

PEARSON EDEXCEL A-LEVEL ECONOMICS B • 9EB0

ECONOMICS



EXAM QUESTION PACK

1.4 THE ROLE OF CREDIT IN THE ECONOMY

SCORE

/157

PERCENTAGE

%

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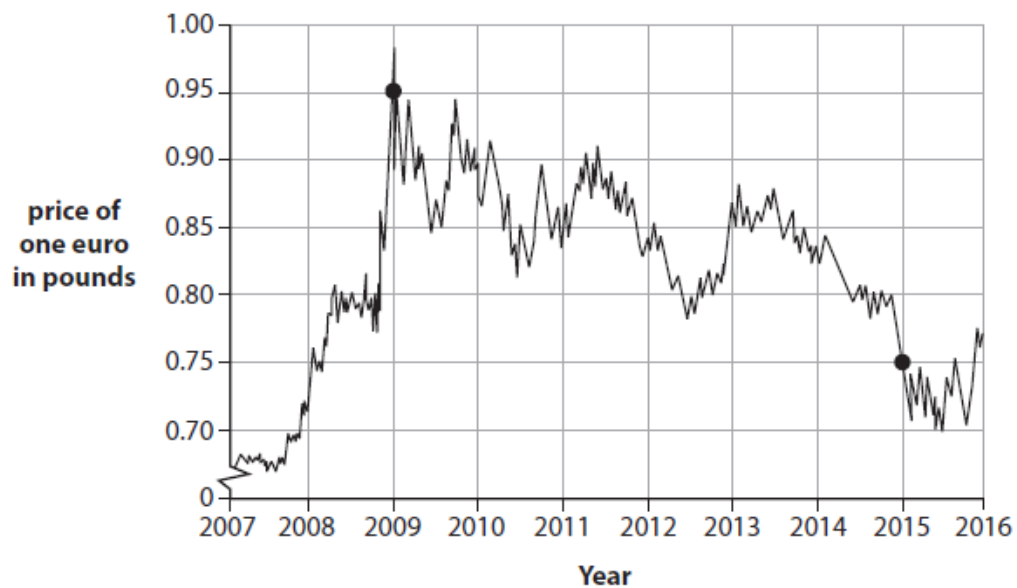
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Questions

Q1.

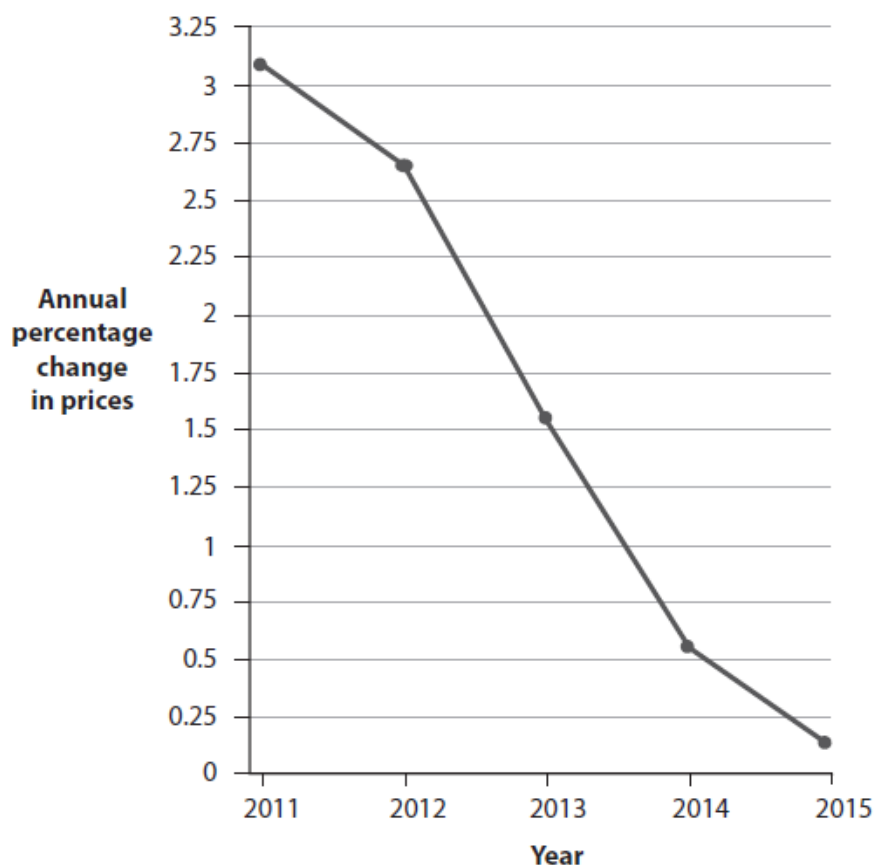
The Eurozone economy

Figure 1: Exchange rate of the euro (€) to the British pound (£)



(Source: <https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html#>)

Figure 2: Eurozone inflation rate as measured by the Consumer Prices Index (CPI)



(Source: adapted from <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx>)

Extract A

European Central Bank disappoints markets with weaker than expected stimulus

Mario Draghi, president of the European Central Bank (ECB), surprised financial markets in November 2015 with a less ambitious package of monetary stimulus than many had anticipated.

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016.

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"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively.

10

The euro rose almost 3% against the dollar to \$1.08 after the announcement. Italian and Spanish bond yields both jumped by 0.27% to 1.62% and 1.72% respectively.

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%.

15

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said.

20

(Source: <http://www.independent.co.uk/news/business/news/ecb-disappoints-traders-with-weaker-than-expected-stimulus-a6759786.html>, 4th December 2015)

(a) With reference to Figure 1, calculate the percentage change in the value of the euro in pounds from the start of 2009 to the start of 2015.

(5)

(b) With reference to the information provided and your own knowledge, examine **two** factors which might explain the change in the rate of Eurozone inflation as shown in Figure 2.

(8)

(c) Since mid-2015 the euro has appreciated. Assess the likely impact of an appreciation of the euro on the current account of the balance of payments for Eurozone countries.

(10)

(d) Discuss the likely success of the ECB's quantitative easing programme in moving Eurozone inflation closer to 'the central bank's ceiling of 2%' (Extract A, line 17).

(12)

(e) Discuss 'looser fiscal policy' and 'supply-side reforms' (Extract A, lines 20 and 21) that may be used by governments of Eurozone countries to increase economic growth.

(15)

(Total for question = 50 marks)

Q2.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

The European Central Bank introduced a new round of quantitative easing (QE) in March 2020, purchasing up to €750 billion of assets. The objective of this QE was to reduce the serious risks to the effectiveness of monetary policy resulting from a significant recession. The European Central Bank's target for inflation remains at 'below but close to 2%'.

(Source adapted from: https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html)

Evaluate the effectiveness of quantitative easing during 'a significant recession'.

(Total for question = 2 marks)

Q3.

(a) With reference to Extract C, explain what can be inferred about the price elasticity of demand for coffee beans.

(5)

(b) With reference to Figure 4, examine the likely impact of the 19% increase in the price of coffee beans between January and February 2014, on the price of a cup of coffee bought from a coffee shop.

(8)

(c) Discuss the different degrees of contestability in the farming of coffee beans **and** in the UK coffee shop market.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of fluctuating coffee bean prices on coffee-producing countries.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the depreciation of the *real* on Brazil's economy.

(25)

(Total for question = 50 marks)

Q4.

Some questions must be answered with a cross in a box (☒). If you change your mind about an answer, put a line through the box (☒) and then mark your new answer with a cross (☒).

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

In May 2020, the UK government introduced a loan scheme to help small businesses survive the downturn in the economy. Small businesses could borrow up to £50 000 at an interest rate of 2.5% for up to 6 years from a bank. The government guaranteed 100% of the loans, to enable banks to issue them quickly, and only minimal checks were made on borrowers.

(Source: adapted from
<https://www.ft.com/content/1ca15db2-93e4-4e34-877d-110309cd9716>)

(a) With reference to the information above, explain **one** role of financial markets.

(4)

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(b) Which **one** of the following would be a risk if 'only minimal checks were made on borrowers' in this loan scheme?

(1)

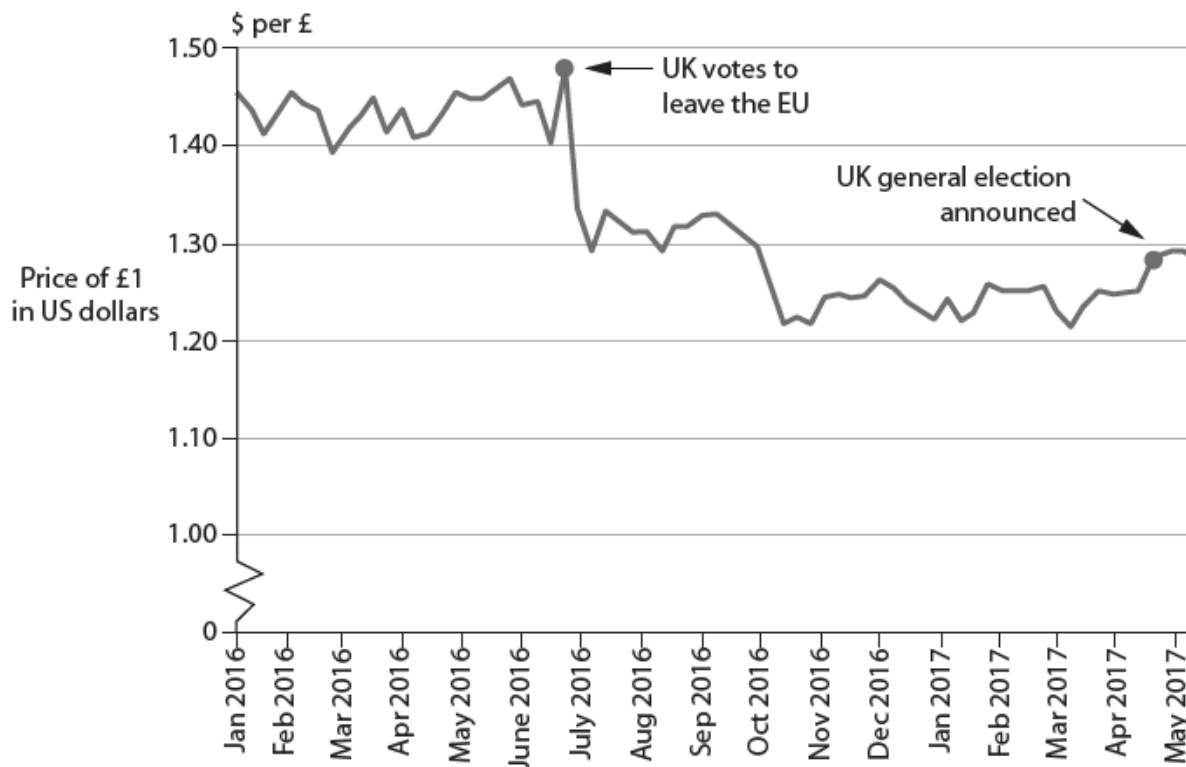
- ☐ **A** Asymmetric information
- ☐ **B** Crowding out
- ☐ **C** Market rigging
- ☐ **D** Speculation

(Total for question = 5 marks)

Q5.

The UK economy since the financial crisis

Figure 1: Pound sterling to US\$ exchange rate, 2016-17



(Source: adapted from <https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec>)

Extract A

UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

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(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. <https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec>)

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts', by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd <https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds> and 'Lloyds bank bailout repaid in full, Philip Hammond claims', by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims>)

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 <https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b>)

(a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

(Total for question = 50 marks)

Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Knowledge/Understanding: Identifying data 0.95 & 0.75 (1) Application: • Correct percentage change formula (1) • Correct data inputted into formula (1) Analysis: Calculation of the percentage change in the exchange rate: $0.75 - 0.95 / 0.95 \times 100 = -21\%$ (2) N.B. award full marks for correct answer between -21% and -21.1% 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 Knowledge/understanding: 2 marks for identification of two factors (1+1), e.g. • falling oil prices • falling commodity prices • changing relative exchange rates • government fiscal tightening • low consumer or business confidence • increase in savings Analysis: 2 marks for linked explanation of how these explain the fall in Eurozone inflation (1+1), e.g. • Falling oil prices in the world economy reduce key costs of production such as transportation, reducing prices of many products in the economy Application: 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • From figure 2, Eurozone inflation 0.1% in 2015 (1) • ECB predicts Eurozone inflation to rise 'by just 1 per cent in 2016' (extract A) (1) • Figure 2 shows disinflation occurring (1) • Inflation fell from just over 3% in 2011 (1) to less than 0.25% in 2015 (1) Evaluation: 2 marks for evaluation (1+1 / 2) • Inflation likely to rise in the future, with ECB expecting 1.6% in 2017 • Oil prices are very volatile and could easily rise rapidly due to world events such as instability in the Middle East • Rising GDP in the Eurozone may mean more demand-pull inflation in the future • Depends on extent of fiscal tightening by government • Oil prices a significant cost of production for businesses	(8)

Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 2, Likely impacts on the current accounts include: • Reduced demand for Eurozone exports as they appear more expensive when converted into other currencies. • 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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • Euro may not have appreciated against all currencies. • Euro may have appreciated against currencies of countries who do not receive many Eurozone exports. • Magnitude discussion • May change in the long term • Marshall-Lerner condition • J-curve effects • 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. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	Knowledge 2, Application 2, Analysis 4, ECB QE programme is effective: • Explanation of process of QE • should encourage banks to increase lending and thus hopefully increase consumption/investment • Inflation/GDP may well have been much lower without QE • Confidence of markets would have been much lower without QE • QE programme to be extended for a further 6 months • Lower interest rates encourages consumption/investment, thus increasing AD and therefore inflation • Low government bond yields for Eurozone countries • Depreciation of the Euro affecting X-M 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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. 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 ECB QE programme isn't effective: • Inflation likely to remain below target into at least 2017 • Low inflation is largely down to factors outside the central bank's control (e.g. oil prices) • Lack of confidence among firms and consumers meaning they are not responding as the ECB would like to the QE programme • Banks are still reluctant to lend money to firms and consumers • Time lags • Extension of QE programme suggests that it hasn't worked • Other policies may be more effective 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. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Potential policies may include: • Fiscal policies, e.g. reduced corporation tax to increase investment and therefore increase AD • Supply-side policies, e.g. increased investment in education to create a more highly-skilled and therefore more productive workforce N.B. Candidates may discuss more than one of each type of policy 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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. 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 Evaluation of the policies, e.g. • Governments in many Eurozone countries are having to focus on reducing national debt and can't afford policies such as tax cuts • 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. 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. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q2.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Arguments that QE has been effective: • 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 • 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 • 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 • 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 • 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: • Many financial institutions used QE funding to improve their own financial stability, increase their liquid assets- rather than increasing lending to businesses/consumers • Lack of consumer/business confidence meant there was a lack of demand for loans • Consumers and firms were increasing savings rather than borrowing due to concerns about stability of the Eurozone economy • Effect was limited by contractionary fiscal policy in many Eurozone countries • Significant spare capacity in European economies during recession which QE is unable to make up for • If recession proves short-lived too much QE could be inflationary • 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 Candidates can use either side of this argument as KAA and the other side as evaluation	(25)
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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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. 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. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. 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. 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. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q3.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis: 1 mark for identification of price inelastic demand and 1 mark for definition of price inelastic demand (a change in price leads to a less than proportionate change in quantity demanded). A further mark for explanation of either of the following: • Price and total revenue moving in the same direction – indication that demand is price inelastic • Demand price inelastic because there are no good substitutes. Application: 2 references from Extract 3: (2 marks) • 'Some analysts say that trend (higher prices) should still help lift revenue, even if Brazil produces less' (1) • 'Last year, coffee export revenue fell 19% even though the volume sold rose 10.2% from a year earlier'. (1)	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge and analysis: 1 mark for coffee beans as a cost of production; 1 for affect on supply curve. A further 2 marks for further development/explanation • Supply and demand diagram illustrating a leftward shift in the supply curve and rise in the price of a cup of coffee Or verbal explanation Application: up to 2 marks for 2 references to Figure 4: e.g. • Coffee represents 3.6% of the cost of a cup of coffee. (1) • Other costs e.g. rent, packaging, wages and profit represent £ 2.12 out of £2.20 of the price of a cup of coffee. (1) Evaluation: (2 marks for any valid point): • Coffee beans only a small proportion of price of a cup of coffee • Competition might mean that coffee shops/chains absorb increased costs by reducing profit margins • Consideration of interdependence under oligopoly.	(8)

Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Understanding of contestability - low barriers to exit (sunk costs) and entry • Examples of exit barriers and entry barriers in the context of coffee bean farmers and coffee shops • Coffee beans - large number of coffee farmers suggesting low barriers to exit and entry. High threat of potential competition suggesting that the market is contestable • Coffee shop market - dominated by three large chains suggesting low contestability • Sunk costs for coffee shops include - heavy advertising; strong global brand names. These limit the threat of potential competition so making the market less contestable.	(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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. 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 • Coffee bean producers - contestability limited because coffee beans can only be grown in certain climates; long growing period • Coffee shops - fairly contestable because; many small independent coffee shops; low start-up costs; few sunk costs: shops and equipment can be leased or rented; skills required relatively low.	(4)

Level	Marks	Descriptor
0	0	No evaluative comments
1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. 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 Microeconomic effects: • fluctuating revenues for farmers • uncertainty - difficult for producers to plan investment and output • implications for how the farmer uses his land. Macroeconomic effects: • fluctuating export revenues • fluctuations in the country's balance of payments on current account • could be reflected in fluctuations in the country's GDP • implications for the country's economic development • resources might not be allocated efficiently.	

	Possible evaluation points include: - uncertainty can be reduced by forward purchases of coffee beans at set prices - much depends on whether there is a long run upward or downward trend in prices of coffee prices - impact on individual coffee producing countries will depend on the significance of coffee to the country's economy - degree of price fluctuation depends on price elasticities of demand and supply - price fluctuations might act as an incentive for countries to diversify and/or develop manufacturing and tertiary industries - possibility of government intervention to stabilise farmers' incomes e.g. through the introduction of a buffer stock scheme.	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. 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. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	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. 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. 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 Microeconomic effects: • understanding of the impact of depreciation of the <i>real</i>: • Brazilian exports will be cheaper abroad, leading to higher demand while imports into Brazil will be more expensive resulting in a decrease in demand • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Brazilian exporters of manufactured goods. Macroeconomic effects: Brazil's currency depreciated by 20% in 2013 • this should increase the competitiveness of its goods and services and lead to an improvement in the current account of the balance of payments • this could lead to an increase in employment • cost push inflation • there is an increase in the real burden of foreign debt.	

	Possible evaluation points include: • 20% depreciation is significant but much depends on whether this is sustained in the medium term • impact on individual Brazilian producers depends on their reliance on imports and/or exports • inflation is a problem so any competitive advantage may be lost quickly. (Depreciation raises the cost of imported raw materials and goods) • impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • Also: short run and long run effect on the current account may be analysed using the J curve effect.	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. 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. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	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. 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. 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	Answer	Mark
(a)	Knowledge 2, Application 1, Analysis 1 Knowledge/understanding of one role (2): E.g. - To lend to businesses and individuals (1) to help them consume/invest (1) - To facilitate the exchange of goods and services (1) increasing consumption/investment (1) - To facilitate saving (1) so consumers can build up money to purchase expensive items (1) - To provide forward markets (1) so firms can reduce the risk of fluctuating prices (1) - To provide a market for equities (1) so firms can seek investment from shareholders (1) Application (1): A relevant reference to the data, e.g. - Many small businesses required a loan to help them survive the downturn in the economy (1) - Interest rate of 2.5% for up to 6 years (1) - Up to £50,000 could be borrowed for up to 6 years (1) Analysis (1): Linked development 1 mark for e.g. - Businesses will already have accounts, loans, etc. with banks so the banks were in a position to quickly issue these loans to their customers (1) - Loans provided finance for firms suffering a drop in demand (1) - Loans allow firms to grow/expand more quickly (1) - Helps to boost AD/increase economic growth (1) - Firms can invest in innovation (1) - Increase in productivity (1) - Impact on housing market (1) - Importance of saving to help development (1) - Bonds to finance government spending (1)	(4)

Question Number	Answer	Mark
(b)	The only correct answer is A <i>B is not correct because this would not lead to crowding out</i> <i>C is not correct because there is no suggestion of market rigging taking place</i> <i>D is not correct because there is no suggestion of speculation here</i>	(1)

Q5.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/Understanding: (1+1 or 2) marks Explanation of forward markets in currencies, e.g. - Firms buy their currency in advance (1) - Firms agree a fixed price (1) for purchase of foreign currency in the future (1) Application: (1+1) marks Reference to Extract A, e.g. - Currency 'has a big impact' on their business - Buying currency as soon as a large order is confirmed 'The pound's post-Brexit referendum depreciation' Other application e.g. use of Figure 1. NB at least one piece of data must come from Extract A for the full 2 Ap marks. Analysis: (1) mark Linked development, e.g. - Enables firms to reduce risk/uncertainty - Firms can be certain about the cost of their imports in pounds	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/understanding: 1+1 marks for identification of likely impacts of a fall in the value of sterling, e.g. - Import inflation change in cost of production for firms - Export/demand pull inflation - Changes in FDI - A change in unemployment - Economic growth - The will be an impact in the current account Analysis: 2 marks for linked explanation of these impacts (1+1 or 2 marks for one well developed explanation), e.g. - Fall in the value of sterling makes UK good appear cheaper to consumers in foreign countries when converted into their own currency (1) - Fall in the value of sterling makes UK imports more expensive to UK consumers when converted into pounds (1)	

	Application: (1+1) or 2 marks for reference to figure 1 and/or extract A, e.g. • Pound fell from around \$1.50 (1) rapidly to \$1.30 (1) after the Brexit vote • Pound fell further to a low over the period shown of just over \$1.20 (1) in October/November 2016 (1) • 'pound's post-Brexit referendum depreciation' (1) • Pound fell by approximately 12% after the vote to leave the EU (2) • Trend of depreciating pound (1) Evaluation: 2 marks for evaluation (1+1 or 2 marks for one well developed explanation) • Short-term impact - both figure 1 and extract A show how pound has risen towards mid/late 2017 • Price elasticity of demand for UK imports/exports • J-curve effect • Marshall-Lerner condition NB If the answer relates to a small rise in exchange rates e.g. since March 2017 then full marks can be awarded for a rise in exchange rate	(8)
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Question Number	Indicative content		Mark
(c)	Knowledge 2, Application 2, Analysis 2, Likely impacts on subjective happiness: • Consumers have less real income to spend on goods/services that affect their happiness • Consumers may worry more about the state of their personal finances • Consumers may worry about ability to continue paying mortgages/other debts NB For a level 3 answer there must be context from last paragraph of Extract C e.g. reference to credit cards and personal loan repayments		(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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.	
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.	

Question Number	Indicative content		Mark
(c) continued	Evaluation 4 • Other factors affect happiness beside real income, e.g. leisure time, environment, etc. • Record low unemployment likely to lead to rising real incomes in future • Rises in real income may have a different effect on happiness than falls in real income • May be increased borrowing to make up for falling real incomes		(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. Evaluation recognises different viewpoints and/or is critical of the evidence.	

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 2, Analysis 2, Central Bank would use monetary policy (interest rates and quantitative easing) to control inflation: • Tighter monetary policy in response to rising inflation may create a conflict with objective of low unemployment- Phillips curve • Higher interest rates in response to rising inflation may create rising inequality if savers benefit and borrowers suffer • Higher interest rates in response to rising inflation may cause the sterling exchange rate to rise which can worsen the balance of payments on current account • Higher interest rates likely to reduce consumption/investment and therefore AD, so controlling inflation but reducing economic growth NB Accept expansionary and contractionary monetary policy	(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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. 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 There may not be a conflict between some macroeconomic objectives: • UK economy has had both low inflation and low unemployment recently so is the Phillips curve really still valid? • If incomes keep pace with inflation then inequality won't be an issue • Cutting QE reduces asset prices thereby reducing inequality • Depends on significance of change in monetary policy	(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. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Arguments that providing support to banks is the best policy: • Economy is dependent on financial system working smoothly • People could have lost their savings if banks had been allowed to fail, leading to massive drop in confidence • Potential for risk of depression had government not intervened • Government has recouped much of the money invested into bailing out the banks anyway- Government 'recovered every penny of its investment in Lloyds' NB Discussion of other policies, e.g. central bank regulation, can also be awarded as KAA NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as 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. Use of generic or irrelevant information or examples. 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. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. 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. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. 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 Arguments that providing support to banks is not the best policy: • Huge expenditure for government that, for example in the case of the UK, already has a significant national debt- £65bn bailout of RBS and LBG. Will have to be repaid by future generations of taxpayers. • Moral hazard: will encourage reckless behaviour from the banks in the future, expecting a bailout again • Government looking unlikely to recoup losses from RBS for some time (in contrast to Lloyds) • Other policies, e.g. expansionary fiscal policy, may have been more effective NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation		(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. 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. Evaluation recognises different viewpoints and/or is critical of the evidence.	