

PEARSON EDEXCEL A-LEVEL ECONOMICS B • 9EB0

ECONOMICS



EXAM QUESTION PACK

2.5 THE ECONOMIC CYCLE

MEASURES OF ECONOMIC PERFORMANCE

SCORE

/1253

PERCENTAGE

%

STEMUP

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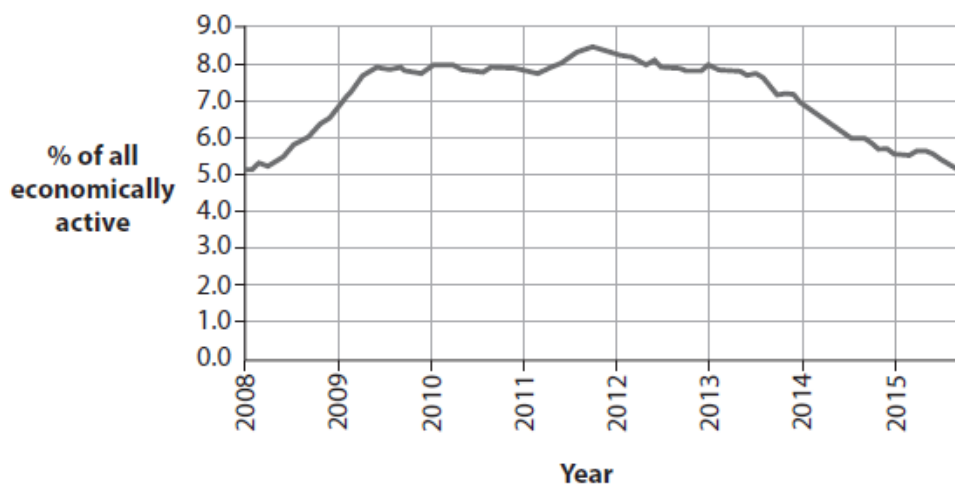
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Questions

Q1.

The chart below shows the UK unemployment rate, seasonally adjusted, from 2008 to 2015



(Source: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/deceember-2015/statistical-bulletin.html#tab-8--Unemployment>)

(a) Which **one** of the following types of unemployment best explains the change in the data between 2008 and 2010?

(1)

- ☒ **A** Cyclical
- ☒ **B** Frictional
- ☒ **C** Seasonal
- ☒ **D** Voluntary

(b) Explain the likely effects on the circular flow of income of the change in unemployment between 2013 and 2015.

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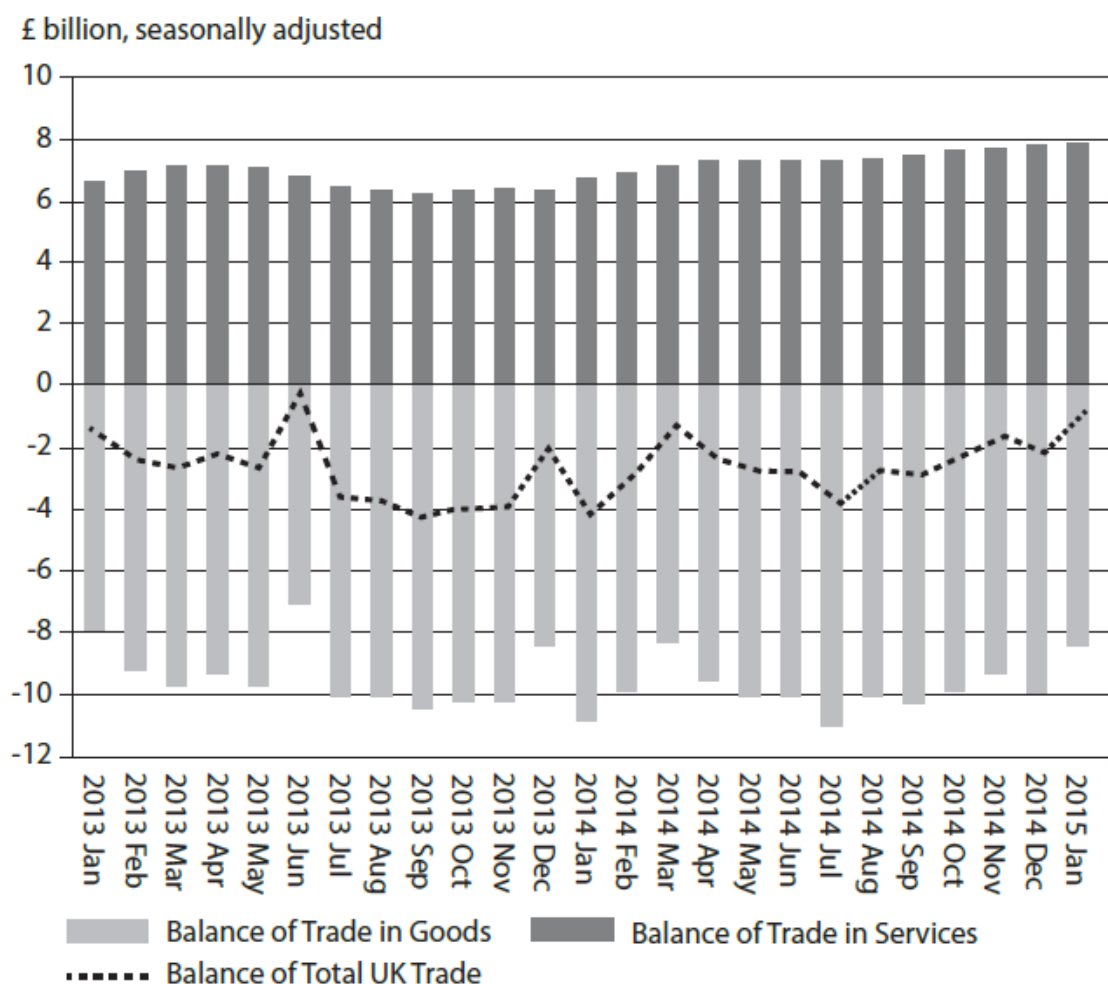
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(Total for question = 5 marks)

Q2.

Figure 1 shows data on the UK's balance of trade.

Figure 1 - UK's balance of trade January 2013 to January 2015



(Source: <http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/january-2015/summ-uk-trade-january-2015.html>)

(a) Which **one** of the following can be inferred from Figure 1 in the period shown?

(1)

- ☐ **A** The total UK trade deficit was the largest in June 2013
- ☐ **B** The trade in goods was always in surplus between January 2013 and January 2015
- ☐ **C** The total UK trade deficit was the smallest in January 2014
- ☐ **D** The trade in goods deficit was the smallest in June 2013

(b) Explain **one** likely reason for the reduction in the total UK trade deficit in January 2015.

(3)

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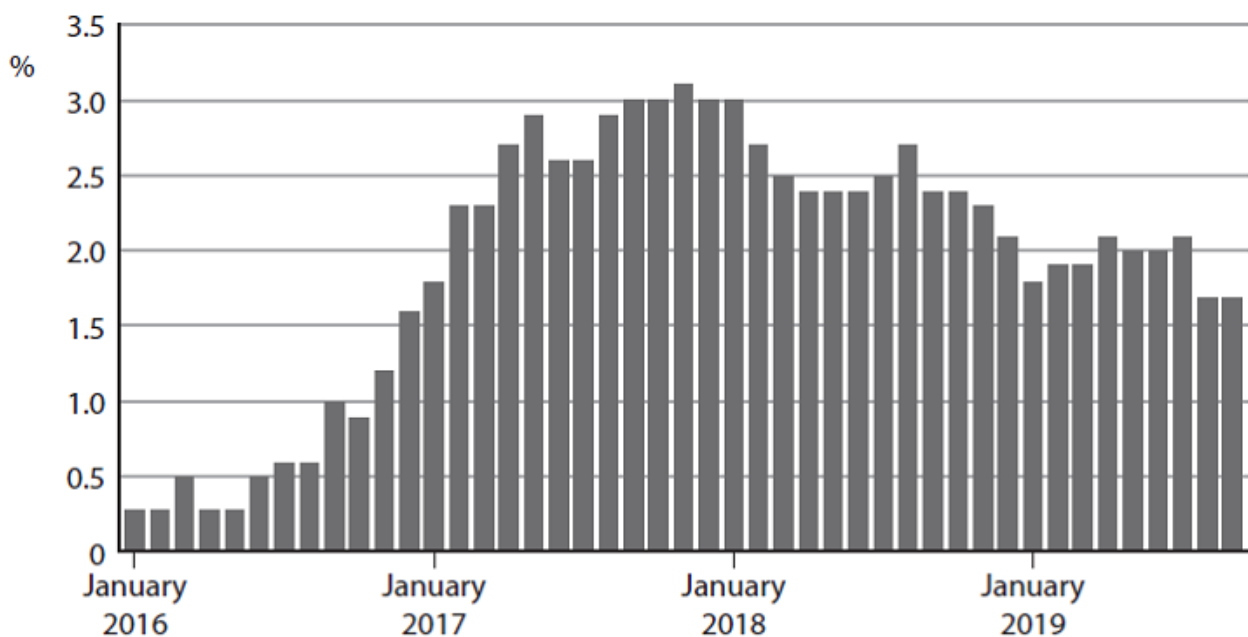
(Total for question = 4 marks)

Q3.

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

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

Annual rate of UK inflation, as measured by the Consumer Prices Index (CPI), January 2016 to September 2019.



(Source adapted from: <https://tradingeconomics.com/united-kingdom/inflation-cpi>)

(a) Which **one** of the following can be deduced from the chart?

(1)

- ☐ **A** The average price level was lower in January 2018 than in January 2019
- ☐ **B** The average price level was unchanged between January 2017 and January 2019
- ☐ **C** There was deflation from January 2018 to January 2019

☐ **D** There was disinflation from January 2016 to January 2017

(b) Explain **one** limitation of CPI in measuring the rate of inflation.

(3)

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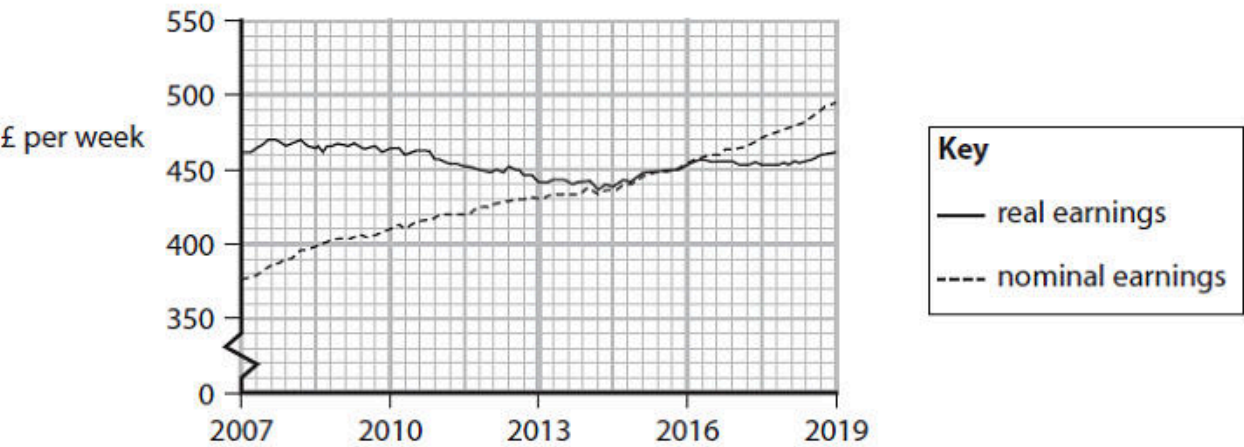
(Total for question = 4 marks)

Q4.

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

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

UK average weekly earnings, January 2007 to January 2019



(Source adapted from: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/march2019>)

(a) Which **one** of the following can be inferred from the above chart? Between 2007 and 2019, (1)

- ☒ **A** earnings adjusted for interest rates were lower than earnings not adjusted for interest rates
- ☒ **B** nominal earnings increased by nearly 125 percentage points
- ☒ **C** the increase in earnings not adjusted for inflation was greater than earnings adjusted for inflation
- ☒ **D** there were significant increases in real earnings each year

(b) With reference to the chart, explain the likely relationship between real incomes and subjective happiness.

(3)

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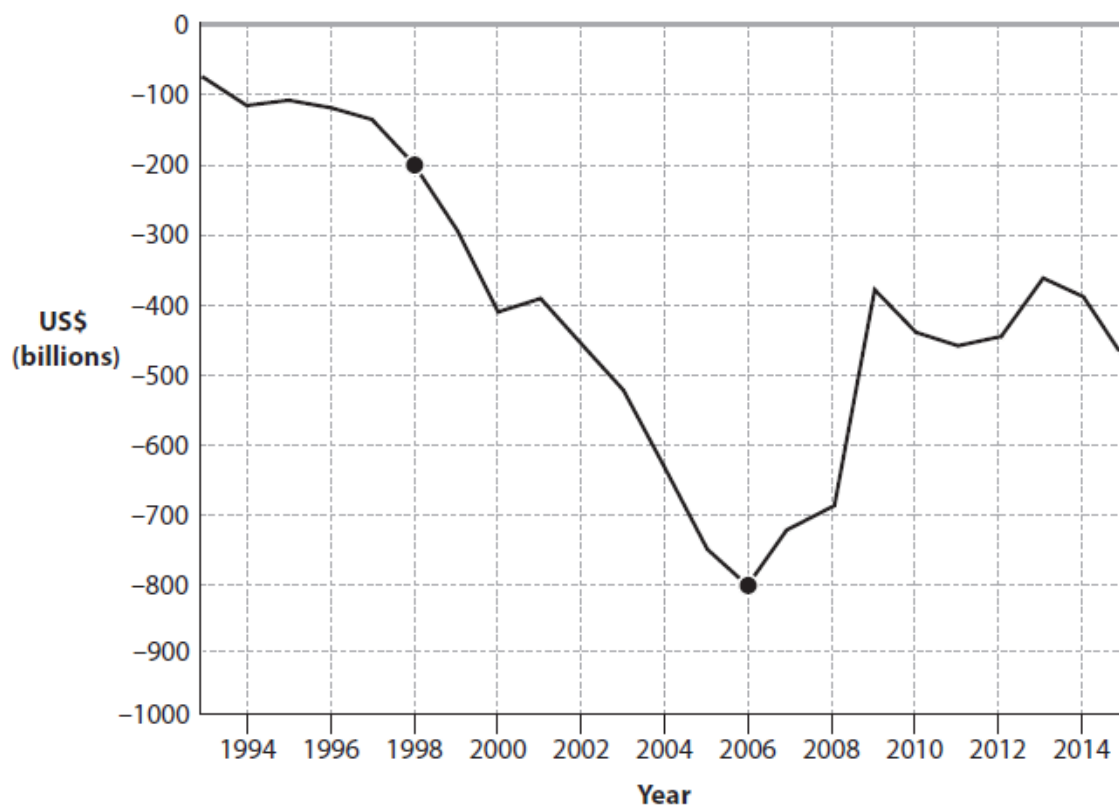
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(Total for question = 4 marks)

Q5.

United States current account of the balance of payments, 1993-2015



(Source: <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993>)

(a) Calculate the percentage change in the United States current account deficit on the balance of payments between 1998 and 2006.

(2)

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(b) Explain the term 'current account of the balance of payments'.

(2)

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(c) Using the chart above, which **one** of the following may be inferred about the United States balance of payments?

(1)

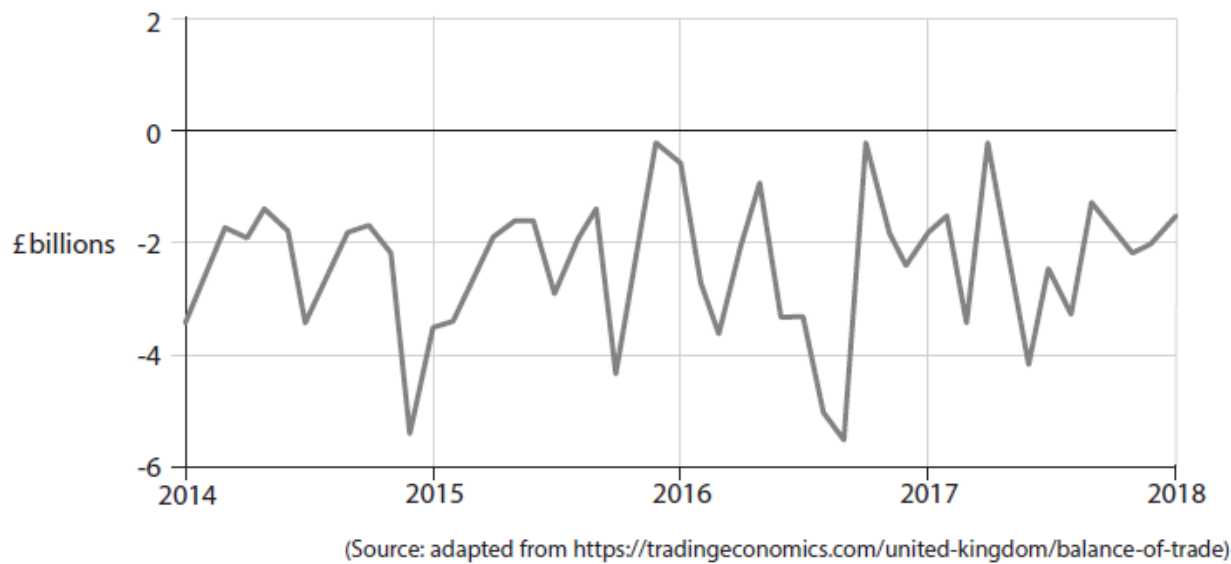
- ☐ **A** The current account deficit decreased between 2001 and 2006
- ☐ **B** The current account surplus increased between 2001 and 2006
- ☐ **C** There was a current account deficit for the entire period shown
- ☐ **D** There was a current account surplus for the entire period shown

(Total for question = 5 marks)

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 ☒.

The UK's net monthly balance of trade in goods and services, by value, January 2014 to January 2018, is shown in the chart below.



(a) Which **one** of the following can be inferred from the above chart over the period shown? (1)

- ☐ A The government was spending more than it received in taxation
- ☐ B The UK's balance of trade, by value, was always in equilibrium
- ☐ C The value of imports was greater than the value of exports
- ☐ D The value of inflows was greater than the value of outflows

(b) Explain **one** likely reason for the UK's balance of trade in goods and services over the period shown.

Refer to the chart above in your answer.

(3)

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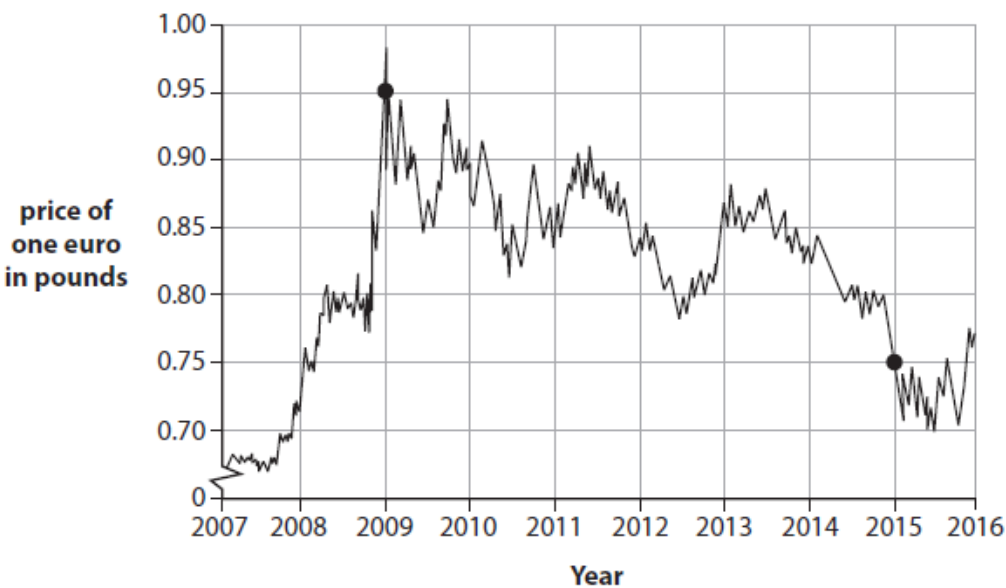
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(Total for question = 4 marks)

Q7.

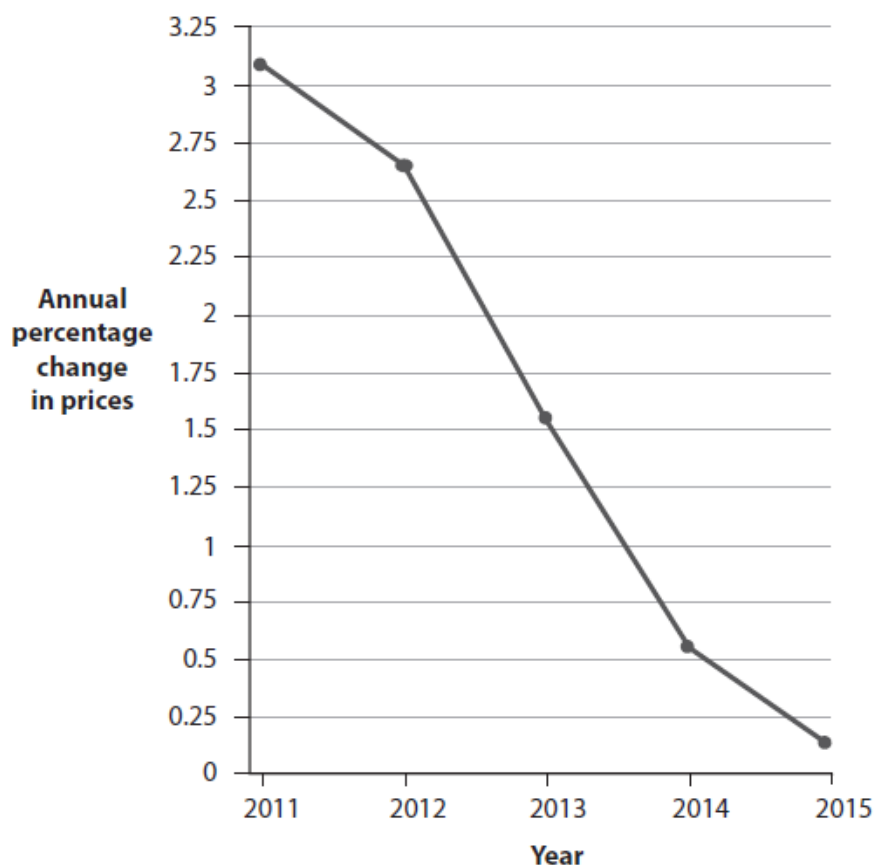
The Eurozone economy

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



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

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



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

Extract A

European Central Bank disappoints markets with weaker than expected stimulus

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

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016. 5

"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively. 10

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

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%. 15

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said. 20

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

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

(5)

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

(8)

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

(10)

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

(12)

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

(15)

(Total for question = 50 marks)

Q8.

The East African Community (EAC)

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (US\$ bn)	2.47	37.23	7.10	28.25	19.80
Population (mn)	16.14	62.78	18.21	58.43	48.89
GDP per capita (US\$)			390	483.48	405
GDP per capita PPP (US\$)	483	1 517	1 167	1 380	1 165
HDI	0.355	0.519	0.434	0.476	0.456
IHDI	no data	0.344	0.287	0.346	0.303

(Sources: www.tradingeconomics.com, United Nations)

Figure 1

Economic indicators for the five EAC member countries, 2012

(a) With reference to Figure 1, calculate the ratio of Burundi's GDP per capita to Kenya's GDP per capita in 2012.

(5)

Extract A

Burundi's economic growth

Burundi has maintained a stable macroeconomic environment and over recent years improved its performance in health, education and gender equality. However, in spite of this recent progress, Burundi's economic growth has been modest compared to neighbouring countries in the EAC.

Burundi is a small, land-locked country and is one of the most aid-dependent countries in the world. The country is vulnerable to external shocks, such as volatile food and energy prices, declining aid flows, and the adverse impact of climate change. 5

These factors are made worse by the high proportion of current expenditure in the government budget, and a high level of tax exemptions – counting for as much as 3% of GDP. 10

Coffee and tea make up almost 70% of Burundi's total export earnings. This lack of export diversity makes it difficult to widen the tax revenue base and finance public investments.

(Source: adapted from 'Burundi: more fiscal resilience will improve government effectiveness', All Africa, 19 December 2013, <http://allafrica.com/stories/201312190925.html>)

Extract B

Trade in East Africa

The EAC was established as a free trade area in 2000 by Kenya, Tanzania and Uganda, with Burundi and Rwanda joining in 2007. Its objectives are the promotion of free trade and the free movement of capital and labour among its members. In 2013, an agreement was signed outlining plans for launching a monetary union by 2024.

Between 2000 and 2011, lower tariffs within the EAC boosted regional trade, offering the five member countries a route to faster growth. During 2000–10, intra-regional exports increased from US\$700 million to US\$2 billion. Rwanda's exports have grown the most during this period, from US\$1.6 million to US\$156 million, but are still a fraction of those of Kenya, the region's largest economy. Kenya's exports to the other EAC members were about US\$1.2 billion in 2010. In contrast, export growth in Burundi – the poorest member – has remained constant and imports have declined, mainly because of civil war and inferior infrastructure, such as airports, roads, and docks. 5 10

(Source: adapted from 'Trade in East Africa', Finance & Development, IMF, December 2011, Vol. 48, No. 4, <http://www.imf.org/external/pubs/ft/fandd/2011/12/data.htm>)

(b) With reference to Extract A and Extract B, examine **two** factors that constrain economic growth in Burundi.

(8)

(c) With reference to Figure 1, discuss the use of GDP data as a means of comparing living standards among the five EAC member countries.

(12)

(d) Assess the benefits Kenya has gained from its membership of the EAC since 2000.

(10)

(e) Discuss the likely costs and benefits of monetary union to the five members of the EAC.

(15)

(Total for question = 50 marks)

Q9.

The table below shows UK annual real GDP values for 2011–2013.

	Annual real GDP (£ billion)
2011	1 502
2012	1 506
2013	1 534

(Source: ONS)

(a) Define the term 'economic growth'.

(1)

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(b) Calculate the annual UK economic growth rate for 2013. You are advised to show your working.

(2)

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(c) Which **one** of the following can be inferred from the table?

(1)

- A** Real GDP was falling between 2012 and 2013
- B** The annual UK economic growth rate for 2012 was negative

- C** Nominal GDP was falling between 2012 and 2013
- D** The annual UK economic growth rate for 2012 was positive

Answer

☐

(Total for question = 4 marks)

Q10.

The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

(Source: <http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=>)

(a) Define the term 'claimant count'.

(1)

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(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

(2)

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(c) Which **one** of the following is likely to cause a reduction in the claimant count?

(1)

- ☐ **A** An increase in the weekly payment for claimants
- ☐ **B** A compulsory weekly interview for every claimant
- ☐ **C** An increase in the size of the workforce
- ☐ **D** A fall in employment

(Total for question = 4 marks)

Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	A	(1)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 1, Analysis 1 Knowledge/understanding: 1 mark for identifying an effect on the circular flow of income. 1 mark for any specific reference to injections (I, G, X) and/or withdrawals (S, T, M). 1 mark for any specific reference to flows between households and firms. Candidates may achieve these marks using a diagram. Application: 1 mark for reference to the chart, e.g. unemployment has fallen. Analysis: 1 mark for linked development, explaining link between unemployment and circular flow. For example: Unemployment fell by three percentage points resulting in rising consumption and investment (1) and further rounds of increases in disposable income (1) however household may also spend more on imports (1). An acceptable simple diagram of the circular flow of income might be sketched as follows:	(4)

Q2.

Question Number	Answer	Mark
	D	(1)

Question Number	Answer	Mark
	Knowledge 1 Application 1 Analysis 1 Knowledge 1 mark for identification of one likely reason, e.g. - Falling oil price reducing cost of imports (1) - Relatively lower inflation in UK makes exports more competitive (1) - Improvement in quality of UK exports increases demand for them (1) - Depreciation of the exchange rate. (1) Application 1 mark for use of data from Figure 1, e.g. - trade deficit was approx. £1 billion in January 2015 (1) Analysis 1 mark for linked development of reason, e.g. - Fall in the value of the pound makes exports cheaper and imports more expensive. (1)	(3)

Q3.

Question Number	Answer	Mark
(a)	The only correct answer is A B is incorrect as although prices rising more slowly, the average price level were still increasing C is incorrect as there was disinflation between August 2018 and January 2019 D is incorrect as there was inflation between October 2016 and May 2017	(1)

Question Number	Answer	Mark
(b)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding: 1 mark for identifying one limitation, e.g. • Does not include housing costs (1) • There are sampling problems (1) • Basket of goods is updated only once a year (1) • Only measures the cost of living for an average household (1) Application: 1 mark, for e.g. • Reference to chart (1) • Current inflation rate (1) • CPI target is 2% +/- 1% (1) • Fewer than 60% reply to the survey (1) • New items such as canned pulses included (1) Analysis: 1 mark for linked development, e.g. • Monthly rent or mortgage interest repayments form a large part of consumers spending (1) • Not all the people respond to the survey or may not provide with accurate information (1) • Tastes and preferences change very frequently, and the basket may not reflect these new items (1) • The top and bottom 4% of income brackets are not included, and nor are pensioners (1)	(3)

Q4.

Question Number	Answer	Mark
(a)	The only correct answer is C A is not correct because earnings are adjusted for inflation and not interest rates B is not correct because between nominal earnings have increased by nearly £125 D is not correct because real earnings have remained steady throughout the given period	(1)

Question Number	Answer	Mark
(b)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding: 1 mark for, e.g. - Defining subjective happiness: happiness that may differ between individuals (1) - As real incomes increase, happiness increases (1) Application: 1 mark for reference to the chart, for e.g. - Real earnings have been steady throughout the time period given (1) - Real earnings have been constant at approximately £450-£460 per week (1) Analysis: 1 mark for linked development, e.g. - Higher earnings increase an individual's ability to afford/buy/spend on more goods and services (1) - As real earnings have not increased, people are unlikely to experience a big improvement in their living standards (1)	(3)

Q5.

Question Number	Answer	Mark
(a)	Application 2 Application: 1 mark for correct appropriate calculation e.g. $\% \text{ change} = \frac{\text{change}}{\text{original}} \times 100$ $= \frac{600}{200} \times 100 \text{ (1)}$ Answer = 300% or 300 Award 2 marks for correct answer	(2)

Question Number	Answer	Mark
(b)	Knowledge 2 Knowledge/understanding: 1 mark for partially correct explanation e.g. - Referring to exports – imports - Exports of goods and services minus imports of goods and services 2 marks for correct explanation e.g. - Measures total value of exports – total value of imports - Inflows minus outflows in money terms - Reference to four parts of the current account - Trade in goods - Trade in services - Primary income - Secondary income	(2)

Question Number	Answer	Mark
(c)	The only correct answer is C <i>A is not correct because the deficit increased</i> <i>B is not correct because there hasn't been a surplus</i> <i>D is not correct because there hasn't been a surplus</i>	(1)

Q6.

Question Number	Answer	Mark
(a)	The only correct answer is C A is not correct because when government spending is greater than taxation, it represents a budget deficit B is not correct because the balance of trade is always in deficit as indicated by negative values D is not correct because the value of exports is smaller than the value of imports	(1)

Question Number	Answer	Mark
(b)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding: 1 mark for identifying one likely reason, e.g. • Increasing real incomes (1) • Relatively low productivity (1) • Rising oil/commodity prices (1) • Appreciation of exchange rate (1) • Worsening of quality of UK exports (1) Application: 1 mark for reference to the chart, for e.g. • The UK's monthly trade balance was in a deficit of just under £2 billion at the end of 2017 (1) • Value of outflows is greater than value of inflows for the UK (1) Analysis: 1 mark for linked development, e.g. • Imports increase as UK consumers have a high marginal propensity to import (1) • Low productivity increases cost per unit: makes exports relatively more expensive, reducing the demand for domestic goods (1) • Higher oil / commodity prices increase the cost of imports as the UK is a net importer of oil and commodities (1) • Rise in the value of the pound makes exports relatively expensive and its imports relatively cheaper (1)	(3)

Q7.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q8.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding: 1 mark for: - GDP per capita = $\text{GDP} \div \text{population}$/GDP per person (1). Application: 2 marks for: - GDP per capita for Burundi = $2.47 \text{ bn} / 16.14 \text{ mn} = \\$153$ (1) - GDP per capita for Kenya = $37.23 \text{ bn} / 62.78 \text{ mn} = \\$593$ (1) Analysis: 2 marks for: - Ratio of Burundi's GDP per capita: Kenya's GDP per capita = $153:593$ (1) = $1:3.9$ (1) [Accept 1:3.8 to 1:4]	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/understanding: 2 marks for identification of two factors (1+1) Analysis: 2 marks for linked explanation of how these factors constrain growth (1+1), e.g. - land-locked (1) therefore high transport costs so limited opportunities for international trade (1) - low tax revenue (1) meaning government has insufficient funds for investment in education (1) - primary product dependency (1) price volatility leading to uncertain levels of income/investment (1) - civil war (1) destruction of infrastructure which discourages investment (1). Application: 2 marks for reference to the data (1+1), e.g. - coffee and tea make up almost 70% of Burundi's export earnings - high level of tax exemptions – 3% of GDP. Evaluation: 2 marks for two evaluative comments, e.g. - civil war as a temporary factor (1) - government might get money through aid (1) OR 2 marks for identification and linked development, e.g. - growth of emerging economies (1) has led to increase in primary product prices (1) - FDI by China (1) has led to improved infrastructure (1).	(8)

Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 GDP is the best way to compare living standards: • it is an internationally comparable measure • it is a fairly simple measure, meaning a low opportunity cost to the governments of these developing countries • it requires less data than some more sophisticated measures, reducing the chance of data inaccuracy • there is GDP data for all five countries, whereas there is no IHDI data for Burundi • can be refined into per capita / PPP measures to make more representative • the rank orders of the five countries are the same using GDP as using GDP per capita and HDI	(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 • it does not include much of what is important in determining standard of living, e.g. education, healthcare • it does not show how income is distributed among the population • it does not take account of any unpaid/illegal/'cash in hand' work, particularly a problem in developing countries like these, with a large subsistence agriculture sector • GDP doesn't take into account different costs of living (without a PPP adjustment) – compare Rwanda and Uganda	(4)

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

Question Number	Indicative content	Mark
(d)	Knowledge 2, Application 2, Analysis 2 Possible benefits include: • increased regional trade has led to faster economic growth • firms can take advantage of increased economies of scale • trade creation • free movement of labour may fill labour shortages in individual countries • increased investment, either domestic or foreign • negotiating together may give the countries more power at, e.g., WTO talks.	(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 Possible costs include: • trade diversion • loss of revenue from import tariffs from fellow members. General evaluative points: • Kenya is the largest economy in the EAC, so has the smallest additional economies of scale to gain • 'Kenya's exports to the other EAC members were about US\$1.2 billion in 2010' (Extract 2), so benefits appear to be significant • Kenya probably gains less benefit from the smaller countries being co-members of the EAC, e.g. Burundi.	(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 Candidates may analyse the costs in their answer, and the benefits as evaluation (or vice versa), or may analyse the costs and benefits in their answer, and consider the significance of their arguments as evaluation. Possible costs include: • loss of control over monetary policy (given current differences in economic development, perhaps unlikely that one common policy would be optimal for all) • loss of control over exchange rate policy • resulting inability to respond differently to asymmetric shocks • changeover costs/menu costs • consumer confusion • may be inflationary if all producers round up their new prices/loss of consumer surplus. Possible benefits include: • reduction in transaction costs • elimination of exchange rate risk (leading to more trade and investment) • reduction in region-wide price differentials / may reduce inflation/increase consumer surplus • a larger and more diverse economic area may be less vulnerable to exogenous shocks and speculative currency attacks.	(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 (Costs and benefits are outlined under Knowledge, Application and Analysis.) General evaluative points: - the countries have benefited to different extents: Kenya and Rwanda seem to have done well, while Burundi has not seen as much of a benefit - the euro area is a significant trade partner more so than the other EAC countries (in 2008) - increasing economic openness should reduce the potential for asymmetric shocks as time progresses - low levels of intra-EAC trade mean that the benefits from reduced transaction costs will be very small.	(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.

Q9.

Question Number	Answer	Mark
(a)	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. - an increase in real GDP (1) OR - an increase in an economy's productive capacity/potential (1).	(1)

Question Number	Answer	Mark
(b)	Application 2 $(1534 - 1506) / 1506 \times 100 (1) = 1.9\% (1)$ NB if the answer given is between 1.8% and 2% award 2 marks.	(2)

Question Number	Answer	Mark
(c)	D	(1)

Q10.

Question Number	Answer	Mark
	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. Number of people claiming unemployment benefit/jobseekers allowance	(1)

Question Number	Answer	Mark
	Application 2 $858,344 - 961,149 = -102,805$ $(-102,805 / 961,149) \times 100 (1) = -10.7\% (1)$ 2 marks for -10.7% (or written equivalent- e.g. 'fell by 10.7%') If answer given is between -10.6% and -11%, award 2 marks. If answer given is between 10.6% and 11%, award 1 mark.	(2)

Question Number	Answer	Mark
	B	(1)

Questions

Q1.

(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)

Q2.

(a) With reference to Figure 5 and Extract C, explain **one** likely reason for the fall in the exchange rate of the Turkish lira.

(5)

(b) Discuss the costs to the Argentine economy of an inflation rate "estimated by some economists to be over 25%". (Extract D, line 9)

(12)

(c) With reference to Extract E, examine the impact of restrictions on beef exports on how Argentine farmers decide to use their land.

(8)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the imposition of 'price controls' (Extract E, line 8) in Argentina.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the 23% devaluation of the Argentine peso.

(25)

(Total for question = 50 marks)

Q3.

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

UK unemployment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



(a) With reference to the chart above, explain **one** likely economic effect of the change in the UK unemployment rate between 2012 and 2018.

[illegible]

(b) Which **one** of the following policies is most likely to reduce the unemployment rate in the UK?

- ☐ **A** A decrease in direct taxes on company profits
- ☐ **B** A decrease in quantitative easing

- ☐ **C** An increase in government payments to the unemployed
- ☐ **D** An increase in the UK base interest rate

(Total for question = 4 marks)

Q4.

UK economic recovery

Figure 1: Components of aggregate demand in selected countries 2014

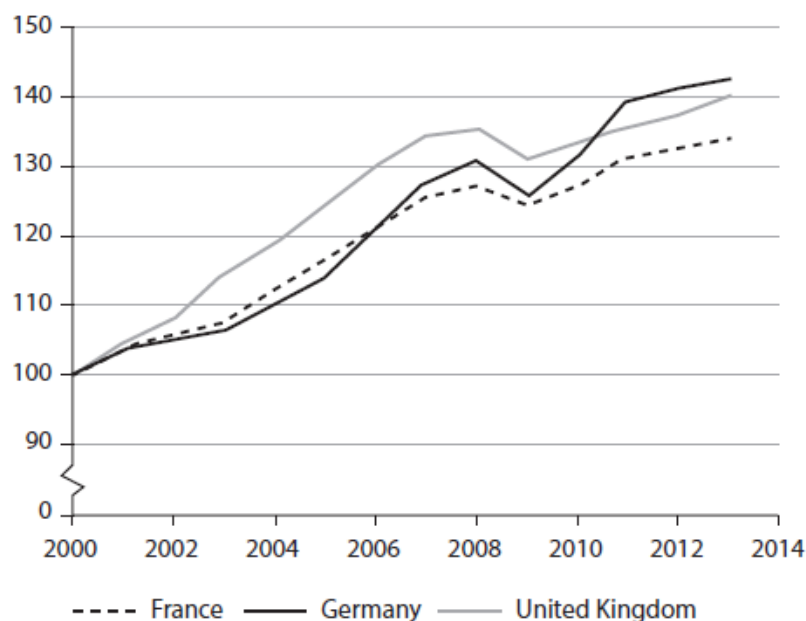
Country	Consumption	Investment	Government spending	Exports - Imports
UK	66%	14%	21%	-2%
Germany	57%	17%	19%	6%
France	57%	20%	25%	-2%
China	34%	49%	14%	3%

NB: Figures may not add up to 100% due to rounding calculations.

(Source: World Bank 2014)

Figure 2: Nominal GDP per capita at Purchasing Power Parities (PPPs)

(the base year 2000=100)



(Source: <https://www.imf.org>)

Extract A

The UK economy – a strange recovery

At the Autumn Statement in November 2015, the Chancellor of the Exchequer had good reason to cheer his economic record. The UK economy appeared to have returned towards its long-term trend in the rate of economic growth.

GDP growth has remained strong, with output rising at the highest rate in the G7 group of seven major industrialised countries. Unemployment continued to drop and business investment grew by 5%. 5

However, a number of concerns remain, particularly in relation to the UK's current account deficit, which reached a record high of 6% of GDP in the third quarter of 2014. This was primarily a result of a sharp decline in the rate of return on UK investments overseas. Low export growth meant that the UK's trade deficit persisted. 10

In 2012, the Chancellor had announced a target for the UK to export £1 trillion of goods and services by 2020, which would require an annual growth rate of 8%. However, the annual growth in UK exports had reached just 2.7%. The Office for Budget Responsibility (OBR) forecast that UK exports will only reach £630 billion by 2020 – a third lower than the government's target. 15

Exports in services continued to grow in 2015, but the UK's goods industries were struggling. It was particularly concerning that data showed output in the UK's construction and manufacturing industries falling. Indeed, the output of the manufacturing sector remained 6.3% below its pre-recession peak.

Households, meanwhile, are set to become even more indebted over the coming years. It is projected that the household gross debt to income ratio will rise by 26 percentage points between 2015 to 2020, returning to levels last seen before the Global Financial Crisis. The economy did not appear to be rebalancing away from consumer driven growth towards export-led growth, making another recession almost inevitable. 20

Fundamental to this problem is the UK's low productivity, which in 2015 remains around 20 percentage points below the average for the rest of the G7. It is vital that the government tackles this problem, particularly in the sectors that are currently facing difficulties. This will require relaxing the planning system to promote more house-building, the removal of burdens on UK manufacturers such as carbon taxes, finally getting shale gas exploration going, and reforming apprenticeships to rapidly improve skills in construction, manufacturing and technology. 25 30

(Source: adapted from <http://www.cityam.com/229481/chancellor-beware-uk-not-out-woods-yet>, 25 November 2015 by Daniel Mahoney)

(a) With reference to Figure 1, explain the term 'net trade'.

(4)

(b) With reference to the information provided and your own knowledge, assess the likely causes of the UK's trade deficit.

(10)

(c) With reference to Extract A, paragraph 2, explain **one** likely influence on UK investment.

(5)

(d) With reference to Figure 2 and Extract A, explain **two** likely reasons why the growth of the UK's nominal GDP per capita at PPPs was slower than that of Germany after 2010.

(6)

(e) Evaluate policies the government could use to increase the UK's productivity.

(15)

EITHER

(f) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)

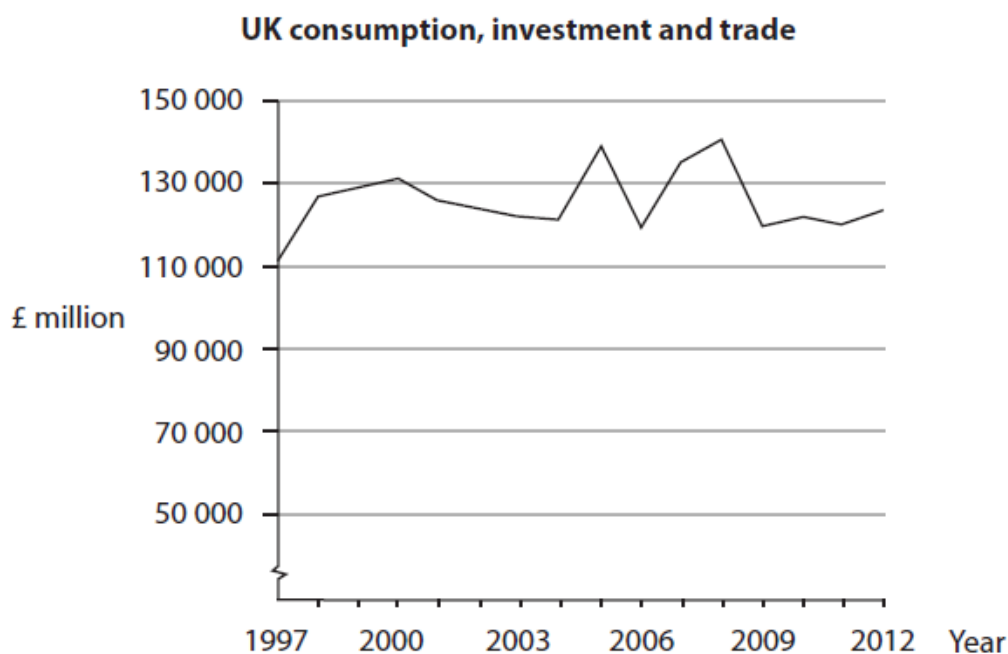
OR

(g) Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24).

(20)

(Total for question = 60 marks)

Q5.

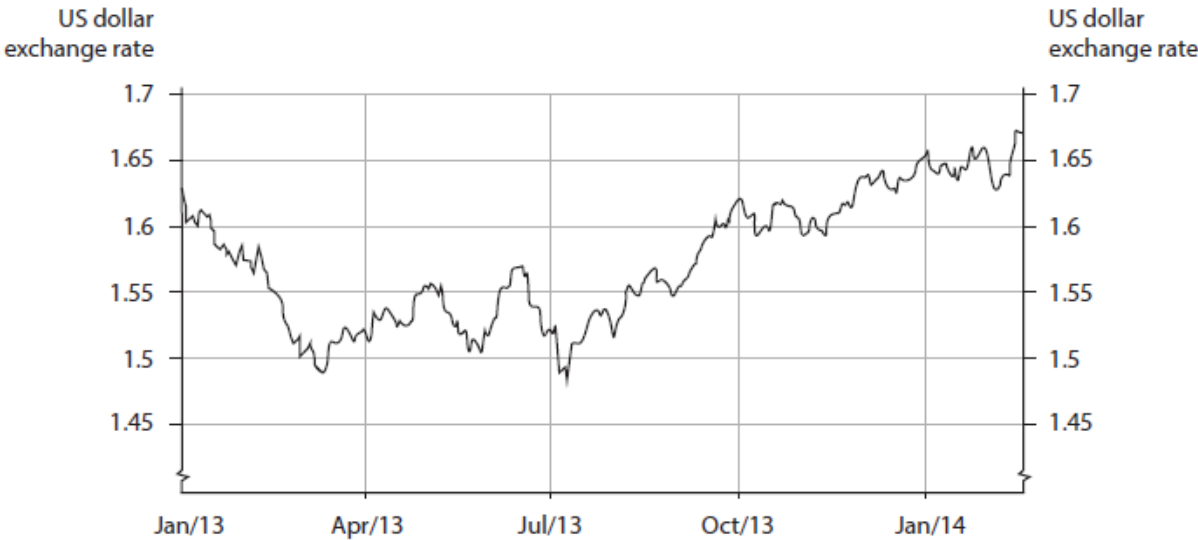


(Source: <http://www.ons.gov.uk/ons/rel/bus-invest/business-investment/q3-2013-provisional-results/stb-business-investment-q3-2013-provisional.html#tab-Business-Investment-and-other-components-of-GFCF>)

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.

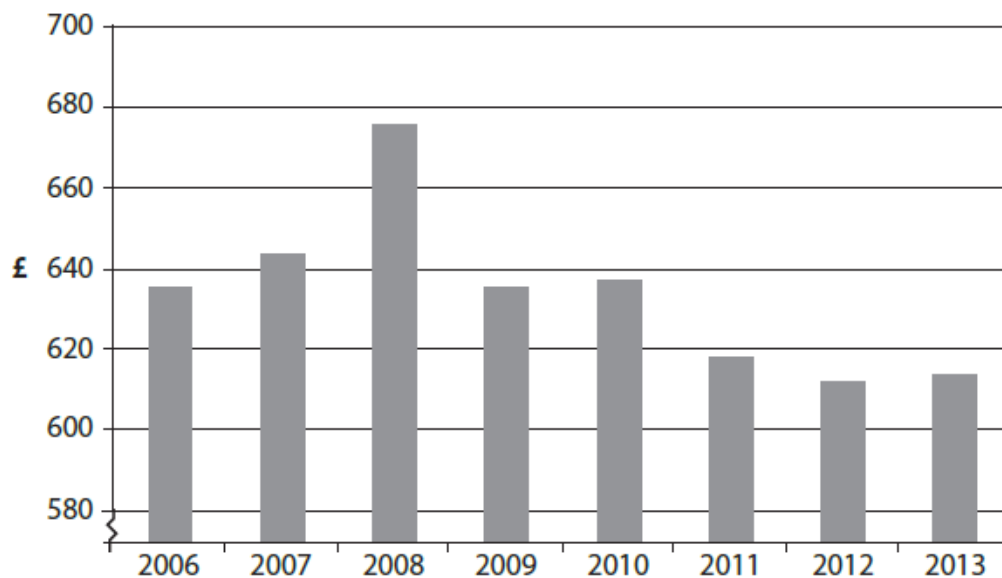
(20)

(Total for question = 60 marks)

Q6.

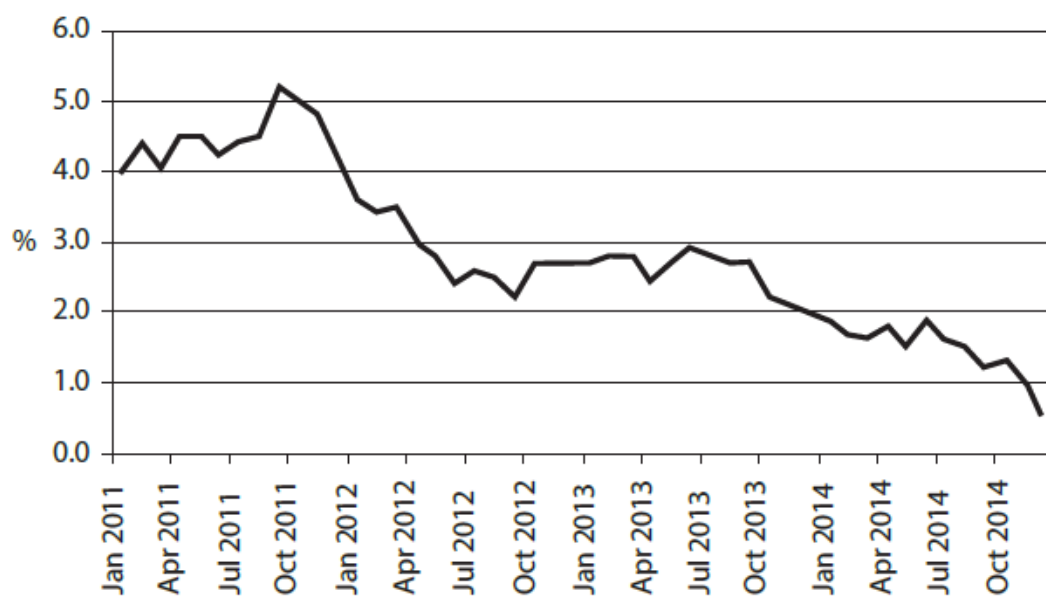
UK incomes, inflation and monetary policy

Figure 1 - UK average weekly household real income



(Source: <http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2014-edition/rft-a44-final-2013.xls>)

Figure 2 - UK inflation rate as measured by percentage changes in the Consumer Price Index (CPI)



(Source: <http://www.bankofengland.co.uk/publications/Pages/inflationreport/2015/feb.aspx>)

Extract A

Britons should not fear rise in interest rates

The Monetary Policy Committee (MPC) of the Bank of England is prepared to raise interest rates “in the near future” if inflation increases, one of its senior policymakers has warned.

Kristin Forbes, a member of the MPC, said a rise in borrowing costs would also be necessary should household debt reach unhealthy levels. However, she stressed that this was not yet a cause for concern.

5

With the UK's base rate of interest at 0.5% and inflation at a record low and expected to be negative, the MPC is currently under no pressure to raise interest rates, despite Britain's economic recovery.

UK inflation is being driven lower by the slump in global oil prices, which have roughly halved since summer 2014, and the Bank's governor Mark Carney warned earlier this month that a strong domestic economy would translate into higher UK inflation over the medium term. “The most likely next move in monetary policy is an increase in interest rates. The message is clear,” Carney said.

10

Forbes said that “even the more lagged effects of the rise in the value of the pound will likely peak in the first part of this year and also gradually fade. Inflation will then most likely bounce back.

15

“Since interest rates take well over a year to be fully effective, they should be adjusted to respond to inflationary risks at that time horizon – when all of these effects have diminished – rather than respond to today's inflation.”

(Source: adapted from <http://www.theguardian.com/money/2015/feb/24/britons-should-not-fear-rise-in-interest-rates-when-they-come-says-boe-member>)

Extract B

Deflation is bad news

The problem with deflation is that once you have it you can't get rid of it. Central banks know what to do about inflation but they do not have the policy tools to deal with deflation when interest rates are almost as low as they can go. Just look at Japan, which had deflation in nine separate years from 1999-2012, with two additional years at zero, averaging minus 0.3%. The highest in any single year was minus 1.3% in 2013.

5

In the European Union (EU) in 2008, at the start of the financial crisis, there were fears of deflation but at that time central banks had the ability to cut interest rates by nearly 5 percentage points. Those fears may now be coming true, with the EU experiencing deflation of 0.5% in 2015.

This was driven primarily by declines in energy prices, but there was also deflation in non-energy industrial goods and telecommunications. The collapse in the cost of shipping goods potentially suggests something deeper is going on and may lead to a more persistent form of deflation than Mark Carney has currently claimed.

10

(Source: adapted from <http://www.independent.co.uk/news/business/comment/david-blanchflower/david-blanchflower-deflation-is-bad-news--and-britain-is-likely-to-be-next-to-get-it-10078832.html>)

(a) With reference to Figure 1, explain the term 'real income'.

(4)

(b) Assess the likely impact of falling real incomes on UK consumers.

(10)

(c) With reference to Extract A, explain the likely effect of a rise in the value of the pound on aggregate demand.

(5)

(d) With reference to the data, explain **two** likely reasons for the UK's falling inflation rate.

(6)

(e) With reference to Extracts A and B and your own knowledge, discuss whether the MPC should be concerned about the risk of deflation in the UK economy.

(15)

Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

OR

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

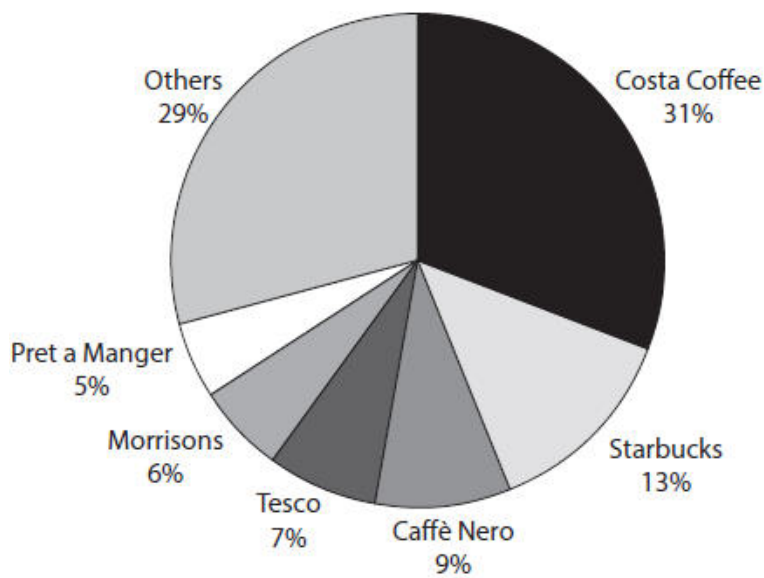
(20)

(Total for question = 60 marks)

Q7.

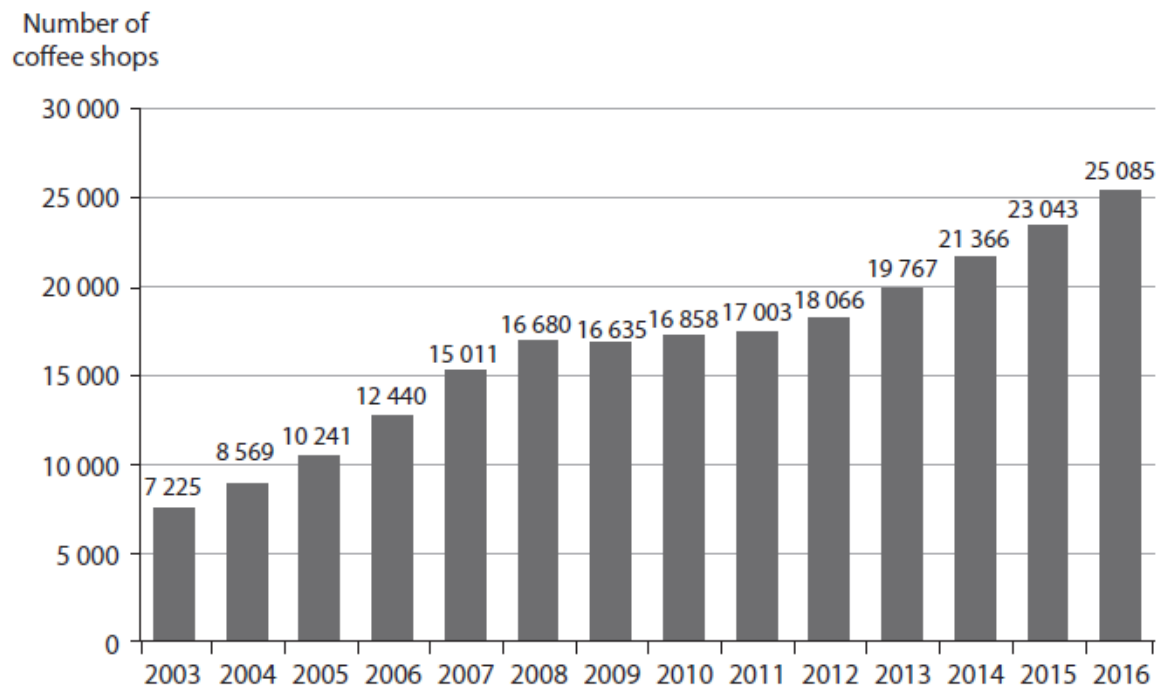
Branded coffee shops

Figure 1: Market share of UK branded coffee shops, 2015, percentages



(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)

Figure 2: Number of Starbucks coffee shops worldwide, 2003-2016



(Source: <https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/>)

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)

Extract A

Starbucks in Britain - a loss-making business?

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021.	5
However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax.	10
Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published.	15
These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.	20
	25

(Sources: adapted from *The Economist* 14 February 2015 <http://www.economist.com/news/business-and-finance/21643271-tax-and-starbucks-company-report-2016> and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)

Extract B

Tax on disposable coffee cups?

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year. One environment spokesperson, Kate Parminter, said: "We've seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact."	5
In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: "My initial reaction is charging 5p or 10p for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2.60 to £2.65. I suspect a more technological answer is what we need – either the composition of the disposable cups being changed so they're more easily recyclable, or changing the technology in the recycling."	10
Disposable coffee cups contain a plastic coating inside the cups which prevent them from becoming soggy, making them difficult to recycle. There are just two specialist facilities in the UK that have the required equipment to separate plastic from paper for recycling. Almost no recycled paper is used in the production of disposable cups, meaning that some 43 000 trees must be cut down annually to keep up with the demand. CO ₂ emissions of around 83 000 tonnes are generated every year for their production.	15
	20
	25
(Sources: adapted from http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html 05/09/16 and https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups)	

Extract C

German city of Freiburg takes action on cutting the use of disposable coffee cups

The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused. 56 coffee retailers have signed up, and 10 000 cups are being used.	5
One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.	10
(Source: adapted from http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719)	

- (a) With reference to Figure 1, briefly explain the market structure that best describes the UK branded coffee shop market. (5)
- (b) With reference to Figure 3 and other information provided, discuss the price and non-price strategies that Starbucks may use to increase profitability. (12)
- (c) Examine the advantages of using an indirect tax as a means of reducing the use of disposable coffee cups. (8)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors that may influence Starbucks' decision whether to expand in a particular country.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of increased UK demand for coffee at branded coffee shops.

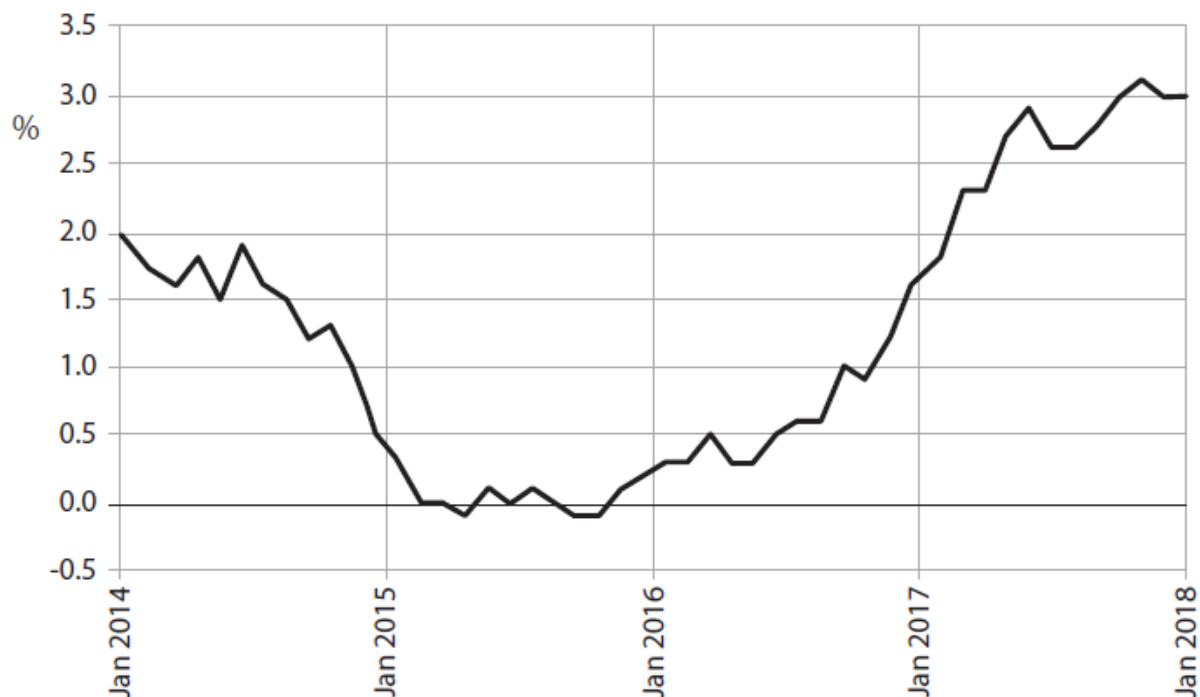
(25)

(Total for question = 50 marks)

Q8.

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN

Non-dairy milk

Jigsaw puzzles

Child scooters

Cycling helmets

OUT

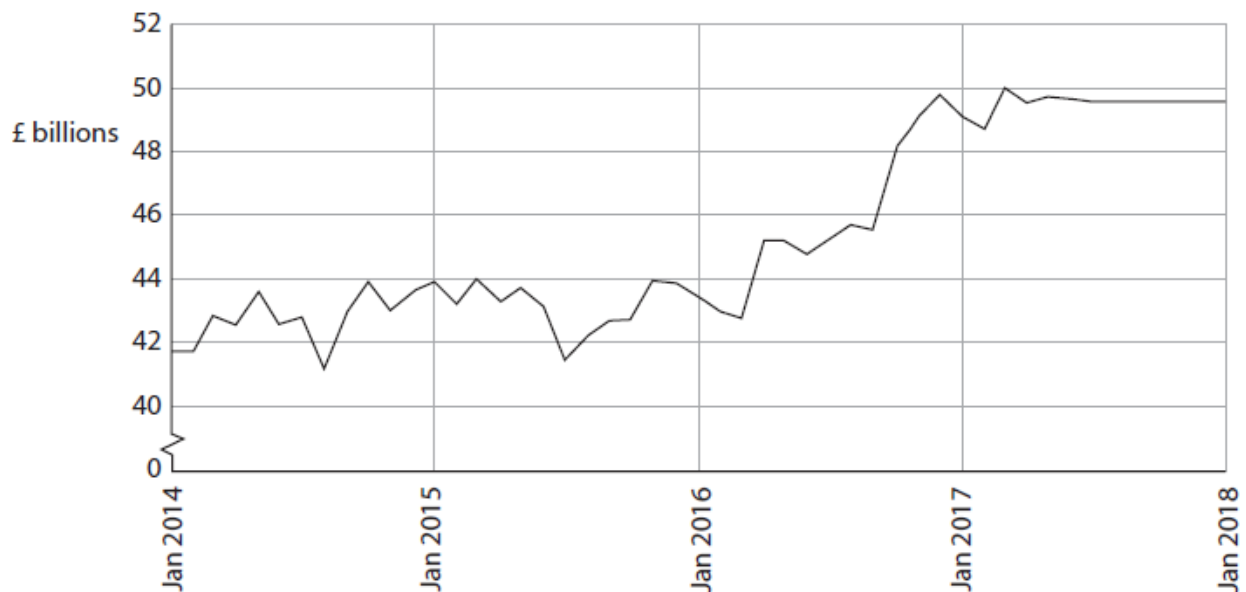
Apple cider

Menthol cigarettes

Child swings

Basic mobile phones

(Source: [www.theguardian.com/business/2017/mar/14/uk-inflation-
ons-basket-goods-gin-cycling-helmets](http://www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets))

Figure 3: UK exports, £ billions per month, January 2014 to January 2018

(Source: Trading Economics, ONS - <https://tradingeconomics.com/united-kingdom/exports>)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

Extract A**Rising inflation**

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points.	5
The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending.	10
Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households.	15
The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket.	20

(Source: adapted from 'UK inflation tipped to rise again with wages forecast to stagnate', The Guardian, <https://www.theguardian.com/business/2017/aug/13/uk-inflation-tipped-to-rise-again-with-wages-forecast-to-stagnate#img-1>)

Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth.	5
Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK.	10

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, <http://www.telegraph.co.uk/business/2017/08/01/growth-accelerate-uk-economy-bounces-back/>; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, <http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/>)

(a) With reference to the first paragraph of Extract A and Figure 1, explain how the change in the exchange rate of the pound has 'contributed to rising inflation' (Extract A, line 4).

(4)

(b) With reference to Extract A, explain **two** likely economic effects of the higher rate of UK inflation.

(6)

(c) With reference to the last paragraph of Extract A and Figure 2, explain **one** reason why it is necessary to regularly update the CPI basket of goods and services.

(5)

(d) With reference to Figure 3, assess the likely impact of the change in the value of exports, since mid-2016, on the economic growth of the UK. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(e) With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

(15)

EITHER

(f) Evaluate the use of interest rate changes as a means of controlling UK inflation.

(20)

OR

(g) Evaluate the potential conflicts between the objective of economic growth and **two** other UK macroeconomic objectives.

(20)

(Total for question = 60 marks)

Q9.

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

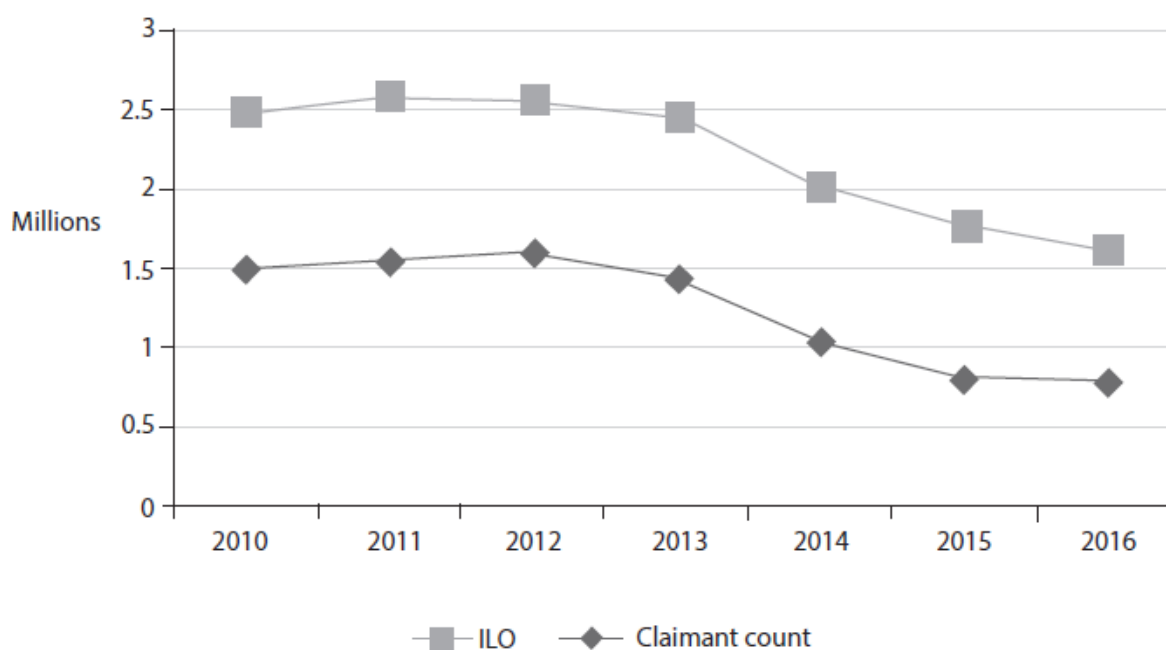
(e) Evaluate the microeconomic and macroeconomic effects of increased government intervention in an industry. Refer to HCWs or another industry of your choice.

(Total for question = 50 marks)

Q10.

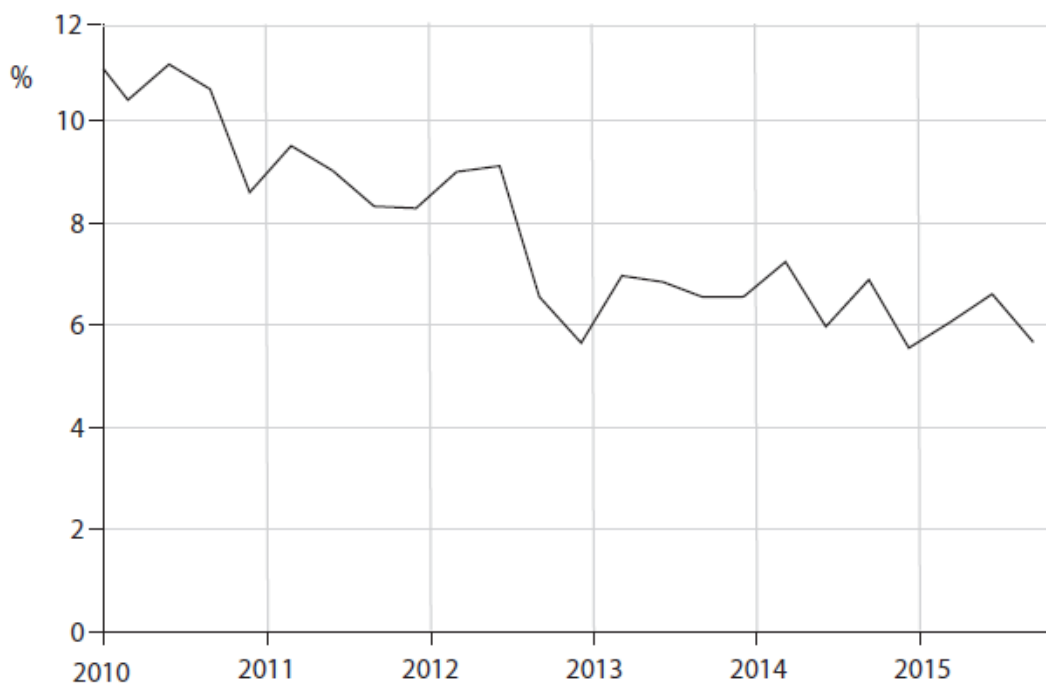
The UK economy

Figure 1: Unemployment - International Labour Organisation (ILO) and the claimant count, millions, 2010-2016



(Source: ONS Datasets, <https://www.ons.gov.uk/>)

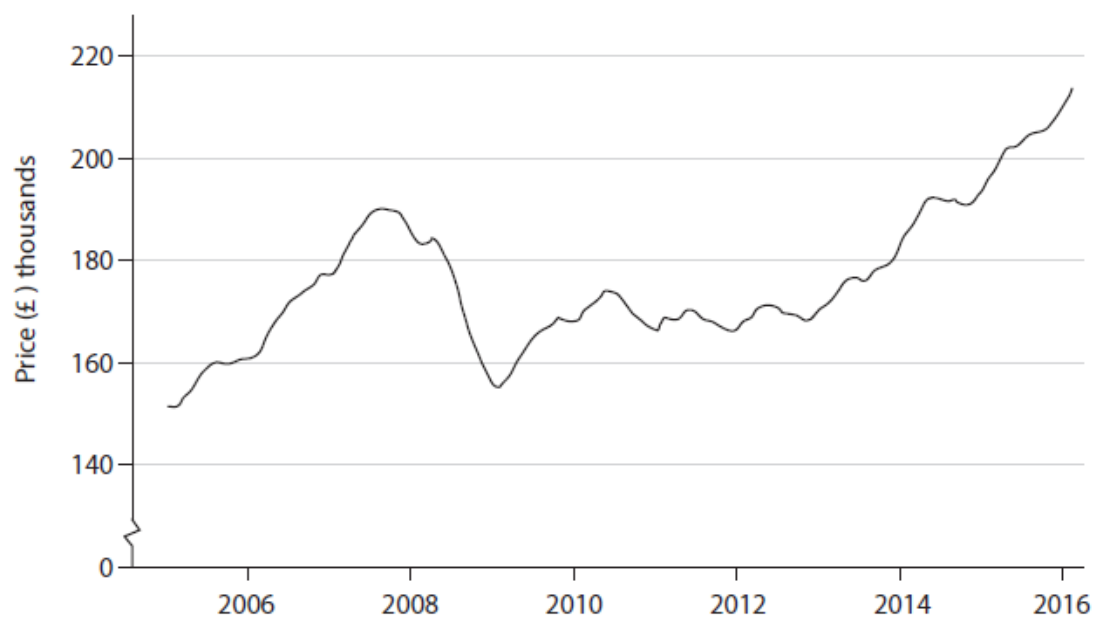
Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

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

Figure 3: UK average house prices, 2005-2016



(Source: <http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/>)

Extract A

Soaring house prices

House prices are still rising rapidly. The average UK house price was £214 000 in June 2016, according to the Office for National Statistics (ONS). This is £24 000 more than it was at its peak in September 2007, just before the economic downturn. First-time buyers have experienced the largest rise in house prices.

5

Even the loss of consumer confidence over Britain's vote to leave the EU did not stop house prices from rising – annual growth increased from 5.2% in July 2016 to 5.6% in August 2016. House price growth was the strongest in London, with annual average prices rising by 9.6%. However, in Wales average house prices actually fell by 0.5% during the same period. In its first post-Brexit referendum forecast, estate agency Countrywide said that house prices will fall by 1% across the UK in 2017, before rising by 2% in 2018.

10

Real household income in the UK fell by 10.4% in the years following the financial crisis. This increased the difference between real income and house prices. In 1997, a house cost little more than twice the average income. By early 2015, the average price of a house was five times the average annual income.

15

The rate of home ownership for 25 to 34-year-olds has fallen to 35.8% over the last twenty-five years as houses became less affordable. First-time buyers have to wait longer to save up for a house deposit. Conversely, home ownership has risen to 78.6% among those aged 65 to 74.

(Source: adapted from 'The state of the UK housing market in five charts', The Telegraph, <http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/>; 'UK house price growth slows as demand cools after Brexit vote', The Guardian, <https://www.theguardian.com/business/2016/sep/30/uk-house-price-growth-slows-demand-cools-brexit-vote-nationwide>)

Extract B

UK migration trends in the year ending June 2016

Inward migration levels are among the highest ever recorded with an estimated 650 000 people moving to the UK. This is an increase of around 11 000 from the previous year.

Employment remains the most common reason for long-term migration (312 000) to the UK, with around 182 000 of these coming with a definite job and 130 000 looking for work.

5

Long-term migration to the UK for study was estimated to be 163 000. In addition, 80 000 long-term migrants arrived in the UK to accompany their families. There were 41 280 refugees applying for asylum, including dependants, of which 10 547 people were granted asylum. Asylum applicants cannot usually accept offers of employment while their case is being processed.

10

(Source: adapted from 'Migration Statistics Quarterly Report: December 2016', ONS, <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/dec2016>)

(a) With reference to Figure 1, explain one reason why the claimant count and the ILO measure of unemployment differ.

(4)

(b) With reference to Extract A, assess the likely macroeconomic effects of an increase in house prices. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(c) With reference to the information provided, explain **one** likely factor, other than changes in house prices, that could influence the level of savings of UK households.

(5)

(d) Explain **two** factors that might cause a rise in the value of the multiplier.

(6)

(e) With reference to Extract B and Figure 1, discuss the likely impact of migration on employment **and** unemployment in the UK.

(15)

EITHER

(f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(20)

(Total for question = 60 marks)

Mark Scheme

Q1.

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.

Q2.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and Analysis • Definition of exchange rate: price of one currency in terms of another (1) • Possible reasons: – Reduction in QE by USA (K): likely to cause a rise in interest rates in developed economies and less demand for the currencies of emerging economies (A) – Slow-down in the Turkish economy (K): likely to cause a fall in confidence and a decrease in foreign direct investment and less demand for the currencies of emerging economies (A) Application: Reference from Figure 1: (2) 14% fall in value of the Turkish lira over the whole period	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 4 • understanding of <i>inflation</i>: general increase in the average price level Costs of inflation include: • arbitrary redistribution of income from lenders to borrowers • loss of international competitiveness of Argentine goods • uncertainty causing a fall in investment • industrial unrest: reference to impact of strike by the police • menu costs and shoe leather costs • danger of hyperinflation if the current inflation is not brought under control.	(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
(b) continued	Evaluation 4 • current inflation rate may be a short-term phenomenon only • impact of competitiveness depends on inflation rates of countries that Argentina trades with • Argentine government is taking measures e.g. price controls to reduce the rate of inflation • impact on living standards depends on what is happening to wages	(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		Mark
(c)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge and Analysis - Restrictions on beef exports caused a fall in demand and in the price of beef (K). In turn, this made it less profitable to produce beef. (A) (2) - Soya production becoming more profitable because of growing demand from China (K). Therefore, farmers reallocating resources from beef production to soya production. (A) (2) Application 10 million fall in the stock of cattle (over 10 years) to 48 million in 2011. - Exports accounted for 20% of beef production in 2007, but have fallen to just 7% in 2013 (2) Evaluation 2 marks for any valid point: - Some farmers may find it difficult to switch production from beef to soya because of the costs involved and/or unsuitability of the land - Farmers might think that government restrictions on beef exports may be short-term so they will not switch from beef to soya.	(8)

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8 Evaluation 9 Microeconomic effects: • supply and demand diagram illustrating the impact of maximum prices: contraction in supply and extension of domestic demand • shortages of products subject to price controls • need for rationing • greater price stability for producers • implications for resource allocation: producers will switch resources to the production of products not covered by price controls. Macroeconomic effects: • falling export revenues from beef sales • negative impact on Argentina's balance of trade • could cause fall in the rate of economic growth • negative implications for Argentina's economic development • fall in the rate of inflation • price controls might act as an incentive for producers to diversify and/or develop manufacturing and tertiary industries.	

	Possible evaluation points include: • impact of price controls depends on how rigorously they are enforced • producers may not reallocate resources to products not subject to price controls if they believe that they will only exist for a short time • impact on the balance of trade may be minimal, e.g. because of the increase in exports of soya • impact on the rate of inflation may be limited to the short-term: once price controls are removed the rate of inflation might increase significantly	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. 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	Marks	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. 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. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects: • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Argentine exporters of manufactured goods. Macroeconomic effects: • increase in the competitiveness of Argentine's goods and services may lead to an improvement in the current account of the balance of payments • increase in the rate of economic growth • leading to an increase in employment • cost push inflation resulting from increased costs of imported goods • increase in the real burden of foreign debt.	

	Possible evaluation points include: • impact on individual Argentine producers depends on their reliance on imports and/or exports • demand for some products, e.g. soya may not be adversely affected because demand is increasing rapidly in China • inflation is very high so any competitive advantage may be lost quickly. Impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • short-run and long-run effect on the current account may be analysed using the J curve effect • the current account will only improve if the Marshall-Lerner condition is fulfilled, i.e. if the sum of the price elasticity of demands for imports and exports is greater than 1	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. 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	Marks	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. 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. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Q3.

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

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

Q4.

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.

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 4 • Depends on other factors in the economy, such as government spending or demand for exports • Changes in benefits and/or tax allowances may offset fall in real income • Only short-term fall (Figure 1 shows slight increase in 2013) • Inflation falling recently, improving likelihood of real income rises • Could be due to firms keeping wages low rather than making redundancies, thus people's standard of living higher than it would be if they lost their job	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. 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	Answer	Mark
	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding 1 marks, e.g. • Definition of aggregate demand • Understanding of a rise in value of the pound Application 2 marks (1+1), e.g. • Aggregate demand will fall (1) • Lagged effect (1) • Declining imported food and commodity prices (1) Analysis Linked development (1+1), e.g. • Imports become cheaper so aggregate demand falls (1) • Exports become expensive so aggregate demand falls (1)	(5)

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 6 MPC should not be concerned because: • Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year • Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy • Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy • Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand • May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD NB Candidates may, alternatively, argue that the MPC should not be concerned about deflation for KAA and that they should for evaluation	(6)

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 6 MPC has not been successful at controlling inflation: • Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target • MPC struggles to respond to supply-side factors, e.g. falling food and commodity prices in 2014 • Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation • Banking failure • In the period shown, interest rates have been 0.5% but inflation has continued to fall	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. 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
	Knowledge 4, Application 4, Analysis 6, • Understanding of demand-side policies to include monetary and/or fiscal policy • Understanding of Global Financial Crisis of 2008 in UK and/or other countries • AD/AS diagram may be used to aid effective analysis Examples of demand-side policies that students may discuss. These need to be clearly linked to responding to a financial crisis: • Reduction of interest rates to boost aggregate demand in a recession. • Quantitative easing to increase liquidity • Bailout of banks • Increase in government spending e.g. infrastructure • Cut in taxation	(14)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 6 • Short run/long run issues, e.g. interest rates take at least a year to have a full effect • Interest rates cannot be cut much further; relative interest rates are important • The uncertainty of the impact of QE, e.g. do banks pass on the credit, is it inflationary? • Size of the multiplier • Problems in financing government deficit/fiscal austerity issues • Impact of different tax cuts, e.g. income tax vs. VAT • Relative success of US or other country's policies in response to the crisis compared to the UK	(6)

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

Q7.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/understanding and analysis: Oligopoly (1) OR Legal monopoly (1) OR Monopoly only if monopoly POWER is implied e.g. using CR calculation (1) OR Duopoly only if duopoly POWER is implied e.g. using CR calculation (1) AND Understanding of market structure identified, e.g. a market <i>dominated by</i> a few firms, or <i>interdependent</i> (1) Explanation of the process linking to the market structure to the action of firms e.g. high concentration means that firms may exhibit collusion, price rigidity, use of non-price competition, profits are not competed away (1)	

	Application (1+1): 2 marks for data references from Figure 1 and other sources (at least 1 mark must be related to Figure 1) e.g. Others 29% - Concentration ratio calculation e.g. 2 firm CR is 44% 3 firm CR is 53% 4 firm CR is 60% 5 firm CR is 66% 6 firm CR is 71% (2) - Costa (31%) is >25% market share (2) - Strong brand names, brand logos e.g. Caffè Nero and Costa (1) have been dominating the UK market Fig. 1/Extract A (1) - Market power is likely to be high (1) with reason e.g. consumer loyalty (1) shown in Figure 3 as price differences tolerates/illustrate market power (1) coffee has price inelastic demand (1) so people are prepared to pay more (1)	(5)
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Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 4 Pricing strategies - must be linked to <i>profit</i>, and may include: - Price leadership/price matching – some brands seem very similar in pricing e.g. use kinked demand theory - Predatory pricing - Limit pricing (with view to higher future profits) - Price wars (with view to higher future profits) - Collusion/collaboration - reward the use of game theory/pay off matrix to support this - Undercutting close rival e.g. Costa (with view to higher profits) - Also award, if linked to profit: sales max, exploiting economies of scale, cost cutting, or competitive pricing linked to elastic demand, price rises and/or price discrimination	

	Non-pricing strategies – linked to <i>profit</i>, might include: • Loyalty schemes, e.g. Starbucks only allow its own cup for reuse in store, • Paying for central and expensive locations for stores • Opening up new stores near to competitors to undermine the competition, e.g. at a London location there are many competitors • Closing down non-profitable stores as rationalisation policy • Strengthening the brand by advertising • improving reputation for recycling washable cups/fair trade coffee, sharing with other brands not just Starbucks coffee cups which can be washed in store and re-used • Extension of product range • Focus on quality NB Award collusion and BOGOF-style approaches as either pricing or non-pricing strategies. NB For a Level 3 answer, there must be both price and non-price strategies, and reference to the context of <i>profitability of Starbucks</i>.	(8)
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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
(b) continued	Evaluation 4 • Weighing up of reasons for using price or non-price competition, e.g. • Not likely to use price competition - e.g. better to collude and keep higher joint profits. • Non-price competition can have very uncertain results/be expensive • Effects in the short run and long run might vary e.g. rising costs lead to falling profits, but long run demand rises leading to better results • Relative effectiveness of measures e.g. limit pricing may be static in long run and predatory pricing changes when other firms leave • Some of these strategies are illegal and could lead to fines, which might reduce overall profitability • Unstable nature of game theory equilibria • The effectiveness of the competition authorities might be considered e.g. regulatory capture • Depends on the strength of brand loyalty • Limitations of loyalty schemes, e.g. cost, consumer behaviour.	(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		Mark
(c)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge (1+1) e.g. • Fall in consumption of non-renewable products (1) • Rise in tax revenues (1) • Reduction in external costs/greater environmental awareness (1) • Soft touch regulation/allows consumer choice (1) Application (2 or 1+1) e.g. • Use of reusable cups as a means of reducing demand for disposable cups (i.e. a substitute, Extract C) (1) • Extract B – 5p charge is a small proportion of £2.60 (1) • 85% reduction in plastic bags (1) • This might be illustrated through the use of a correct supply curve shift, e.g. a fall in consumption or production of cups on x axis (1) Analysis (1+1) e.g. • Indirect taxes may raise prices (1) • Increases in costs of production (1) • Link between unit tax, tax revenue and reduction in demand for cups (1) • A supply and demand diagram showing an indirect tax (supply shift upwards/leftwards) or an externalities diagram might be used (1) • tax revenue could be used to subsidise other products, e.g. recyclable cups (1)	

	Evaluation (2 marks for any relevant point or 1+1). Points might include: • It depends if the tax is passed on to the consumer • Other policies may be considered e.g. new recycling specialist facilities, regulation • PED might be used, e.g. a 5p tax on the price of a £2.60 coffee might have very little effect on demand, or, a cup of coffee may be a small percentage of consumer income, depends on the availability of substitutes • Regressive nature of the tax – has a greater effect on lower incomes • Other approaches considered, e.g. subsidising reusable cups as in Ext B changing the technology in the recycling NB award two advantages. A diagram can be credited as analysis or application (1+1) up to 2 marks in total.	(8)
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Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic influences may include: • Level of demand or expected demand, prospect for profit • Cost of labour, minimum wage, spare capacity in the labour market • Rent/land prices • Contestability of market/barriers to entry e.g. how long and it takes and ease of setting up business • Legal system and other legislative issues • Property rights • Extent of regulation • Existing PED • Brand loyalty • Sunk costs Macroeconomic influences may include: • Levels of competitiveness e.g. price and non-price, which might relate to competitiveness ranking, e.g. infrastructure, human capital, institutions • Macroeconomic environment, e.g. inflation • Membership of EU or other trade bloc issues • Value of currency • Level of corporation tax. • Transfer pricing possibility, as outlined in Extract A, as impact on profitability (not costs) • Level/rate of national income/economic growth and spare capacity/unemployment • Growth of household incomes in different countries, e.g. Chinese coffee shops are the most profitable, growing quickly in number • Strength and stability of local economy • Political and social stability	

	NB competitiveness, corporation tax, incomes, unemployment and contestability can be seen as a micro or macro approach. • Possible evaluation points include: • Factors might balance each other out • Changes in tax rates, e.g. government cutting corporation tax significantly • Starbucks is starting to report UK profits – perhaps it has had too much negative publicity from the low profit tax paid, Extract A reduction by a third in sales at Starbucks. Also it is moving headquarters from Netherlands to UK • Different influences affect different firms	(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 covering both microeconomic and macroeconomic factors. 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.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • Effects on consumers – e.g. higher prices (or lower prices if increased competition), more consumer spending on high street. Might include PED, YED (this might be developed as evaluation) • Effect on workers – higher incomes, more jobs • Effect on firms, e.g. increase in profits, revenue/decrease for independent non-branded coffee shops; cost of employing specific skilled workers e.g. baristas or other factors of production • Increase negative externalities e.g. more coffee cups • External economies of scale e.g. ancillary services such as cup manufacturers Macroeconomic effects may include: • Increased employment in service industry • Balance of payments e.g. outflow of profits to Starbucks • Effects on primary product producers • AD increase, negative/positive multiplier effects (local businesses might lose out to branded supermarket coffee outlets), inflation/growth • Tax implications e.g. transfer pricing • Income inequality • Environmental impacts	

	NB environmental impacts, labour markets, taxation or incomes can be seen as a micro or macro approach. Evaluation points may include: • Extent of negative externalities depends on whether new processing plants for cups are set up/how alternatives are produced. • Depends on the extent of the increase in demand, PED, YED, XED – and if other areas are seeing declines. • Depends on the size of the multiplier • Depends on the level of spare capacity (LRAS for example) • Depends on growth levels, point at which AD and AS meet (if Keynesian approach) • Depends on the performance of other firms • Depends on the extent to which local shops are displaced • Depends on the extent to which substitution can occur – e.g. people drink coffee instead of going to pubs • Depends on degree of profit repatriation, remittances, transfer pricing • Depends on whether coffee shops extends consumption spending or replaces demand for something else which might have different benefits/costs	(25)
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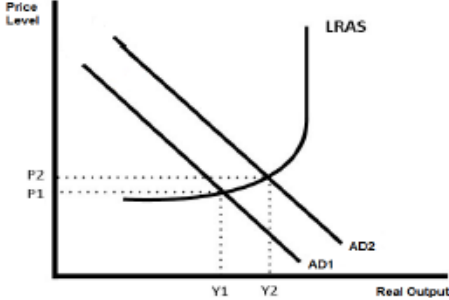
Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains 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 covering both microeconomic and macroeconomic factors. 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.

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.

Question Number	Indicative content		Mark
(d) continued	Evaluation 4 - Exports are only a small component of AD - Investment 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.

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)
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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: • 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)
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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 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.

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.

Q9.

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)

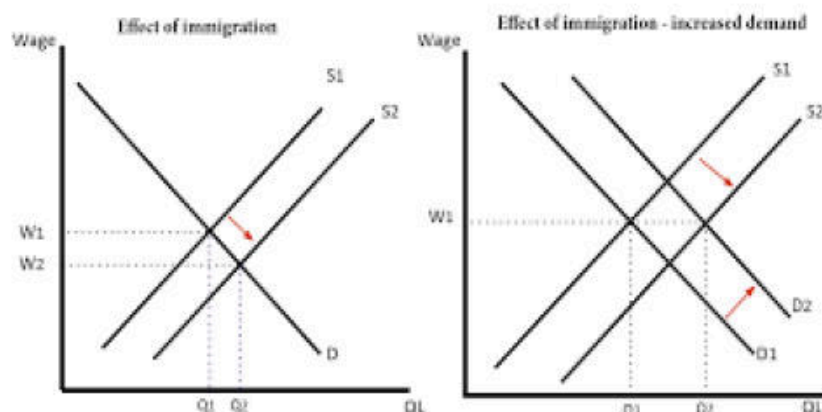
Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/ implicit understanding: (1+1) marks for two reasons and explanation e.g. • HCWs are inferior goods if demand rises when incomes fall • HCWs at £5 are a very small percentage of consumer income so they might 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	

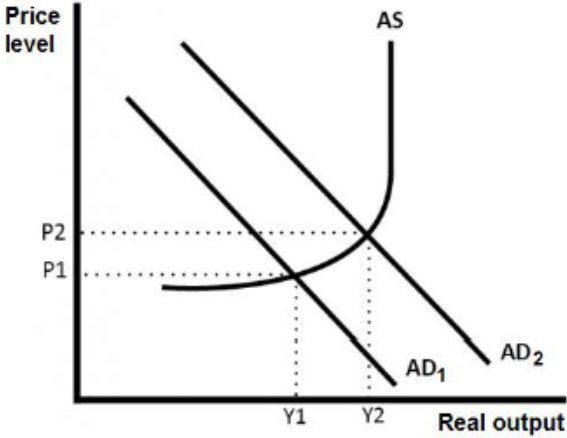
	Macroeconomic effects may include: • Income equality improvements – may use Gini coefficient or Lorenz curve • Prices rise – inflationary effects • reduction in levels of poverty • effects on growth – inflexibility in markets can reduce I or FDI • might improve environmental standards • Reduced employment 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.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2 Knowledge/understanding Identification of one reason (1) with development (1), e.g. • Different reasons for collection/different methods of collection: imply different results • It is becoming much more difficult to claim unemployment related benefits e.g. changes in the level of savings making it difficult to claim unemployment related benefits • Stigma issues when people are unemployed with no stigma for ILO but high stigma for unemployment related benefits • Increase in frictional unemployment which would increase ILO but may show no change in unemployment related benefits • State of the economy where more vacancies in a boom so harder to claim unemployment related benefits Application 2 marks for two data references from Figure 1 (1+1), e.g. Between 2010 and 2016: • Claimant count is below ILO (1) • Claimant count fell by around 48% / 0.7m (1) • ILO unemployment fell by around 35% / 0.9m (1) • In 2010, ILO unemployment was 2.5m (1) and CC unemployment was 1.5m (1)	(4)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2 • Rise in value of houses will lead to wealth effect • An increase in householder's confidence • Encourage households to consume more (and/or save less) • Aggregate demand (AD) will increase • Lead to an increase in real output or a faster rate of economic growth • Credit for discussion of other effects besides wealth effect, e.g. impact on: • Balance of Payments • Unemployment • Budget deficit • Price level • Increase in investment from the construction industry • Diagram e.g.  "£24 000 more than it was" / "annual growth increased from 5.2% in July 2016 to 5.6% in August 2016" / Data reference to Figure 1 data NB Candidates have to show impacts with accurate AD/AS diagram presenting a relevant change in AD to access Level 3 NB Benefits to rising house prices can be seen as KAA and negative effect as Evaluation, or vice versa	(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 - Houses are a significant component of consumers' wealth and effect large proportion of households (65% owner occupied) in the UK, which will have a major effect on AD - SR vs LR – "house prices will fall 1% across the UK in 2017" / wealth effects take time to trigger spending changes - Regional differences in impact – "House price growth was strongest in London" "home ownership has risen to 78.6% among those aged 65-to-74" – it may not raise AD / consumption - Discussion of the significance of falling real wages - Significance of the elasticity of the AS curve - Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship - Lower confidence for areas where it will be harder to move to find jobs, because of price differentials - Effect on first-time buyers – may lead to their consumption falling (discussion of real wages and home ownership)	(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/understanding 1 mark for identification, e.g. - Income (1) - Interest rates (1) - Unemployment (1) - Consumer confidence (1) Application 2 marks for data reference (1+1), e.g. - real incomes in the UK have fallen (1) by 10.4% (1) - unemployment fell (1) according to ILO and CC (1) - savings ratio has fallen (1) between 2010 and 2015 (1) - Britain's vote to leave the EU – Extract A Line 6 (1) Analysis Linked development (1+1), e.g. - Fall in income is likely to reduce savings leading to a fall in the marginal propensity to save - Lower unemployment is likely to cause a rise in consumer spending due to greater disposable incomes, leading to fall in savings ratio	(5)

Question Number	Answer	Mark
(d)	Knowledge 2, Application 2, Analysis 2 Knowledge/understanding 2 marks for, e.g. - Definition/understanding of the multiplier (1) - Identification of factors which can cause the multiplier to rise (1+1) Application 1 mark for each data reference from Figure 2 or linked application (1+1), e.g. - savings ratio decreased from 11.5% in Q1 of 2010 (1) - to approximately 5.7% in Q1 of 2016 (1) - Use of multiplier formula (2) - application by means of simple numerical example (up to 2 marks) Analysis 1 mark for linked development of each factor (1+1), e.g. - A fall in withdrawals from circular flow of income will lead to a rise in the value of the multiplier (1) - An increase in mpc will cause the value of the multiplier to rise (1)	(6)

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Effects for employment: • "Work remains the most common reason for long-term migration (312 000)" – this is most likely to lead to an increase in employment • "182 000 of these coming with a definite job" – these migrants could fill those vacancies that cannot be filled by indigenous workers • Increased size of population means that there is increase in supply of labour, thus reducing wage rate and increasing demand for labour • Increased consumer spending from an increased population means more jobs are created • Increased demand for public services creating an increased demand for public sector workers Effects for unemployment: • "130 000 looking for work" – these migrants could displace the current indigenous workers • "10 547 people granted asylum" / 80 000 family members – surplus labour in the market as they might attempt to join the labour market but with inappropriate skills NB Answer must refer to both <i>employment and unemployment</i> to access Level 3	(9)

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

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 Points may include: • Magnitude and the significance of net migration – the figures on emigration have not been provided • “Long-term migration to the UK for study was estimated to be 163 000” – so may only be short-term migrants; also it is not sure they will remain in the UK after study • If the UK economy starts to grow, it can take on more labour without increasing unemployment • Evidence might be inaccurate, e.g. reason for migration is a very loaded question/inadequate data – it does not indicate if there has been an increase or decrease in the figures shown • Depends on the skills of migrants • “Dependents” may or may not have an effect • Depends on the percentage of asylum seekers granted leave to remain (Extract B) • Different industries may be affected differently	(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 • Understanding / identification of government policies as fiscal policy or supply-side policy • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Investment in education and training to provide a more skilled workforce through increases in the level of human capital • Changes in minimum wage to incentivise employment • Reduction in unemployment and associated benefits to increase incentive to find work • Grants/subsidies/tax breaks to firms • Reduction in tax rates to encourage firms to expand or set up in UK, therefore increasing employment • Reduction in income tax creating a much larger incentive to work, increasing consumption and therefore, employment • Policies to increase real wage flexibility e.g. helping to reduce real wage unemployment • Tax breaks to firms who set up in depressed areas / giving some financial assistance to unemployed workers who move to areas with high employment • Government improving the labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and other measures to increase the activity rate NB Answer must be linked to <i>government</i> policies to access Level 3 or above. NB Answer must be linked to <i>employment</i> to access Level 3 or above.	(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 • Magnitude of the policy change • Conflicts between the policies • Depends if there is spare capacity • Creditworthiness of the UK government • Conflicts with other UK economic objectives • Discussion of effectiveness of individual policies • External factors beyond UK government's control, e.g. slowdown in global economy • Time lags (for e.g. education takes a long time to have impact on productivity)/implementation lags Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks	(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, • Implicit or explicit identification of the various UK's macroeconomic objectives • Understanding of inflation • May reduce growth owing to costs of inflation • Reduction in purchasing power and real incomes • Equality e.g. effect on those who have fixed incomes (are not protected by inflation) who are often the poorest • May make the national debt smaller in real terms making it cheaper to finance and pay back • Reduction in competitiveness of British goods which worsens the current account of the balance of payments deficit and reduces international competitiveness • Unemployment may rise through increased levels of inefficiency and stagflation / using a Phillips curve • Higher inflation associated with increasing AD may have detrimental impact on environment • Possible beneficial effect on the environment as economic growth slows • Loss of both business and consumer confidence • The self-reinforcing effect on inflation through expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes NB KAA can be awarded for positive impacts on the objectives and evaluation as the negative impacts or vice versa	(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 - Depends on the cause, (e.g. cost push or demand pull) duration and magnitude of inflation – may be discussed in recent context of the UK / using AD AS diagram - Inflation might not translate through to higher wages and unemployment if the workforce has little power - If growth is low, slightly higher inflation is worth the risk to avoid deflation or depression - Impact depends on the relative inflation rates - Impact of high inflation might depend on policy response - interest rates may have to be raised - Other factors may have a larger effect: exchange rates or other macro objectives (ceteris paribus) - Possible beneficial effect on the environment	(6)

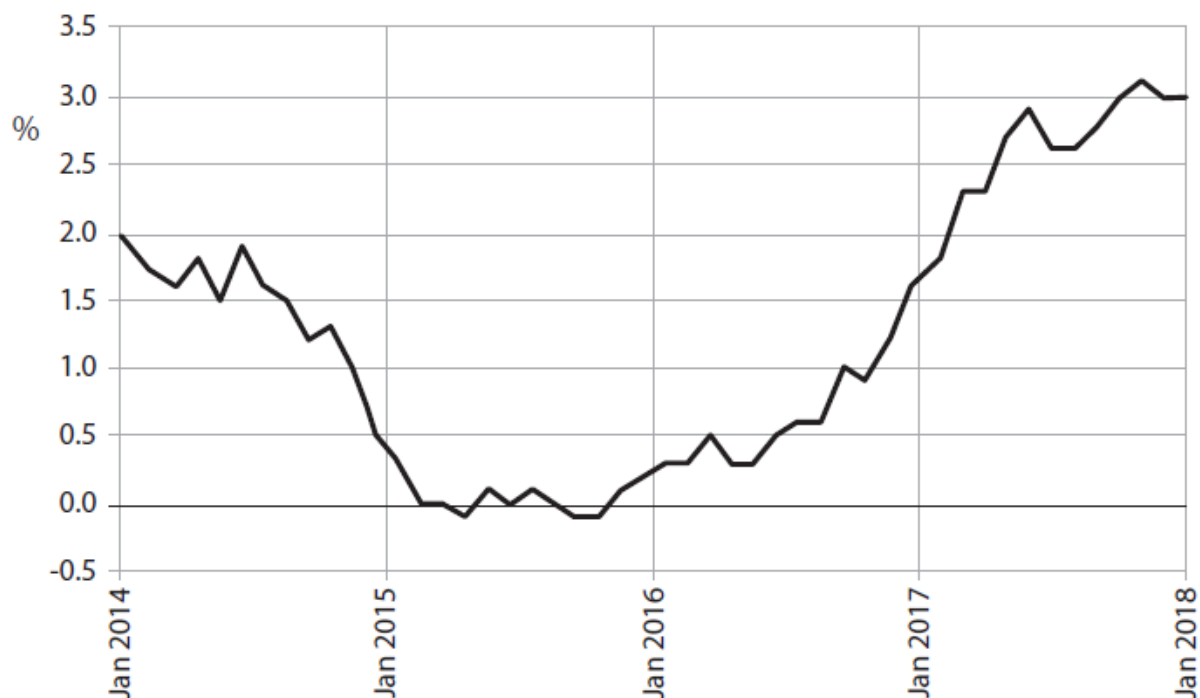
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated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

Questions

Q1.

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



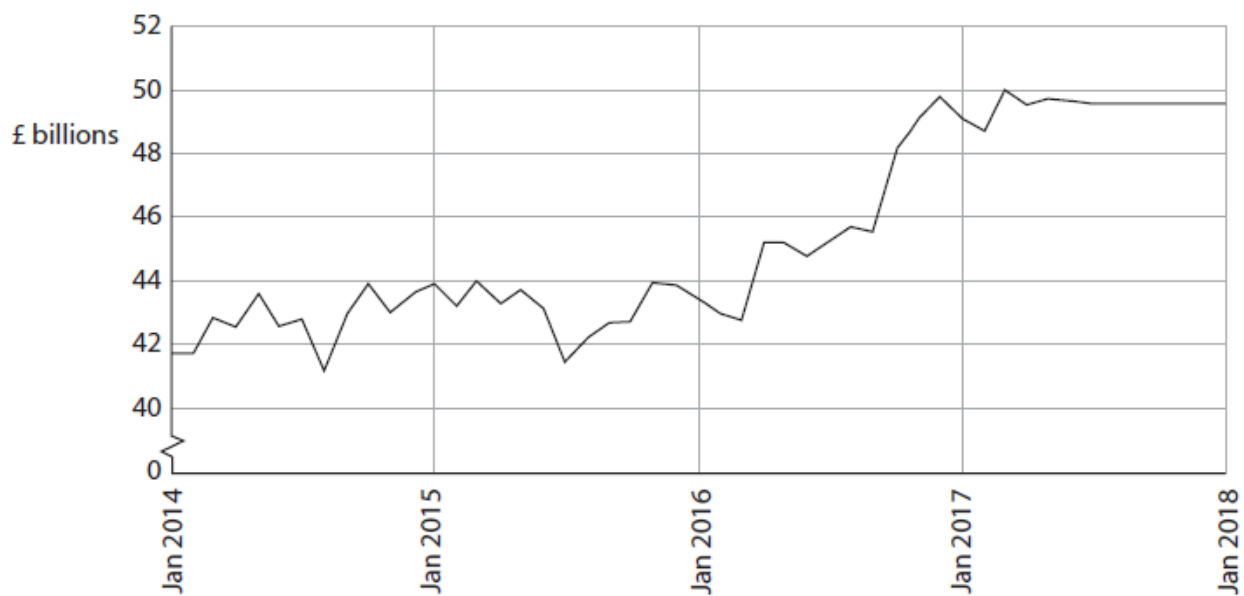
(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN	OUT
Non-dairy milk	Apple cider
Jigsaw puzzles	Menthol cigarettes
Child scooters	Child swings
Cycling helmets	Basic mobile phones

(Source: [www.theguardian.com/business/2017/mar/14/uk-inflation-
ons-basket-goods-gin-cycling-helmets](http://www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets))

Figure 3: UK exports, £ billions per month, January 2014 to January 2018



(Source: Trading Economics, ONS - <https://tradingeconomics.com/united-kingdom/exports>)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points. 5

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending. 10

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households. 15

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket. 20

(Source: adapted from 'UK inflation tipped to rise again with wages forecast to stagnate', The Guardian, <https://www.theguardian.com/business/2017/aug/13/uk-inflation-tipped-to-rise-again-with-wages-forecast-to-stagnate#img-1>)

Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth. 5

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK. 10

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, <http://www.telegraph.co.uk/business/2017/08/01/growth-accelerate-uk-economy-bounces-back/>; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, <http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/>)

(a) With reference to the first paragraph of Extract A and Figure 1, explain how the change in the exchange rate of the pound has 'contributed to rising inflation' (Extract A, line 4).

(4)

(b) With reference to Extract A, explain **two** likely economic effects of the higher rate of UK inflation.

(6)

(c) With reference to the last paragraph of Extract A and Figure 2, explain **one** reason why it is necessary to regularly update the CPI basket of goods and services.

(5)

(d) With reference to Figure 3, assess the likely impact of the change in the value of exports, since mid-2016, on the economic growth of the UK. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(e) With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

(15)

EITHER

(f) Evaluate the use of interest rate changes as a means of controlling UK inflation.

(20)

OR

(g) Evaluate the potential conflicts between the objective of economic growth and **two** other UK macroeconomic objectives.

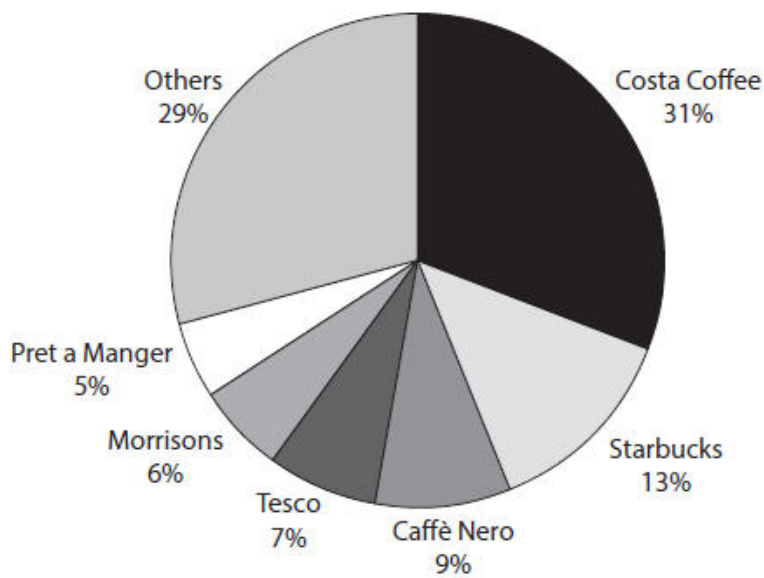
(20)

(Total for question = 60 marks)

Q2.

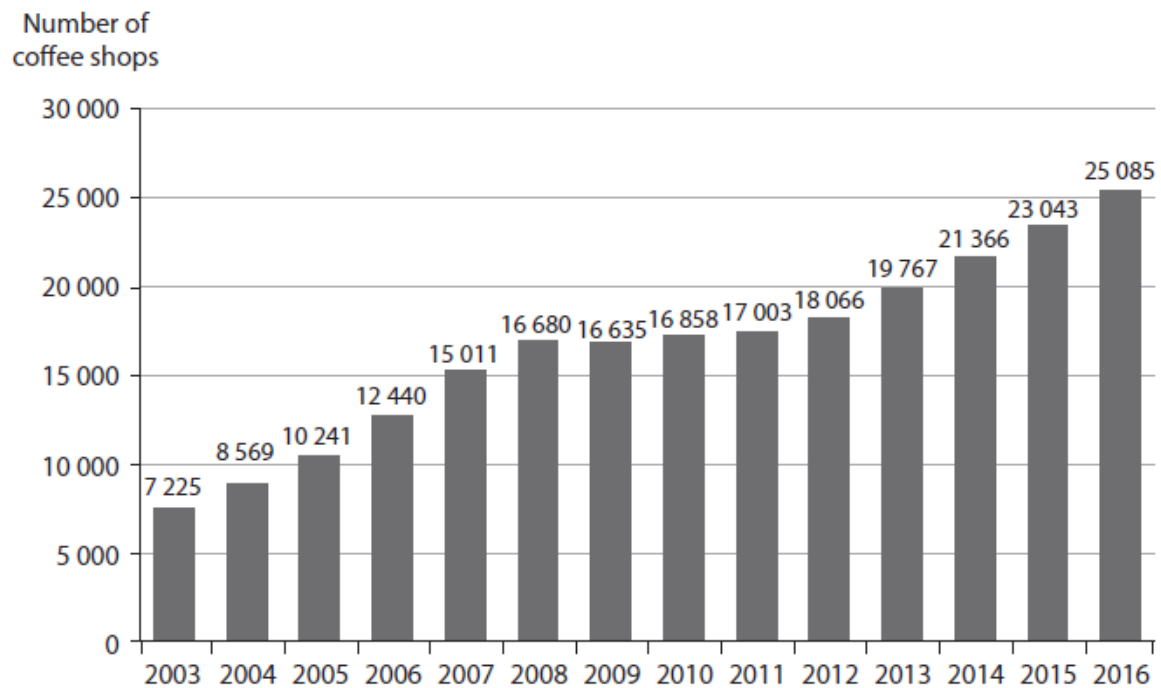
Branded coffee shops

Figure 1: Market share of UK branded coffee shops, 2015, percentages



(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)

Figure 2: Number of Starbucks coffee shops worldwide, 2003-2016



(Source: <https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/>)

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)

Extract A

Starbucks in Britain - a loss-making business?

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021.	5
However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax.	10
Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published.	15
These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.	20
	25

(Sources: adapted from *The Economist* 14 February 2015 <http://www.economist.com/news/business-and-finance/21643271-tax-and-starbucks-company-report-2016> and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)

Extract B

Tax on disposable coffee cups?

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year. One environment spokesperson, Kate Parminter, said: "We've seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact."	5
In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: "My initial reaction is charging 5p or 10p for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2.60 to £2.65. I suspect a more technological answer is what we need – either the composition of the disposable cups being changed so they're more easily recyclable, or changing the technology in the recycling."	10
Disposable coffee cups contain a plastic coating inside the cups which prevent them from becoming soggy, making them difficult to recycle. There are just two specialist facilities in the UK that have the required equipment to separate plastic from paper for recycling. Almost no recycled paper is used in the production of disposable cups, meaning that some 43 000 trees must be cut down annually to keep up with the demand. CO ₂ emissions of around 83 000 tonnes are generated every year for their production.	15
	20
	25
(Sources: adapted from http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html 05/09/16 and https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups)	

Extract C

German city of Freiburg takes action on cutting the use of disposable coffee cups

The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused. 56 coffee retailers have signed up, and 10 000 cups are being used.	5
One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.	10
(Source: adapted from http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719)	

- (a) With reference to Figure 1, briefly explain the market structure that best describes the UK branded coffee shop market. (5)
- (b) With reference to Figure 3 and other information provided, discuss the price and non-price strategies that Starbucks may use to increase profitability. (12)
- (c) Examine the advantages of using an indirect tax as a means of reducing the use of disposable coffee cups. (8)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors that may influence Starbucks' decision whether to expand in a particular country.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of increased UK demand for coffee at branded coffee shops.

(25)

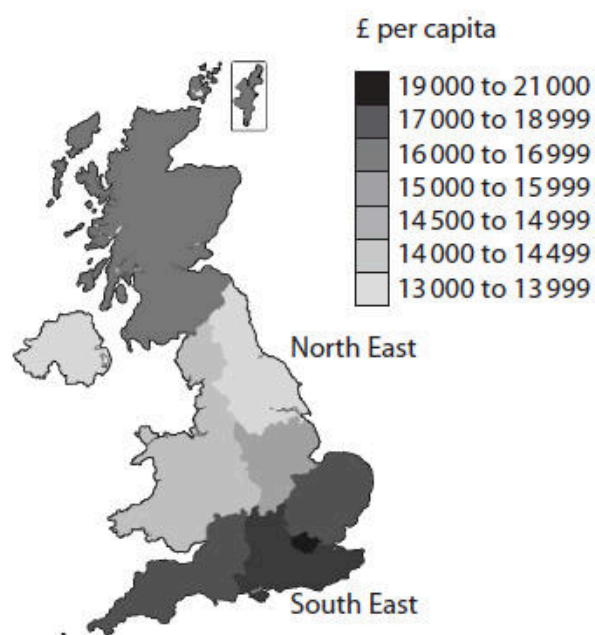
(Total for question = 50 marks)

Q3.

Read Figures 1 and 2 and the following extracts (A to C) before answering this question.

UK Government spending and inequality

Figure 1: UK regional gross disposable household income per capita, 2018



(Source: adapted from University of Sheffield/Office for National Statistics;
<https://www.sheffield.ac.uk/news/nr/uk-higher-regional-inequality-large-wealthy-country-1.862262>)

Figure 2: UK subjective happiness by income, April 2021

Answer to the question: 'On a scale of 1–10, how happy did you feel after yesterday?'
(0 = not at all, 10 = completely)

Less than £10 000	£10 000–£20 000	£20 000–£40 000	More than £40 000
7.31	7.02	7.13	7.29

(Source: adapted from <https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/datasets/incomegroupsplittestimatesonpersonalandeconomicwellbeingacrosstime>)

Extract A

Regional inequality in the UK

Geographically, the UK is highly unequal in incomes. According to research from the University of Sheffield, the estimate of the Gini coefficient is 0.34. There are a number of different reasons for this. First, labour in poor places tend to develop too few skills, with a lack of education holding people back. In Rotherham in the north of England, for example, 21% of disadvantaged 18-year-olds from state schools and colleges go on to higher education compared to 41% in London. Secondly, there is a lack of infrastructure spending in northern cities compared to London. In 2017–18, 28% of public expenditure on transport – and 46% of capital expenditure on railways – was spent in London. The argument for this is that London gets a lot of public money because a lot of people take public transport. This has angered many people in the North. 5 10

These problems cannot be solved quickly. They compound each other. Just as people are rarely poor for one reason, regions do not fall behind only because they have poor transport, poor schools or poor policy making, but for all those reasons and more. Ideally, the UK would develop a bold plan for regional development that could be followed by future governments, as Germany did for its eastern part. Tera Allas of McKinsey, a consultancy firm, argues that improving education is crucial, even if the returns are not immediately obvious. It is easier to improve schools than to persuade businesses to move to a poorer part of the country. 15

(Source: adapted from <https://www.economist.com/britain/2020/07/30/why-britain-is-more-geographically-unequal-than-any-other-rich-country>)

Extract B

Public sector spending on infrastructure

Economic differences across the UK are large and have grown. The government is looking at reducing this inequality partly through spending on transport infrastructure. Public sector capital spending is due to rise from just over 2% of GDP to 3%. That amounts to around £20 billion of additional spending per year on new capital projects. The government is looking to take advantage of current low interest rates to finance the expansion without worsening its fiscal position. 5

The government is determined to focus this spending on the north of England, Wales and the Midlands. Planned schemes include a new Trafford Park tram line in Manchester and reopening train lines and stations closed back in the 1960s, including stations in Haxby in Yorkshire and Blyth in Northumberland. Progress has already been made in Wales with the reopening of Bow Street station near Aberystwyth. This project has taken 11 years to become a reality and cost £8m. It is estimated that it will generate a boost to the economy of £24m through boosting local trade, creating new jobs in the local area, and easing pressure on congested roads heading into Aberystwyth. 10 15

(Source: adapted from <https://www.economist.com/britain/2020/01/09/the-coming-splurge-on-northern-infrastructure> and <https://www.wales247.co.uk/transport-for-wales-delivers-new-bow-street-station>)

Extract C

Options for UK tax rises in the future

There are a number of options for raising additional tax revenue in the future. These include:

- increasing council tax on houses: this annual charge paid to local government is currently based on estimated house prices in 1991 and so is very out of date. This would negatively affect areas where house prices have risen the most since 1991 5
- a one-off wealth tax: a 5% tax on property and pension wealth of more than £500 000 would raise £260 billion to help pay for the global health crisis in five years, according to proposals from the Wealth Commission
- increasing corporation tax: at the 2021 Budget the Chancellor announced that the top rate of UK corporation tax would be increased to 25% by 2023. This will remain the lowest rate in the G7 group of the world's largest advanced countries, but will raise £17.2 billion in 2025–26. 10

(Source: adapted from <https://www.telegraph.co.uk/tax/income-tax/five-tax-rises-rishi-sunak-considering-chances-happening-budget/>, and <https://home.kpmg/uk/en/home/insights/2021/03/tmd-corporation-tax-rate-to-increase-to-25-percent.html>)

(a) Using a Lorenz curve diagram, explain how income inequality is measured using the Gini coefficient. Refer to Extract A in your answer.

(5)

(b) With reference to Figure 1 and Extract A, examine **two** likely causes of income inequality within the UK.

(8)

(c) With reference to Figure 2, assess whether an increase in real income improves subjective happiness within the UK.

(10)

(d) With reference to Extract C and your own knowledge, discuss methods the UK government could use to increase tax revenue.

(12)

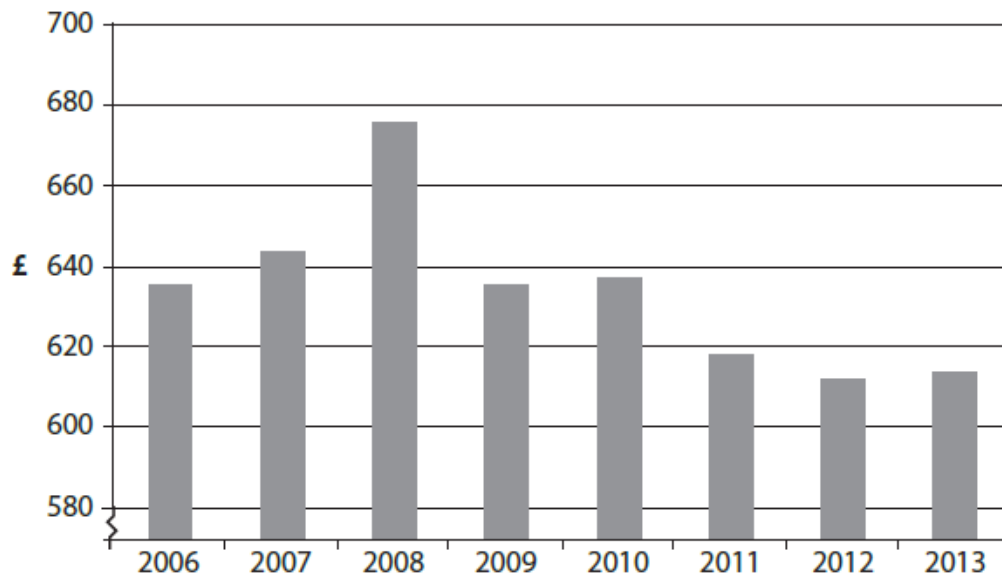
(e) With reference to Extract B, discuss the benefits of an increase in infrastructure spending on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)

(Total for question = 50 marks)

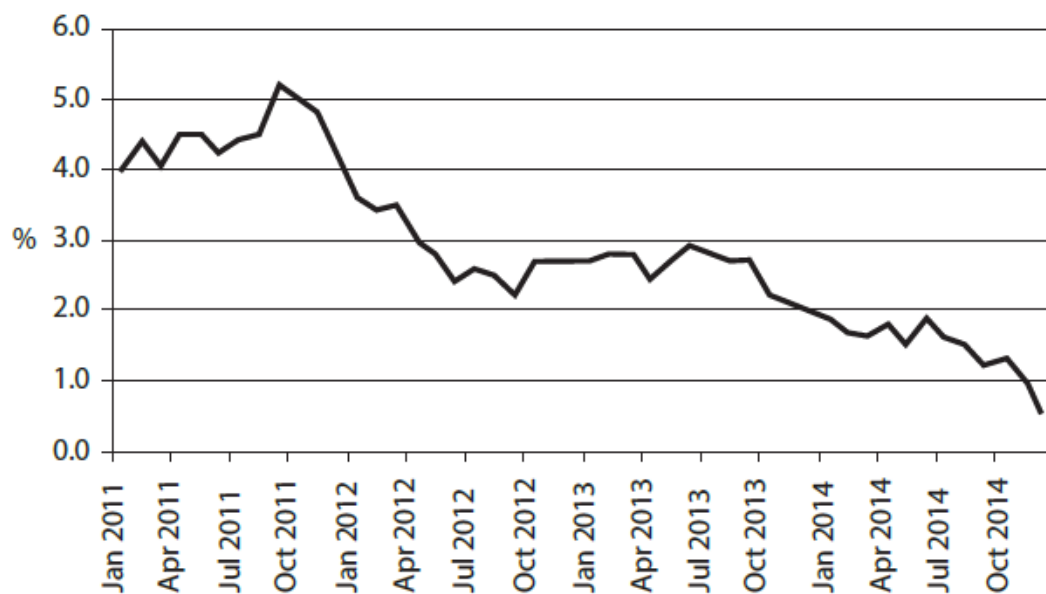
UK incomes, inflation and monetary policy

Figure 1 - UK average weekly household real income



(Source: <http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2014-edition/rft-a44-final-2013.xls>)

Figure 2 - UK inflation rate as measured by percentage changes in the Consumer Price Index (CPI)



(Source: <http://www.bankofengland.co.uk/publications/Pages/inflationreport/2015/feb.aspx>)

Extract A

Britons should not fear rise in interest rates

The Monetary Policy Committee (MPC) of the Bank of England is prepared to raise interest rates “in the near future” if inflation increases, one of its senior policymakers has warned.

Kristin Forbes, a member of the MPC, said a rise in borrowing costs would also be necessary should household debt reach unhealthy levels. However, she stressed that this was not yet a cause for concern.

5

With the UK's base rate of interest at 0.5% and inflation at a record low and expected to be negative, the MPC is currently under no pressure to raise interest rates, despite Britain's economic recovery.

UK inflation is being driven lower by the slump in global oil prices, which have roughly halved since summer 2014, and the Bank's governor Mark Carney warned earlier this month that a strong domestic economy would translate into higher UK inflation over the medium term. “The most likely next move in monetary policy is an increase in interest rates. The message is clear,” Carney said.

10

Forbes said that “even the more lagged effects of the rise in the value of the pound will likely peak in the first part of this year and also gradually fade. Inflation will then most likely bounce back.

15

“Since interest rates take well over a year to be fully effective, they should be adjusted to respond to inflationary risks at that time horizon – when all of these effects have diminished – rather than respond to today's inflation.”

(Source: adapted from <http://www.theguardian.com/money/2015/feb/24/britons-should-not-fear-rise-in-interest-rates-when-they-come-says-boe-member>)

Extract B

Deflation is bad news

The problem with deflation is that once you have it you can't get rid of it. Central banks know what to do about inflation but they do not have the policy tools to deal with deflation when interest rates are almost as low as they can go. Just look at Japan, which had deflation in nine separate years from 1999-2012, with two additional years at zero, averaging minus 0.3%. The highest in any single year was minus 1.3% in 2013.

5

In the European Union (EU) in 2008, at the start of the financial crisis, there were fears of deflation but at that time central banks had the ability to cut interest rates by nearly 5 percentage points. Those fears may now be coming true, with the EU experiencing deflation of 0.5% in 2015.

This was driven primarily by declines in energy prices, but there was also deflation in non-energy industrial goods and telecommunications. The collapse in the cost of shipping goods potentially suggests something deeper is going on and may lead to a more persistent form of deflation than Mark Carney has currently claimed.

10

(Source: adapted from <http://www.independent.co.uk/news/business/comment/david-blanchflower/david-blanchflower-deflation-is-bad-news--and-britain-is-likely-to-be-next-to-get-it-10078832.html>)

(a) With reference to Figure 1, explain the term 'real income'.

(4)

(b) Assess the likely impact of falling real incomes on UK consumers.

(10)

(c) With reference to Extract A, explain the likely effect of a rise in the value of the pound on aggregate demand.

(5)

(d) With reference to the data, explain **two** likely reasons for the UK's falling inflation rate.

(6)

(e) With reference to Extracts A and B and your own knowledge, discuss whether the MPC should be concerned about the risk of deflation in the UK economy.

(15)

Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

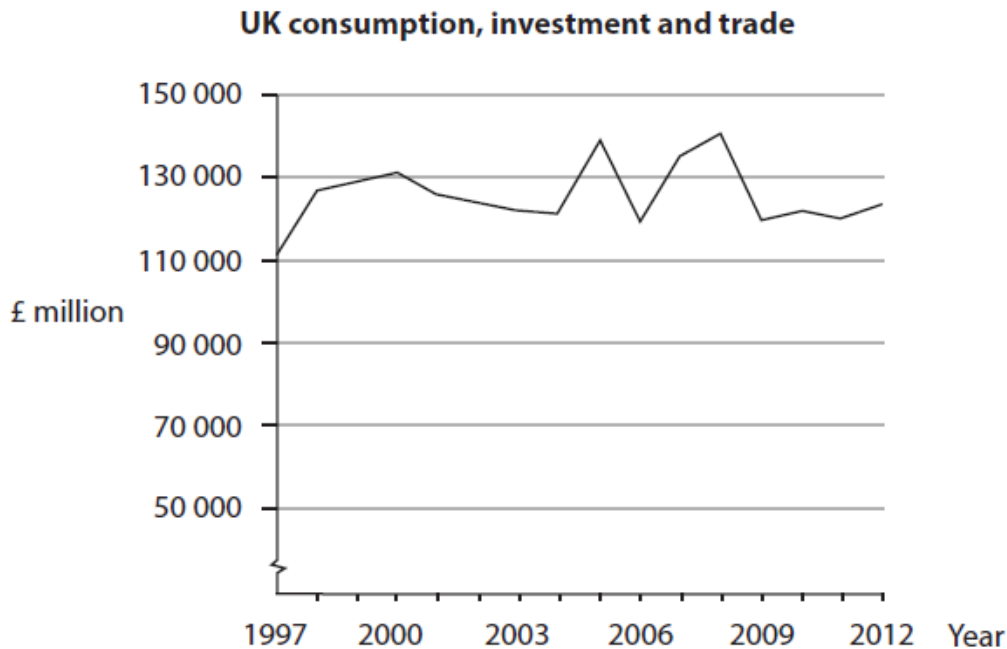
OR

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

(20)

(Total for question = 60 marks)

Q5.

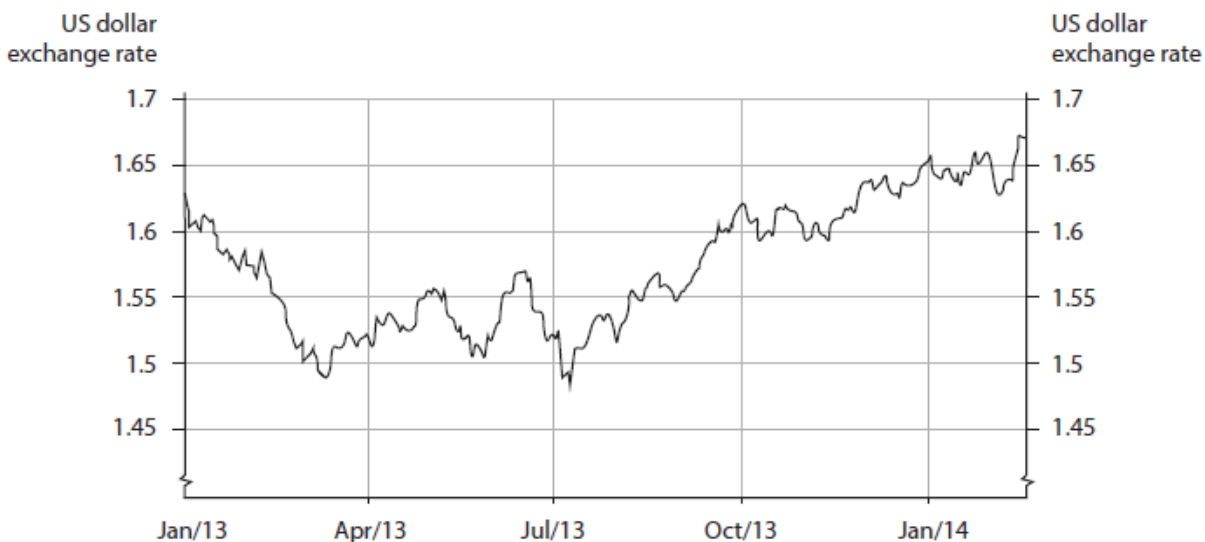


(Source: <http://www.ons.gov.uk/ons/rel/bus-invest/business-investment/q3-2013-provisional-results/stb-business-investment-q3-2013-provisional.html#tab-Business-Investment-and-other-components-of-GFCF>)

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)

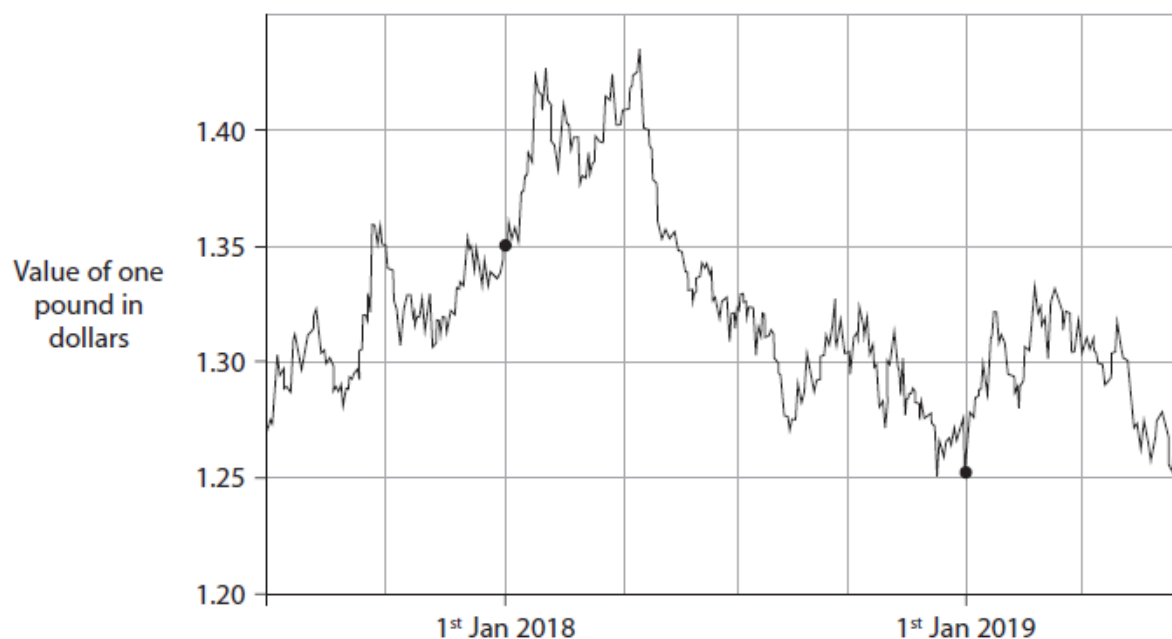
(Total for question = 60 marks)

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 ☐.

British pound to US dollar exchange rate (value of one pound in dollars), June 2017 to June 2019.



(Source adapted from: <https://www.xe.com/currencycharts/?from=GBP&to=USD&view=2Y>)

(a) Which **one** of the following has been the overall change in the British pound to US dollar exchange rate from 1st January 2018 to 1st January 2019?

(1)

- ☐ **A** Appreciation
- ☐ **B** Depreciation
- ☐ **C** Devaluation
- ☐ **D** Revaluation

(b) Explain the likely impact of the change in the exchange rate of the pound shown in the graph from 1st January 2018 to 1st January 2019 on the UK current account of the balance of payments.

(4)

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(Total for question = 5 marks)

Q7.

UK economic recovery

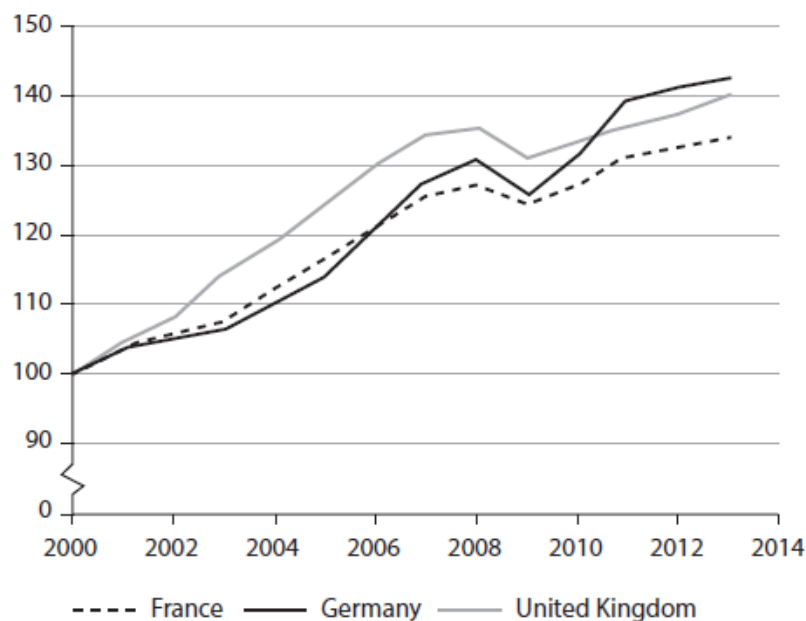
Figure 1: Components of aggregate demand in selected countries 2014

Country	Consumption	Investment	Government spending	Exports - Imports
UK	66%	14%	21%	-2%
Germany	57%	17%	19%	6%
France	57%	20%	25%	-2%
China	34%	49%	14%	3%

NB: Figures may not add up to 100% due to rounding calculations.

(Source: World Bank 2014)

**Figure 2: Nominal GDP per capita at Purchasing Power Parities (PPPs)
(the base year 2000=100)**



(Source: <https://www.imf.org>)

Extract A

The UK economy - a strange recovery

At the Autumn Statement in November 2015, the Chancellor of the Exchequer had good reason to cheer his economic record. The UK economy appeared to have returned towards its long-term trend in the rate of economic growth.

GDP growth has remained strong, with output rising at the highest rate in the G7 group of seven major industrialised countries. Unemployment continued to drop and business investment grew by 5%. 5

However, a number of concerns remain, particularly in relation to the UK's current account deficit, which reached a record high of 6% of GDP in the third quarter of 2014. This was primarily a result of a sharp decline in the rate of return on UK investments overseas. Low export growth meant that the UK's trade deficit persisted. 10

In 2012, the Chancellor had announced a target for the UK to export £1 trillion of goods and services by 2020, which would require an annual growth rate of 8%. However, the annual growth in UK exports had reached just 2.7%. The Office for Budget Responsibility (OBR) forecast that UK exports will only reach £630 billion by 2020 – a third lower than the government's target. 15

Exports in services continued to grow in 2015, but the UK's goods industries were struggling. It was particularly concerning that data showed output in the UK's construction and manufacturing industries falling. Indeed, the output of the manufacturing sector remained 6.3% below its pre-recession peak.

Households, meanwhile, are set to become even more indebted over the coming years. It is projected that the household gross debt to income ratio will rise by 26 percentage points between 2015 to 2020, returning to levels last seen before the Global Financial Crisis. The economy did not appear to be rebalancing away from consumer driven growth towards export-led growth, making another recession almost inevitable. 20

Fundamental to this problem is the UK's low productivity, which in 2015 remains around 20 percentage points below the average for the rest of the G7. It is vital that the government tackles this problem, particularly in the sectors that are currently facing difficulties. This will require relaxing the planning system to promote more house-building, the removal of burdens on UK manufacturers such as carbon taxes, finally getting shale gas exploration going, and reforming apprenticeships to rapidly improve skills in construction, manufacturing and technology. 25 30

(Source: adapted from <http://www.cityam.com/229481/chancellor-beware-uk-not-out-woods-yet>, 25 November 2015 by Daniel Mahoney)

- (a) With reference to Figure 1, explain the term 'net trade'. (4)
- (b) With reference to the information provided and your own knowledge, assess the likely causes of the UK's trade deficit. (10)
- (c) With reference to Extract A, paragraph 2, explain **one** likely influence on UK investment. (5)
- (d) With reference to Figure 2 and Extract A, explain **two** likely reasons why the growth of the UK's nominal GDP per capita at PPPs was slower than that of Germany after 2010. (6)
- (e) Evaluate policies the government could use to increase the UK's productivity. (15)

EITHER

(f) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)

OR

(g) Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24).

(20)

(Total for question = 60 marks)

Q8.

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

UK unemployment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



(Source: adapted from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/timeseries/mgsx> Crown Copyright)

(a) With reference to the chart above, explain **one** likely economic effect of the change in the UK unemployment rate between 2012 and 2018.

(3)

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(b) Which **one** of the following policies is most likely to reduce the unemployment rate in the UK?

(1)

- ☐ **A** A decrease in direct taxes on company profits
- ☐ **B** A decrease in quantitative easing
- ☐ **C** An increase in government payments to the unemployed
- ☐ **D** An increase in the UK base interest rate

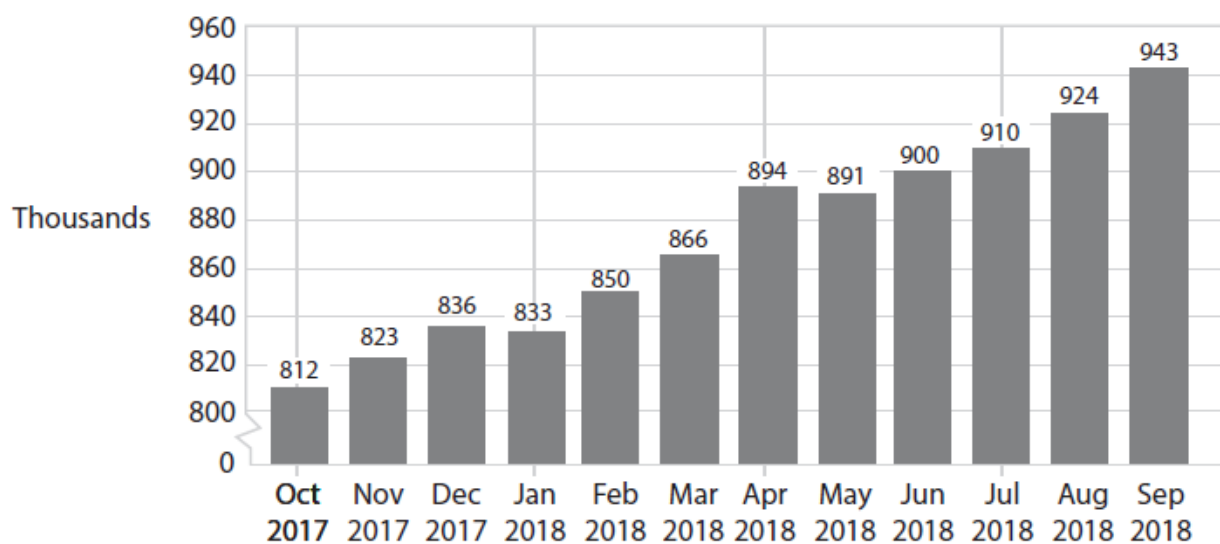
(Total for question = 4 marks)

Q9.

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 ☐.

Number of unemployed persons, UK, as measured by the claimant count, thousands



(Source: <https://tradingeconomics.com/united-kingdom/unemployed-persons>)

(a) Calculate the percentage change in the number of UK unemployed persons between April and July 2018.

You are advised to show your working.

(2)

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(b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown.

(2)

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(c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry?

(1)

- ☐ **A** Cyclical
- ☐ **B** Real wage
- ☐ **C** Seasonal
- ☐ **D** Structural

(Total for question = 5 marks)

Q10.

The unemployment rate in Portugal decreased steadily from 17.5% in the first quarter of 2013 to 13.1% in the third quarter of 2014.

(a) **One** possible cause of this change in the unemployment rate is that over this period there was an increase in:

(1)

- A** immigration into Portugal
- B** aggregate demand in Portugal
- C** the size of Portugal's negative output gap
- D** the value of Portugal's trade deficit

Answer

(b) Explain the likely effect of this change in the unemployment rate on Portugal's budget deficit.

(4)

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(Total for question = 5 marks)

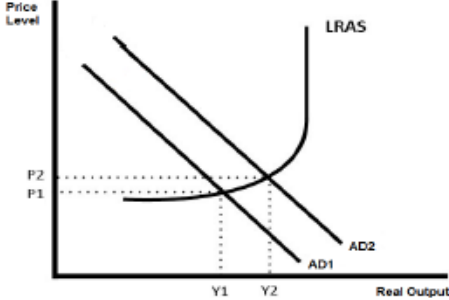
Mark Scheme

Q1.

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.

Question Number	Indicative content		Mark
(d) continued	Evaluation 4 - Exports are only a small component of AD - Investment 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.

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)
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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: • 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)
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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 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.

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.

Q2.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/understanding and analysis: Oligopoly (1) OR Legal monopoly (1) OR Monopoly only if monopoly POWER is implied e.g. using CR calculation (1) OR Duopoly only if duopoly POWER is implied e.g. using CR calculation (1) AND Understanding of market structure identified, e.g. a market <i>dominated by</i> a few firms, or <i>interdependent</i> (1) Explanation of the process linking to the market structure to the action of firms e.g. high concentration means that firms may exhibit collusion, price rigidity, use of non-price competition, profits are not competed away (1)	

	Application (1+1): 2 marks for data references from Figure 1 and other sources (at least 1 mark must be related to Figure 1) e.g. Others 29% - Concentration ratio calculation e.g. 2 firm CR is 44% 3 firm CR is 53% 4 firm CR is 60% 5 firm CR is 66% 6 firm CR is 71% (2) - Costa (31%) is >25% market share (2) - Strong brand names, brand logos e.g. Caffè Nero and Costa (1) have been dominating the UK market Fig. 1/Extract A (1) - Market power is likely to be high (1) with reason e.g. consumer loyalty (1) shown in Figure 3 as price differences tolerates/illustrate market power (1) coffee has price inelastic demand (1) so people are prepared to pay more (1)	(5)
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Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 4 Pricing strategies - must be linked to <i>profit</i>, and may include: • Price leadership/price matching – some brands seem very similar in pricing e.g. use kinked demand theory • Predatory pricing • Limit pricing (with view to higher future profits) • Price wars (with view to higher future profits) • Collusion/collaboration - reward the use of game theory/pay off matrix to support this • Undercutting close rival e.g. Costa (with view to higher profits) • Also award, if linked to profit: sales max, exploiting economies of scale, cost cutting, or competitive pricing linked to elastic demand, price rises and/or price discrimination	

	Non-pricing strategies – linked to <i>profit</i>, might include: • Loyalty schemes, e.g. Starbucks only allow its own cup for reuse in store, • Paying for central and expensive locations for stores • Opening up new stores near to competitors to undermine the competition, e.g. at a London location there are many competitors • Closing down non-profitable stores as rationalisation policy • Strengthening the brand by advertising • improving reputation for recycling washable cups/fair trade coffee, sharing with other brands not just Starbucks coffee cups which can be washed in store and re-used • Extension of product range • Focus on quality NB Award collusion and BOGOF-style approaches as either pricing or non-pricing strategies. NB For a Level 3 answer, there must be both price and non-price strategies, and reference to the context of <i>profitability</i> of Starbucks.	(8)
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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
(b) continued	Evaluation 4 • Weighing up of reasons for using price or non-price competition, e.g. • Not likely to use price competition - e.g. better to collude and keep higher joint profits. • Non-price competition can have very uncertain results/be expensive • Effects in the short run and long run might vary e.g. rising costs lead to falling profits, but long run demand rises leading to better results • Relative effectiveness of measures e.g. limit pricing may be static in long run and predatory pricing changes when other firms leave • Some of these strategies are illegal and could lead to fines, which might reduce overall profitability • Unstable nature of game theory equilibria • The effectiveness of the competition authorities might be considered e.g. regulatory capture • Depends on the strength of brand loyalty • Limitations of loyalty schemes, e.g. cost, consumer behaviour.	(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		Mark
(c)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge (1+1) e.g. • Fall in consumption of non-renewable products (1) • Rise in tax revenues (1) • Reduction in external costs/greater environmental awareness (1) • Soft touch regulation/allows consumer choice (1) Application (2 or 1+1) e.g. • Use of reusable cups as a means of reducing demand for disposable cups (i.e. a substitute, Extract C) (1) • Extract B – 5p charge is a small proportion of £2.60 (1) • 85% reduction in plastic bags (1) • This might be illustrated through the use of a correct supply curve shift, e.g. a fall in consumption or production of cups on x axis (1) Analysis (1+1) e.g. • Indirect taxes may raise prices (1) • Increases in costs of production (1) • Link between unit tax, tax revenue and reduction in demand for cups (1) • A supply and demand diagram showing an indirect tax (supply shift upwards/leftwards) or an externalities diagram might be used (1) • tax revenue could be used to subsidise other products, e.g. recyclable cups (1)	

	Evaluation (2 marks for any relevant point or 1+1). Points might include: • It depends if the tax is passed on to the consumer • Other policies may be considered e.g. new recycling specialist facilities, regulation • PED might be used, e.g. a 5p tax on the price of a £2.60 coffee might have very little effect on demand, or, a cup of coffee may be a small percentage of consumer income, depends on the availability of substitutes • Regressive nature of the tax – has a greater effect on lower incomes • Other approaches considered, e.g. subsidising reusable cups as in Ext B changing the technology in the recycling NB award two advantages. A diagram can be credited as analysis or application (1+1) up to 2 marks in total.	(8)
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Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic influences may include: • Level of demand or expected demand, prospect for profit • Cost of labour, minimum wage, spare capacity in the labour market • Rent/land prices • Contestability of market/barriers to entry e.g. how long and it takes and ease of setting up business • Legal system and other legislative issues • Property rights • Extent of regulation • Existing PED • Brand loyalty • Sunk costs Macroeconomic influences may include: • Levels of competitiveness e.g. price and non-price, which might relate to competitiveness ranking, e.g. infrastructure, human capital, institutions • Macroeconomic environment, e.g. inflation • Membership of EU or other trade bloc issues • Value of currency • Level of corporation tax. • Transfer pricing possibility, as outlined in Extract A, as impact on profitability (not costs) • Level/rate of national income/economic growth and spare capacity/unemployment • Growth of household incomes in different countries, e.g. Chinese coffee shops are the most profitable, growing quickly in number • Strength and stability of local economy • Political and social stability	

	NB competitiveness, corporation tax, incomes, unemployment and contestability can be seen as a micro or macro approach. • Possible evaluation points include: • Factors might balance each other out • Changes in tax rates, e.g. government cutting corporation tax significantly • Starbucks is starting to report UK profits – perhaps it has had too much negative publicity from the low profit tax paid, Extract A reduction by a third in sales at Starbucks. Also it is moving headquarters from Netherlands to UK • Different influences affect different firms	(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 covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

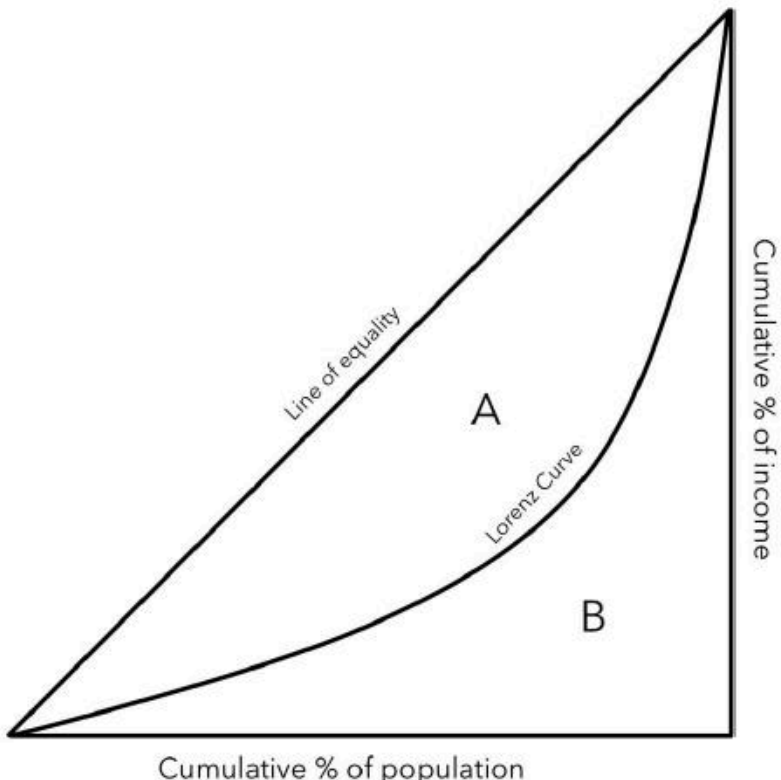
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading 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.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • Effects on consumers – e.g. higher prices (or lower prices if increased competition), more consumer spending on high street. Might include PED, YED (this might be developed as evaluation) • Effect on workers – higher incomes, more jobs • Effect on firms, e.g. increase in profits, revenue/decrease for independent non-branded coffee shops; cost of employing specific skilled workers e.g. baristas or other factors of production • Increase negative externalities e.g. more coffee cups • External economies of scale e.g. ancillary services such as cup manufacturers Macroeconomic effects may include: • Increased employment in service industry • Balance of payments e.g. outflow of profits to Starbucks • Effects on primary product producers • AD increase, negative/positive multiplier effects (local businesses might lose out to branded supermarket coffee outlets), inflation/growth • Tax implications e.g. transfer pricing • Income inequality • Environmental impacts	
	NB environmental impacts, labour markets, taxation or incomes can be seen as a micro or macro approach. Evaluation points may include: • Extent of negative externalities depends on whether new processing plants for cups are set up/how alternatives are produced. • Depends on the extent of the increase in demand, PED, YED, XED – and if other areas are seeing declines. • Depends on the size of the multiplier • Depends on the level of spare capacity (LRAS for example) • Depends on growth levels, point at which AD and AS meet (if Keynesian approach) • Depends on the performance of other firms • Depends on the extent to which local shops are displaced • Depends on the extent to which substitution can occur – e.g. people drink coffee instead of going to pubs • Depends on degree of profit repatriation, remittances, transfer pricing • Depends on whether coffee shops extends consumption spending or replaces demand for something else which might have different benefits/costs	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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 covering both microeconomic and macroeconomic factors. 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.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/Understanding: Up to 2 marks for e.g. - Gini coefficient is $A/(A+B)$ (1) - Correct labelling of axes on Lorenz curve as % cumulative share of income & % households by income distribution (or similar wording) (1) Application: Up to 2 marks for e.g. - UK's Gini coefficient is 0.34 (1) - Correct drawing of Lorenz curve on diagram (labelled/referred to in text) (1) Analysis: Up to 1 mark for e.g. - Further away from the line of perfect equality, the more unequal a country/region is (1) - The higher the Gini coefficient value, the more unequal a country/region is (1)	

	Diagram (1+1) e.g.:  NB If no Lorenz Curve diagram award maximum of 3 marks	(5)
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Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/Understanding: Relevant reasons identified (1+1), e.g. • Level/quality of education • Level/quality of healthcare • Level of infrastructure spending • Unequal access to job opportunities across the UK • Progressive nature of taxation • Degree of employment protection • Strength of trade unions • Differing wage rates • Globalisation Analysis: Linked development of each factor (1+1), e.g. in the UK: • Less education means the workforce may be less skilled & therefore receive lower average pay (1) • Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1) • Relative lack of infrastructure makes it harder for people to get to work/will discourage firms from investing in the region (1) • Jobs in London/South-East may be more skilled and therefore higher paying when compared to jobs in the North-East (1)	

	Application: 2 marks (1+1 or 2), e.g. • Gross disposable household income was £19 000-£21 000 in London (1) • Gross disposable household income was £13 000 - £13 999 in North East (1) • UK's Gini coefficient is 0.34 Evaluation: 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1 or 2), e.g. • Infrastructure investment in the North of England is increasing so this may change in the future • Education levels across the UK are improving • Higher education may not lead to higher	(8)
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	incomes- depends on degree/qualifications • Relative significance of different reasons • It is hard to be definite about specific reasons as it is a combination of factors that causes inequality	
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Question Number	Indicative Content	Mark
(c)	Knowledge 2, Application 2, Analysis 2, - Higher incomes mean people have more money to spend on purchasing goods & services that increase their standard of living - Higher incomes mean people will feel less anxious about their ability to repay debts - People can afford larger repayments on mortgages & loans for durable goods - Higher income may lead to wealth creation, e.g. able to save for future/retirement - People earning over £40 000 are happier than people earning £10 000 to £40 000 (figure 2) NB Allow the argument that a higher income does not increase happiness as KAA and that it does as EV NB: To achieve full KAA marks there needs to be at least one reference to Figure 2	(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 • There are other things that affect subjective happiness apart from money- e.g. family & friends • Amount of leisure time may be more important to people's happiness rather than their level of income • People on higher incomes may be in more stressful jobs • The happiest people are those earning less than £10 000 (figure 2) • Reliability of survey data in determining happiness NB Allow the argument that a higher income does not increase happiness as KAA and that it does as EV	(4)

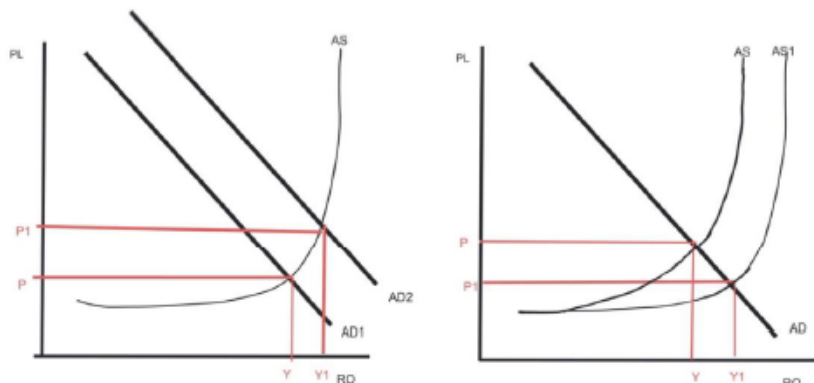
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context.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

Question Number	Indicative Content	Mark
(d)	Knowledge 2, Application 2, Analysis 4 Methods might include e.g.: Either from Extract C: - Increasing tax on houses: Housing is a large part of the UK economy and many people may feel this is in need of an update to reflect changing house prices since 1991. This could also provide a good opportunity to increase overall revenue from the tax - A one-off wealth tax: This would raise a very large amount of money, £260 billion, and would focus on those with the most wealth. Only one-off so shouldn't have any long-term impacts - Increasing corporation tax: The UK has a very low rate of corporation tax, so it would make sense to raise it without risking too many firms leaving the UK whilst still raising extra revenue yearly going forward- e.g. £17.2 billion in 2025-26 Or other possible methods e.g.: - Cutting corporation tax to incentivise firms to increase investments in UK/attract FDI leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. - Cutting income tax to incentivise workers to work harder/less incentive to avoid tax leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. NB: To achieve level 3 at least one reference must be made to Extract C somewhere in the whole answer	(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 - Higher tax rates may not lead to higher revenue, perhaps with reference to Laffer curve/tax evasion/tax avoidance/disincentive effect - Updating tax on houses could see some people experiencing a significant rise in the tax they have to pay which may be unaffordable for them - A one-off tax won't help generate tax revenue long-term - Increase in regressive taxes could worsen inequality - Disincentive to invest having a long term impact on LRAS	(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 - People can access jobs further away from where they live, reducing unemployment - Improved ability to transport goods around the country and/or abroad quicker/cheaper - Greater injections into the circular flow leading to a multiplier effect - Helping to reduce inequality across the country by focusing spending on poorer areas of the country, e.g., new train station in Wales, leading to new businesses, jobs, etc. - Diagram showing an increase in AD and/or AS, e.g.:  NB A correct AD/AS diagram is needed for KAA level 3 Reference to Extract B is needed for KAA level 3	(9)

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

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • Significance of impact- will a few new train stations will make that much difference to economic growth? • Depends on the quality of the new infrastructure provided • Depends on if the infrastructure is in the right location to help improve connectivity • Opportunity cost- perhaps spending on education or healthcare would have a larger impact? • Time lag- large infrastructure projects take a long time from initial planning to being completed • Impact on public finances and national debt • Crowding out • Depends on the value of the multiplier	(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.

Q4.

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 4 • Depends on other factors in the economy, such as government spending or demand for exports • Changes in benefits and/or tax allowances may offset fall in real income • Only short-term fall (Figure 1 shows slight increase in 2013) • Inflation falling recently, improving likelihood of real income rises • Could be due to firms keeping wages low rather than making redundancies, thus people's standard of living higher than it would be if they lost their job	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. 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	Answer	Mark
	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding 1 marks, e.g. • Definition of aggregate demand • Understanding of a rise in value of the pound Application 2 marks (1+1), e.g. • Aggregate demand will fall (1) • Lagged effect (1) • Declining imported food and commodity prices (1) Analysis Linked development (1+1), e.g. • Imports become cheaper so aggregate demand falls (1) • Exports become expensive so aggregate demand falls (1)	(5)

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 6 MPC should not be concerned because: • Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year • Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy • Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy • Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand • May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD NB Candidates may, alternatively, argue that the MPC should not be concerned about deflation for KAA and that they should for evaluation	(6)

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 6 MPC has not been successful at controlling inflation: • Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target • MPC struggles to respond to supply-side factors, e.g. falling food and commodity prices in 2014 • Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation • Banking failure • In the period shown, interest rates have been 0.5% but inflation has continued to fall	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. 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
	Knowledge 4, Application 4, Analysis 6, • Understanding of demand-side policies to include monetary and/or fiscal policy • Understanding of Global Financial Crisis of 2008 in UK and/or other countries • AD/AS diagram may be used to aid effective analysis Examples of demand-side policies that students may discuss. These need to be clearly linked to responding to a financial crisis: • Reduction of interest rates to boost aggregate demand in a recession. • Quantitative easing to increase liquidity • Bailout of banks • Increase in government spending e.g. infrastructure • Cut in taxation	(14)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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
continued	Evaluation 6 • Short run/long run issues, e.g. interest rates take at least a year to have a full effect • Interest rates cannot be cut much further; relative interest rates are important • The uncertainty of the impact of QE, e.g. do banks pass on the credit, is it inflationary? • Size of the multiplier • Problems in financing government deficit/fiscal austerity issues • Impact of different tax cuts, e.g. income tax vs. VAT • Relative success of US or other country's policies in response to the crisis compared to the UK	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. 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 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 B <i>A is not correct because the pound has fallen in value</i> <i>C is not correct because the pound-dollar is a floating exchange rate system</i> <i>D is not correct because the pound-dollar is a floating exchange rate system</i>	(1)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 1, Analysis 1 Knowledge 2 marks e.g. • UK current account would improve/reduction in deficit (1) • Increase in exports (1) • Decrease in imports (1) Application 1 mark e.g. • Accurate reference to data between 1st January 2018 to 1st January 2019 Analysis 1 mark for linked development e.g. • UK exports become more competitive • UK exports appear cheaper to US consumers Own answer rule Allow alternative responses referring to Marshall-Lerner Condition and/or J-Curve	(4)

Q7.

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.

Q8.

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

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

Q9.

Question Number	Answer	Mark
(a)	Application 2 $\frac{910 - 894}{894} \times 100 (1) = 1.79\% (1)$ Accept answers between 1.78% and 1.8% Award 2 marks for correct answer e.g. 1.79	(2)

Question Number	Answer	Mark
(b)	Knowledge 1, Analysis 1 Knowledge 1 mark for one relevant reason e.g. • Uncertainty over the process of leaving the EU (1) • Closure of high street shops (1) • Falling incomes (1) • Increased automation (1) • Slower economic growth (1) • Business expectations (1) Analysis 1 mark for linked development e.g. • Uncertainty discourages firms from expanding/investing into their businesses (1) • High street shops employ large numbers of people in the UK and with sales moving online jobs tend to be lost permanently (1) • Lower incomes lead to lower consumption so less demand for labour (1)	(2)

Question Number	Answer	Mark
(c)	The only correct answer is D <i>A is not correct because this is not related to a change in technology</i> <i>B is not correct because this is real wage inflexibility</i> <i>C is not correct because this is not related to a change in technology</i>	(1)

Q10.

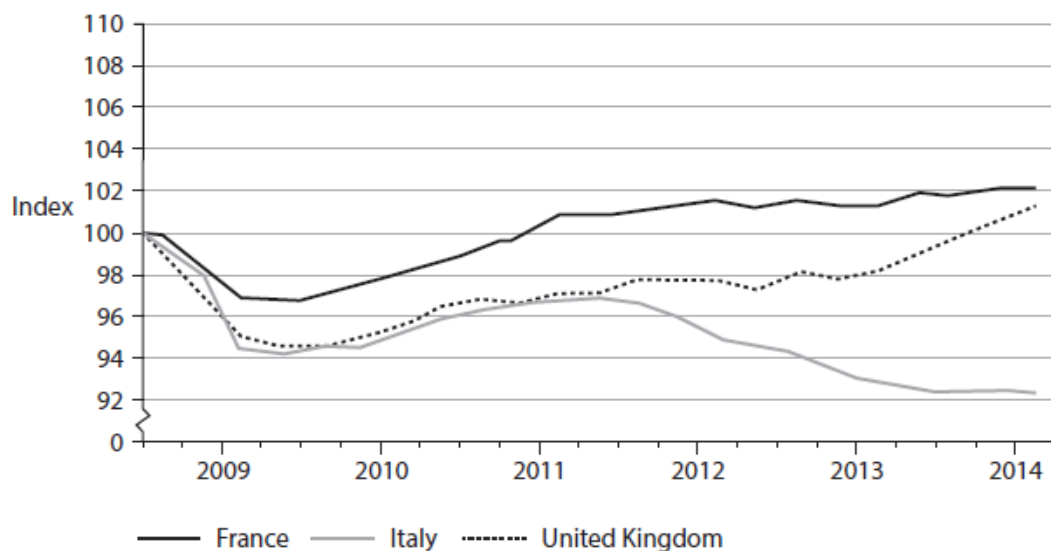
Question Number	Answer	Mark
(a)	B	(1)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 1, Analysis 1 Knowledge/understanding: • A budget deficit is when government spending is greater than government tax revenue (1) • A fall in the unemployment rate implies a fall in Portugal's budget deficit (1) Application: • Decreased government spending on transfer payments (1) OR • Increased government tax revenue from income tax or indirect tax, e.g. VAT (1) Analysis: • Less expenditure on transfer payments is required because people in employment are less likely to be entitled to means-tested benefits (1) OR • Tax revenues from income tax are likely to increase because more people are in employment (1) OR • With more people in employment and earning an income, expenditure. (1)	(4)

Questions

Q1.

Real GDP in selected economies (the base year 2008=100)



(Source: <http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014-may-gdp-update/sty-gdp-g7-economies.html?format=print>)

(a) Which **one** of the following can be inferred from the chart?

(1)

- ☒ **A** The UK's real GDP is smaller in 2014 than it was in 2008
- ☒ **B** Between 2008 and 2014 France's real GDP growth rate was higher than Italy's
- ☒ **C** Between 2008 and 2014 inflation was lower in France than in the UK
- ☒ **D** France experienced a greater fall in real GDP than the UK in 2014

(b) Define the term 'real GDP'.

(2)

.....

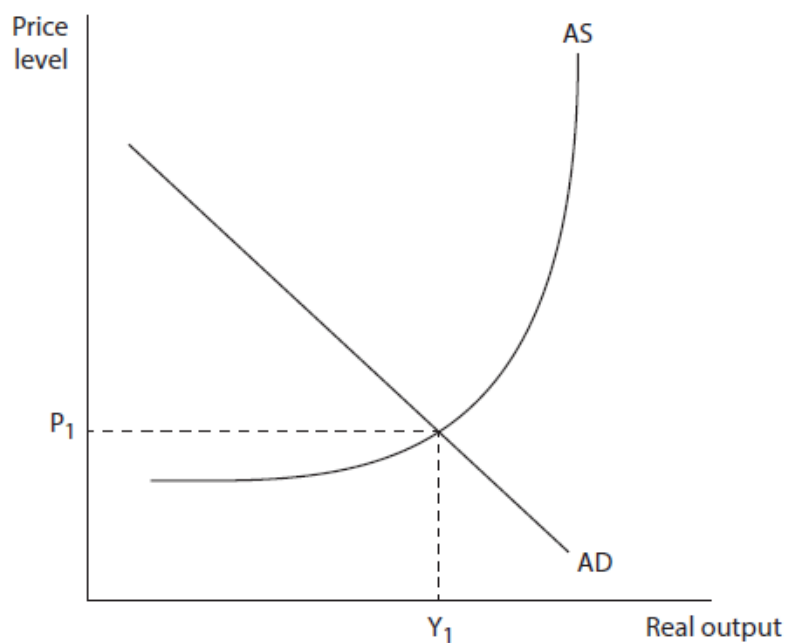
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(c) Illustrate a negative output gap on the diagram below.

(1)



(Total for question = 4 marks)

Q2.

The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	GDP per capita (US\$, at PPPs, 2013, rounded)
UK	38 500
Spain	33 000
Italy	35 500

(Source: <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>)

(a) Define the term 'purchasing power parities'.

(2)

.....

.....

.....

.....

(b) The Office for National Statistics estimates that the UK population was 64 million in 2013. Using the data, what was the UK's total GDP in 2013?

(1)

☐ **A** \$2 464 000 million

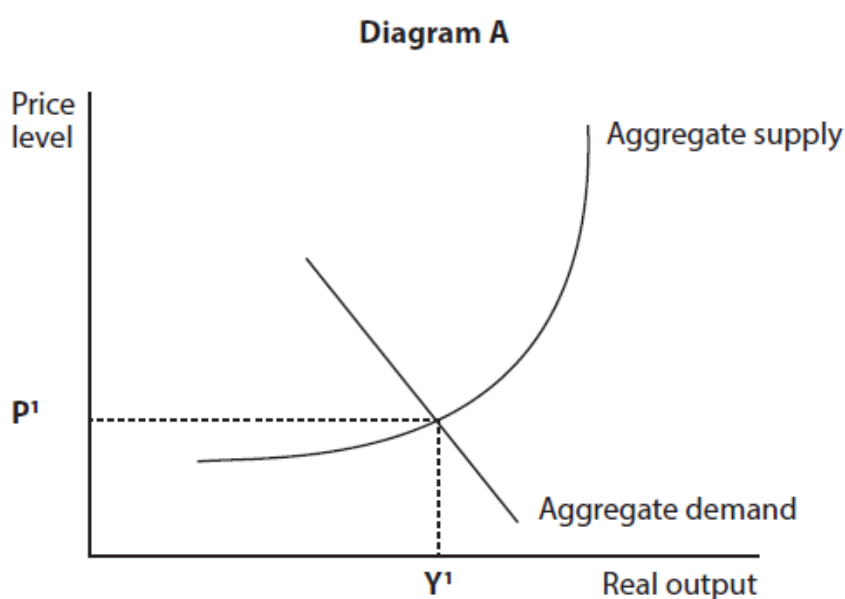
☐ **B** \$2 272 000 million

☐ **C** \$1 662 000 million

☐ **D** \$2 112 000 million

(c) Diagram A shows the aggregate demand and aggregate supply for a country. Illustrate actual economic growth on Diagram A.

(1)



(Total for question = 4 marks)

Q3.

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

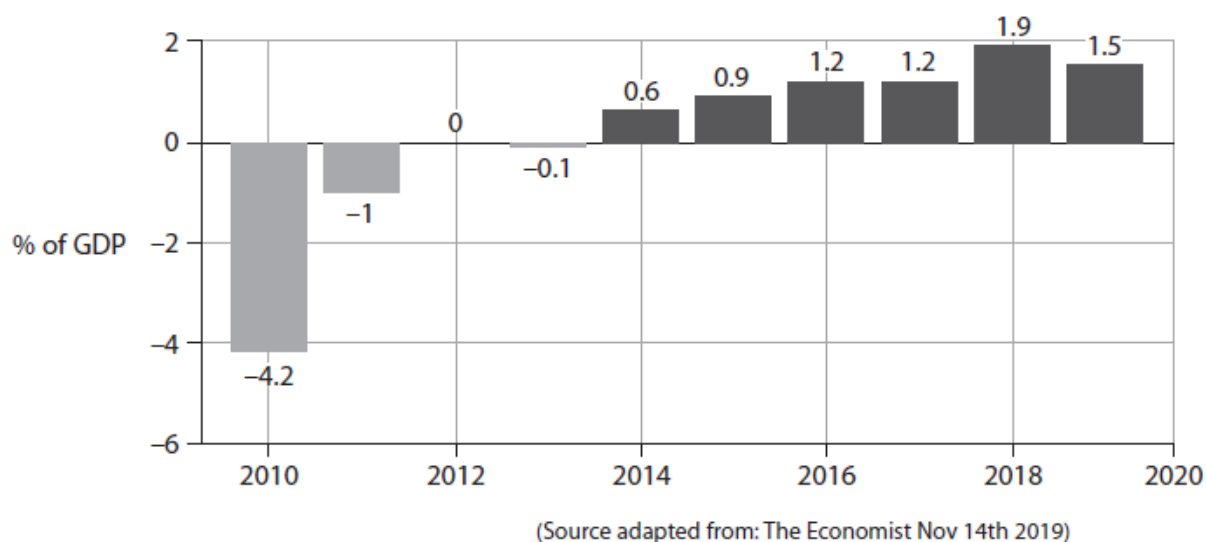


Figure 2: German national debt, percentage of GDP, 2010 to 2019

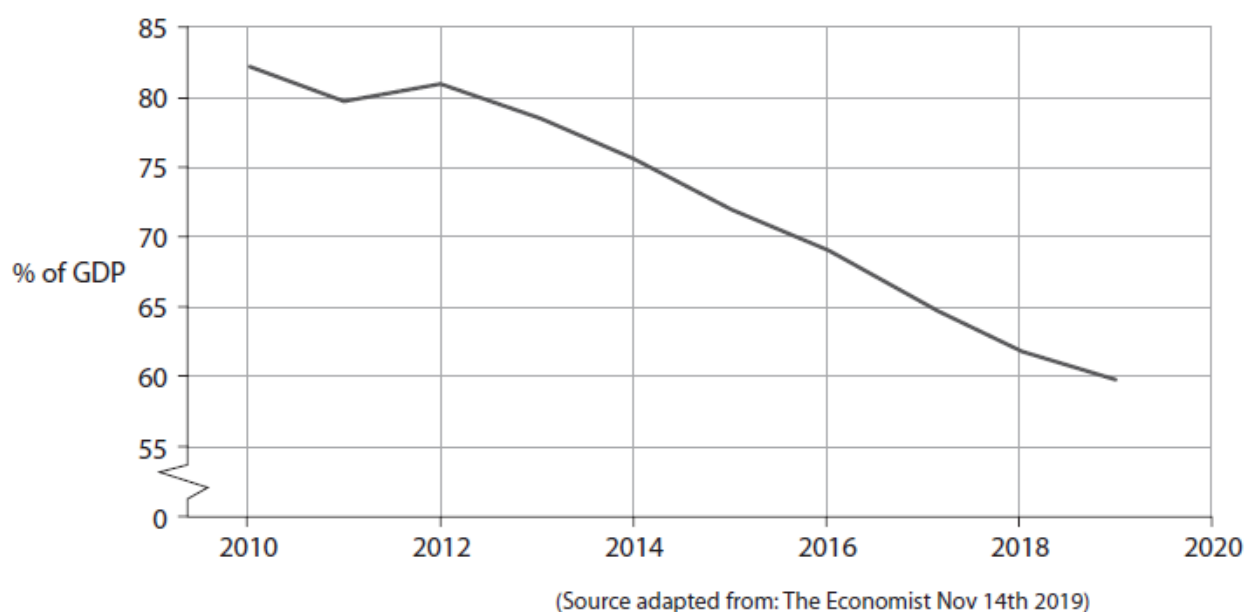


Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)

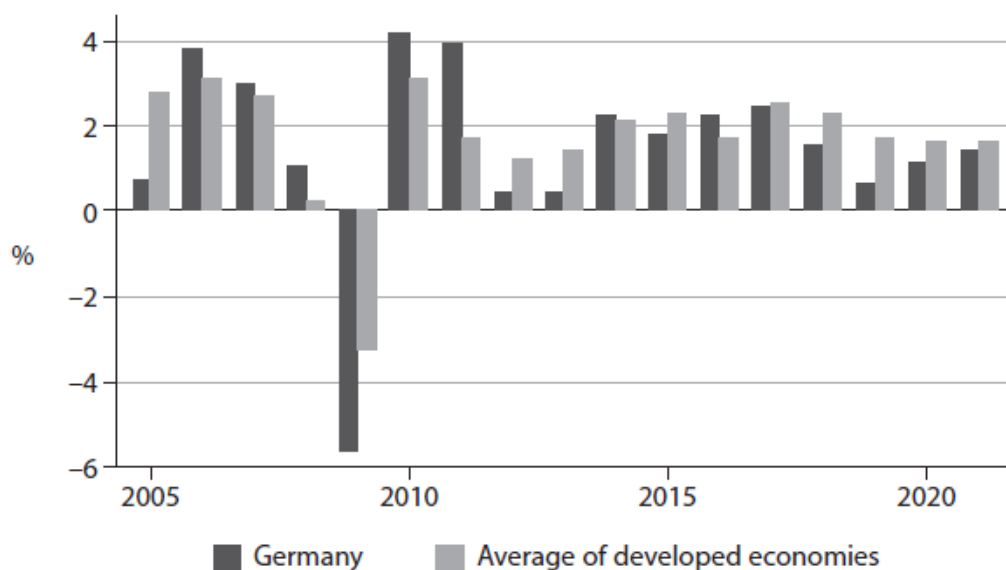
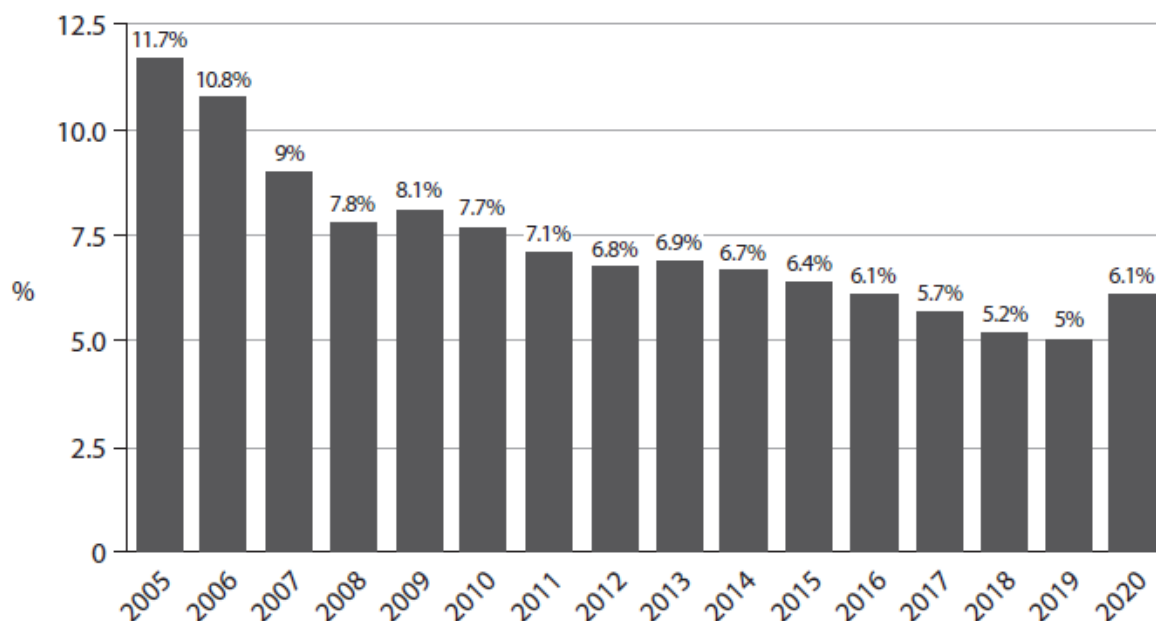


Figure 4: Unemployment rate in Germany, percentage of labour force, 2005 to 2020

(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.

5

(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)

Q4.

UK Consumer Prices Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-323657>)

(a) Calculate the percentage change in the UK Consumer Prices Index from September 2014 to September 2015. You are advised to show your working.

(2)

.....

.....

.....

.....

(b) Define the term 'deflation'.

(1)

.....

.....

(c) Which **one** of the following is most likely to be a cause of deflation? A fall in:

(1)

- ☐ **A** oil prices
- ☐ **B** unemployment
- ☐ **C** income tax rates
- ☐ **D** interest rates

(Total for question = 4 marks)

Q5.

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected

African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	21.75%	18.0%
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 <https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399>)

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line. 5

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1. 10 15

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability. 20 25

(Source: adapted from <http://www.africaneconomicoutlook.org/en/country-notes/mozambique> and <https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test> 6 October 2017 Dr Alex Vines OBE)

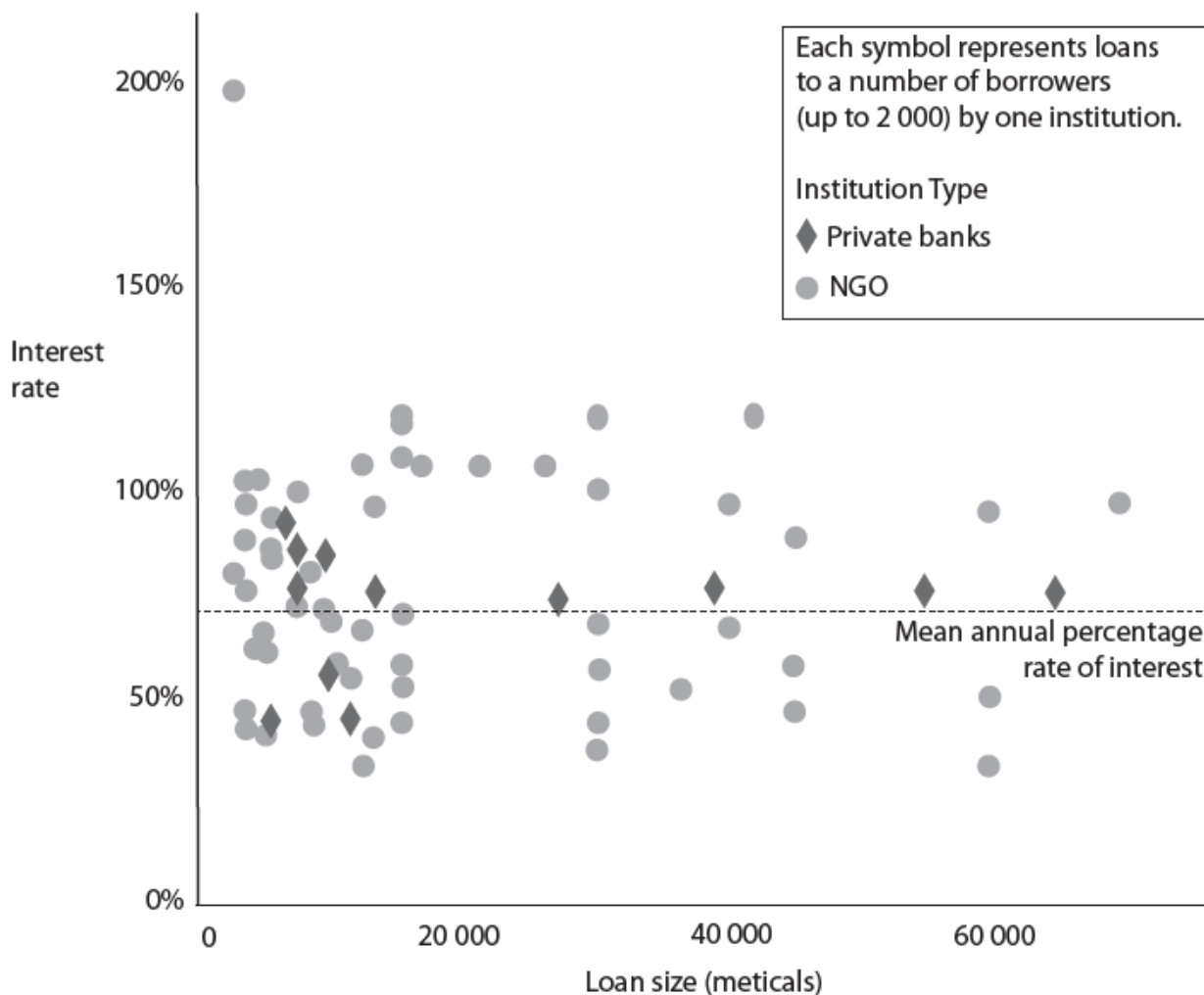
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion. 5

(Source: adapted from <http://www.mftransparency.org/microfinance-pricing/mozambique/>)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: <http://www.mftransparency.org/microfinance-pricing/mozambique/>)

(a) With reference to Extract D line 21, explain why 'opportunity cost' is a problem for governments of developing countries when servicing debt.

(5)

(b) Examine **two** reasons, apart from access to finance, why 90% of the manufacturing sector in Mozambique 'is made up of small enterprises' (Extract E, line 9).

(8)

(c) Discuss whether borrowers benefit from microfinance. Make reference to Mozambique in your answer.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors, apart from access to credit and banking, influencing growth and development in Mozambique.

(25)

OR

(e) Evaluate the likely microeconomic and macroeconomic effects of relatively high inflation rates in many African countries.

(Total for question = 50 marks)

Q6.

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

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

The table below shows the UK's nominal Gross Domestic Product (GDP) and population, 2016 to 2018.

Year	GDP (£ millions)	Population (millions)
2016	1 995 478	65.6
2017	2 033 234	66.0
2018	2 061 408	66.4

(Source: ONS, <https://www.ons.gov.uk/>)

(a) Define the term 'nominal'.

(1)

.....

.....

.....

.....

(b) Using the above GDP data, which **one** of the following represents the index number for 2016, if 2017 is the base year?

(1)

- ☐ **A** 96.8
- ☐ **B** 98.1
- ☐ **C** 101.9

☒ **D** 103.3

(c) Calculate the UK's nominal GDP per capita in 2018. You are advised to show your working.

(2)

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(Total for question = 4 marks)

Q7.

The British pound fell by over 10% to a 30-year low against the US dollar after the UK voted to leave the European Union.

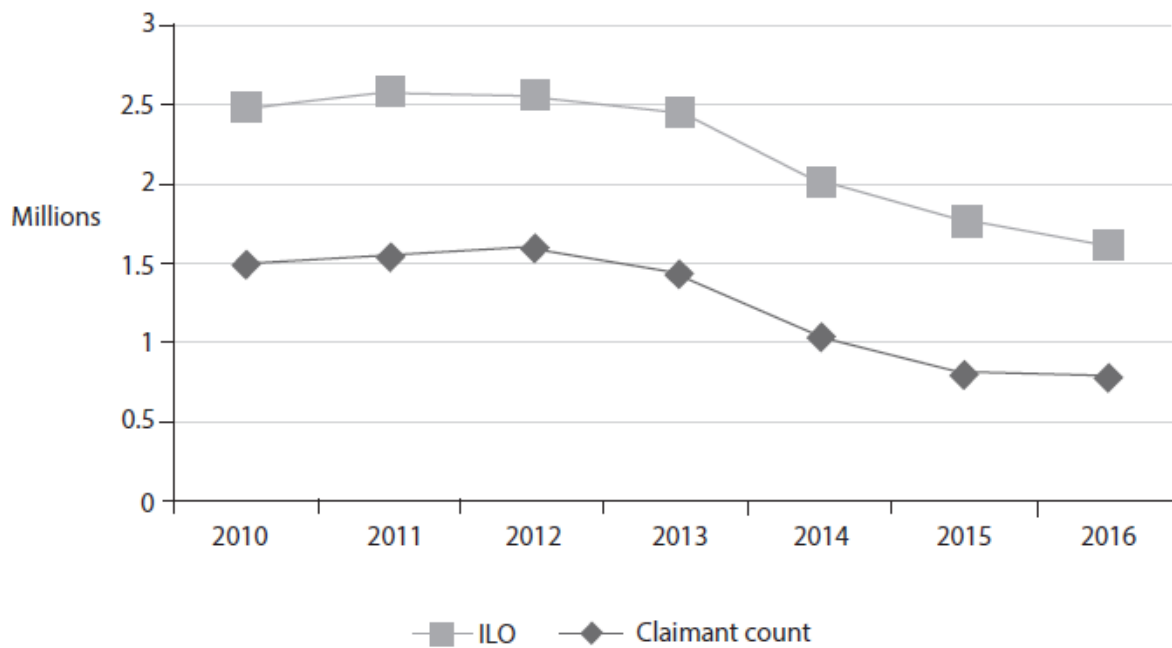
To what extent will this depreciation impact on future economic growth in the UK?

(Total for question = 25 marks)

Q8.

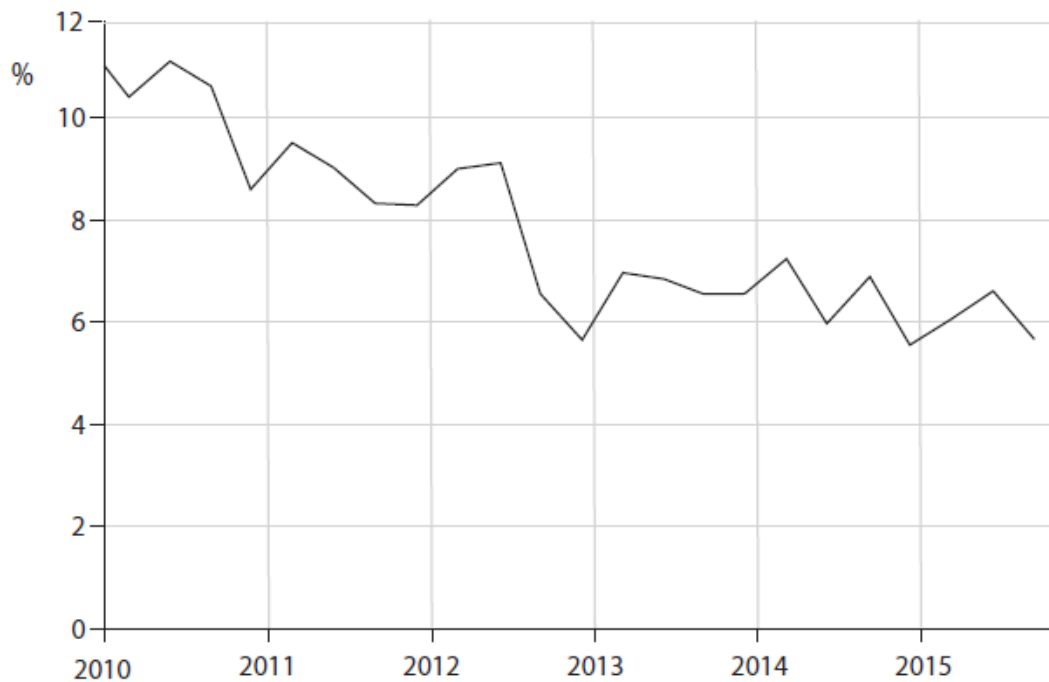
The UK economy

Figure 1: Unemployment - International Labour Organisation (ILO) and the claimant count, millions, 2010-2016



(Source: ONS Datasets, <https://www.ons.gov.uk/>)

Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

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

Figure 3: UK average house prices, 2005-2016



(Source: <http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/>)

Extract A

Soaring house prices

House prices are still rising rapidly. The average UK house price was £214 000 in June 2016, according to the Office for National Statistics (ONS). This is £24 000 more than it was at its peak in September 2007, just before the economic downturn. First-time buyers have experienced the largest rise in house prices.

5

Even the loss of consumer confidence over Britain's vote to leave the EU did not stop house prices from rising – annual growth increased from 5.2% in July 2016 to 5.6% in August 2016. House price growth was the strongest in London, with annual average prices rising by 9.6%. However, in Wales average house prices actually fell by 0.5% during the same period. In its first post-Brexit referendum forecast, estate agency Countrywide said that house prices will fall by 1% across the UK in 2017, before rising by 2% in 2018.

10

Real household income in the UK fell by 10.4% in the years following the financial crisis. This increased the difference between real income and house prices. In 1997, a house cost little more than twice the average income. By early 2015, the average price of a house was five times the average annual income.

15

The rate of home ownership for 25 to 34-year-olds has fallen to 35.8% over the last twenty-five years as houses became less affordable. First-time buyers have to wait longer to save up for a house deposit. Conversely, home ownership has risen to 78.6% among those aged 65 to 74.

(Source: adapted from 'The state of the UK housing market in five charts', The Telegraph, <http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/>; 'UK house price growth slows as demand cools after Brexit vote', The Guardian, <https://www.theguardian.com/business/2016/sep/30/uk-house-price-growth-slows-demand-cools-brexite-vote-nationwide>)

Extract B

UK migration trends in the year ending June 2016

Inward migration levels are among the highest ever recorded with an estimated 650 000 people moving to the UK. This is an increase of around 11 000 from the previous year.

Employment remains the most common reason for long-term migration (312 000) to the UK, with around 182 000 of these coming with a definite job and 130 000 looking for work. 5

Long-term migration to the UK for study was estimated to be 163 000. In addition, 80 000 long-term migrants arrived in the UK to accompany their families. There were 41 280 refugees applying for asylum, including dependants, of which 10 547 people were granted asylum. Asylum applicants cannot usually accept offers of employment while their case is being processed. 10

(Source: adapted from 'Migration Statistics Quarterly Report: December 2016', ONS, <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/dec2016>)

(a) With reference to Figure 1, explain one reason why the claimant count and the ILO measure of unemployment differ.

(4)

(b) With reference to Extract A, assess the likely macroeconomic effects of an increase in house prices. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(c) With reference to the information provided, explain **one** likely factor, other than changes in house prices, that could influence the level of savings of UK households.

(5)

(d) Explain **two** factors that might cause a rise in the value of the multiplier.

(6)

(e) With reference to Extract B and Figure 1, discuss the likely impact of migration on employment **and** unemployment in the UK.

(15)

EITHER

(f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(20)

(Total for question = 60 marks)

Q9.

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.

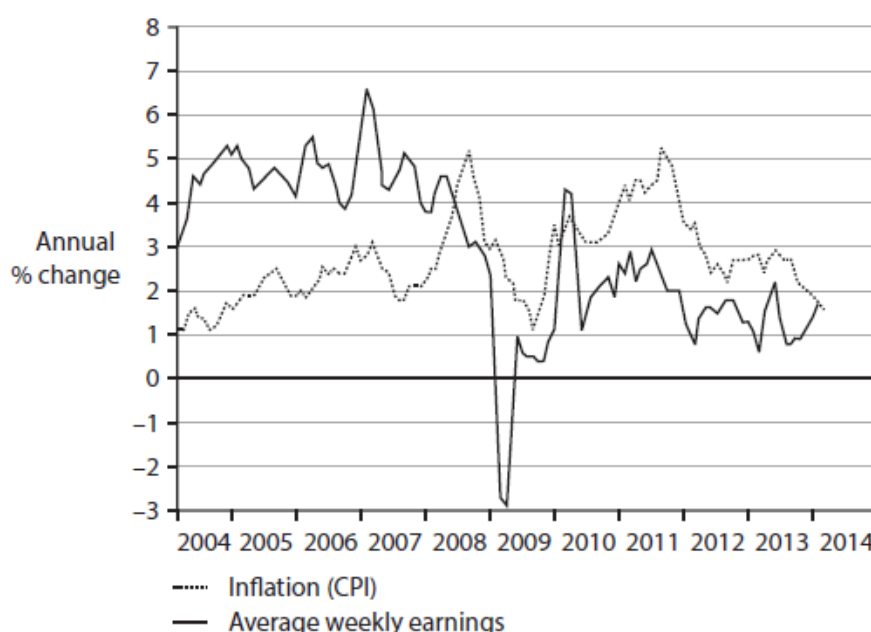
(25)

(Total for question = 50 marks)

Q10.

The chart below shows the annual percentage change in average weekly nominal earnings and the inflation rate in the UK as measured by changes in the CPI from March 2004 to March 2014.

**Annual percentage change in average weekly nominal earnings and inflation rate (CPI),
March 2004 to March 2014**



(Source: ONS)

(a) Which **one** of the following can be inferred from the chart?

(1)

- A** Throughout the period shown, average weekly nominal earnings have risen.
- B** From March 2004 to March 2008, average weekly real earnings were falling.
- C** Throughout the period shown, average weekly real earnings have risen.
- D** From April 2010 to December 2013, average weekly real earnings were falling.

Answer

(b) Explain the likely effect of a decrease in average weekly real earnings on the equilibrium level of real national output in the UK. Include an aggregate demand and aggregate supply diagram in your answer.

(4)

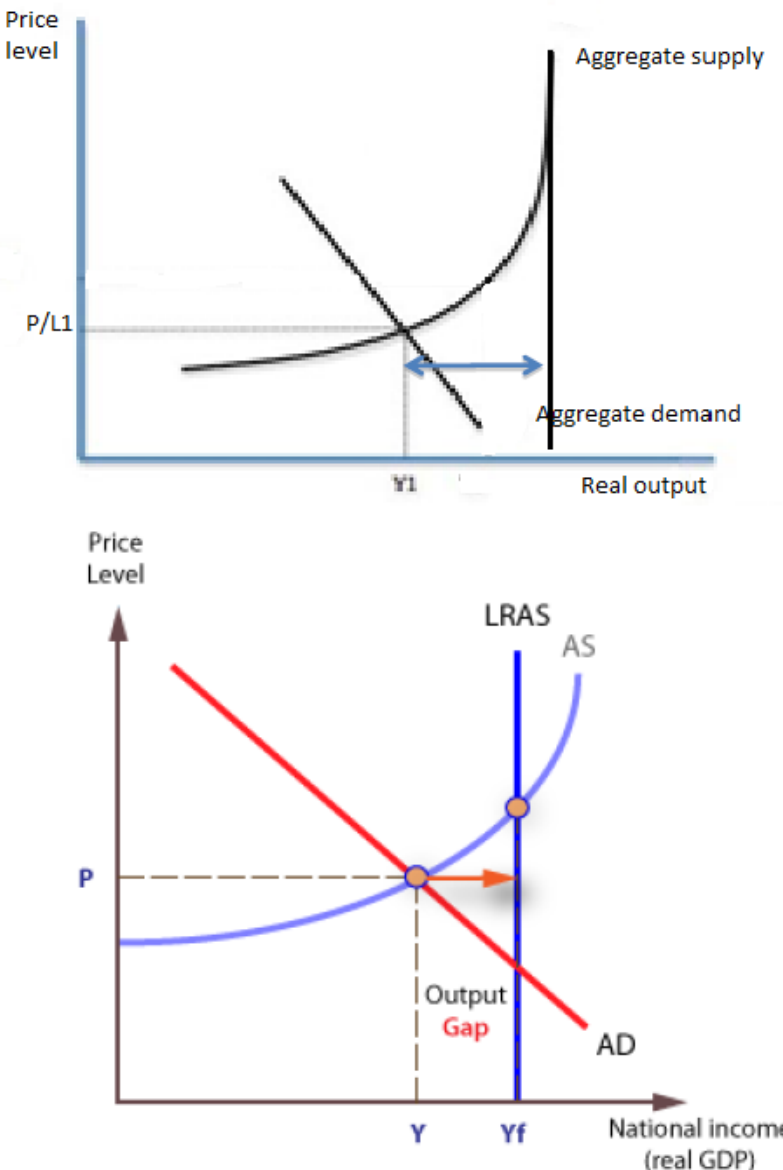
(Total for question = 5 marks)

Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	B	(1)

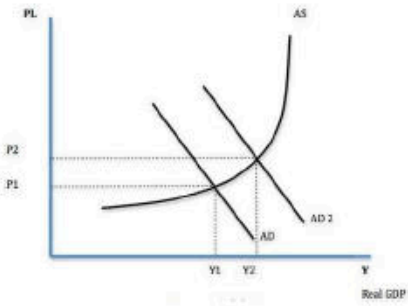
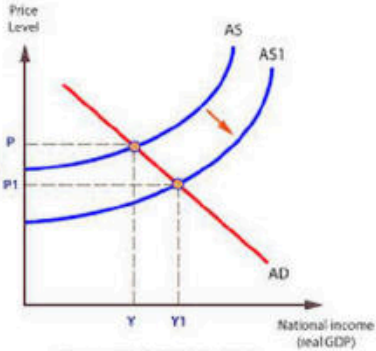
Question Number	Answer	Mark
(b)	Knowledge 2 Knowledge/understanding 1 mark for definition of GDP e.g. • Value of the total output (1) • Accept amount of final goods and services (1) • Total income / total expenditure (1) 1 mark for definition of real e.g. • Taking inflation into account (1) • Adjusted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

Q2.

Question Number	Answer	Mark
	Knowledge 2 Knowledge/understanding 1 mark for partial definition, e.g. - Making a comparison between countries. 2 marks for full and accurate definition, e.g. - The rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country - Comparison between countries, taking into account different cost of living.	(2)

Question Number	Answer	Mark
	A	(1)

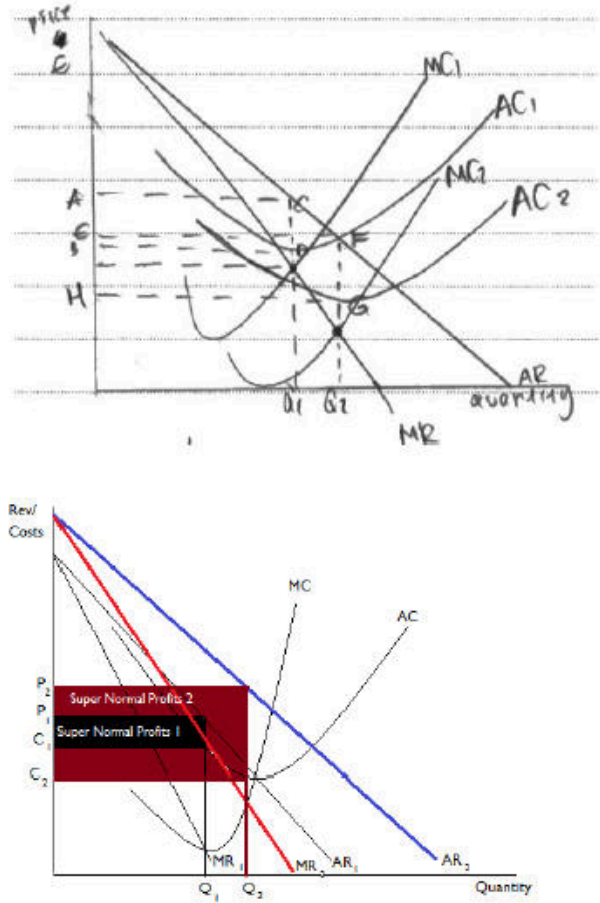
Question Number	Answer	Mark
	Knowledge 1 New AD curve (shifts to the right) and a new equilibrium at Y2 (1)  OR New AS curve (shifts to the right) and a new equilibrium is found at Y1 (1) 	(1)

Q3.

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.

Q4.

Question Number	Answer	Mark
(a)	Application 2 $(128.2 - 128.4) / 128.4 \times 100$ or correct formula (1) = (-)0.15% Accept range (-)0.15 to (-)0.2 NB 2 marks for correct answer.	(2)

Question Number	Answer	Mark
(b)	Knowledge 1 Knowledge/understanding 1 mark for definition of deflation e.g. • A decrease in the general level of prices (1) • Negative change in average prices (1) • Negative inflation / inflation below zero (1)	(1)

Question Number	Answer	Mark
(c)	A	(1)

Q5.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis (3): • Definition of opportunity cost as the next best alternative foregone (1) • Governments have to pay interest (1) at the expense of other expenditure (1) • Servicing means paying back interest and minimum capital requirements (1) e.g. to prevent a default, loss of confidence, other repercussions (1) • The debt is external (1), and in this case owed by governments as they have been borrowing from abroad (1) • Use of PPF to show opportunity cost may be awarded as analysis (1) Application (2 marks for 1 point, or 1 + 1): e.g. • Debt service payments above 20% of G (1) are unsustainable (Extract D) (1) • £20billion raised 2010-2015 (Extract D) (1) • Commodity prices soaring and foreign loans available' (Extract D) (1) • 'Heavy repayment schedules at a time of low commodity prices' (Extract D) (1) • Governments have taken to 'private debt too eagerly' (Extract D) (1) • 'Median level of debt risen from 34% to 48% in 2017' (Extract D) (1) is heavy because of 'low tax base' (Extract D) (1) • High levels of poverty – half of the 26 million people (1), so many feel the effects of reduced government expenditure (Extract E) (1) • 'non-existent tuna fleet' or other hidden debt (Extract D) or corruption (1) at the expense of other government spending (1) • Opportunity costs applied to any developing country, e.g. spending on poverty alleviation, education and health spending or recent cyclone April 2019 (1). Award a maximum of 1 application mark if there is no reference to Extract D	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/implicit understanding of two reasons why manufacturing firms stay small, (1+1) e.g. • Size of market/lack of access to export markets/low export earnings due to lack of demand • Absence of economies of scale, or insufficient incentive or ability to grow (apart from access to financial) • Problems of human capital, e.g. lack of educated workforce • Lack of infrastructure making expansion into new areas difficult, or small markets • Actions of foreign firms to foster dependency • Government or international actions to make it hard for firms to grow • Lack of TNC involvement in Mozambique/volatility of currency/capital flight • Firms want to remain close to customers- meet needs with specific goods. • Firms might be manufacturing niche products with inelastic demand and high-income elasticity • Small firms more able to manufacture and sell through selling online and have small assets. • Perfect / monopolistic competition characteristics, e.g. low barriers to entry • Non-economic factors, e.g. natural disasters, political tensions, drought • Cost of finance, cost of servicing loans, financial economies of scale and scope. Do not allow access to finance.	

	Application (1+1 or 2): e.g. • Further depreciation of the metical (Extract E) • Lack of economic stability (Extract E line 26) • Slowdown in FDI (Extract E) • Depressed global demand (Extract E) • Low levels of employment in the sector (Extract E) may imply lack of skilled workers • High interest rates (Fig. 2 and Extract E line 14) • High import costs (Extract E line 15) • Needs urgently to improve its investment environment and confidence (Extract E line 17) • Large scale emigration (Extract E) • High numbers of people 'below the poverty line' (Extract E line 6) mean the market/incomes are small • 'Economic dependence on South Africa' (Extract E) may limit prices/market power of firms.	
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	Analysis (1+1) • Development of each point, up to 1 mark for each valid factor Evaluation (2 marks for any relevant point, two points 1+1): • The development of the gas fields (Extract E) will 'transform the economy' • Pick up in coal and electricity (Extract E) which are probably larger firms and may have impact on manufacturing • may consider whether this is because of choice or lack of opportunity • Long term 'prospects are promising' (Extract E, line 20) e.g. sustainable agreement, gas fields production in 2020s or other initiatives such as trade blocs NB Cost of finance, financial economies of scale etc are allowed. It is only ACCESS to finance e.g. unavailability of microfinance, savings gap, loss of external lenders which is excluded. NB Access to finance <i>may</i> be credited as part of the evaluation but not as KAA	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Microfinance meaning and role • Plugs the savings gap / Harrod-Domar model • Enables firms to be set up – fixed or start-up costs • enables firms to invest in human capital and overcome primary product dependency • Use of Figure 3 to illustrate size and importance of microfinance operations • Use of Extract F – e.g. ‘100 000 borrowers’, many new business start-ups which could not have gained finance from any other source’, ‘unfulfilled demand for microfinance’ • How borrowers benefit – small firms can be set up or expanded, allowing firms to gain capital and materials to set up businesses, provide more employment, lead to improved living standards • Borrowers lack collateral so cannot borrow from banks in the normal way • The money is in small amounts £200 to £300, paid back regularly and over a short period of time, on which basis the firm forms a business plan for which the lender will approve or advise • Microfinance allows firms to form without the stigma of aid or the dependence of FDI • Use of cost/revenue analysis to support arguments (perfect/monopolistic competitive market) • Macro analysis (AD/AS) must link back to borrowers, e.g. increased standard of living, allows firms to expand/invest NB For Level 3, answers must link to borrowers NB The answer can take the form that there are more costs than benefits as part of the KAA, using the benefits as the evaluation	(8)

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

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • Use of Figure 2 to show high base rates and Figure 3 to show average 75% APR on microfinance • Large potential for expansion (Extract F) • May encounter lack of demand as more than half of the population live below the poverty line • Weak infrastructure does not allow borrowers to access markets • Alternatives to microfinance could be considered, e.g. aid, FDI, debt relief • Reasons why microfinance can be damaging to borrowers, e.g. pressure on women (98% of borrowers), over-indebtedness, poor guidance given to borrowers, macro-finance is needed for economies of scale, people borrowing multiple times, for uses which are social not business orientated. • Large numbers of people setting up similar businesses/highly competitive e.g. food stalls, so profits tend to be low/need for dynamic efficiency • Funds from private banks very different from NGOs – banks might be more cautious, and therefore more likely to succeed, might be better advice, support from specialists, softer terms from either institution might lead to moral hazard	(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 4, Analysis 8, Evaluation 9 Microeconomic influences may include: • Labour force and other demographic factors e.g. emigration of skilled/educated workers, disease, low life expectancy • Small firms with low levels of capital • Low levels of personal saving/high levels of personal debt • Primary product dependency • Volatility of commodity prices • Debt – although do not award access to credit and banking. Allow arguments based on dependency or opportunity cost, for example • Lack of infrastructure/other capital • Absence of property rights • Non-economic factors e.g. natural disasters, social problems • Joint ventures with global companies Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements • Role of FDI e.g. the tuna fleet cover-up dries up FDI • Government policy failure, e.g. weak expansion in fiscal policy, high interest rates, lack of subsidies, privatisation, interventionist strategies, e.g. management of exchange rate, buffer stocks • Actions of other international institutions e.g. IMF or NGOs • Macroeconomic stability, e.g. rate of inflation (might refer to Figure 2), rate of economic growth, exchange rate (metical at a 'new low')	

	Possible evaluation points include: • Degree to which the factors are inevitable • Signs of improvements in passages • Some factors are temporary, e.g. fall in commodity prices such as coal and drought affecting production and exports to other countries within Africa NB Do not award KAA for arguments based on ACCESS TO credit and banking, although this approach is permitted as part of the evaluation NB for a Level 4 response there must be micro and macro factors (s). There must be reference to both growth and development for Level 4	
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	PPD/ Harrod-Domar/ debt/ aid/ debt relief/ cost of credit/ non-economic factors/currency issues / competitiveness index can be used as micro or macro.	(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 covering both microeconomic and macroeconomic factors. 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.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8 Evaluation 9 Microeconomic effects may include: • On people with debt (better off) and savings (worse off) • On people with fixed incomes – may refer to falling real incomes • On firms' profits, e.g. that face rising costs and if they cannot raise prices they will face falling profits, or falling sales as consumers delay purchases. This might be illustrated with cost/revenue diagrams. • On firms' costs if they face rises in interest rates as a policy corollary of high inflation, which might lead to lower profits. This might be illustrated with cost/revenue diagrams. • Opportunity cost, e.g. effects on a government's spending if costs of servicing debts fall • Effect on labour markets e.g. people might work more hours to cover increased cost of living NB do not award fall in profits or revenue or rise in costs unless a valid chain of reasoning is given Macroeconomic effects may include: • International competitiveness and balance of payments, between African countries and with the rest of the world. Exports likely to fall and imports likely to rise • Distribution of income and wealth • Confidence and investment in financial markets • Policy responses, e.g. rises in interest rates and effects on AD • Shift in AS and/or AD may be used as part of the analysis • High inflation might deter Investment and FDI	

	NB do not award rise in unemployment/fall in growth unless a valid chain of reasoning is given Possible evaluation points include that the effect depends on: • Whether wages rise in line with inflation • The degree of inflation, and the policy and international responses. • The PED of countries buying the African exports • The PED of importing countries as imports become relatively cheap	
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	• Whether African countries are trading with each other the effects of inflation may be cancelled out e.g. use of Figure 2 to show neighbouring countries with higher inflation rates • Whether asset prices rise as to the redistributive impact • Depends on whether this is a long-term inflation problem- could be short term e.g. linked to commodity price rises. Only a problem if it is sustained. • The figures are in one month in July 2017 and may not reflect inflation story for full year. Time series data may be more useful. • Depends on the type of inflation – e.g. cost push or demand pull. • Impact on exchange rates e.g. higher inflation may erode the value of the currency. This might cancel out the impact on competitiveness NB for a Level 4 answer there must be reference to the context of African countries (not just one) NB for a Level 4 response there must be micro and macro effect (s). Costs/ shift in PPF/ currency/labour markets/competitiveness etc. can be used as micro or macro.	(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 covering both microeconomic and macroeconomic factors. 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.

Q6.

Question Number	Answer	Mark
(a)	Knowledge 1 Knowledge: 1 mark for definition, e.g. • Not adjusted for inflation (1) • Figures at current prices/market value (1)	(1)

Question Number	Answer	Mark
(b)	The only correct answer is B A is not correct because this figure is the index number for 2016 using 2018 as the base year C is not correct because this figure is the index number for 2017 using 2016 as the base year D is not correct because this figure is the index number for 2018 using 2016 as the base year	(1)

Question Number	Answer	Mark
(c)	Application 2 Application: 1 mark for appropriate calculation, e.g. 2 061 408 / 66.4 (1) Answer = £31 045.30 Allow 31 045 / £31 000 • Award 2 marks for correct answer (£31 045.30 / £31 045 / £31 000) • If million is given after the answer, then award up to 1 mark	(2)

Q7.

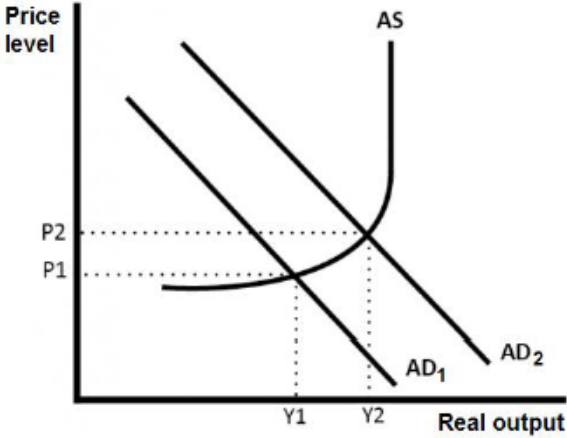
Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Likely impacts include: • UK exports are now cheaper when priced in dollars, so should mean an improvement in UK price competitiveness leading to increased demand for UK exports and AD <i>However depends on quality of UK exports or if US firms/consumers demand what we are producing</i> • UK imports from the US are now more expensive so likely to lead to less demand for US imports which improves net trade and therefore AD <i>However, depends if there are domestic alternatives to the US imports. If not prices will simply rise</i> • Imported inflation: as prices of imports rise, particularly of necessities, then UK inflation will increase. • Lower exchange rate might attract inward investment with multiplier effects on AD • Other factors which cause growth might be considered as more than one factor • Diagrammatic analysis may be used (e.g. AD/AS) Other evaluative comments may include e.g.: • Imported inflation will be a particular problem if wages do not increase in line with inflation. • Depends if this is a temporary fall or a permanent adjustment to the exchange rate • Depends on UK exchange rate with other currencies as well • US is a significant trade partner for the UK so the impact is likely to be significant • Consideration of the Marshall-Lerner condition and J curve effect • Other factors which cause growth might be considered as evaluative comments • EU is a very significant trading partner for the UK and thus the impact is likely to be significant	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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.

Q8.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2 Knowledge/understanding Identification of one reason (1) with development (1), e.g. • Different reasons for collection/different methods of collection: imply different results • It is becoming much more difficult to claim unemployment related benefits e.g. changes in the level of savings making it difficult to claim unemployment related benefits • Stigma issues when people are unemployed with no stigma for ILO but high stigma for unemployment related benefits • Increase in frictional unemployment which would increase ILO but may show no change in unemployment related benefits • State of the economy where more vacancies in a boom so harder to claim unemployment related benefits Application 2 marks for two data references from Figure 1 (1+1), e.g. Between 2010 and 2016: • Claimant count is below ILO (1) • Claimant count fell by around 48% / 0.7m (1) • ILO unemployment fell by around 35% / 0.9m (1) • In 2010, ILO unemployment was 2.5m (1) and CC unemployment was 1.5m (1)	(4)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2 • Rise in value of houses will lead to wealth effect • An increase in householder's confidence • Encourage households to consume more (and/or save less) • Aggregate demand (AD) will increase • Lead to an increase in real output or a faster rate of economic growth • Credit for discussion of other effects besides wealth effect, e.g. impact on: • Balance of Payments • Unemployment • Budget deficit • Price level • Increase in investment from the construction industry • Diagram e.g.  "£24 000 more than it was" / "annual growth increased from 5.2% in July 2016 to 5.6% in August 2016" / Data reference to Figure 1 data NB Candidates have to show impacts with accurate AD/AS diagram presenting a relevant change in AD to access Level 3 NB Benefits to rising house prices can be seen as KAA and negative effect as Evaluation, or vice versa	(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 - Houses are a significant component of consumers' wealth and effect large proportion of households (65% owner occupied) in the UK, which will have a major effect on AD - SR vs LR – "house prices will fall 1% across the UK in 2017" / wealth effects take time to trigger spending changes - Regional differences in impact – "House price growth was strongest in London" "home ownership has risen to 78.6% among those aged 65-to-74" – it may not raise AD / consumption - Discussion of the significance of falling real wages - Significance of the elasticity of the AS curve - Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship - Lower confidence for areas where it will be harder to move to find jobs, because of price differentials - Effect on first-time buyers – may lead to their consumption falling (discussion of real wages and home ownership)	(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/understanding 1 mark for identification, e.g. - Income (1) - Interest rates (1) - Unemployment (1) - Consumer confidence (1) Application 2 marks for data reference (1+1), e.g. - real incomes in the UK have fallen (1) by 10.4% (1) - unemployment fell (1) according to ILO and CC (1) - savings ratio has fallen (1) between 2010 and 2015 (1) - Britain's vote to leave the EU – Extract A Line 6 (1) Analysis Linked development (1+1), e.g. - Fall in income is likely to reduce savings leading to a fall in the marginal propensity to save - Lower unemployment is likely to cause a rise in consumer spending due to greater disposable incomes, leading to fall in savings ratio	(5)

Question Number	Answer	Mark
(d)	Knowledge 2, Application 2, Analysis 2 Knowledge/understanding 2 marks for, e.g. - Definition/understanding of the multiplier (1) - Identification of factors which can cause the multiplier to rise (1+1) Application 1 mark for each data reference from Figure 2 or linked application (1+1), e.g. - savings ratio decreased from 11.5% in Q1 of 2010 (1) - to approximately 5.7% in Q1 of 2016 (1) - Use of multiplier formula (2) - application by means of simple numerical example (up to 2 marks) Analysis 1 mark for linked development of each factor (1+1), e.g. - A fall in withdrawals from circular flow of income will lead to a rise in the value of the multiplier (1) - An increase in mpc will cause the value of the multiplier to rise (1)	(6)

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Effects for employment: • "Work remains the most common reason for long-term migration (312 000)" – this is most likely to lead to an increase in employment • "182 000 of these coming with a definite job" – these migrants could fill those vacancies that cannot be filled by indigenous workers • Increased size of population means that there is increase in supply of labour, thus reducing wage rate and increasing demand for labour • Increased consumer spending from an increased population means more jobs are created • Increased demand for public services creating an increased demand for public sector workers Effects for unemployment: • "130 000 looking for work" – these migrants could displace the current indigenous workers • "10 547 people granted asylum" / 80 000 family members – surplus labour in the market as they might attempt to join the labour market but with inappropriate skills NB Answer must refer to both <i>employment and unemployment</i> to access Level 3	(9)

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

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 Points may include: • Magnitude and the significance of net migration – the figures on emigration have not been provided • “Long-term migration to the UK for study was estimated to be 163 000” – so may only be short-term migrants; also it is not sure they will remain in the UK after study • If the UK economy starts to grow, it can take on more labour without increasing unemployment • Evidence might be inaccurate, e.g. reason for migration is a very loaded question/inadequate data – it does not indicate if there has been an increase or decrease in the figures shown • Depends on the skills of migrants • “Dependents” may or may not have an effect • Depends on the percentage of asylum seekers granted leave to remain (Extract B) • Different industries may be affected differently	(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 • Understanding / identification of government policies as fiscal policy or supply-side policy • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Investment in education and training to provide a more skilled workforce through increases in the level of human capital • Changes in minimum wage to incentivise employment • Reduction in unemployment and associated benefits to increase incentive to find work • Grants/subsidies/tax breaks to firms • Reduction in tax rates to encourage firms to expand or set up in UK, therefore increasing employment • Reduction in income tax creating a much larger incentive to work, increasing consumption and therefore, employment • Policies to increase real wage flexibility e.g. helping to reduce real wage unemployment • Tax breaks to firms who set up in depressed areas / giving some financial assistance to unemployed workers who move to areas with high employment • Government improving the labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and other measures to increase the activity rate NB Answer must be linked to <i>government</i> policies to access Level 3 or above. NB Answer must be linked to <i>employment</i> to access Level 3 or above.	(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 • Magnitude of the policy change • Conflicts between the policies • Depends if there is spare capacity • Creditworthiness of the UK government • Conflicts with other UK economic objectives • Discussion of effectiveness of individual policies • External factors beyond UK government's control, e.g. slowdown in global economy • Time lags (for e.g. education takes a long time to have impact on productivity)/implementation lags Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks	(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, • Implicit or explicit identification of the various UK's macroeconomic objectives • Understanding of inflation • May reduce growth owing to costs of inflation • Reduction in purchasing power and real incomes • Equality e.g. effect on those who have fixed incomes (are not protected by inflation) who are often the poorest • May make the national debt smaller in real terms making it cheaper to finance and pay back • Reduction in competitiveness of British goods which worsens the current account of the balance of payments deficit and reduces international competitiveness • Unemployment may rise through increased levels of inefficiency and stagflation / using a Phillips curve • Higher inflation associated with increasing AD may have detrimental impact on environment • Possible beneficial effect on the environment as economic growth slows • Loss of both business and consumer confidence • The self-reinforcing effect on inflation through expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes NB KAA can be awarded for positive impacts on the objectives and evaluation as the negative impacts or vice versa	(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 • Depends on the cause, (e.g. cost push or demand pull) duration and magnitude of inflation – may be discussed in recent context of the UK / using AD AS diagram • Inflation might not translate through to higher wages and unemployment if the workforce has little power • If growth is low, slightly higher inflation is worth the risk to avoid deflation or depression • Impact depends on the relative inflation rates • Impact of high inflation might depend on policy response - interest rates may have to be raised • Other factors may have a larger effect: exchange rates or other macro objectives (ceteris paribus) • Possible beneficial effect on the environment	(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.

Q9.

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)

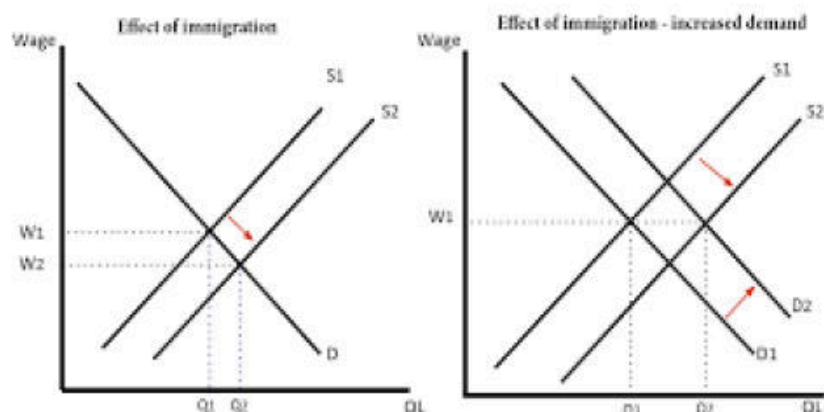
Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/ implicit understanding: (1+1) marks for two reasons and explanation e.g. • HCWs are inferior goods if demand rises when incomes fall • HCWs at £5 are a very small percentage of consumer income so they might 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.

Question Number	Answer	Mark
(a)	D	(1)

Question Number	Answer	Mark
(b)	Application 3, Analysis 1 Application: • AD/AS diagram with axes correctly labelled showing initial equilibrium (1) • Shift of curves to show a decrease in AD or an increase in (SR)AS (1) • New equilibrium real national output marked (1) Analysis: • A decrease in real incomes will lead to a decrease in consumption, leading to a fall in aggregate demand (1) OR • Firms' production costs will decrease, leading to an increase in (SR)AS. (1)	(4)