes<br><br>**NB One side of this argument should count as KAA and the opposing argument as Evaluation** | **(14)** |

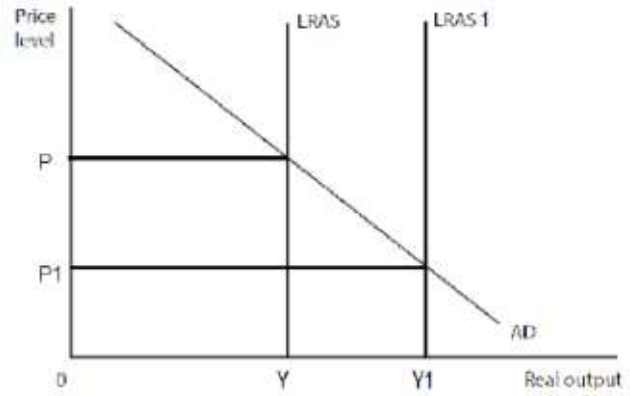
| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only. |
| Level 3 | 7–10 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 11–14 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(g)** continued | **Evaluation 6**<br>• UK has generally been a very consumer-driven economy<br>• UK has persistently had a current account deficit/trade deficit and the economy has continued to grow<br>• Financial reforms and increased oversight by the Bank of England have made a financial crisis less likely in the future<br>• Falling commodity prices/low inflation generally benefits the UK economy as it is a net importer<br>• Government is committed to a plan to get government debt under control in the long-term. This also increases confidence of UK government's lenders.<br>• Macro policies, well timed, could prevent recession<br>• Investment increasing 5% could counteract any recessionary pressures<br>• Impact of Brexit / fall in the pound since 2016<br>• Global growth would have positive impact on UK especially service sector exports | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement. |

Q6.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 1**<br><br>**Knowledge/understanding:**<br>1 mark for definition, e.g.<br>• Price level is the **average** of the current prices of goods and services in the economy (1)<br>• CPI or RPI (1)<br><br>**NB Do not accept inflation** | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Application 2**<br><br>**Application:**<br>2 marks for,<br>• Correct rightward shift of LRAS (1)<br>• Correct new equilibrium point showing lower price level and higher real output (1)<br><br><br> | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| (c) | **The only correct answer is A**<br><br>**B** is not correct because an increase in indirect taxation is an example of contractionary fiscal policy<br><br>**C** is not correct because an increase in interest rate is an example of contractionary monetary policy<br><br>**D** is not correct because an increase in the regulation of markets is example of market-based supply side policy | **(1)** |

Q7.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 1, Application 1, Analysis 1**<br><br>**Knowledge/understanding:**<br>1 mark for identifying one relevant factor, e.g.<br>• Increased tax revenue/ lower welfare payments (1)<br>• Increase in disposable income (1)<br>• Less potential output will be lost (1)<br>• Increase in consumption/AD/GDP (1)<br><br>**Application:**<br>1 mark for reference to the chart, for e.g.<br>• Unemployment rate has fallen (1)<br>• Unemployment rate has decreased from nearly 8.3% in 2012 to around 4.3% in 2018 or has decreased by 4 percentage points (1)<br><br>**Analysis:**<br>1 mark for linked development, e.g.<br>• Budget deficit would decrease (1)<br>• Confidence/consumption increase (1)<br>• Less waste of scarce resources / fall in spare capacity (1) | **(3)** |

| Question Number | Answer | Mark |
|---|---|---|
| (b) | **The only correct answer is A**<br><br>**B** is not correct because decrease in quantitative easing will reduce AD and increase the unemployment rate<br><br>**C** is not correct because an increase in the government payments to the unemployed will reduce the incentive to work, reducing AS and increasing the unemployment rate<br><br>**D** is not correct because an increase in the UK base interest rate will increase the cost of borrowing, thus reducing AD and increasing the unemployment rate | **(1)** |

Q8.

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>There may be a trade-off between environmental protection and other macroeconomic objectives, e.g.:<br><br>• **Higher economic growth**: this leads to more energy usage, much of this energy is still powered by non-renewable sources such as gas (especially in the UK) or coal (e.g. Germany)<br>• **Inflation:** measures to protect the environment (e.g. packaging modifications, recycling costs) may increase costs for firms, pushing up prices & causing inflation<br>• **Income inequality:** Replacing non-renewable energy requires huge capital expenditure which may increase energy costs for poorer people, especially in developing countries<br>• **Unemployment:** Employees in polluting industries may lose their jobs if firms are forced to close due to government policies to reduce pollution | |

| | | |
|---|---|---|
| | The trade-offs may not occur:<br><br>• Increased economic growth means governments have more money to invest in environmentally-friendly solutions such as better public transport<br>• Firms may take this opportunity to increase their efficiency, e.g. new more environmentally friendly machinery may also be more efficient. Firms can make money from recycling products/using recycled products in production may be cheaper<br>• In the long term renewable energy will be cheaper for consumers and isn't subject to fluctuating world oil & gas prices<br>• Many new jobs have been created in sectors such as renewable energy, research into carbon capture, and recycling | **(25)** |

| **Knowledge, application and analysis** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 5–8 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only. |
| Level 3 | 9–12 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 13–16 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q9.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **The only correct answer is D**<br><br>***A*** *is not correct because that would involve interest rates/QE*<br><br>***B*** *is not correct because that would involve changing the value of the pound*<br><br>***C*** *is not correct because that would involve interest rates/QE* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Application 2**<br><br>**Application**: 2 marks for e.g.<br><br>500 000 X 0.17 (1)<br><br>= 85 000<br><br>**NB Award full marks for correct answer** | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| (c) | **Knowledge 1, Analysis 1**<br><br>**Knowledge/understanding (1):**<br>Identification of one reason, e.g.<br>• Increase in firms choosing to base themselves in the UK<br>• Increased investment by UK firms leading to increased profits<br>• Reduced tax evasion/avoidance<br><br>**Analysis**: 1 mark for linked development, e.g.<br>• With more firms locating in the UK there will be more firms paying UK corporation tax<br>• A labelled Laffer curve | **(2)** |

Q10.

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Arguments that QE **has been** effective:<br>• QE provided financial institutions with additional funding to allow them to increase lending to businesses, thus increasing investment in the economy and therefore economic growth<br>• QE provided financial institutions with additional funding to allow them to increase lending to consumers, thus increasing consumption in the economy and therefore economic growth<br>• Without QE the Eurozone economy may have gone into deflation, thus significantly prolonging the recession due to further reduced consumer demand in anticipation of further falls in price<br>• QE was necessary as an additional monetary policy tool for the central bank after they had already cut interest rates as low as possible and the economy had not responded<br>• Commercial interest rates did not drop as much as the ECB base rate due to confidence concerns from banks, so this acted as another way to reduce interest rates | |

| | | |
|---|---|---|
| | Arguments that QE **has not been** effective:<br>• Many financial institutions used QE funding to improve their own financial stability, increase their liquid assets- rather than increasing lending to businesses/consumers<br>• Lack of consumer/business confidence meant there was a lack of demand for loans<br>• Consumers and firms were increasing savings rather than borrowing due to concerns about stability of the Eurozone economy<br>• Effect was limited by contractionary fiscal policy in many Eurozone countries<br>• Significant spare capacity in European economies during recession which QE is unable to make up for<br>• If recession proves short-lived too much QE could be inflationary<br>• Different European countries experiencing different economic situation so a 'one size fits all' QE approach may be too much for some countries & not enough for others<br><br>Candidates can use either side of this argument as KAA and the other side as evaluation | **(25)** |

| **Knowledge, application and analysis** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 5–8 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only. |
| Level 3 | 9–12 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 13–16 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |