

PEARSON EDEXCEL A-LEVEL ECONOMICS B • 9EB0

ECONOMICS



EXAM QUESTION PACK

2.3 PRODUCTIVITY AND EFFICIENCY

SCORE

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Questions

Q1.

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

The International Monetary Fund has called on the G20 group of large industrialised countries to boost government spending on infrastructure.

(Source: <https://www.theguardian.com/business/2016/jul/23/imf-calls-for-more-government-spending-as-rate-cuts-lose-their-impact>)

(a) Draw an aggregate demand and aggregate supply diagram to show the likely impact of an increase in government spending on infrastructure on a country's price level and real output.

(4)



(b) Which **one** of the following would be an example of government spending on infrastructure?

(1)

An increase in:

- ☐ **A** construction work on new railway lines
- ☐ **B** interest payments on the national debt
- ☐ **C** salaries for teachers
- ☐ **D** unemployment benefit payments

(Total for question = 5 marks)

Q2.

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

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ~~☒~~ and then mark your new answer with a cross ☒.

A number of business groups have signed an open letter to the UK Government asking it to commit to delivering the full High Speed 2 rail link. This will connect London to the northern cities of Manchester and Leeds at a cost of £56 billion and reduce journey times by as much as 50%.

(Source adapted from: <https://www.theguardian.com/uk-news/2019/jun/22/business-heads-urge-next-pm-to-commit-to-finishing-hs2>)

(a) Explain **one** likely impact of this project on aggregate supply in the UK.

(4)

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(b) Government spending on the High Speed 2 rail link is an example of which of the following?

(1)

- ☐ **A** Automatic stabilisers
- ☐ **B** Capital expenditure
- ☐ **C** Current expenditure
- ☐ **D** Transfer payments

(Total for question = 5 marks)

Q3.

(a) Explain the difference between 'good' deflation (Extract B, line 16) and 'bad' deflation (Extract B, line 27).

(5)

(b) With reference to Figure 1 and Extract A, examine the likely reasons for the fall in oil prices since the middle of 2014.

(8)

(c) With reference to Extract A, discuss the factors necessary for the success of a cartel.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of a sustained period of deflation.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the

microeconomic and macroeconomic effects of a sustained fall in global oil prices.

(25)

(Total for question = 50 marks)

Q4.

Global oil prices fell from a 2008 peak of \$147 a barrel to \$27 in 2016.

Evaluate the likely macroeconomic consequences of a significant fall in global oil prices.

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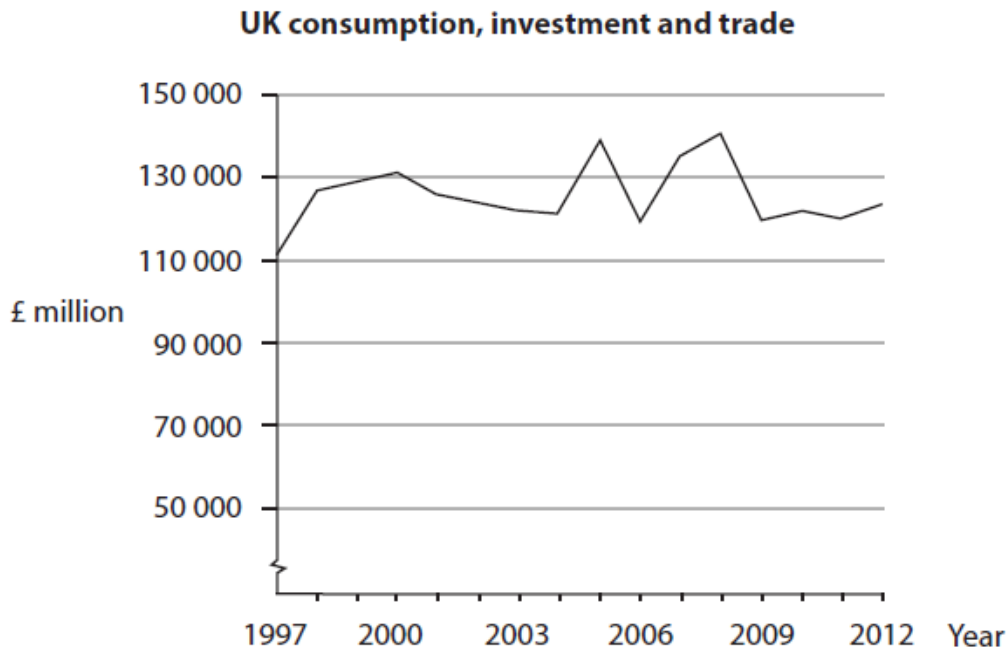
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(Total for question = 25 marks)

Q5.

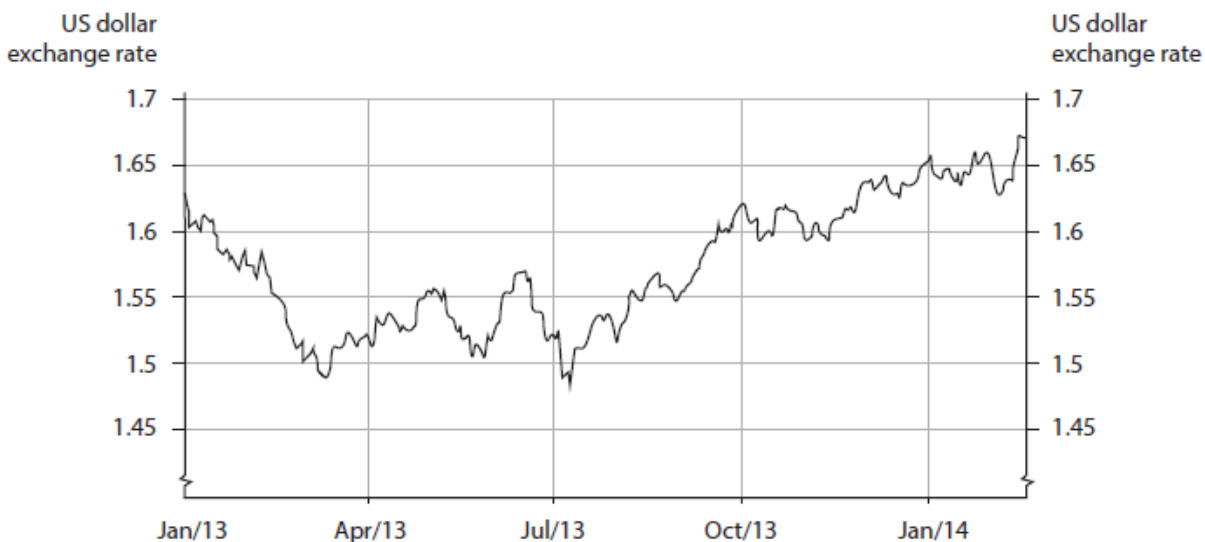


(Source: <http://www.ons.gov.uk/ons/rel/bus-invest/business-investment/q3-2013-provisional-results/stb-business-investment-q3-2013-provisional.html#tab-Business-Investment-and-other-components-of-GFCF>)

Figure 1: UK real annual business investment, 1997–2012 (seasonally adjusted)

(a) With reference to Figure 1, explain what has happened to real annual business investment since 2008.

(4)



(Source: <http://www.tradingeconomics.com/united-kingdom/currency>)

Figure 2: British pound (£) to US dollar (\$) exchange rate, 1 January 2013 to mid-February 2014

(b) With reference to Figure 2, explain the likely effect of an appreciation of the British pound (£) against the US dollar (\$) on the volume of UK imports from, and UK exports to, the USA.

(5)

Extract A

Why Britain needs a pay rise

UK growth in 2013 has been caused mainly by increases in consumption. Rising consumption tends to encourage companies to invest. The increase in demand for goods and services means firms need more productive capacity, often moving to bigger premises and buying capital equipment. Crucially, though, they only do so if they think the increase in consumption is likely to be permanent. 5

At the start of 2013, it was hard to see why consumer spending would rise. The economy had recorded little growth for two years and confidence was low. Inflation had been higher than earnings growth during 2012, making it hard for families to manage.

Three factors combined to change the picture: cheap credit, the Bank of England's funding for lending scheme (FLS), and rising consumer confidence. The Bank of England cut its official interest rate to 0.5% in early 2009, but it took a long time for the monetary stimulus to have an impact. 10

It only really did so when FLS was announced in the summer of 2012. This was a deal under which the commercial (high street) banks could borrow more cheaply from the Bank of England provided they passed on the benefits to their customers. 15

The idea was that household and business borrowers would benefit: loans would become more readily available and the interest rates charged on them would be lower. Lending to businesses was disappointing, but the impact on the mortgage market was rapid and significant: more mortgages were approved, and at lower rates of interest. This contributed to the improvement in the housing market, which in turn boosted confidence, leading to higher spending, and this led to higher growth. 20

Consumers ran down their savings to fund this higher spending. Again, this is not unusual. Households become more cautious in troubled times and they save more just to be on the safe side.

However, unless consumers are willing to save less and less and borrow more and more, there is only so long this process can continue. Eventually, consumer spending growth has to be the result of rising real incomes rather than falling savings. 25

After a year in which the consumer has been the driving force behind the expansion of the economy, 2014 should be the year when investment contributes to growth. Many of the conditions for an increase in business spending are in place: companies are cash rich, profitability is good, interest rates are set to stay low, and ageing capital stock needs replacing. 30

The one factor not in place is the most important one of all: an increase in real wages. If companies believe that consumers will carry on spending, they are much more likely to go ahead with new investment projects. If they think consumer spending will not increase, then they will be unwilling to invest. This will mean that inflationary pressures build up and the trade deficit will continue to widen. 35

(Source: adapted from 'Why Britain needs a pay rise', Larry Elliott, *The Guardian*, 29 December 2013
<http://www.theguardian.com/money/2013/dec/29/why-britain-needs-pay-rise>)

(c) With reference to Extract A, explain **two** reasons why consumer spending rose in 2013.

(6)

(d) Assess the importance of interest rates in determining the level of business investment in the UK.

(10)

(e) Discuss the likely impact of both a lack of new investment and an appreciation of the British

pound (£) on 'inflationary pressures' in the UK (Extract A line 36).

(15)

EITHER

(f) Evaluate whether the UK government should focus on achieving economic growth as its key macroeconomic objective.

(20)

OR

(g) Evaluate the use of monetary policy to achieve the UK's macroeconomic objectives.

(20)

(Total for question = 60 marks)

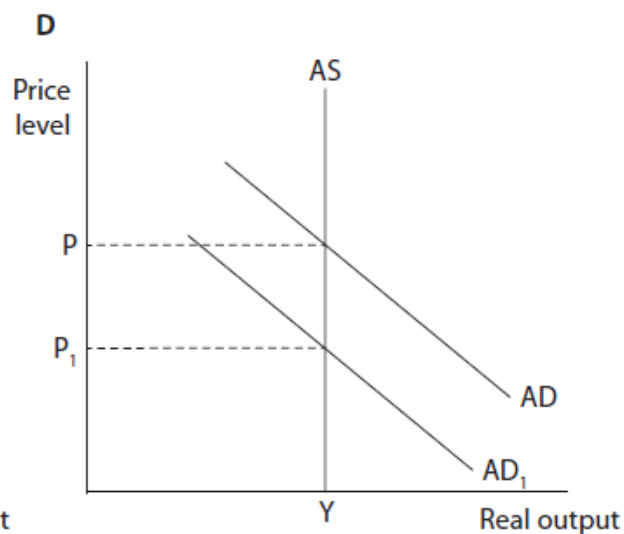
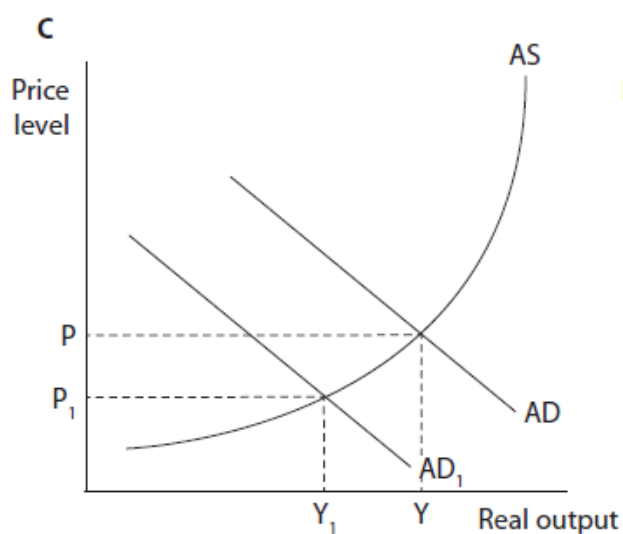
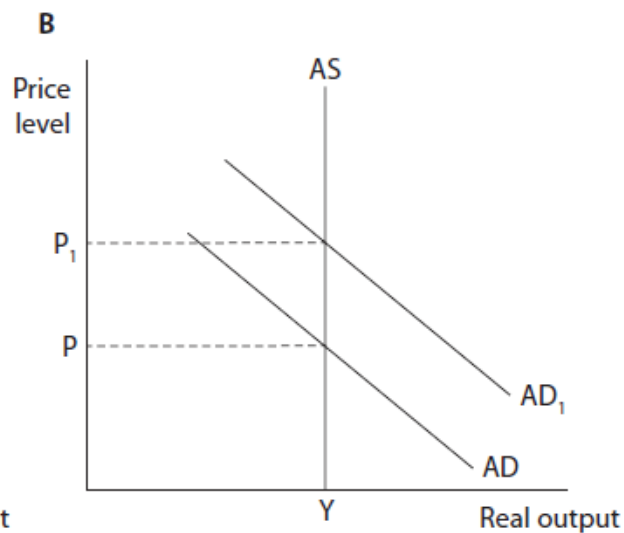
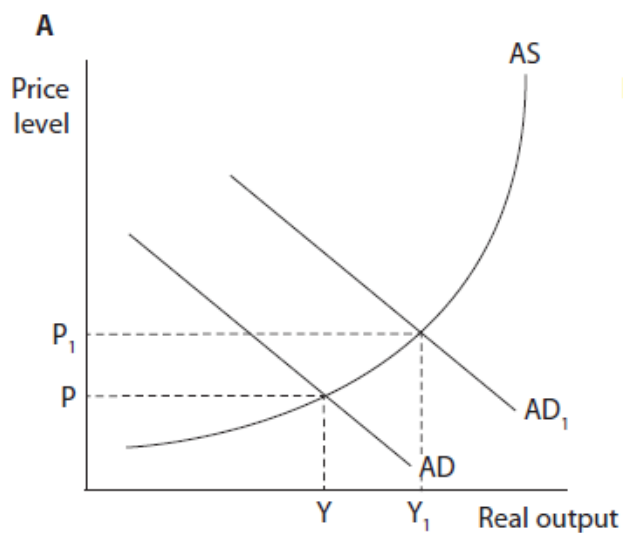
Q6.

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

Answer the question with a cross in the box you think is correct ☐. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☐.

(a) Which **one** of the following diagrams illustrates the impact of an increase in net exports along a Keynesian long-run aggregate supply curve?

(1)



☒ **A**

☒ **B**

☒ **C**

☒ **D**

(b) Using the classical long-run aggregate supply curve, explain what will happen in the long run to real output if aggregate demand increases.

(2)

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(c) Explain the likely impact on aggregate demand of a fall in average house prices.

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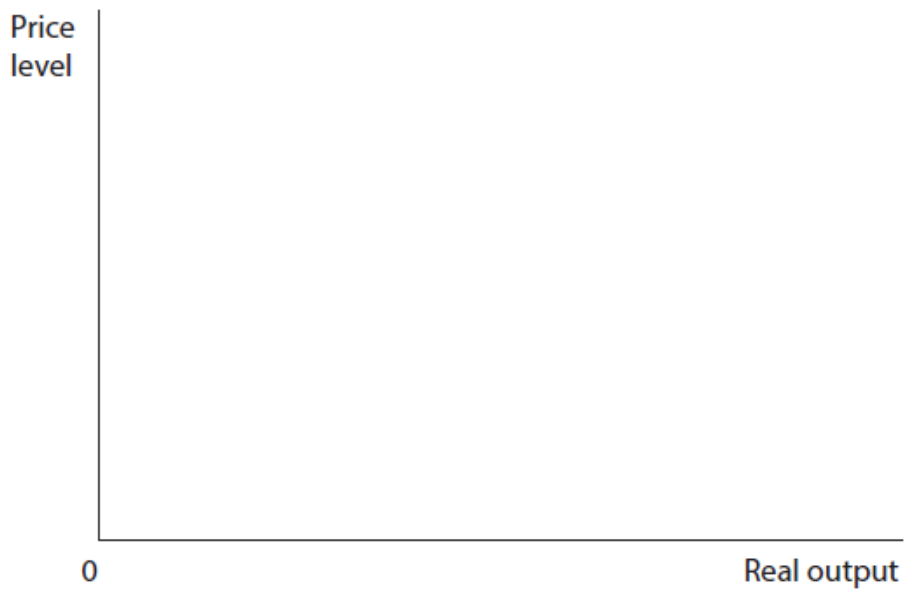
(Total for question = 5 marks)

Q7.

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

(a) Illustrate the shape of the Keynesian long-run AS curve on the diagram below.

(1)



(b) Explain what is meant by spare capacity in an economy.

(2)

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(c) Which **one** of the following is most likely to cause a movement along the AS curve?

Changes in:

(1)

- ☐ **A** competition policy
- ☐ **B** relative productivity
- ☐ **C** the cost of raw materials
- ☐ **D** the level of aggregate demand

(Total for question = 4 marks)

Q8.

Read extracts A and B before answering this question.

Hand car wash (HCW) firms in the UK

Extract A

What is the true human cost of your £5 hand car wash (HCW)?

The UK's hand car washes (HCWs) are extremely price competitive, but they have also been linked to modern slavery. Are they ever fair for workers?

There is little agreement about how many HCWs there are in the UK. Estimates range from 10 000 to 20 000. This lack of accurate information about the industry makes government regulation very difficult. Automated car washes, with their fierce rotating bristles, used to be the first option for drivers in a hurry. Now there is more choice. While the economy slows and incomes fail to keep up with inflation, demand for HCWs has grown. Many people see paying £5 for a car washed by someone else, rather than cleaning it at home, as a small expense which yields a high utility. But what is the true cost of a £5 car wash – and what should we be paying?

The growth of HCWs is partly the result of changes in the structure of industry in the UK. Many petrol stations have closed as drivers fill up at supermarkets. Garages and their forecourts have closed as cars become more reliable and locked into service agreements. The available sites for HCWs have therefore increased significantly and rents have fallen.

HCW entrepreneurs have identified available land and have benefitted from changes in the labour market, partly as a result of EU migration. UK drivers are now able to obtain cheap and effective hand car washing. For many migrants, car washes are a first job. "They accept car washing for a short period while they improve their language skills and move into other industries," says Ian Clark, a professor of work and employment at Nottingham Business School. "But there are also car-wash workers without networks who are in a dead end, working there for long periods."

Many drivers are only interested in getting the cheapest wash. If the price is very low, it probably means that workers are receiving less than the minimum wage and working in poor conditions. Crude calculations illustrate the problem. A £5 HCW employing five workers for 10 hours a day would need to wash 79 cars a day to just cover the wage costs. This assumes the workers are paid the minimum wage. This is one car every seven and a half minutes. Even if the profit can be higher on valet services, the price of which can be as little as £12 for a full inside-and-out clean, it's hard to see how a car wash price as low as £5 pays a living wage. This ignores all other costs which HCWs incur such as business rates and rent.

Evidence from car-wash workers is limited but Clark and others have been able to build a picture of some of the tougher conditions on drenched forecourts. "Like nail bars and small garment manufacturers, car washes are what we call 'hard-to-reach places,'" Clark explains. As part of the research, Clark and his team spoke to workers from 45 HCWs in the Midlands.

Clark and his team met and observed workers who lacked waterproof boots or trousers, or hi-vis jackets and gloves. "They're spraying around hydrochloric acid solution for alloy wheels, breathing in the vapour and fumes," Clark says. Some workers were paid a little over half the minimum wage.

(Source adapted from: <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>)

Extract B

Government intervention in the HCW industry

There are three main areas of government intervention that might impact on labour intensive firms such as HCWs:

First, there is the planning issue which focuses on the impact on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent the use of tarmac rather than concrete on forecourts. Tarmac allows waste water and chemicals to seep into the sub soil. It could also be a requirement to have a sludge trap to stop the waste entering waterways. 5

Second, there is the health and safety issue for workers. Prolonged exposure to chemicals and lack of protective clothing puts the health of workers at risk. Performance targets could involve minimum levels of protective clothing and rest breaks for the workers. 10

Third, there is the issue of tax. The informal nature of the business type makes tax evasion easier.

Not all UK HCWs violate regulations. There are legitimate, regulated HCW firms as well as examples of good practice by independent outlets. One national supermarket, Tesco, has banned all independent hand car washes from its car parks. It is now in a partnership agreement with national car wash operator Waves. It uses a WashMark certificate of quality and compliance which was introduced by the industry to improve working conditions. Other major supermarkets are considering similar changes. One adviser believes £9 is a reasonable minimum price for a basic wash. Some pressure groups have developed a mobile phone app where evidence of unreasonable conditions can be reported by drivers. 15 20

Involving drivers in the issue, and making them demand fairer car washes, creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. 25

(Source adapted from: <https://www.parliament.uk/documents/commons-committees/environmental-audit/Hand-Car-Wash-evidence.pdf> research into HCWs by Professor Ian Clark, Nottingham Business School May 2018)

- (a) Using the information provided, explain the market structure that best describes the hand car wash (HCW) industry in the UK. (5)
- (b) Examine **two** reasons why the demand for HCWs increases during a period when consumer 'incomes fail to keep up with inflation' (Extract A line 8). (8)
- (c) Discuss the likely effects of changes in the level of migration on firms such as HCWs in the UK. Use a labour market diagram and the information provided to support your answer. (12)

EITHER

- (d) Evaluate the microeconomic and macroeconomic factors which determine the number of firms in an industry. Refer to HCWs or another industry of your choice. (25)

OR

- (e) Evaluate the microeconomic and macroeconomic effects of increased government

intervention in an industry. Refer to HCWs or another industry of your choice.

(25)

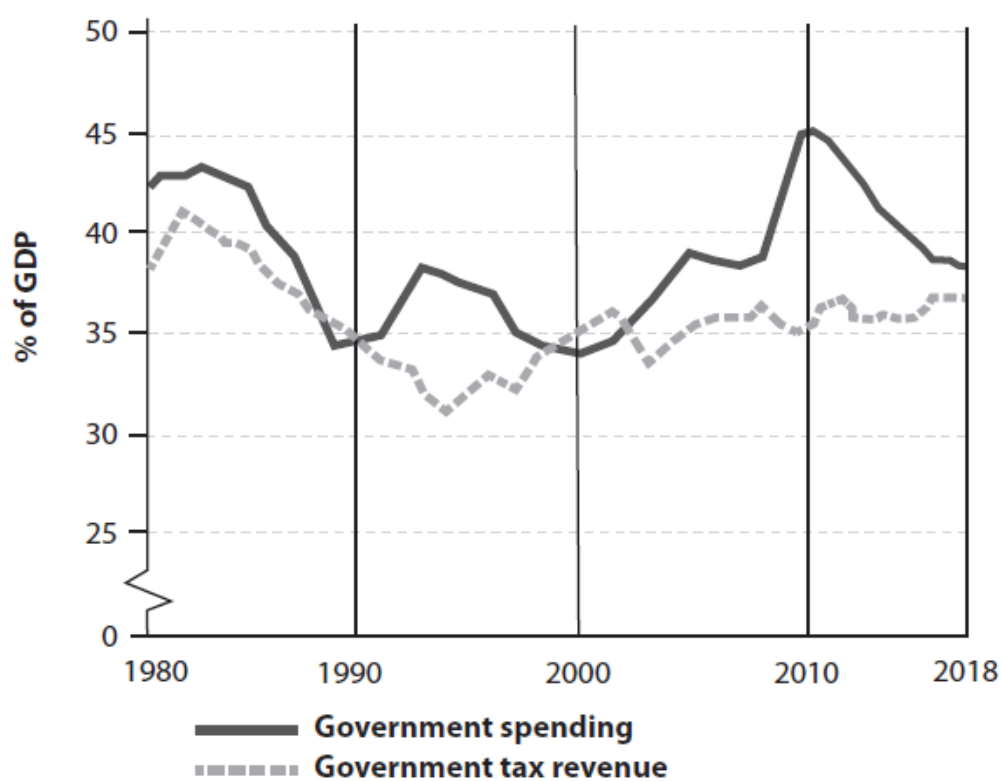
(Total for question = 50 marks)

Q9.

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

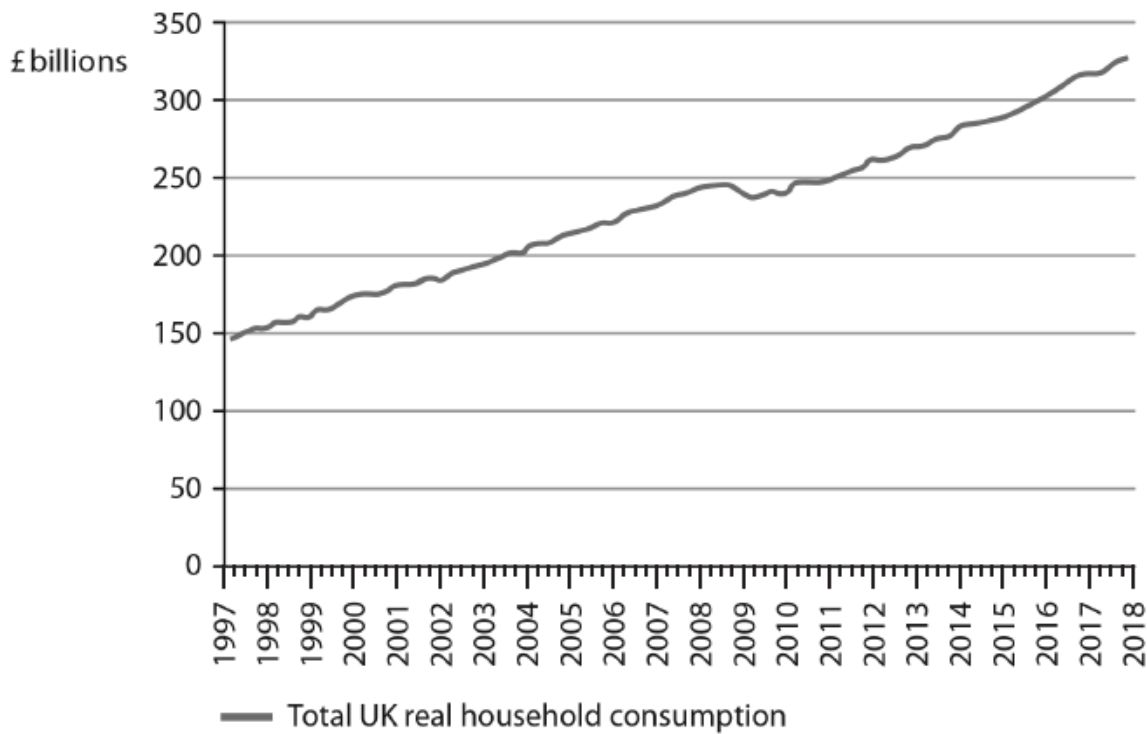
UK government budget and household consumption

Figure 1: UK government spending and tax revenue as % of GDP, 1980-2018



(Source: adapted from Office for Budget Responsibility (OBR), http://cdn.obr.uk/EFO-MaRch_2018.pdf © Crown copyright 2018)

Figure 2: UK real household consumption, quarterly, £ billions, 1997 to 2018



(Source: adapted from ONS, www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018)

Extract A

UK household consumption

Despite the slow growth in real household disposable incomes, consumer spending rose in 2017. Annual spending per person increased by £589, when compared with 2016. This may have reflected UK households' delay in adjusting to the increase in inflation that was associated with the fall in the exchange rate of the British pound. The increase in consumption has also been driven by low interest rates. In 2017 UK house prices increased by an average of 5.1%.

5

UK consumers have financed most of their spending by borrowing on credit cards in order to maintain their living standards. In 2017 borrowing on credit cards rose by 9.6%, the second-highest level since before the financial crisis. This has increased the Bank of England's concerns about the sustainability of borrowing, given the slow growth in real incomes. The Bank has also indicated that the base interest rate was likely to rise faster than previously expected. More expensive credit could therefore constrain the ability of households to spend.

10

(Source: adapted from 'Consumer Trends UK', ONS, <https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/octobertodecember2017> and © Crown copyright 2018)

Extract B

Reduction of the UK's budget deficit

Since 2010 many economists have believed that the biggest problem facing the government was the rising budget deficit. In late 2017, the UK's Chancellor of the Exchequer announced that the government would continue with its plans to decrease its budget deficit. To address this issue, the government further reduced welfare payments and introduced extra spending cuts in the public sector. 5

The UK government had estimated that the fall in UK productivity since the financial crisis was only temporary. However, it has now accepted that this fall in the level of productivity is a long-term issue. Subsequently, the UK's forecast long-term trend rate of growth was reduced. Slower growth means lower tax receipts, higher spending and a bigger budget deficit. 10

Some economists have suggested that the government should not pursue additional reductions in the budget deficit. They have also claimed that the responsibility of the government is not to balance the budget but to balance the economy by moving it to full employment. 15

(Source: adapted from 'Philip Hammond must ditch deficit reduction and invest. But will he?', The Guardian, <https://www.theguardian.com/politics/2017/nov/19/philip-hammond-must-ditch-deficit-reduction-and-invest-but-will-he>)

(a) With reference to Figure 1, explain the term 'balanced government budget'.

(4)

(b) Explain the likely effect of a fall in the exchange rate of the British pound on aggregate demand.

Refer to Extract A in your answer.

(5)

(c) With reference to Figure 2 and Extract A, explain two likely influences on the level of UK real household consumption.

(6)

(d) Assess the likely impact on the UK economy of an 'increase in consumption' (Extract A, lines 5–6).

Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(e) Discuss the factors that might explain why 'the UK's forecast long-term trend rate of growth was reduced'

(Extract B lines 9–10).

(15)

EITHER

(f) Evaluate supply-side policies that could be used to increase the UK's rate of economic growth.

(20)

OR

(g) Evaluate the likely macroeconomic effects of the UK government pursuing a policy of reducing its budget deficit.

(20)

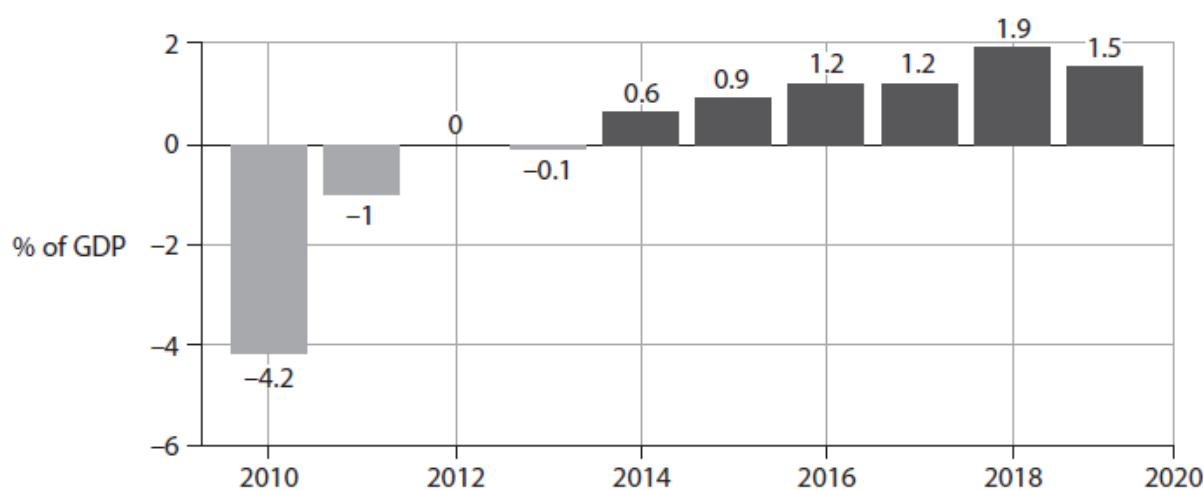
(Total for question = 60 marks)

Q10.

Read Figures 1 to 4 and extracts C and D before answering this question.

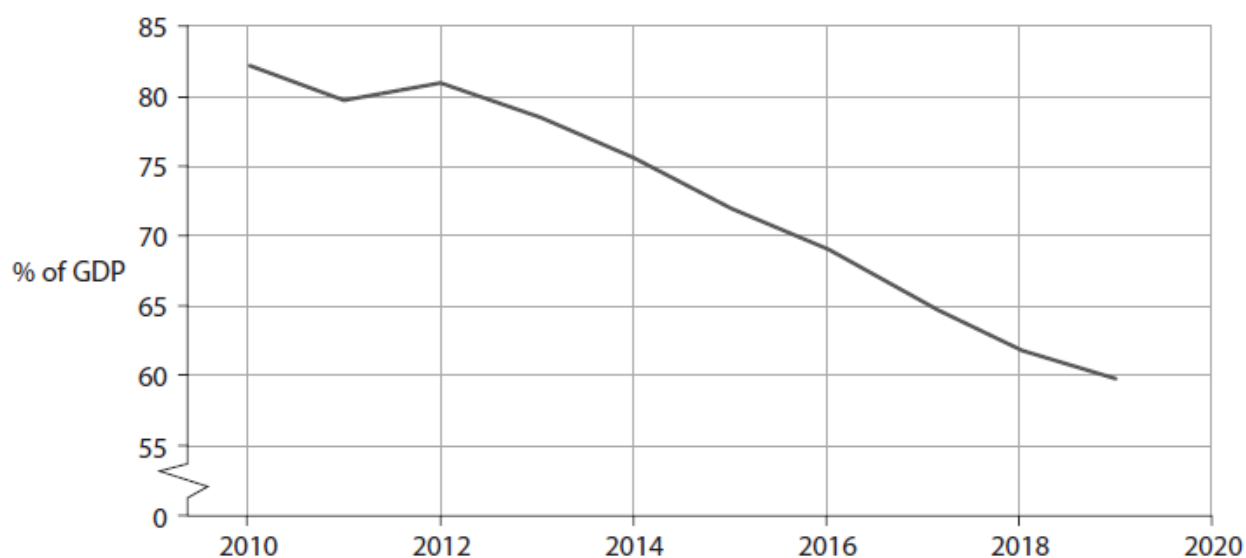
The German economy

Figure 1: German government budget balance, percentage of GDP, 2010 to 2019



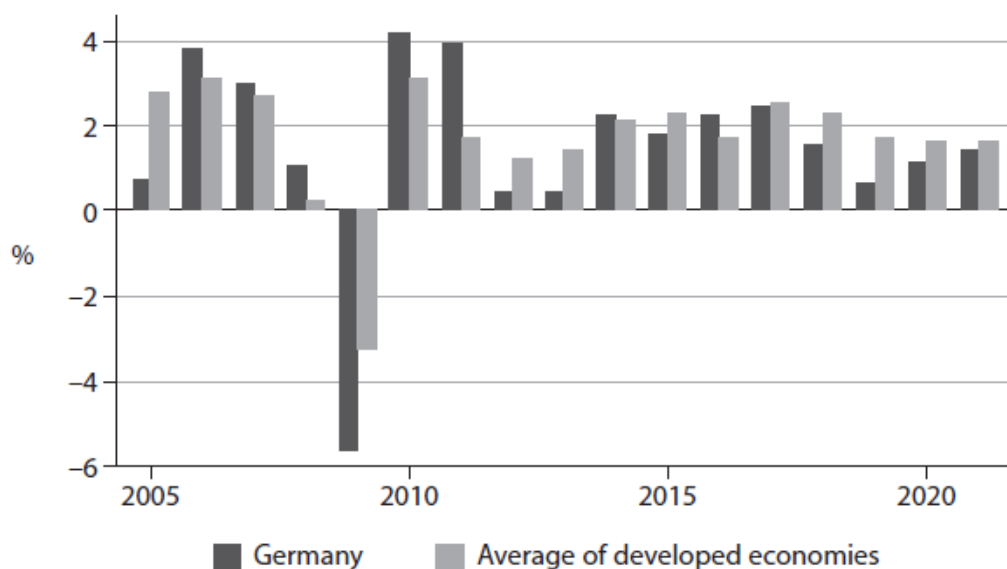
(Source adapted from: The Economist Nov 14th 2019)

Figure 2: German national debt, percentage of GDP, 2010 to 2019



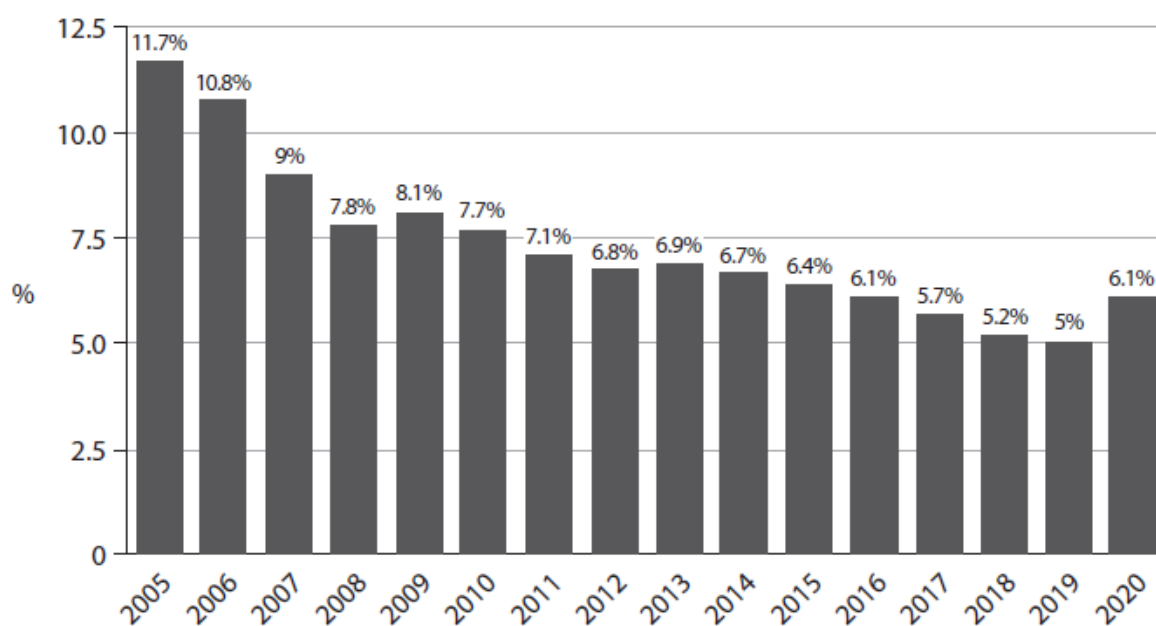
(Source adapted from: The Economist Nov 14th 2019)

Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)



(Source adapted from: IMF and German Federal Statistical Office)

Figure 4: Unemployment rate in Germany, percentage of labour force, 2005 to 2020 (2020 figure is forecasted)



(Source adapted from: bundesagentur für arbeit.de and <https://www.ft.com/content/5486b247-c73e-4887-a2b2-528b23e301a6>)

Extract C

Why Germany keeps to budget rules despite a slowdown in growth

Germany's economic boom is over, as it has entered recession. During the last ten years of economic growth well over 4 million jobs were created.

The fear of recession has revived a debate in Germany: should the government spend more to stimulate growth? It is written into the German constitution that the fiscal deficit cannot be greater than 0.35% of GDP, once the effects of the economic cycle have been removed. Germany's budget has been in surplus since 2014 and the government is always reluctant to increase spending which would create a deficit. In 2018, aided by booming employment and low interest costs on existing debt, the budget ran to a surplus 1.9% of GDP.

Germany's main trading partners have long been angered by German fiscal policy. The French President criticised Germany's budget and current account surpluses that "always occur at the expense of others".

Large parts of Germany's infrastructure need significant investment. As the economy has slowed, a decision to run a balanced-budget policy has become harder to defend. In wealthy regions of Germany, crumbling schools have been closed for fear of collapse, and information and mobile technology on a wide scale needs to be modernised. The World Economic Forum reported that accessibility of fibre optic broadband also "remains the privilege of the few". However, private sector firms, such as major motor manufacturers, are still willing to invest in new technology and the profitability of some of these firms, in the long run, benefits as a result.

The state development bank puts Germany's investment shortfall at €138 billion (£120 billion). Arguments for a much more expansionary fiscal policy have failed to influence government policy. Big government programmes, such as a recent package to reduce Germany's carbon emissions, are only implemented when they satisfy fiscal rules.

(Source adapted from: The Economist Nov 14th 2019
and <https://www.ft.com/content/3cec4908-d164-11e9-8367-807ebd53ab77> 7th September 2019
and <https://www.ft.com/content/198f072e-4e42-11ea-95a0-43d18ec715f5> and
<https://www.ft.com/content/d89d9404-c586-11e9-a8e9-296ca66511c9> and
<https://www.ft.com/content/8f87c03c-93dc-11e8-b67b-b8205561c3fe>)

Extract D

Germany drops to number 7 in the Global Competitiveness Index

Despite being the largest economy in the European Union, Germany's competitiveness is declining, according to the World Economic Forum (WEF). Germany dropped four places in the WEF's Global Competitiveness Index, coming in as the seventh-most competitive economy. Out of the 103 indicators used in the report, Germany received lower scores in 53 areas in 2019.

(Source: <https://www.dw.com/en/germany-falls-in-global-competitiveness-ranking/a-50745071> 8 October 2019)

(a) Explain **one** reason why a country such as Germany wants to avoid an increase in the national debt relative to GDP (Figure 2).

(5)

(b) Examine **two** likely effects of the forecast change in the rate of unemployment between 2019 to 2020, on firms in Germany. Refer to Figure 4 in your answer.

(8)

(c) Discuss the likely impact of investment in new technology on the profitability of firms in Germany, as described in Extract C line 20. Use a cost and revenue diagram to support your answer.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors which are likely to determine the rate of economic growth in Germany relative to other developed economies.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic impacts of 'a much more expansionary fiscal policy' (Extract C line 23) on the German economy.

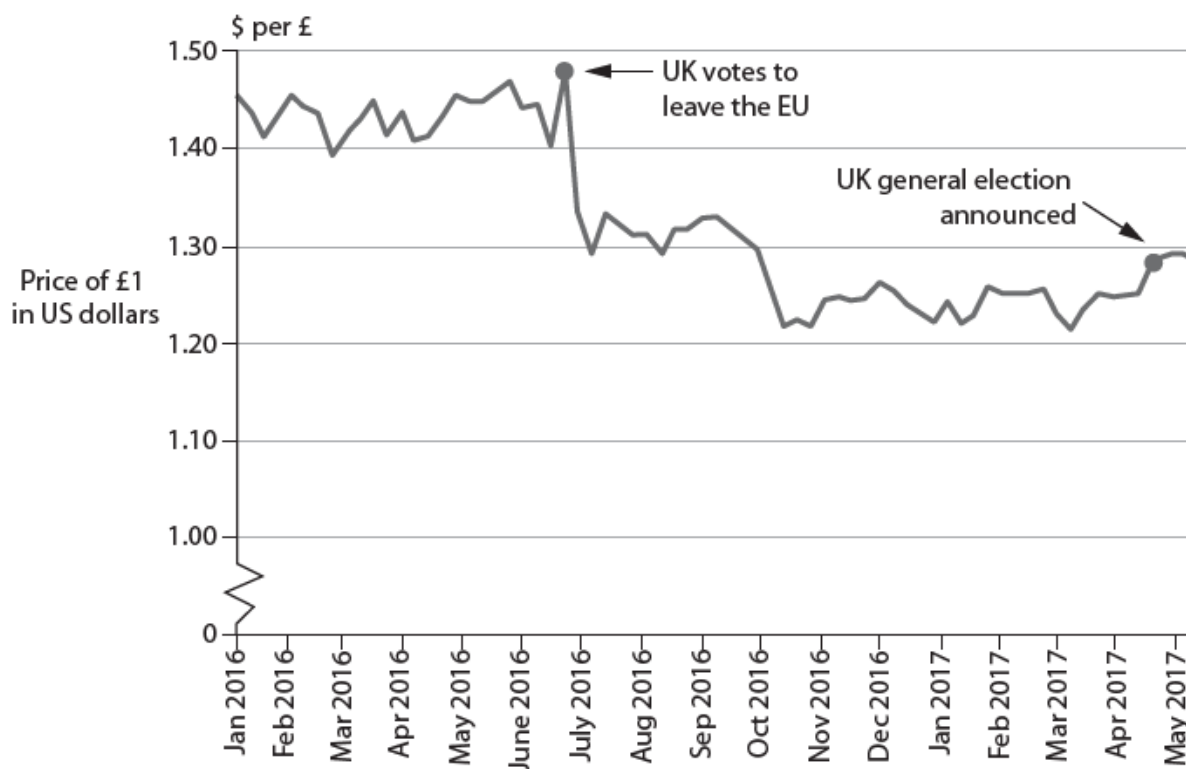
(25)

(Total for question = 50 marks)

Q11.

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.

(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. 5

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. 10

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. 15

(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)

Q12.

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

Answer the question with a cross in the box you think is correct ☐. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☐.

(a) Illustrate the shape of the **Classical** long-run aggregate supply (AS) curve on the diagram below.

(1)



(b) Explain the reason for the shape of the Classical long-run AS curve.

(2)

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(c) Which **one** of the following is an example of a market-based supply-side policy?

(1)

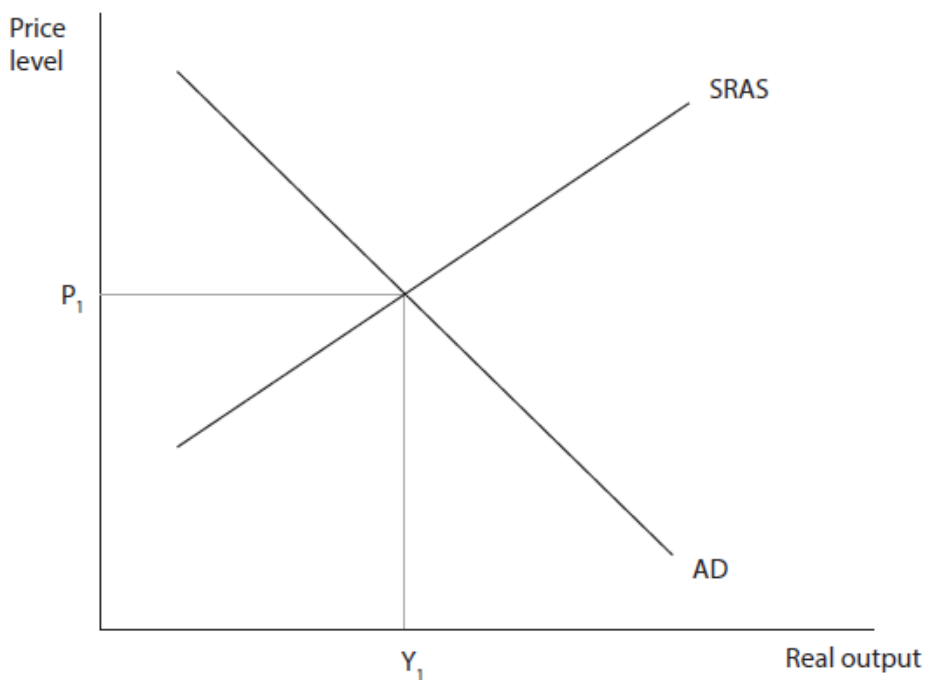
☒ **A** A reduction in unemployment benefits

- ☐ **B** Construction of new transportation links
- ☐ **C** Government-funded apprenticeship schemes
- ☐ **D** Increased government spending on healthcare

(Total for question = 4 marks)

Q13.

The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.



(a) Define the term 'aggregate demand'.

(1)

.....

.....

.....

(b) Annotate the diagram above to show the likely impact of a rise in the cost of raw materials on the UK's equilibrium level of real output and price level.

(2)

(c) Which **one** of the following factors is most likely to cause an increase in the long-run

aggregate supply?

(1)

- ☐ **A** Decrease in investment
- ☐ **B** Increase in relative productivity
- ☐ **C** Increase in the level of unemployment benefits
- ☐ **D** Reduced access to credit for consumers and businesses

(Total for question = 4 marks)

Q14.

(a) Which **one** of the following would be most likely to cause aggregate demand to increase?

A fall in:

(1)

- ☐ **A** government spending
- ☐ **B** net trade (X-M)
- ☐ **C** the marginal propensity to consume
- ☐ **D** the marginal propensity to save

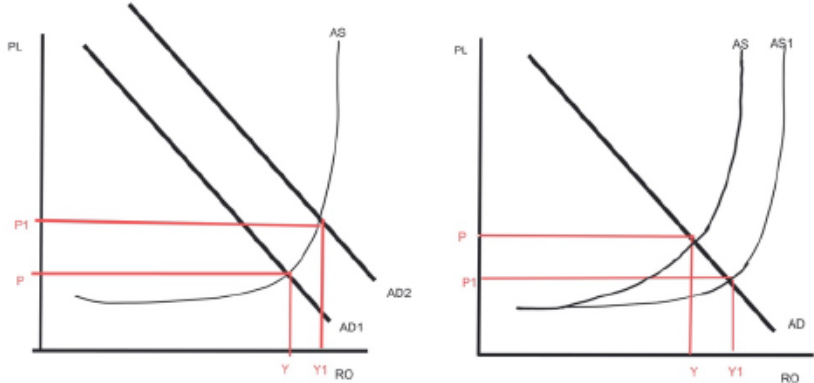
(b) Draw an aggregate demand and aggregate supply diagram illustrating the likely impact of a rise in interest rates on the price level and real output.

(4)

(Total for question = 5 marks)

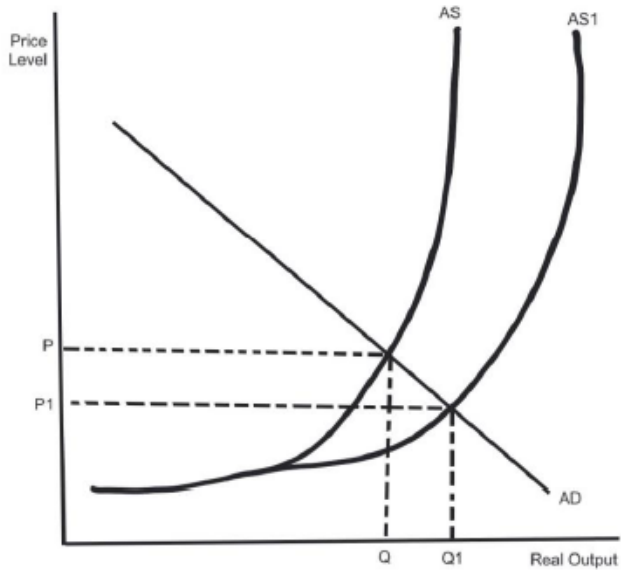
Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2 Knowledge/understanding: Accurate diagram with correct labels on axes (1) and lines (1)  Application: Correct shift of line(s) (1) showing change in price level and/or real output (1) For example: 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 <i>B is not correct because it is not infrastructure</i> <i>C is not correct because it is spending on salaries, not infrastructure</i> <i>D is not correct because it is spending on welfare, not infrastructure</i>	(1)

Q2.

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

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

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge: • 'Good' deflation - Caused by an increase in aggregate supply (1) • 'Bad' deflation - caused by falling aggregate demand (1) Application: 2 data references from Extract 1: (2 marks) • For 'good' deflation - falling price of unit of computing power (1) • For 'bad' deflation - recession in eurozone (1) Analysis: 1 mark for explanation of the link between: Either • AS and 'good' deflation: because it is caused by new technology; falling raw material prices which result in higher real output (1) OR • AD and 'bad' deflation: because it is caused by falling real wages which result in lower real output. (1)	(5)

Question Number		Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge and analysis: 1 mark for each reason, up to 2 marks (K). A further 2 marks for supply and demand diagram(s) or further development or explanation (A) • Fall in demand - recession in eurozone; slowdown in China and Asia • Increase in supply - shale oil Application (1+1 marks): Specific data reference from Figure 1, e.g. fall in oil price from around \$115 a barrel in mid 2014 (1) to just over \$60 a barrel by the end of 2014 (1) Specific data references from Extract A: e.g. 50% increase in oil supply in USA (1) Evaluation: (2 marks for any relevant point): • Prioritisation - discussion of which factor has had the greatest impact • Fall in demand might be more temporary than increase in supply.	(8)

Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Meaning of a cartel: group producers acting together; restricting supply to force up price • The producers act as a monopolist when a cartel is formed • All major producers must be members of the cartel for it to be able to succeed • No new substitutes for the product must be available (in this case shale oil is an effective substitute for oil) • Supply must be controlled – without ‘cheating’ by individual producers.	(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 • Much will depend on relative price of oil in relation to sources of renewable energy • A cartel might be more successful in the short run than in the long run when alternatives may be developed and become more available • Less powerful members of the cartel are likely to cheat • Difficulty of controlling activities of major producers • Impact of increase in shale oil/gas production • Inability to prevent entry of new producers (discussion of the degree of contestability in the market.	(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: • on consumers - increase in real value of savings; falling prices so increase in consumers' surplus • on producers - lower input prices leading to falling costs of production and possibly higher profits • on workers - could result in nominal wage cuts • on shareholders - falling profits might result in falling dividends. Macroeconomic effects: • impact on Investment - less incentive for firms to buy capital equipment • impact on Employment - could lead to a 1930s type depression with massive unemployment • impact on Economic growth - could result in prolonged depression • impact on Real value of a country's national debt increases. Possible evaluation points include: • impact depends on the causes of deflation – whether it is 'good' or 'bad' • consumers face increase in real value of mortgages and debts • producers face falling revenues and profits • impact on macroeconomic variables (growth, employment, balance of payments) dependent on type of deflation.	(25)

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: • impact on costs of production resulting in higher profits for businesses • impact on revenues and profits of oil companies (reference to price inelasticity of demand) • impact on investment decisions by firms in the oil market, especially with reference to shale oil • impact on wages of workers in oil industry • impact on consumer real incomes and on demand for other goods and services • impact on green energy industries (reference to cross elasticity of demand). Macroeconomic effects: • lower global rates of inflation (AD/AS analysis) • impact on global growth rates • impact on balance of payments on current accounts of oil importing countries and oil exporting countries • impact on CO₂ emissions: consideration of impact on climate change on different countries - reference to external costs.	

	Possible evaluation points include: • impact on different industries will depend on their oil costs as a proportion of total costs • impact on households will depend on cost of oil in household budgets • impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt • impact on inflation rates and growth rates depends on elasticities of AD and AS curves • impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of oil • impact on external costs depends on how different price elasticity of demand for oil.	(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	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Understanding that oil has a macroeconomic consequence through the effect on the net trade component of AD and/or shifting the costs of production for all firms as SRAS or LRAS shift. Possible macroeconomic consequences may include: • An increase in overall economic activity (real GDP) as the cost of production decreases for businesses, especially for those that are heavily dependent on oil inputs. Application, e.g. a 10% fall in oil prices boosts growth by 0.1 to 0.5 percentage points. • Some sectors such as agriculture, air transport, services involving other travel and oil-intensive manufacturing sectors will benefit as the price of their key input falls. • Benefits for consumers, e.g. real household incomes after essential costs also rise as oil prices fall, which may increase consumer spending, but this is not automatically awarded as a factor increasing AD. The connection involves two possible mechanisms: overall consumer prices fall as cost savings are passed on to households which spend more in domestic markets, and real wages increase as demand for labour rises in fast-expanding sectors. • Oil importing countries e.g. S Korea can stop subsidising energy, enjoy reduced external debt • As a result of growing economic activity, government tax revenues may rise as the tax take from corporate and personal income taxes increase • The fall in the oil price should also have a small impact in narrowing the UK trade deficit. • Application, e.g. prices have fallen by over 75% in 18 months	

	Possible evaluation points include: • Problems for oil producers, with macro effects on employment, tax revenue etc. • The problems in the financial sector – stock markets respond by seeing most prices collapse, especially fuel producers, and stock markets might collapse • Increased external debt for oil exporting countries (and gas, as gas prices are also falling) e.g. Russia, Venezuela • Negative effect on consumer confidence, political instability with impact on markets • Reduced research into new exploration of oil • Reduced investment into new technologies to replace oil (\$380 billion) • Externalities might increase or decrease (depending on effect on carbon fuels, fracking firms etc) • Depends on how long the oil prices stays low, and who much further it went/will go • Risks from 'sectoral stagnation' in developed economies or continued problems in the Eurozone e.g. the oil and gas extraction sector is negatively affected by the reduction in the oil price • Government experiences declining tax revenues from the oil and gas sector. NB For a Level 4 response there must be a logical connection for a change in aggregate demand – do not automatically award an increase/decrease in AD.	(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.

Q5.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2 Knowledge/understanding 2 marks for, e.g. - Investment is an increase in the capital stock (1). - Real means adjusted for inflation (1). Application 2 marks for, e.g. - Investment has fallen (1). - 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 Knowledge 1 mark for, e.g. - An appreciation means that one pound becomes worth more US dollars (1). Application 2 marks for two data references from Figure 2, e.g. - the pound has appreciated from £1 = \$1.52 on 1 July 2013 (1), to £1 = \$1.65 on 1 January 2014 (1). Analysis 2 marks for, e.g. - The British pound price of goods and services imported from the US will be lower (1). - 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 Knowledge/understanding - Identification of two reasons (1+1). Application - Reference to Extract 1 (1+1). Analysis Linked development of why each factor led to increased consumption (1+1), e.g. - delayed impact of the cut in the bank rate (1) to 0.5% (1), making borrowing cheaper and providing less incentive to save (1) - 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) - 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 Interest rates: • current rates will influence the cost of servicing loans (interest payments) • expectations of future interest rates may influence cost projections and project viability Other factors to consider might include: • willingness of banks to lend to firms (FLS) • company profitability • level of cash held by firms • business confidence • sustained consumer spending (may be linked to rising real incomes) • rate of depreciation of capital • inflation rate (current and future expectations) • 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. Use of generic or irrelevant information or examples. 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. 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
(d) continued	Evaluation 4 • Expectations of future values as important as current values (e.g. interest rates). • Weighing up of different factors – extract implies confidence is the most important. • 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. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 - Understanding of inflationary pressures/inflation. The effect of a lack of investment: - a lack of new investment may mean that depreciation occurs at a quicker rate than investment, reducing the productive potential of the economy - this could lead to a decrease in the economy's level of aggregate supply/an inward shift of its PPF - candidates may draw an AS/AD diagram to show the effects of a reduction in (LR)AS - cost-push inflationary pressures would build in the economy. The effect of a stronger pound: - a stronger pound makes imports cheaper. The price of imported goods in the CPI basket should fall, reducing inflationary pressures - 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 - 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. 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. 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 • It depends on the rate of depreciation of capital. • It depends on the level of spare capacity in the economy. • It depends on the elasticity of the AD curve, and/or whether a lack of investment reduces AD too. • Comment on the significance of the appreciation. • 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. 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 is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
(f)	Knowledge 4, Application 4, Analysis 6, Evaluation 6 • Understanding of economic growth. • Understanding of macroeconomics objectives. Candidates may address this question in different ways. • Explanation of the likely benefits of economic growth to: ○ consumers ○ firms ○ the government ○ income distribution ○ the environment ○ current and future living standards • Explanation of the likely costs of economic growth to: ○ consumers ○ firms ○ the government ○ income distribution ○ the environment ○ current and future living standards • Explanation that economic growth may support the achievement of some of the government's other macroeconomic objectives: ○ low unemployment ○ balanced government budget ○ achieving environmental goals	
	• Explanation that economic growth may conflict with the achievement of some of the government's other macroeconomic objectives: ○ balance of payments equilibrium ○ low, stable inflation ○ reduced income inequality ○ 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. 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 or superficial, two-stage chain of reasoning only.
Level 3	7–10	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	11–14	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	1–2	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. 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. 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 • Understanding of monetary policies. • Understanding of macroeconomic objectives. 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. 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. Monetary policies which may be considered: • change in the interest rate • change in the value of asset purchases to affect the money supply. The effect of loose monetary policy on the macroeconomic objectives: • 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	

	• 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 • unemployment should fall in the economy • time lag – unemployment tends to be a lagging indicator, particularly if firms already have spare capacity • 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 • the environment might be harmed by the increased levels of economic activity generated • in developed economies such as UK, economic growth tends to reduce the level of environmental degradation • 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)
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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. 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 or superficial, two-stage chain of reasoning only.
Level 3	7–10	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	11–14	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.

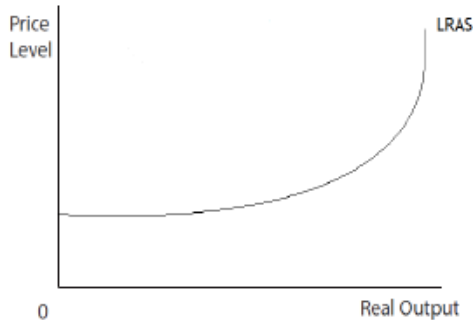
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. 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. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Answer	Mark
(a)	The only correct answer is A <i>B is not correct because this is a Classical LRAS curve</i> <i>C is not correct because this shows AD decreasing</i> <i>D is not correct because this is a Classical LRAS curve</i>	(1)

Question Number	Answer	Mark
(b)	Knowledge 1, Analysis 1 Knowledge/understanding (1): There would be no change in real output (1) Analysis (1): E.g. since classical economists believe the economy will be at full employment in the long run Diagram to illustrate this:	(2)

Question Number	Answer	Mark
(c)	Knowledge 1, Analysis 1 Knowledge/understanding (1): Identification of likely impact: - Aggregate demand will fall/decrease Analysis: 1 mark for linked development, e.g. - Negative wealth effect - Reduction in consumer confidence and consumption	(2)

Q7.

Question Number	Answer	Mark
(a)	Knowledge 1 Knowledge: e.g. possible diagram 	(1)

Question Number	Answer	Mark
(b)	Knowledge 2 Knowledge/understanding: 2 marks (1+1) for, e.g. • Equilibrium level of output can occur below the full employment level of output / the economy is not operating at full capacity/employment (1) • There is a negative output gap in the economy (1) • Award use of a LRAS diagram to illustrate spare capacity / the economy is operating at the elastic segment of LRAS (1) • Award the use of a PPF diagram to illustrate spare capacity / economy is operating inside the PPF (1) • Under-utilisation of the factors of production / the resources not being used to their full potential (1) so there is room to increase supply/output (1)	(2)

Question Number	Answer	Mark
(c)	The only correct answer is D A is not correct because changes in competition policy shifts the long-run AS B is not correct because changes in relative productivity shifts the long-run AS C is not correct because changes in the cost of raw materials shifts the short-run AS	(1)

Q8.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis 3 marks for identifying market structure and relevant features. Points might include: • Monopolistic competition or highly competitive (1) • Many small sellers in the market (1) • Low price setting power (1) • Firms sell differentiated goods (1) • Normal profit/low profit margins as a sign (1) of low barriers to entry/exit (1) • Allow up to 2 marks for diagrammatic analysis Application: 2 marks for data (1+1 or 2): point might include: • there are many firms 10 000 to 20 000 (1) • cheap, low skill labour are possibly migrants (1) • low level of capital required (1) • everyone paying the same £5 (1) • some offering inside and out washes (1) / similar car washing at each provider (1) • Availability of cheap premises make market entry easier (1)	(5)

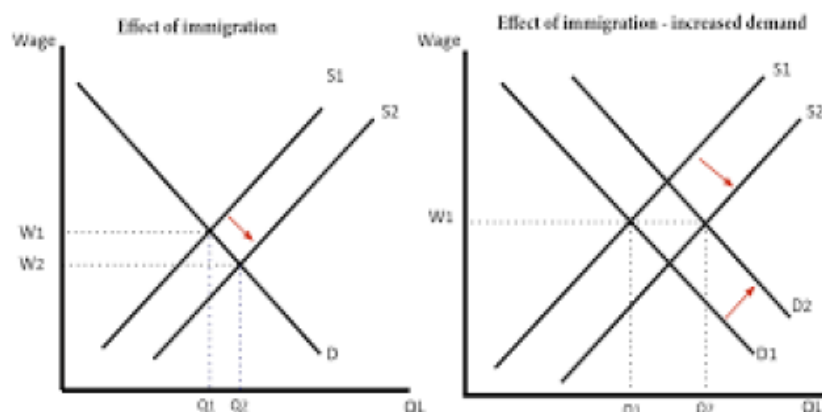
Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/ implicit understanding: (1+1) marks for two reasons and explanation e.g. • HCWs are inferior goods if demand rises when incomes fall • HCWs at £5 are a very small percentage of consumer income so they might be seen as essential or basic goods • Other factors affect demand apart from income, for e.g. availability and price of substitutes (automatic car washes [might be normal/luxury good] or car washing equipment), working patterns Application: (2 marks for any relevant point, or two points 1 +1). Points might include: • Incomes are not keeping up with inflation so real incomes are falling • HCWs at £5 are a very small percentage of consumer income so they might be seen as essential or basic goods. • Increased demand when people have lower incomes – high level of utility at small expense, Extract A paragraph 2 • Extract B: there is a decrease in the availability of automatic car washes as independent petrol retailers go out of business. • Increased number of sites and rents have fallen (Extract A paragraph 3)	

	Analysis (1 + 1): • Linked development of the two points made • Maybe shown by diagrammatic analysis Evaluation: (2 marks for any relevant point, two points 1 +1). Points might include: • Subjective happiness is yielded from an HCW, implying that it is rational to use an HCW/it is not rational as washing the car at home is cheaper when incomes fall • Incomes have not been falling over the whole period, so it is more likely that as incomes rise people are buying a HCW as a YED is low (small percentage of income) • Regional or demographic changes in incomes	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 Knowledge/implicit understanding: Points might include: - Increased labour supply – workers willing to take low-paid jobs - Arguments also allowed that since the UK left the EU, many workers are leaving – question does not specify immigration or emigration - Increased demand from increased UK population also allowed as an approach Application: - Immigrants the main employees at HCWs and similar labour intensive firms (Extract A) - Implication in EU that increased immigration (Extract A paragraph 4) has caused supply to increase and therefore wages half of minimum wage (Ext A last paragraph) - HCW often a first job while the migrant's language improves on arrival in the UK (Ext A) - Following UK leaving the EU many low skilled labour may leave - Workers are not able to migrate as wages are not high enough in sector to be able to migrate to post UK leaving the EU	

	Analysis: - Labour market diagram showing increase in the supply of labour - NMW diagram showing excess supply of labour at the wage floor - Allow decrease in supply, e.g. since the UK leaving the EU - Allow backward bending supply of labour - Allow monopsony diagrams (although not required) - Some segments require more skilled workers and not suit low skilled migrant workers, e.g. valeting - Reference to any industry that relies on migrant workers, e.g. hospitality, nursing, construction NB if no valid diagram or reference to an industry, then award a maximum of Level 2 KAA	(8)
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Diagram, shift in demand and/or supply, or minimum wage e.g.



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 • Impact of UK leaving the EU, Global Health Crisis etc. might put immigration figures into negative, and wages and conditions might improve • Depends on monopsony power • Evidence suggests there is not exploitation, or there is not enough evidence • Some firms are charging a fair wage • Other changes in the pipeline • The size of the changes in migration will dictate the impact on labour market • The ability of workers to move to other sectors/ speed language developed will determine impact on labour market • Within HCW there are sub-markets - some specialise in luxury vehicles - others are mobile operators who visit home - each will be affected differently	(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. 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 16 marks for KAA, for causes of the number of firms in an industry to change. Microeconomic causes may include: • nationalisation • privatisation • contestability • market power • economies of scale – natural monopoly • regulation and deregulation • oligopoly behaviour • barriers to entry e.g. factors linked to demand- tastes- preference for HCW over automatic, income, availability of substitutes- decline in automatics	

	Macroeconomic causes may include: • economic growth – e.g. a growing market means more firms will enter • trade patterns • level of protectionism • government policies e.g. supply side policies • TNCs and FDI • unemployment (especially given recent events) • inflation- if inflation is high, costs rise and if unable to increase prices, then firms may exit the market • Level of environmental protection- adds to the costs and may reduce the number of firms. • Exchange rates - if appreciated - costs to import lower and export higher - exporters may exit the market • Relative poverty high and rising - more demand low costs HCW increasing demand and market size - more firms NB for a Level 4 response there must be micro and macro cause(s). Foreign direct investment, role of TNCs, or regulation could be seen micro or macroeconomics NB for a Level 4 response there must be reference to an industry	
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	9 marks for evaluation – points might include: • Depends on the nature of the business. Another industry could be used as a contrast, e.g. a capital intensive industry • Depends on the LRAC and the minimum efficient scale in the current situation • Changes over time – barriers to entry or exit are likely to change e.g. in the face of new technology in car wash industry or other industry • Exchange rates go up and down so could equally depreciate • Environmental protection may create more demand as it is a more ethical service and not cause the number of firms to fall	(25)
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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. Demonstrates understanding by identifying relevant information. 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. 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. 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. 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. 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. 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 16 marks for KAA, for effects of increased government intervention. Microeconomic effects may include: • Minimum price, living wage enforced, planning issues, tax, health and safety • Rise in wages (if wage floors introduced) will have a large impact on costs. Might be shown on increasing NMW diagram • Effect on price of car washes – consumer surplus falls, output falls, price increases • Impact on quantity of labour/marginal revenue productivity • Impact on productivity • Diagram to show the effect of the intervention approach, e.g. of minimum price as solution to market failure • Price of a car wash might be passed on to higher wages	

	Macroeconomic effects may include: • Income equality improvements – may use Gini coefficient or Lorenz curve • Prices rise – inflationary effects • reduction in levels of poverty • effects on growth – inflexibility in markets can reduce I or FDI • might improve environmental standards • Reduced employment NB for a Level 4 response there must be micro and macro effect (s). Employment or welfare issues could be seen as micro or macro, for example, can be used as either micro or macroeconomics NB for a Level 4 response there must be reference to an industry	
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	9 marks for evaluation – points might include: • Government failure, e.g. regulatory capture, asymmetric information • depends on impact of other events such as UK leaving the EU, high unemployment from recent Global Health Crisis • effect on workforce of employment regulation depends on elasticity for demand for labour, and degree with which it can be replaced with capital • depends on PED of HCW market as a whole • consumers might also have increases in wages • some firms will face decreased demand and go out of business. Loss of jobs and other economic activity • depends on the PED and PES in factor market and product market as a whole • Wash Mark Certificates not government regulation may have more of an impact in improving quality and conditions for workers and reducing pollution than government action	(25)
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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. Demonstrates understanding by identifying relevant information. 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. 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. 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. 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. 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. 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)	Knowledge 2, Application 2 Knowledge/understanding 2 marks for, e.g. • Government spending equals (1) tax revenue/ income (1) • Neither a budget deficit nor a budget surplus (1) Application 2 marks for 2 data references from Figure 1 (1+1), e.g. • UK experienced a balanced budget in 1990 (1) at nearly 35% of GDP (1) • Overall trend/data point shows there is a budget deficit (1)	(4)

Question Number	Answer	Mark
(b)	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding 1 mark, for e.g. • Explanation/formula of aggregate demand (1) • Understanding of a depreciation of the exchange rate (1) • Simple explanation of what a weaker currency means (1) Application 2 marks (1+1), for e.g. • Aggregate demand will increase (1) shown on a diagram (1) • Weaker pound due to a lack of confidence as a result of the UK's decision to leave the EU (1) • Low interest rate and less hot money flows (1) Analysis 2 marks for linked development (1+1), e.g. • Imports become relatively more expensive, so aggregate demand rises (1) • Exports become relatively cheaper, so aggregate demand rises (1)	(5)

Question Number	Answer	Mark
(c)	Knowledge 2, Application 2, Analysis 2 Knowledge/understanding Identification of two influences (1+1) for, e.g. • Interest rates • Disposable incomes • Consumer confidence • Positive wealth effects Application 1 mark for data reference from Figure 2 and 1 mark from Extract A (1+1), e.g. • Figure 2 – real household consumption increased by approximately 1.7% between 2016 and 2017 • Extract A – Annual spending per person increased by £589 (1) • Increase in consumption has also been driven by low interest rates / average increase of 5.1% in house prices (1) Analysis Linked development (1+1), e.g. • Low interest rate implies low reward for saving / low cost of borrowing (1) • Higher incomes incentivise consumers to spend, but at a slower rate as people tend to save more as earnings rise (1) • High consumer confidence / wealth effects implies consumers are likely to make purchases that they know they can pay for in the future (1)	(6)

Question Number	Indicative content	Mark
(d)	Knowledge 2, Application 2, Analysis 2 • Explanation of the term consumption, e.g. the expenditure on consumer goods and services • Consumption is a component of aggregate demand • Aggregate demand will increase from AD1 to AD2 • Inflationary pressures will increase from P1 to P2 • Real output will increase from Y1 to Y2 • Consequently, unemployment will decrease • Figure 1: household consumption has increased by nearly 117% between 1998 and 2018 • Extract A: spending per person increased by £589 Diagram, e.g.: NB Candidates must answer with a valid AD/AS diagram showing an increase in AD to access Level 3	(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
(d) continued	Evaluation 4 • Consumption is largest component of aggregate demand, therefore will have a significant impact • Significance of the elasticity of the AS curve and the state of the UK economy • UK consumers have financed their spending by borrowing – “borrowing on credit cards rose by 9.6%”: it creates an unstable and unbalanced economy • Consumer spending could be constrained in the long term if the central bank raises the base interest rate – “more expensive credit could constrain the ability of households to spend” • Depends on other factors in the economy, such as net trade and investment	(4)

	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 chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Understanding of long-term trend rate of growth Possible factors include: • Fall in relative productivity, “the fall in the level of productivity is a long-term issue” – costs per unit rise and export prices increase; exports fall • Lower technological advances will reduce efficiency and raise the cost of supplying goods and services; lack of innovation due to less R&D spending • Slow growth in the level of UK’s investment into capital goods since the “financial crisis” – due to lack of business confidence • Lack of government spending on education and training – has a negative impact on the skills of the workforce, thereby reducing human capital • Slower rate of immigration – fewer workers coming into the country as a result of the UK’s decision to leave the EU; this decreases growth of the active labour force and hence lower rate of output produced • Stricter government regulations – markets are less flexible and reduces competition in industries • External factors, e.g. slow global growth rates • Accept demand side factors if linked to growth	(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 Points may include: • Significance of the most important factor affecting growth; “productivity is a long-term issue” • Depends on the size of the fall in UK productivity and on the productivity of the UK’s main trading partners, such as the US and EU • Uncertainty over the UK’s decision to leave the EU is more important than the financial crisis as this was over 10 years ago; effects of the lower investment may not yet be seen • Inaccuracies/inadequacies of data may mean that the UK’s long-term growth might not be low as it has been estimated • Uncertainty of world 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 is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
(f)	Knowledge 4, Application 4, Analysis 6 KAA: • Understanding/definition of supply-side policies • Understanding/definition of economic growth • AD/AS diagram showing change in AS consistent with analysis / use of PPF diagram • Increased government spending on education and/or training - this would increase skills and productivity • Increased government spending on healthcare – this should reduce the number of days absent from work • Reducing level of benefits and/or income tax – this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work • Cutting cost of bureaucracy and/or reduce regulation of firms – this would raise productivity • Financial support for investment in the economically deprived regions – this may help overcome structural unemployment and increase the UK's total output • Improving regulation and/or competition of inefficient industries – this would increase the UK's productivity • Privatisation - this may lead to increased competition, innovation and efficiency in the UK • Increased government spending on infrastructure investment (e.g. broadband or roads) – this would reduce industry costs or improve access to market • Reducing corporation tax – therefore increasing the international competitiveness for investment • Government schemes to improve childcare provision • Increased flexibility and/or mobility of labour	

	Evaluation 6 • Significant time lags for supply-side policies • Consideration of the effectiveness of supply-side policies such as infrastructure/ education/ healthcare at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Cut in the income tax designed as an incentive to work and investment may be ineffective if workers use it as an opportunity to work less for the same income • Cut in corporation tax ineffective if companies use the cut in corporation tax to boost short-term profits rather investment • Increase in UK taxation elsewhere may have an effect on incentives to work	(20)
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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. 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 or superficial, two-stage chain of reasoning only.
Level 3	7–10	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	11–14	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	1–2	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. 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. 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, KAA: Possible effects include: • Reduction in real output / economic growth • Deflationary effect / reduce inflationary pressures • Rising unemployment / falling real wages in the public sector – government “introduced additional rounds of departmental spending cuts” • Increasing inequality – “the government further decreased welfare payments” • Falling real incomes / standard of living – “slow growth in real household disposable incomes” / “decline in living standards” • Reference to the impact of reduced government investment on long-term growth of the economy – “should not pursue further reductions in the budget deficit as this would allow for a significant increase in public investment” • Improvement in balance of payments on current account as net exports rise • Reference to the impact on the environment N.B. Candidates can discuss macroeconomic effects using an accurately labelled AD/AS diagram / accept a circular flow of income diagram that demonstrates a reduction in the circular flow of income	

	Evaluation 6 • Depends on size of the multiplier effect • Shape of the AS curve/spare capacity • Reduction in transfer payments may reduce frictional/voluntary unemployment • Effects depend on to what extent private sector spending/employment can replace public sector spending/employment • Short-run and long-run macroeconomic effects • Effects depend on what areas of government spending/taxes are changed • Potential increase in hidden economy (e.g. rise in cash in hand work)	(20)
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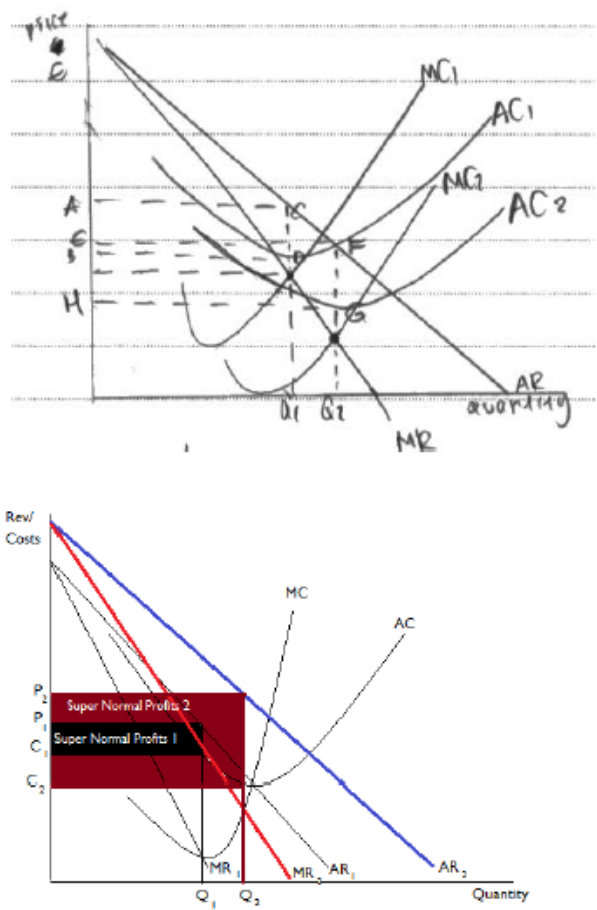
Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
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Level 4	11-14	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	1-2	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. 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. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis: 3 marks. Points might include: • Explanation that national debt is the accumulation of past fiscal deficits (may be implicit) • National debt interest payments have an opportunity cost in terms of current spending • It may be harder to raise borrowing in the future • In case of a debt crisis, it might be impossible to raise new credit • Also could argue that increased debt worsens the fiscal deficit through debt repayments • 'Jam today not jam tomorrow' or similar idea that it's today's benefits paid for in the future Application (2 marks for 1 point, or 1 + 1) Award valid data use only e.g. • Reference to data in Figure 2 e.g. ratio falls (1) to 60% in 2019 (1) • Fig 2: debt is falling as a percentage of GDP which is either because there is a fiscal surplus (Fig 1) or because there is economic growth (Fig 3) • Use of other data, e.g. to keep surplus, 1.9% Fig 1 or Ext C • Want to stay the largest economy in the EU. Data from any of the sources can be credited, if relevant, not just Figure 2. • Maintain independence by not having to borrow	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Knowledge/implicit understanding of two effects (1 + 1) e.g. • Consumers demand falls • Firms may pay lower wages • Lower labour turnover • Easier to recruit staff • Reduction in skills, efficiency • Deterioration of public sector finances further reducing spending on infrastructure Application: (2 marks for any relevant point, or two points 1 +1): e.g. • Unemployment is forecast to rise (1) to 6.1 percent from 5 percent (1) / 1.1 percentage points (2) • This comes after several years of a declining rate of unemployment (1) Analysis (1+1) • Development of points made Evaluation (2 marks for any relevant point, or two points 1 +1): e.g. • Demand might rise for inferior goods • Wages may be sticky downwards • This is only a forecast and given events at the beginning of 2020 might end up worse. • Firms exporting goods may not be affected as demand from abroad may remain strong if unemployment does not fall there • The rise in unemployment is small and is still below 11.7% 2005. So, the impact will be relatively small	(8)

Question Number	Indicative content	Mark
2(c)	Knowledge 2, Application 2, Analysis 4 Knowledge and analysis • Might mean costs rise in the short run and/or • Costs fall in the long term – fixed or variable • Demand for products might increase as firms improve product quality and choice Application • Some firms in Germany are expecting higher long-term profits from the investment (Extract C) • Germany still far behind other countries in the area of technology especially broadband (Extract C) Analysis Example of diagram (can use AC or ATC or not shift MC):	

	 NB for a level 3 response there must be at least one valid diagram. The diagram can show either a rise in AR/MR or a fall in costs, or both.	(8)
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Knowledge, application and analysis		
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 • Discussion of whether costs would rise (short term) or fall if successful (long term) • It depends on how labour intensive the production is • It depends on what competitor countries are doing • New technology needs highly skilled labour and cannot be discussed in isolation	(4)

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	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 factors to explain low growth may include: • Labour force factors e.g. changing NMW will affect ULCs and therefore growth • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. schools crumbling, poor internet • Investment in education/skills or cutting/capping university fees • Low level of willingness to embrace modern technologies Macroeconomic influences may include: • Population changes • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness, changes in EU • Tax and benefit changes • Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation • Actions of other institutions e.g. banks, schools • Control of price level e.g. stop QE • Competitiveness – use of Extract D NB some points such as regulation, supply-side policies, changing the interest rate, can be regarded as micro or macroeconomics	

	NB for a Level 4 response there must be reference to Germany in context Possible evaluation points include: • Degree to which the factors might be a success • Depends on other countries (relative competitiveness issue) – it could be that other countries have a comparative or absolute advantage/other trade pattern and trade bloc arguments • Depends on the value of the euro/ other currency of trading partners which cannot be directly controlled in Germany • Germany might be better protected from worldwide crises such as the recent Global Health Crisis • Growth is not the only desirable economic outcome (it might be argued that slower growth is better)	(25)
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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. Demonstrates understanding by identifying relevant information. 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. 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. 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. 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. 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. 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 may include: • Employment improves or unemployment stops rising • Incomes rise/stop falling • Increased profits for firms e.g. motor manufacturers • Other micro effects of increased spending and welfare e.g. improved health service • Infrastructure improves if spending on this area • Higher taxes in future might have an impact on demand and other aspects of consumer behaviour Macroeconomic effects may include: • AD increases • multiplier • Shift in SRAS or LRAS might be drawn e.g. capacity increases • Increase in price level/output • increase in borrowing – cost for future generations • Diagrams might involve an increase in AD with multiplier effects • Increased debt payments in the future – opportunity cost arguments may be used NB for a Level 4 answer there must be reference to the German fiscal policy. Some effects such as lower costs or increased investment could be seen as micro or macro NB for a Level 4 response there must be reference to Germany	

	Possible evaluation points include: • Depends on Classical vs Keynesian shape of AS • Depends on size of multiplier • Depends on the cost of borrowing – currently very low • Impact on money markets and conflict with other policies • Opportunity cost arguments • Reference to budget deficit and national debt • Confidence in the markets and consumers in the fiscal policy will determine whether or not it is effective • Will interest rates remain low? • An essential action in the recent context, and without stimulus many incomes and businesses would be lost	(25)
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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. Demonstrates understanding by identifying relevant information. 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. 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. 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. 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. 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. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q11.

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.

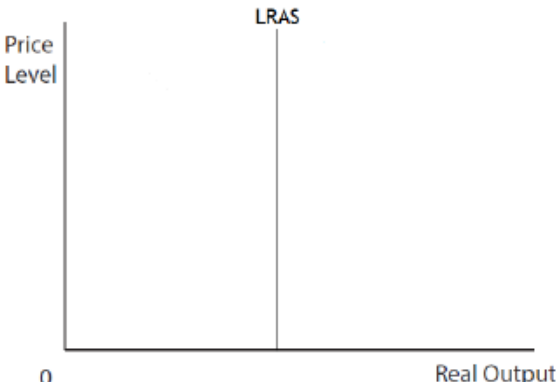
Question Number	Indicative content	Mark
(d) continued	Evaluation 4 There may not be a conflict between some macroeconomic objectives: • UK economy has had both low inflation and low unemployment recently so is the Phillips curve really still valid? • If incomes keep pace with inflation then inequality 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.

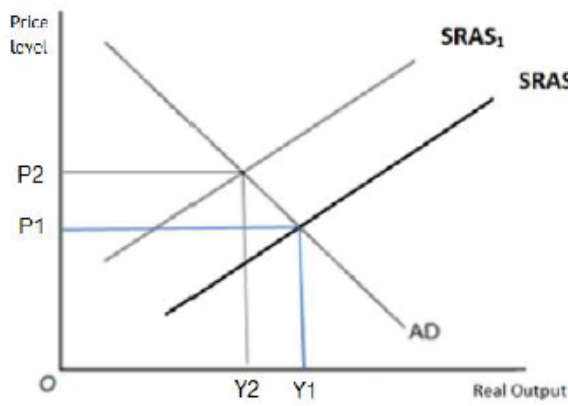
Q12.

Question Number	Answer	Mark
(a)	Knowledge 1 Knowledge:  (1)	

Question Number	Answer	Mark
(b)	Knowledge 2 Knowledge/understanding: 2 marks for, e.g. - Economy operates at full capacity/no spare capacity (1) so there are no unused factors of production/ resources (1) - Wages and prices are seen as flexible, and markets efficient (1) so that the labour market adjusts to maintain full employment (1) (2)	

Question Number	Answer	Mark
(c)	The only correct answer is A B is not correct because this is an interventionist supply-side policy C is not correct because this is an interventionist supply-side policy D is not correct because this is an interventionist supply-side policy (1)	

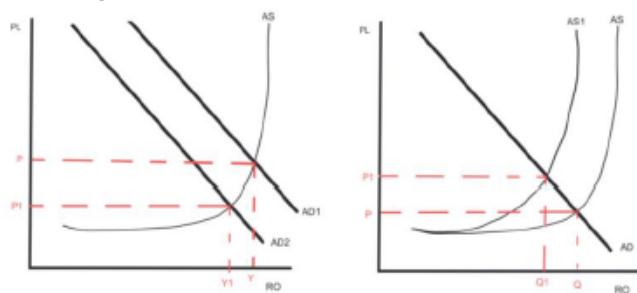
Question Number	Answer	Mark
(a)	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. • $AD = C+I+G+(X-M)$ (1) • Total amount of planned spending on goods and services at any price level in an economy (1)	(1)

Question Number	Answer	Mark
(b)	Application 2 Application 2 marks for, • Correct leftward shift of SRAS (1) • Correct new equilibrium point showing higher price level and lower real output (1) 	(2)

Question Number	Answer	Mark
(c)	The only correct answer is B A is not correct because a decrease in investment will reduce capital stock of the economy, reducing LRAS B is not correct because increase in level of unemployment benefits will reduce the incentive to work, reducing LRAS D is not correct as reduced access to credit would decrease investment as banks would be unwilling to lend	(1)

Q14.

Question Number	Answer	Mark
(a)	The only correct answer is D <i>B is not correct because this would cause AD to decrease</i> <i>C is not correct because this would cause AD to decrease</i> <i>D is not correct because this would cause AD to decrease</i>	(1)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2 Knowledge/understanding: Correct labels on axes (1) and lines (1) Application: Correct shift of line(s) (1) showing change in price level and/or real output (1) For example:  N.B. Other AS curves are acceptable	(4)