PEARSON EDEXCEL A-LEVEL ECONOMICS B · 9EB0

ECONOMICS



MARK SCHEME

2.5 THE ECONOMIC CYCLE

ECONOMIC GROWTH

SCORE	PERCENTAGE
/315	%

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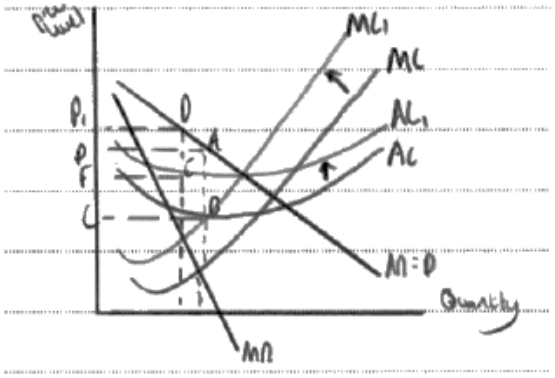
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Mark Scheme

Q1.

Question Number	Indicative content	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** • Definition of an output gap: e.g. the difference between actual output (or growth) and potential/trend output (or growth), an economy which is operating at less than full potential • Use of AD/AS diagram to show either demand deficiency (static diagram where AD crosses AS below full potential) or a short term movement along SRAS (AD shift left). • Shift of AS leftwards on a diagram that shows full employment (note that this can cause a fall in output gap) • Other diagrammatic analysis can be used to support explanation e.g. PPF / trade cycle but 2 marks are reserved for AD/AS **Application** • Use of Extract D and/or Figure 6, e.g. o evidence of immobility of labour and under-employment, o there is a negative output gap in the UK Fig 6 o 'weak demand conditions' o fall in labour productivity • The gap is negative e.g. the sense there is less being produced that could be produced, and is therefore inefficient. • Use of diagram to show the gap on horizontal axis between equilibrium output and potential output. E.g. 1 mark for equilibrium output compared to full employment output **NB award a maximum of 4/5 if there is no use of Extract D or other data provided.** **NB Reserve 2 marks for the AD/AS diagram. Award either as 1 K/AN and 1 AP or as 2 AP.** **NB either a vertical LRAS (Classical) or Keynesian LRAS is acceptable, and the equilibrium may be shown with AD and either LRAS or SRAS.**	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of** • fiscal deficit is when government revenue is less than government spending difference between government revenue and taxation **or G>T (1)** • national debt as % of GDP **(1)** e.g. the sum of deficits over time divided by GDP **Analysis** • a fiscal deficit feeds into a national debt **(2)** • these can move in different directions because GDP is rising more quickly than debt **(2)** • debt can increase deficit *through higher interest payments* **(2)** **Application:** Reading the data from Figures 4 and 5 1 mark for correct application of figures, and 1 mark for relationship e.g. to show national debt as a percentage of GDP is projected to fall after 2015 (1) while the fiscal deficit set to persist until 2019 (1)	
	NB do not award statement 'debt is falling' **Evaluation** (2 marks for any relevant point, two points 1 +1): • The fall in national debt as a percentage of GDP is dependent not on austerity measures but on expectation of rising GDP • Growth might be quicker without the austerity measures indicated by Figure 6 • Other things are not equal, e.g. interest rates might rise, depends on whether the returns for QE or privatisations are in the figures, effects of Brexit • The relationship is usually direct but after 2015 it is inverse • Other factors might explain the trends (i.e. non causal relationship) e.g. change in GDP or time lag.	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Increase in wages implies increased variable costs for firms (average cost or total cost) so profit falls • Diagram showing upwards movement of AC and MC (allow AC-only shift if clearly related to fixed costs of labour) • Allow TC/TR diagram OR • For normal goods there is likely to be an increase in demand (average revenue or total revenue) • Diagram showing rightward/outward shift in AR and MR as demand increases Diagrams  	

	NB an answer which does not include an accurate diagram is limited to Level 2. Diagram must show impact on firms. **NB for a Level 3 answer diagram must show change in profit and can involve a change in FC or VC, and should explicitly link type of cost to type of wage change**	**(8)**

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** • Depends on the proportion of costs made up by (low skilled) labour • Depends on the elasticity of demand for labour, e.g. the substitutability of capital for labour • Effect on profitability will depend on the ability of firms to pass on increased costs • Answers might consider the counterbalancing effects of changes in both revenues and costs • Increased wages have in the past led to increased value of output • In the long run firms might employ younger (under 25) workers, and other possible changes implied in Extract C • Demand might fall if the firm is selling inferior goods when incomes rise. • Real vs. nominal changes in wages • Depends on whether other costs remain the same, or if demand rises as result of increased incomes • Contrast between fixed and variable cost diagrams • Discussion of the supply of labour/opportunity cost of labour as wages rise	**(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** **This mark scheme is based on a decrease in competitiveness, but answer can be given from the point of view of an *increase*** Microeconomic influences may include: • Productivity – physical and human e.g. use of Figure 6 to show worsening of UK international competitiveness • Unit labour costs – in terms of relative wages • Market structure, e.g. low level of competition between firms • Effectiveness of competition policy • Non-price factors e.g. quality • Labour market factors e.g. strength of trade unions, national minimum wage, labour market regulation, • Taxes and subsidies on firms can be seen as micro or macro • Regulation e.g. green taxes and other environmental policies Macroeconomic influences may include: • Physical and human capital • Level of inflation • Level of indirect taxation, including tax on labour, corporation tax • Real exchange rates • Infrastructure • Supply side policies, including protectionism if explicitly linked to competitiveness • Comparative advantage • Membership of trading blocs • Levels of protectionism/tariff barriers	

	Possible evaluation points include: • Degree to which the factor influences competitiveness e.g. ULCs more significant in countries where production has a strong manufacturing base • There may be a discussion of the degree to which wages influence competitiveness • Use of other countries in data e.g. to observe conflicting evidence • Difficulties in measuring productivity or competitiveness, productivity puzzle • Diagram might be used to show different labour market supply and demand and elasticities • Data might be used to make observations, e.g. that Germany is very competitive but has higher wages. • Relative significance of price vs non-price factors • Problems of being competitive in non-tradables, e.g. many services are hard to trade **NB do not award effects unless linked to further changes in competitiveness**	**(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: • on people facing reduced benefits (non-working recipients) • on people facing reduced work-related benefits (e.g. working tax credits) • on firms with increased supply of labour, but higher costs of labour • on firms' incentives, e.g. changes in corporation tax • effects on sectors of economy such as schools, policing from reduced public sector spending • micro effects on supply of labour and on output of firms from changes in marginal tax rates Macroeconomic effects may include: • lower inflation (might involve a discussion of marginal propensity to consume / multiplier) • lower nominal GDP • change in employment / incentives to work • increased income inequality • reduced quality of public services in general • falls in productivity and increased cost push effects as a result of cuts in education or failing infrastructure • reduced crowding out effects as government spending falls in the short term (raising taxes takes longer to reduce the size of the deficit?) • Laffer curve e.g. tax evasion and avoidance	

	Possible evaluation points include: • impact will depend on which areas of government spending are cut, or which type of taxes are raised • depends on multiplier effects within different sub-groups, and depends on the type of tax raised • does the deficit need to be cut at all? Figure 6 shows falling national debt relative to GDP even with a fiscal deficit • questioning the timing of the cut in a deficit – should fiscal austerity be delayed, or is it important to avoid the credit risk of ongoing deficit? • Increase in tax has a smaller effect on crowding out then cutting G. More time delays, might not work, no first round impact on the circular flow of income. • Government failure • Consideration of the size of the public sector **NB for a level 4 there must be reference to:** • **G and T** • **macro and micro effects**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. 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.

Q2.

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
(b) continued	**Evaluation 4** • Export of services has grown • Productivity difficult to measure e.g. especially large service sector • Investment is increasing so productivity may rise in the future • Time period under consideration e.g. the pound is weakening against various currencies	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. 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	Answer	Mark
(c)	**Knowledge 1, Application 2, Analysis 2** **Knowledge** 1 mark for, e.g. • Business confidence (1) • Interest rates (1) • Access to credit (1) • Rise in demand for UK exports (1) **Application** 2 marks for relevant references to context or one reference to context plus development, e.g. • 5% growth in investment (1) • Output rising at the fastest rate in the G7 (1) • GDP growth has remained strong (1) • Unemployment continued to drop (1) **Analysis** Linked development (1+1), e.g. • Lower interest rates reduces cost of borrowing incentivising firms to invest	**(5)**

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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: • Many of these policies will have quite a long time lag e.g. nursery school vouchers will have short term and long term impacts on different stakeholders • Magnitude of the impact of the policies e.g. Crossrail just affects London • Opportunity cost of the policies • Conflicts between objectives e.g. impact on the environment • Conflicts between policies e.g. increased spending on apprenticeships may have fiscal implications	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. 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** • Explicit or implicit understanding of economic growth – a measure of the increase in either real GDP or real GDP per head or potential GDP • Relevant diagram e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Increased tax revenues for the government which may be used to improve public services or redistribute incomes • Higher profits for companies which may be used to improve quality products or to produce new products • Consumers' living standards improve e.g. can afford to buy more goods and services and/or have more leisure time • More employment opportunities/lower unemployment • If there is export–led growth, then the current account of the Balance of Payments would improve • Real economic growth increases LRAS and could lower inflation • An increase in business confidence which may lead to increase in investment • Investment in sustainable technology can have environmental benefits **NB the benefits of growth can be seen as KAA or evaluation and the costs of growth vice versa.** **NB For a level 4 response there must be explicit reference to "a number of concerns" which include:** • **current account deficit** • **decline in rate of return on UK investments** • **low export growth** • **growth lower than target** • **struggling goods industries** • **output falling in construction/manufacturing** • **growing household debt** • **imbalance of consumer driven growth** • **low productivity** • **skills shortage** • **house shortages** • **burdens on UK manufacturers**	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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.

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

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. 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** • High percentage of consumption in UK's aggregate demand in contrast to other countries in Figure 1 • Lack of export-led growth, resulting from the state of the global economy so the UK government's £1 trillion target is unrealistic • Falling rate of return on investments abroad • Rising consumer indebtedness • Dependence of consumer confidence on rising house prices which may not be sustainable • Size of UK government budget deficit/national debt may create problems as interest rates start to rise • Relevant diagram e.g. trade cycle • Fall in real incomes **NB One side of this argument should count as KAA and the opposing argument as Evaluation**	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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 chains 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.

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

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. 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.

Q3.

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: o consumers o firms o the government o income distribution o the environment o current and future living standards • Explanation of the likely costs of economic growth to: o consumers o firms o the government o income distribution o the environment o current and future living standards • Explanation that economic growth may support the achievement of some of the government's other macroeconomic objectives: o low unemployment o balanced government budget o achieving environmental goals	
	• Explanation that economic growth may conflict with the achievement of some of the government's other macroeconomic objectives: o balance of payments equilibrium o low, stable inflation o reduced income inequality o achieving environmental goals	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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)**

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.

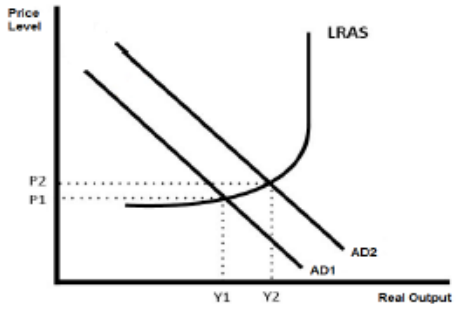
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading 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.

Q4.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2** **Knowledge/understanding** Identification of impact (1) with development (1), e.g. • Imports relatively more expensive (1) • Leading to (cost push) inflation (1) • Exports are relatively cheaper (1) • Leading to (demand pull) inflation (1) **Application** 2 marks for two data references (1+1), e.g. • There has been fall in the exchange rate/value of the pound/weaker pound (1) • UK is a net importer of food that has a relatively inelastic demand (1) • Food prices have increased by 3.5 percentage points (1) • Inflation has increased by 1 percentage point since the start of 2017 (1) • CPI has exceeded the 2% target (1)	**(4)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two effects (1+1) for, e.g. • Real value of personal debt falls • MPC raises base rate of interest • An increase in income inequality • Worsening of the current account • Fall in real wages/purchasing power **Application** 1 mark for each data reference from Extract A or linked application (1+1), e.g. • Increase in size of personal debts as consumers are using credit cards and taking out short-term loan (1) • Base rate of interest increased by 0.25 percentage points to 0.5% in November 2017 (1) • Low fixed income households are left with very little money to spend on relatively more expensive items/ spend more on food (1) • Inflation is expected to rise by 3% (1) and wages are only expected to increase by 1% (1) / wages growth lower than inflation (1) **Analysis** 1 mark for linked development of each effect (1+1) e.g. • Borrowers will benefit as the real value of their loan repayments are reduced over time (1) • Increases the cost of borrowing / reward for saving, hence consumption falls (1) • People on low fixed incomes spend larger proportion of income on necessities (1) • Exports become less internationally competitive (1) • Fall in real wages / purchasing power implies lower confidence, lower consumption and lower standard of living (1) **NB Award up to 4 marks for one effect well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Answer	Mark
(c)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark for identification, e.g. • To ensure that inflation/cost of living/CPI basket is accurately measured (1) • To ensure that consumption trends/spending are reflected (1) • To adjust the weightings in the CPI basket (1) **Application** 2 marks for 2 relevant data references (1+1), e.g. • Inclusion of non-dairy milk (1) / jigsaw puzzles (1) / child scooters (1) / cycling helmets (1) • Exclusion of menthol cigarettes (1) / apple cider (1) / child swings (1) / basic mobile phones (1) • A move towards health, fitness and gluten-free products (1) **Analysis** Linked development (1+1), e.g. • Technological advancements (1) implies consumers switch to newly developed goods and services (1) • Consumer tastes change frequently (1) but the CPI basket is updated annually (1) • Consumers could have switched away (1) from those goods and services that have increased in price (1)	**(5)**

Question Number	Indicative content	Mark
(d)	**Knowledge 2, Application 2, Analysis 2** • An injection into the circular flow of income • Economic growth is the increase in real GDP / increase in productive capacity of the economy • Positive relationship between an increase in exports and economic growth • Reference to the multiplier • Exports is a component of AD • AD will increase • Economic growth / real output will increase • Figure 3: since mid-2016, exports grew due to the fall in the exchange rate of the pound as a result of the referendum vote  **NB Candidates must answer with an accurately drawn AD/AS diagram presenting 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.

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Question Number	Indicative content	Mark
(d) continued	**Evaluation 4** • Exports are only a small component of AD • Invetment might be more significant as it is 10% to 15% of AD – "Economic growth is expected to speed up again as investment rises" • Exporters are vulnerable to changes in demand in other countries and exchange rates which are out of UK's control – "which is largely due to the fall in the value of the pound" • Figure 3 – UK exports have not risen significantly since the start of 2017 • Depends on other factors in the economy, such as imports, government spending and consumption • Significance of the global economic recovery in increasing exports	**(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 the term GDP / living standards Limitations of comparison may include: • Percentage changes are misleading without any reference to total GDP • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income – "size of informal economy of developing countries was nearly five times more than that of the UK" • Differences in distribution of income – "growth varies across the country with jobs and wages distributed unevenly" • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter and the hidden economy will undervalue the real output and national income shall not reflect true living standards • Currency values do not effectively calculate an accurate purchasing power parity / exchange rates might not accurately reflect differences in purchasing power of currencies • Population growth in developing countries may account for most growth in GDP • Spending on investment goods may raise future living standards at the expense of the current • Methods of calculation and reliability of data • Size of the public sector spending which may or may not improve the standard of living Reference to Figure 4 – UK economic growth is lower than developing countries throughout the years / "the quality of economic growth needs to be measured"	**(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: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective and it cannot be measured effectively and accurately	**(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.

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Question Number	Indicative content	Mark
(f)	**Knowledge 4, Application 4, Analysis 6** KAA: • Interest rate is used by MPC of the Bank of England • AD/AS diagram showing a change in AD and/or AS consistent with analysis • Identification of low and stable inflation as a government objective / inflation target • Use of Figure 1 to support arguments for using a contractionary monetary policy (in 2017) • Award arguments which consider expansionary / contractionary policy to achieve inflation target using Figure 1 • High interest rate discourage borrowing by both households and firms as it increases the cost of borrowing, thus reducing inflationary pressures • Increasing rate of saving (the opportunity cost of spending has risen), which will slow the economy • Rise in mortgage interest repayments will reduce homeowners' real "effective" disposable income. Increase in mortgage costs would reduce market demand in housing market, reducing inflation • Business investment may also fall, as the cost of borrowing funds will surge. Planned investment projects will now become unprofitable and, as a result, AD will fall, reducing inflationary pressures • Higher interest rate increases the value of pound due to hot money flows; (X-M) component of AD falls, reducing inflationary pressures	

	Evaluation 6 • Impact depends on the magnitude of the change in the interest rate • Time lag factor – changes may take a long time to feed through into inflation • Higher rates may mean lower investment which reduce LRAS, increasing inflationary pressures • Many mortgages and loans are on a fixed rate; the change in base rate may have little impact • Commercial banks may not change their rates • Impact from change in AD will depend upon position on the LRAS curve / spare capacity • External factors are beyond Bank of England's control – Extract A suggests inflation caused by rising food prices due to the fall in exchange rate • Conflicts with macroeconomic objectives / policies • Depends on consumer and business confidence, e.g. animal spirits, size of the multiplier	**(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.
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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.
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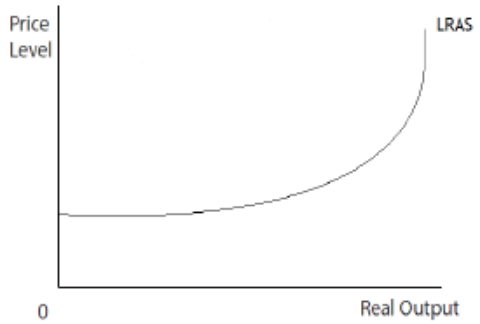
Question Number	Indicative content	Mark
(g)	**Knowledge 4, Application 4, Analysis 6,** KAA: • Understanding of economic growth objective • Implicit or explicit identification of the UK's macroeconomic objectives • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Potential conflicts include: • Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in the supply chain cause cost and wage pressures • Balance of payments position may deteriorate as incomes rise and more imports are demanded as UK has a high marginal propensity to import • Growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do • Increased growth tends to lead to high external costs / deterioration of the environment from congestion and pollution	

	Evaluation 6 • Significance of the stage in trade cycle which the country is in, and implications for elasticity of AS • If it is supply side growth (rather than demand-side) then fewer conflicts with other objectives • Initial state of inflation: reference to Figure 1 • The rate of actual growth in comparison to the growth of the productive capacity • Proximity to full employment level of output • Full employment/fiscal position should not conflict with economic growth • Increase in AS tends to happen in the longer run • Extent of domestic economy's capacity to meet rising demand (i.e. if economy can supply wants) • Extent of country's international competitiveness • Extent of effectiveness of environmental policies • Balance of payments position may improve if it is export-led growth / if generated through increase in productivity (such as through investment) • Growth may lead to higher government revenues and scope to improve polluting old technologies • Developed economies may use green technology	**(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.
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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.

Q5.

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)**

Q6.

Question Number	Answer	Mark
(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition: • the proportion of one additional unit of income that is spent (1) OR • ΔC/ΔY (1).	**(1)**

Question Number	Answer	Mark
(b)	**Application 2** Multiplier = 1/(1-MPC) OR Multiplier = 1/MPW (1) Multiplier = 1/0.6 = 1.7 (1) NB if the answer given is between 1.6 and 2 award 2 marks.	**(2)**

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

Q7.

Question Number	Answer	Mark
(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition: • output per unit of input (1).	**(1)**

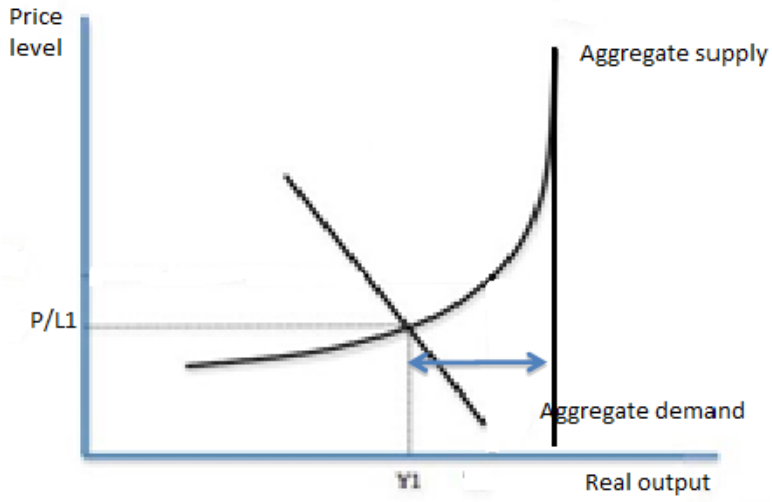
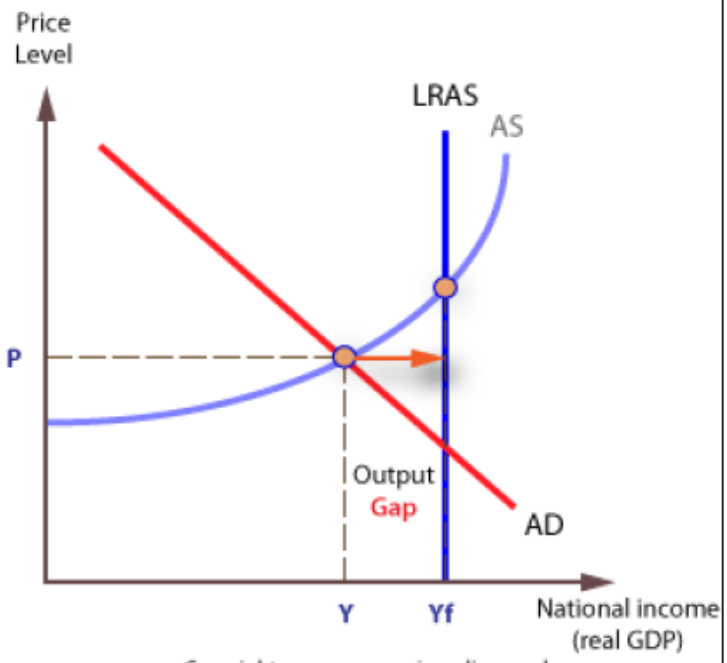
Question Number	Answer	Mark
(b)	**Application 2** **Application :** 2 marks for, e.g. • New LRAS curve drawn, showing an outwards/rightwards shift (1). • New equilibria labelled, showing a fall in average price level, and an increase in real GDP (1).	**(2)**

Question Number	Answer	Mark
(c)	A	**(1)**

Q8.

Question Number	Answer	Mark
(a)	B	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 2** **Knowledge/understanding** 1 mark for definition of GDP e.g. • Value of the total output (1) • Accept amount of final goods and services (1) • Total income / total expenditure (1) 1 mark for definition of real e.g. • Taking inflation into account (1) • Adjusted for changes in the price level (1)	**(2)**

Question Number	Answer	Mark
(c)	**Knowledge 1** Output Gap Identification of a negative output gap on the diagram, either of those illustrated by the annotations below are acceptable (N.B. only ONE is required)   Copyright: www.economicsonline.co.uk	(1)

Q9.

Question Number	Answer	Mark
(a)	**The only correct answer is D** ***A*** *is not correct because absolute poverty would be likely to fall* ***B*** *is not correct because the budget deficit would be likely to fall* ***C*** *is not correct because cyclical unemployment would fall*	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 3, Application 1** **Knowledge/understanding** 3 marks e.g. • Automatic stabilisers means government spending/taxation vary without direct government decision-making (1) over the course of the economic cycle (1)/built into the means-tested welfare support (1)/progressive tax bands (1) • Discretionary fiscal policy – deliberate/direct alteration of government expenditure/taxation (1) designed to achieve its economic objectives (1)/determined in budget (1) **Application** 1 mark for reference to graph, e.g. • In a positive output gap you would expect less government spending/more tax revenues as part of automatic stabilisers (1) • In a negative output gap you would expect more government spending/less tax revenues as part of automatic stabilisers (1) • At point Z you would expect taxation to increase relative to government spending (1) • Discretionary fiscal policy could occur at any point on the trade cycle (1)	**(4)**

Q10.

Question Number	Answer	Mark
(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • Recession is negative economic growth/falling GDP for two successive/consecutive quarters (1)	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 2** **Knowledge/understanding** 1 mark for each characteristic and 1 mark for development, e.g. • Falling inflation (1) due to reduction in consumer expenditure (1) • Rising unemployment (1) due to less demand for workers caused by falling real output (1) • Falling profits/investment of firms (1) possibly leading to high level of business failures (1) • Increase in budget deficit/worsening of the fiscal position (1) due to a rise in government spending on benefits/a fall in tax revenues (1)	**(2)**

Question Number	Answer	Mark
(c)	**The only correct answer is B** **A** is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap **C** is not correct because it shows actual GDP growth above trend GDP growth, therefore positive output gap **D** is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap	**(1)**

Q11.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • An increase in (1) capital stock of the economy (1) • Money spent on purchasing capital goods/improving factors of production (1) to raise productivity/LRAS/ produce consumer goods (1) • An injection (1) into the circular flow of income (1) **Application** 2 marks for 2 data references from Figure 1 (1+1), e.g. • In Q1 2015, investment increased by 4% (1) and in Q1 2016, investment decreased by 2% (1) • Between Q3 2018 and Q2 2019, investment has been falling each quarter (1) • In Q2 2014, highest percentage change (1) was approximately 8.2% (1)	**(4)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding and analysis** 1 mark for identification of each influence (1+1) and 1 mark each for linked development (1+1), e.g. • Business confidence/expectations/animal spirits (1K): firms will only invest if there is less uncertainty about future costs and revenues, and sales (1AN) • Demand for exports (1K): lower the demand in a country to which a firm is trying to export, the less the investment (1AN) • Rate of economic growth (1K): fall in GDP will mean firms do not invest in capital goods as there is lower demand (1AN) **Application** 1 mark for each data reference (1+1), e.g. • Firms are reluctant to commit to capital spending while there is economic uncertainty (1) • uncertainty over the UK's future trade relationship has discouraged companies from investing (1) • trade tensions are also affecting investment (1) • fall of 0.2% in Gross Domestic Product (GDP) (1) • another recession? (1) **NB Award up to 4 marks for one influence well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2** Understanding of the term GDP / living standards Limitations may include: • Percentage changes are misleading without any reference to total GDP • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income • Differences in distribution of income as growth varies across the country with jobs and wages distributed unevenly • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter, and the hidden economy will undervalue the real output and national income shall not reflect true living standards • Currency values do not effectively calculate an accurate purchasing power parity • Population growth in developing countries may account for most growth in GDP • Spending on investment goods may raise future living standards at the expense of the current • Methods of calculation and reliability of data • Size of the public sector spending which may or may not improve the standard of living Students may consider the limitations of real or nominal GDP	**(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.
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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.

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Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** Points may include: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective, and it cannot be measured effectively and accurately	**(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	Answer	Mark
(d)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding and analysis** 1 mark for identification of **one** reason and up to 2 marks for linked development (1+1), for e.g. • Export-led growth (1K): a decrease in net exports will decrease their AD (1AN), leading to lower real output/economic growth (this may be shown diagrammatically) (1AN) • Slowdown in economic growth of trading partners (1K): so when Germany and Italy encounter lack of demand for their exports (1AN) there is a fall in the net trade component of their AD (1AN) **NB Answers can be analysed and explained in any combination of the above points** **Application** 2 marks (1+1), for e.g. • Germany and Italy are export-focused (1) • The UK economy is consumption driven (1) • Highly exposed to the slowdown in world trade (1) • There has been a fall in average global incomes (1) • Contribution of exports to Germany's and Italy's GDP/economic growth is greater than that of UK (1) • Germany and Italy are more reliant/dependent on international trade than the UK (1)	**(5)**

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** Impact (cost) may include: • Consumers will receive lower average incomes and they will not be able to afford more goods/services nor increase their standard of living; poverty rates could potentially rise; house prices depressed • With lower real GDP, firms employ less workers creating unemployment; wages fall and creates greater inequality .. "low income households cannot cope with a new downturn" • Firms are likely to make less profits as consumer spending falls; less production implies lower future investment into R&D/innovation • With lower GDP, fewer resources can be devoted to promoting the use of renewable resources • Reduction in tax revenues and higher government spending on unemployment and welfare benefits; greater borrowing and debt to GDP ratios • High social dislocation/crime/civil unrest/stress issues/high divorce rates; worsens health; lower life expectancy **NB Responses can discuss costs as KAA and benefits as EV (and vice versa)**	**(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** Impact (benefit) may include: • Lower demand may reduce demand-pull and cost-push inflationary pressures; the central bank may decide to lower interest rates to control inflation • Lower external costs due to less output production by firms; less exploitation of finite resources and less depletion of non-renewable resources • Lower spending on imports as marginal propensity to import will fall, causing an improvement in the current account deficit of the balance of payments • Lower inequality: those with assets may witness a proportionally smaller rise in the market value of their income on their wealth • Depressed house prices make houses affordable to non-homeowners • Many problems of crime/excessive consumption of demerit goods are committed by people in work – this is likely to fall • *Other evaluative comments:* just a -0.2% contraction thus the impact will be relatively small/the size of the recession is important in terms of the impact • Recession did not occur in 2019 as there were no two quarters negative growth	**(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: • Definition of expansionary fiscal policy • AD/AS diagram showing change in AD/AS consistent with analysis Possible policies include: • Increase government expenditure, e.g. on training and apprenticeship programmes • Education spending by offering more bursaries for university courses and subsidies to universities • Government spending on infrastructure and housing policies (mortgage relief, key worker subsidies) • Cut in the rate of income tax – increase purchasing power and disposable income; will lead to greater consumption and promote economic growth • Lower corporation tax will reduce the firms cost of production giving them an incentive to invest more – use of Figure 1 • Increased income tax threshold, decrease in national insurance contributions • Lower indirect taxes, e.g. VAT • Relaxation of austerity measures • Increase in unemployment benefits	

	Evaluation 6 • Significance of the fiscal policy - monetary policy may be seen as an ineffective tool (as interest rates have been historically low) in tackling future downturns • Conflict with other macroeconomic objectives such as reducing budget deficit and national debt (can award conflicts with different objectives) • Long run and short run impacts (18 to 24 months time lags)/implementation lags • Depends on the value of the multiplier in the UK • If consumer and business confidence is low, the effects may not be as large or significant • Depends on the level of spare capacity in the economy/elasticity of the LRAS • Relative importance and likely effectiveness of the policies discussed, e.g. raising benefits provides less incentive to find employment • Free market economists argue that higher spending will be wasted on inefficient spending projects • Can lead to higher bond yields, increasing the cost of debt repayments	**(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	Indicative content	Mark
(g)	**Knowledge 4, Application 4, Analysis 6** KAA: • Understanding/definition of supply-side policies • Understanding/definition of productivity • 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 • 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 **NB Award a maximum of Level 3 if there is no link to or discussion of productivity**	

	Evaluation 6 • Significant time lag for supply-side policies • Difficult to accurately measure productivity • Consideration of effectiveness of supply-side policies such as infrastructure, education and healthcare at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Cut in 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 their short-term profits rather investment on productivity-boosting technology • Increase in UK taxation elsewhere may have an effect on incentives to work	**(20)**

Knowledge, application and analysis		
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