PEARSON EDEXCEL A-LEVEL ECONOMICS B · 9EB0

ECONOMICS



MARK SCHEME

2.5 THE ECONOMIC CYCLE

NATIONAL INCOME

SCORE	PERCENTAGE
/370	%

STEMUP

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Mark Scheme

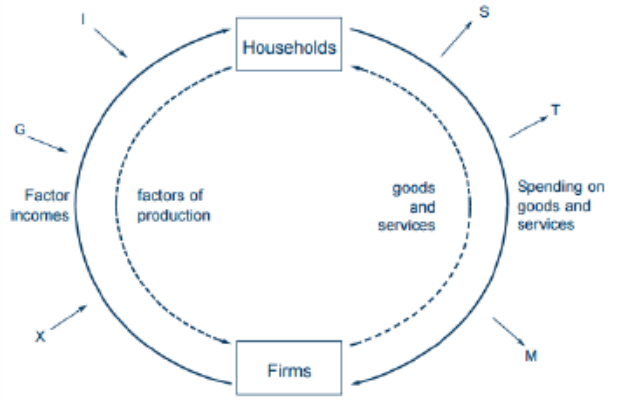
Q1.

Question Number	Answer	Mark
	Knowledge 1, Application 2 **Knowledge** 1 mark for correct multiplier formula, e.g. • Multiplier = 1 / (1-MPC) (1) **Application** 2 marks for use of data in calculation, e.g. • Multiplier = 1 / 0.5 = 2 (1) • £15 billion x 2 = £30 billion (1) If answer given is £30 billion, award 3 marks.	**(3)**

Question Number	Answer	Mark
	D	**(1)**

Q2.

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)**

Q3.

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

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

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

Q4.

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

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

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Understanding of contestability - low barriers to exit (sunk costs) and entry • Examples of exit barriers and entry barriers in the context of coffee bean farmers and coffee shops • Coffee beans - large number of coffee farmers suggesting low barriers to exit and entry. High threat of potential competition suggesting that the market is contestable • Coffee shop market - dominated by three large chains suggesting low contestability • Sunk costs for coffee shops include - heavy advertising; strong global brand names. These limit the threat of potential competition so making the market less contestable.	**(8)**

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

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Coffee bean producers - contestability limited because coffee beans can only be grown in certain climates; long growing period • Coffee shops - fairly contestable because; many small independent coffee shops; low start-up costs; few sunk costs: shops and equipment can be leased or rented; skills required relatively low.	**(4)**

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

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8,** **Evaluation 9** Microeconomic effects: • fluctuating revenues for farmers • uncertainty - difficult for producers to plan investment and output • implications for how the farmer uses his land. Macroeconomic effects: • fluctuating export revenues • fluctuations in the country's balance of payments on current account • could be reflected in fluctuations in the country's GDP • implications for the country's economic development • resources might not be allocated efficiently.	

	Possible evaluation points include: • uncertainty can be reduced by forward purchases of • coffee beans at set prices • much depends on whether there is a long run upward or • downward trend in prices of coffee prices • impact on individual coffee producing countries will depend on the significance of coffee to the country' economy • degree of price fluctuation depends on price elasticities of demand and supply • price fluctuations might act as an incentive for countries to diversify and/or develop manufacturing and tertiary industries • possibility of government intervention to stabilise farmers' incomes e.g. through the introduction of a buffer stock scheme.	**(25)**

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

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

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects: • understanding of the impact of depreciation of the *real:* • Brazilian exports will be cheaper abroad, leading to higher demand while imports into Brazil will be more expensive resulting in a decrease in demand • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Brazilian exporters of manufactured goods. Macroeconomic effects: Brazil's currency depreciated by 20% in 2013 • this should increase the competitiveness of its goods and services and lead to an improvement in the current account of the balance of payments • this could lead to an increase in employment • cost push inflation • there is an increase in the real burden of foreign debt.	

	Possible evaluation points include: • 20% depreciation is significant but much depends on whether this is sustained in the medium term • impact on individual Brazilian producers depends on their reliance on imports and/or exports • inflation is a problem so any competitive advantage may be lost quickly. (Depreciation raises the cost of imported raw materials and goods) • impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • Also: short run and long run effect on the current account may be analysed using the J curve effect.	**(25)**

Knowledge, application and analysis		
Level	Marks	Descriptor
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Evaluation		
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	0	No evaluative comments.
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Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q5.

Question Number		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.
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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 $C0_2$ 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)**

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.
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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.

Q6.

Question Number	Answer	Mark
(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding:** • CPI is a weighted average (1) **Application:** • Contribution from food items = 2.5 x 0.318 (1) = 0.795 • Contribution from non-food items = 1.2 x 0.682 (1) = 0.818 **Analysis:** • 0.795 + 0.818 (1) = 1.6% (1) NB Accept 1.6% to 2%.	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of 2 factors (1+1) **Analysis:** 2 marks for linked explanation of how these two factors contribute to disinflation (1+1), e.g. • Fall in global commodity prices (e.g. oil) (K1) reduce firms' production costs (An1) • Fall in demand for Chinese exports due to weak growth in other economies (K1) reduces demand-pull inflationary pressures (An1) • Fall in domestic demand for Chinese goods and services due to falling consumer confidence (K1) reduces demand-pull inflationary pressure (An1) • Over-capacity in China (K1) means that aggregate demand can increase without increasing inflationary pressures (An1) **Application:** 2 marks for reference to the data (1+1), e.g. • Reference to Figure 2 to show disinflation • 'The drop in global energy costs is feeding through to weaker inflation everywhere' • 'long history of excessive development across industries' **Evaluation:** 2 marks for identification and linked development of one evaluative comment, e.g. • Use of Figure 1 to question the extent of the disinflation • Extract describes the overcapacity as 'severe' and says that $6.8 trillion has been squandered since 2009 on 'ineffective investment' • Some overseas economies are recovering, e.g. USA, UK, implying demand for exports may not continue to be weak.	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2** Understanding of investment. Possible effects include: • Investment is a component of aggregate demand, so aggregate demand should increase, leading to an increase in real GDP • Positive multiplier effect • Investment increases the economy's productive capacity, leading to an outward shift of the PPF / LRAS curve, so increasing real GDP • Analysis may include an AD/AS diagram showing an increase in AD and/or AS.	**(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
(c) Continued	**Evaluation 4** Possible evaluative comments include: • Comment as to the extent /significance of the investment • Much of the investment has been 'ineffective', implying it may create short term growth only • Much of the investment has been financed by borrowing; this may endanger future economic growth • Reduced importance of some of the other components of aggregate demand meant that investment was a particularly important driver of economic growth.	**(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** Candidates may analyse the benefits in their answer, and the costs as evaluation (or vice versa), or may analyse the benefits in their answer, and consider the significance of their arguments as evaluation. Understanding of a devaluation of the currency Possible benefits include: • It should increase demand-pull and cost-push inflationary pressures, reducing the possibility of a deflationary spiral (and the costs of this) • Devaluing the currency would increase the international price competitiveness of Chinese goods and services, improving the trade balance and boosting aggregate demand • This would increase employment and improve the government budget balance • It would help to use up the spare capacity in the economy • Interest rate has already been cut - if that isn't effective this may be necessary • A competitive devaluation may be necessary if a currency war breaks out NB No credit for references to effects on investment.	**(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** Possible costs include: • Experts say that deflation is unlikely in China - growth is still at 7% per annum • A devaluation of the renminbi would raise the price of imports for consumers (lower consumer surplus) • A devaluation of the renminbi would raise the cost of imported raw materials and components for Chinese firms who are already dealing with falling domestic and overseas demand • May spark a currency war/lead to retaliation • If the Marshall-Lerner condition is not satisfied in the long run, then the trade balance may not improve • The trade balance may worsen in the short run due to a 'J-curve' effect • Rising wages may limit the effects of a devaluation General evaluative points: • Effects depend on the size of the devaluation • Effects depend on how long the devaluation is maintained for • Effects depend on the actions of other countries • May lead to action from the WTO • Prioritisation of factors.	**(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** Understanding of tariffs. Possible effects include: • Fewer exports of telecommunications equipment sold into the EU • Slow-down in the telecommunications sector in China • Slower increases in Chinese aggregate demand and growth • Increased prices of telecommunications equipment in the EU • Reduction in consumer surplus • Increase in EU producer surplus • Tariff revenue for EU governments • Net decrease in welfare in the EU • May include diagrammatic analysis of tariff • Effects on EU and Chinese trade balances • Growth in EU telecommunications sector, leading to increased employment and positive multiplier effects.	**(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.
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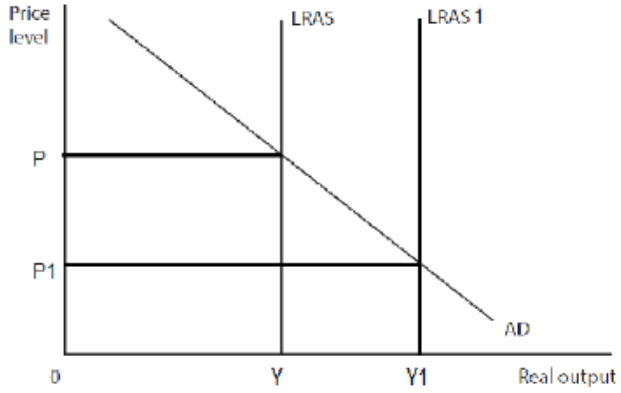
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Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** Possible evaluative comments include: • Comment on magnitude of tariffs - 'harsh' implies they will be large or have a significant effect • Telecommunications is only one industry within both China and the EU, so any aggregate effects may be small • Effects depend on the price elasticity of demand and supply in the EU for telecommunications equipment • Tariff revenue is a very small proportion of overall tax revenue for EU governments, implying any effects on fiscal balances are likely to be insignificant • Tariffs may be ruled illegal by the WTO • China may retaliate to the tariffs.	**(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.

Q7.

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

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

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

Q8.

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

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

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

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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 gas in relation to solar and nuclear energy • recognition that there will be a time lag before any impact on market for other forms of energy because supply very price inelastic • investors will want to be certain that change in relative prices is long term • impact may be limited due to the rising demand for global energy	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. 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 effects: • on price of gas to consumers – impact on consumers' surplus • on price of gas to producers – impact on producers' surplus • implications for producers of other forms of energy • external costs – on environment and water supply Macroeconomic effects: • on investment – multiplier effect on GDP so promoting economic growth • on employment – an estimate that 35 000 jobs will be created • balance of payments on current account e.g. competitiveness may increase if fracking results in lower energy prices leading to an improvement in exports. Also, less need to import energy from abroad • rate of inflation may fall – lower energy prices Possible evaluation points include: • Impact on price of energy may be less significant than in the USA • Impact on other forms of energy – much will depend on how much gas is obtained from fracking • Difficult to forecast the magnitude of external costs or to place a monetary value on them • Impact on macroeconomic variables (growth, employment, balance of payments) dependent on amount of gas found, the price at which it sells, changes in prices of other forms of energy	**(25)**

Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. 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** Microeconomic effects: • impact on revenues and profits of energy companies • impact on investment decisions by firms in the energy market • impact on wages of workers in energy industries • impact on consumer real incomes and on demand for other goods and services. Macroeconomic effects: • lower costs of production • lower global rates of inflation (AD/AS analysis) • impact on global growth rates • impact on balance of payments on current account of different countries • increase in CO_2 emissions: consideration of impact on climate change on different countries, reference to external costs • impact on consumers and producers of the main countries supplying energy.	
	Possible evaluation points include: • impact on different industries will depend on their energy costs as a proportion of total costs • impact on households will depend on cost of energy 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 energy • impact on external costs depends on how different energy sources are affected	**(25)**

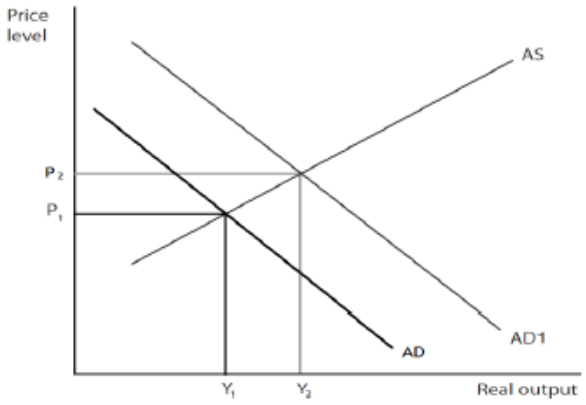
Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding 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.

Q9.

Question Number	Answer	Mark
(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • The value/price of one currency in terms of another (1) • The rate at which the money of one country can be changed for the money of another country (1)	**(1)**

Question Number	Answer	Mark
(b)	**The only correct answer is B** **A** is not correct because this is the difference between $1.53 and $1.22 **C** is not correct because this uses the present year to calculate the percentage change **D** is not correct because this is the calculation of an index number taking 2015 as the base year	**(1)**

Question Number	Answer	Mark
(c)	**Application 2** **Application:** 2 marks for, • Correct rightward shift of AD (1) • Correct new equilibrium point showing higher price level and higher real output (1)  	**(2)**

Q10.

Question Number	Answer	Mark
(a)	**Knowledge 2** **Knowledge/understanding**: 1 mark for identifying one reason; 1 mark for linked development, e.g. • The decrease in the mps reflects a rise in the marginal propensity to consume (1) due to rising consumer confidence (1) • Decrease in mps due to rise in marginal propensity to tax (1) to reduce the budget deficit. (1) • Low interest rates (1) reducing the incentive to save/lower rate of return (1)	**(2)**

Question Number	Answer	Mark
(b)	**Knowledge 2** **Knowledge/understanding**: 1 mark for identifying the effect on the value of the multiplier; 1 mark for the linked development on the size of the multiplier, e.g. • The value of the multiplier is likely to increase (1), due a decrease in withdrawals (1).	**(2)**

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

Q11.

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.

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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)**

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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.

Q12.

Question Number	Answer	Mark
(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Injection is money flowing into the circular flow of income/economy (1) • Comprises of investment, government spending and exports (1) • Injection in this context is government spending / investment (1)	**(1)**

Question Number	Answer	Mark
(b)	**Application 2** **Application:** 1 mark for appropriate calculation, e.g. £44.1bn : £9.3bn (1) Answer = 4.7 or 4.74 Award 2 marks for correct answer Accept between 4.7 and 4.75	**(2)**

Question Number	Answer	Mark
(c)	**The only correct answer is D** **A** is not correct because a decrease in the marginal propensity to save will increase value of the multiplier **B** is not correct because a decrease in the marginal propensity to tax will increase value of the multiplier **C** is not correct because an increase in the marginal propensity to consume will increase the value of the multiplier	**(1)**

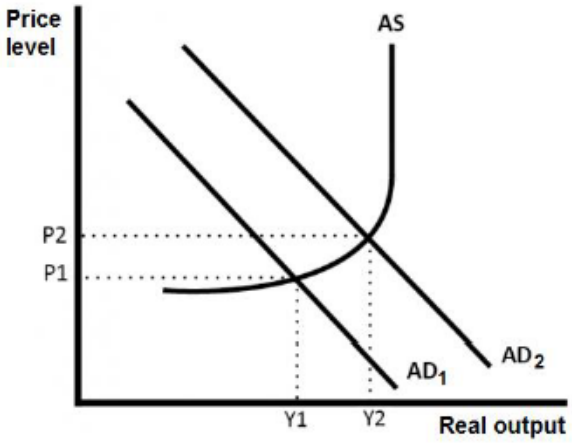
Q13.

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)**

Q14.

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 *employment and unemployment* 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.

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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 *government* policies to access Level 3 or above.** **NB Answer must be linked to *employment* 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.

Q15.

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

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

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

Q16.

Question Number	Answer	Mark
(a)	**Application 3, Analysis 1** Multiplier formula= 1 / (1 – MPC) (1) = 1 / (1 –0.64) OR = 1 /0.36 (1) Value of the multiplier = 2.7 recurring OR 2.8 (1) 2.7 recurring X £20m (1) = **£55.6m** **Award full marks for correct answer** **Award up to 3 marks if no correct answer** **NB Allow range (-)£55m to (-)£56m** **NB 3 marks if million missing**	**(4)**

Question Number	Answer	Mark
(b)	**The only correct answer is B** ***A*** *is not correct because imports are a withdrawal from the circular flow* ***C*** *is not correct because savings are a withdrawal from the circular flow* ***D*** *is not correct because taxation is a withdrawal from the circular flow*	**(1)**

Q17.

Question Number	Answer	Mark
(a)	**The only correct answer is C** ***A*** *is not correct because it is £115m divided by 1.8* ***B*** *is not correct because it is the value from the extract* ***D*** *is not correct because it is £115m doubled*	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/Understanding:** Up to 2 marks for e.g. • Multiplier effect is where an initial change in aggregate demand can have a greater final impact on equilibrium national income (1) • Injection of money from investment goes round the circular flow multiple times/knock-on effects/further effects (1) • Understanding of a multiplier formula (1) **Application:** Up to 1 mark for a relevant example e.g. • Construction workers will eat lunch in local cafes • Construction workers will stay in local hotels • New shops means more jobs for local people, they may then spend their money in a local bar • £115m investment • Multiplier value of 1.8 • Final increase in AD of £207m **Analysis:** Up to 1 mark for e.g. • One person's spending is another person's income • Eventually all money is withdrawn/leaked out of the circular flow of income A correct AD/AS diagram showing two shifts in AD out to the right can be awarded 2 marks (1 K, 1App)	**(4)**