

PEARSON EDEXCEL A-LEVEL ECONOMICS B • 9EB0

ECONOMICS



EXAM QUESTION PACK

2.5 THE ECONOMIC CYCLE
NATIONAL INCOME

SCORE

/370

PERCENTAGE

%

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Questions

Q1.

In 2014 the Bank of England estimated the marginal propensity to consume of UK consumers to be 0.5.

In 2014 the Chancellor of the Exchequer announced a £15 billion investment programme into UK road infrastructure.

(Sources: <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q405.pdf> and <https://www.gov.uk/government/news/autumn-statement-2014-16-things-you-should-know>)

(a) Using the information above, calculate the total increase in national income, resulting from the £15 billion investment.

(3)

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(b) Which **one** of the following is most likely to cause a rightward shift in the aggregate supply curve?

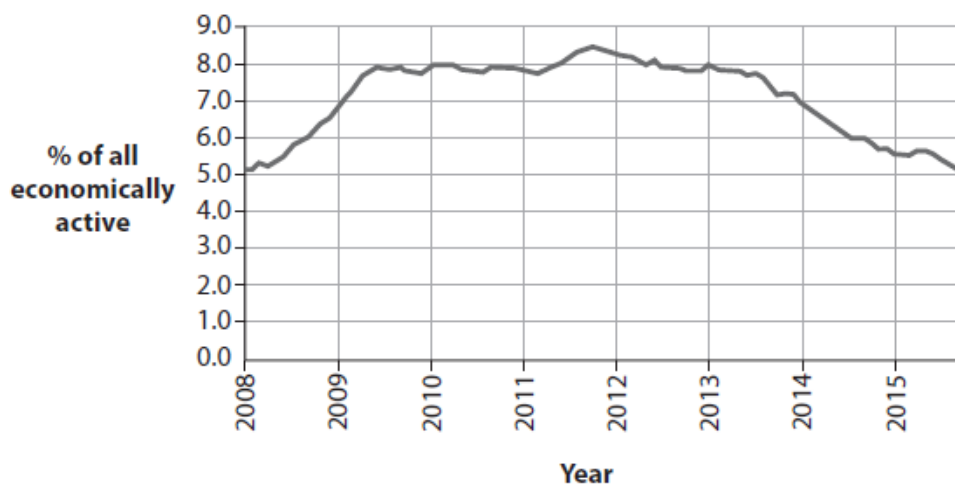
(1)

- ☐ **A** A decrease in real output
- ☐ **B** A rise in price level
- ☐ **C** A fall in price level
- ☐ **D** An increase in productivity

(Total for question = 4 marks)

Q2.

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/december-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.

(4)

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(Total for question = 5 marks)

Q3.

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 ☐.

After the Global Financial Crisis of 2008, the US President introduced expansionary fiscal policies of \$800 billion. The International Monetary Fund estimated that the multiplier at the time was approximately 1.5.

(Source adapted from: <https://www.economist.com/the-economist-explains/2016/09/07/what-is-the-keynesian-multiplier>)

(a) Which **one** of the following is a withdrawal from the circular flow of income?

(1)

- ☐ **A** Exports
- ☐ **B** Government spending
- ☐ **C** Investment
- ☐ **D** Taxation

(b) Calculate the total final increase in US aggregate demand as a result of the President's 'expansionary fiscal policies', assuming no other changes.

(2)

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(c) Explain the impact of annual fiscal deficits on the US national debt.

(2)

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(Total for question = 5 marks)

Q4.

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

(5)

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

(8)

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

(12)

EITHER

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

(25)

OR

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

(25)

(Total for question = 50 marks)

Q5.

(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)

Q6.

(a) With reference to Figure 1, calculate the annual CPI inflation rate for China in October 2014.

(5)

(b) With reference to Figure 2 and Extract A, examine **two** factors that may have caused disinflation in China in 2014.

(8)

(c) Assess the likely effects of investment in China on Chinese real GDP since 2009.

(10)

(d) **Apart from its effects on investment**, discuss the likely benefits to the Chinese economy of the Government devaluing the currency.

(12)

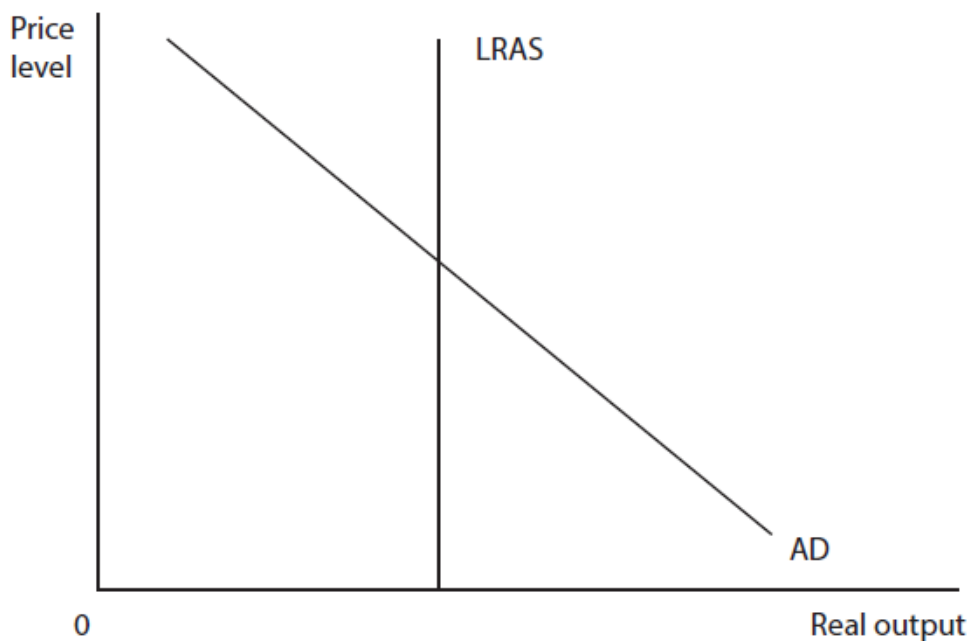
(e) Discuss the likely economic effects of 'the European Commission applying high tariffs on Chinese mobile equipment entering the EU' (Extract C, lines 5-6).

(15)

Q7.

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

The diagram below shows the aggregate demand (AD) and a possible long-run aggregate supply (LRAS) for the UK.



(a) Define the term 'price level'. (1)

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(b) Annotate the diagram above to show the likely impact of government policy to promote business competition on the equilibrium level of real output and price level. (2)

(c) Which **one** of the following is an interventionist supply-side policy? (1)

- ☒ **A** An improvement in infrastructure

- ☐ **B** An increase in indirect taxation
- ☐ **C** An increase in interest rates
- ☐ **D** An increase in the regulation of markets

(Total for question = 4 marks)

Q8.

(a) With reference to Figure 1, explain **one** possible cause of the forecast change in total energy use.

(5)

(b) With reference to Figure 4, examine the likely impact on the USA's circular flow of income of the trends in exports and imports of natural gas between 2000 and 2020.

(8)

(c) With reference to the information provided, discuss the likely impact of a change in the price of gas on the markets for solar energy and nuclear energy.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the possible microeconomic and macroeconomic effects on the UK economy of a decision by the government to encourage fracking.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the possible microeconomic and macroeconomic effects on the global economy of lower energy prices.

(25)

(Total for question = 50 marks)

Q9.

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 UK exchange rate changed from £1 = \$1.53 in January 2015 to £1 = \$1.22 in October 2019.

(a) Define the term 'exchange rate'.

(1)

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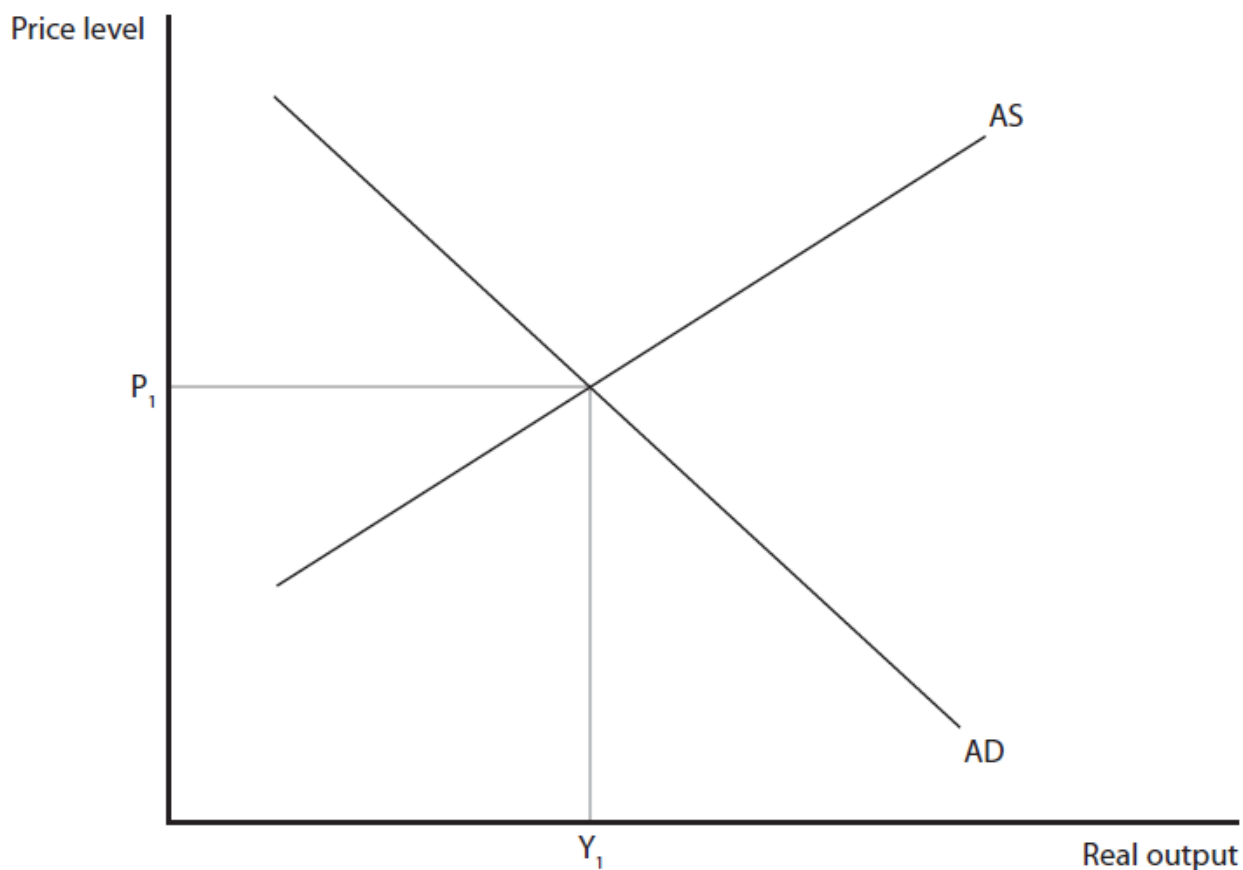
(b) Which **one** of the following represents the percentage change in the £ sterling and US\$ exchange rate?

(1)

- ☐ **A** 0.31%
- ☐ **B** 20.26%
- ☐ **C** 25.41%
- ☐ **D** 79.74%

(c) Annotate the aggregate demand (AD) and aggregate supply (AS) diagram below to show the likely impact of an improvement in net trade on the equilibrium level of real output and the price level.

(2)



(Total for question = 4 marks)

Q10.

The table below shows marginal propensity to save data for an economy.

Year	Marginal propensity to save (mps)
2010	0.11
2011	0.09
2012	0.07
2013	0.05
2014	0.05
2015	0.04

(a) Explain **one** possible reason for the changes in the marginal propensity to save as shown in the table.

(2)

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(b) Explain the likely effect of a fall in the marginal propensity to save on the value of the multiplier if other things remain equal.

(2)

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An economy has marginal propensity to save of 0.1, marginal propensity to tax of 0.2 and marginal propensity to import of 0.1.

(c) Which **one** of the following is the correct size of the multiplier?

(1)

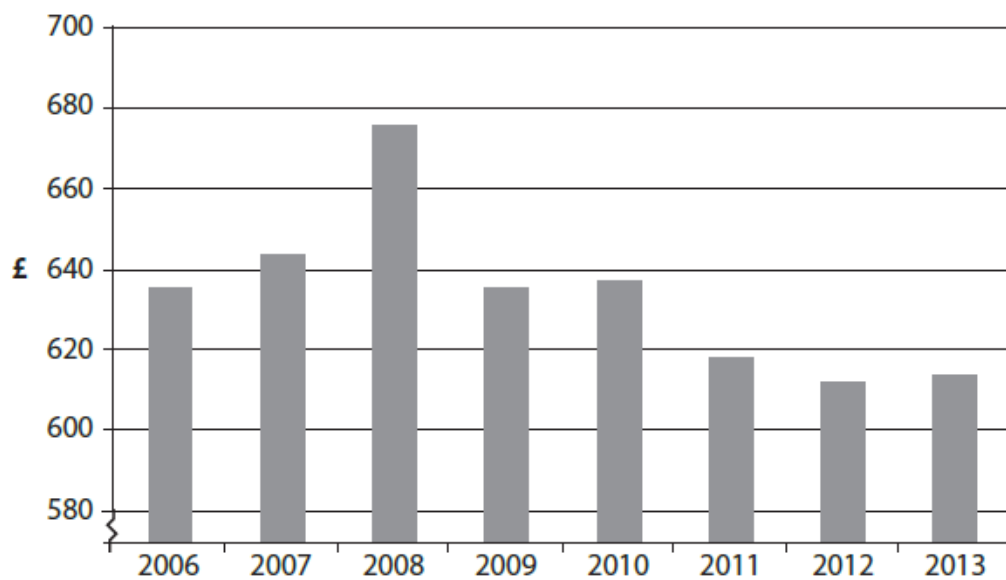
- ☐ **A** 0.4
- ☐ **B** 0.6
- ☐ **C** 1.7
- ☐ **D** 2.5

(Total for question = 5 marks)

Q11.

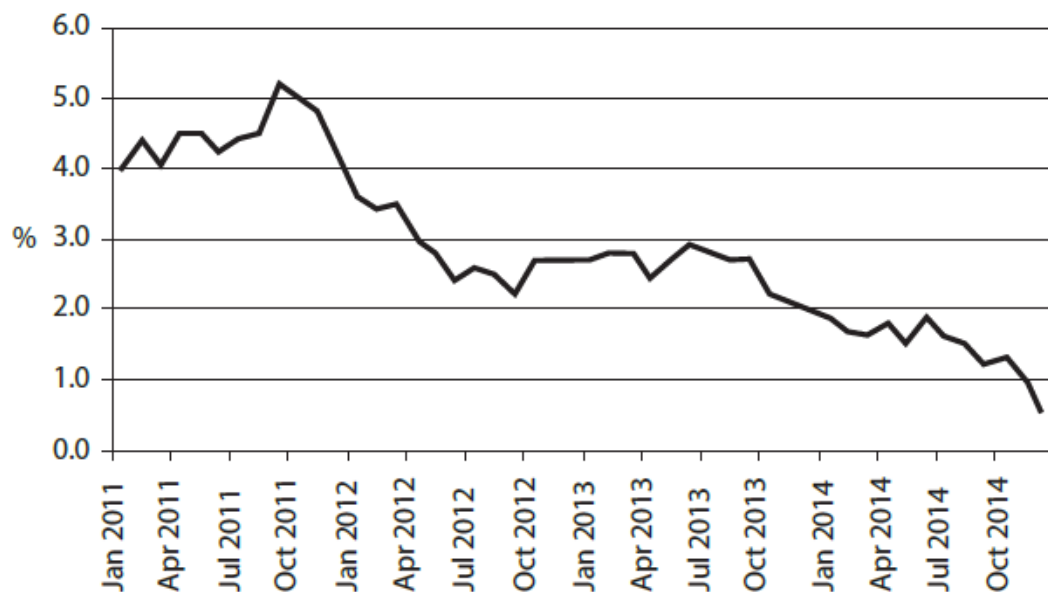
UK incomes, inflation and monetary policy

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)

Q12.

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

It is estimated that building a second runway at Gatwick airport will require an investment of £9.3 billion.

The total increase in UK GDP as a result of this injection is expected to be around £44.1 billion.

(Source: adapted from www.gov.uk/government/uploads/system/uploads/attachment_data/file/452267/AC01_tagged_amend_25_11.pdf © Crown Copyright)

(a) Define the term 'injection' in this context. (1)

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(b) Calculate the value of the multiplier based on the data given. You are advised to show your working.

(2)

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(c) Which **one** of the following is a likely cause of a decrease in the value of the UK's multiplier?

(1)

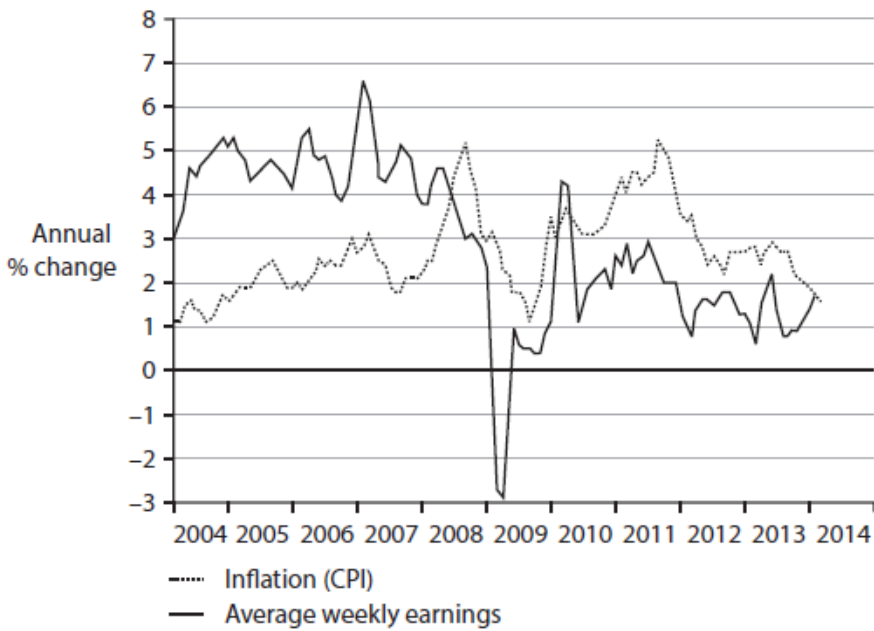
- ☐ **A** A decrease in the marginal propensity to save
- ☐ **B** A decrease in the marginal propensity to tax
- ☐ **C** An increase in the marginal propensity to consume
- ☐ **D** An increase in the marginal propensity to import

(Total for question = 4 marks)

Q13.

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)

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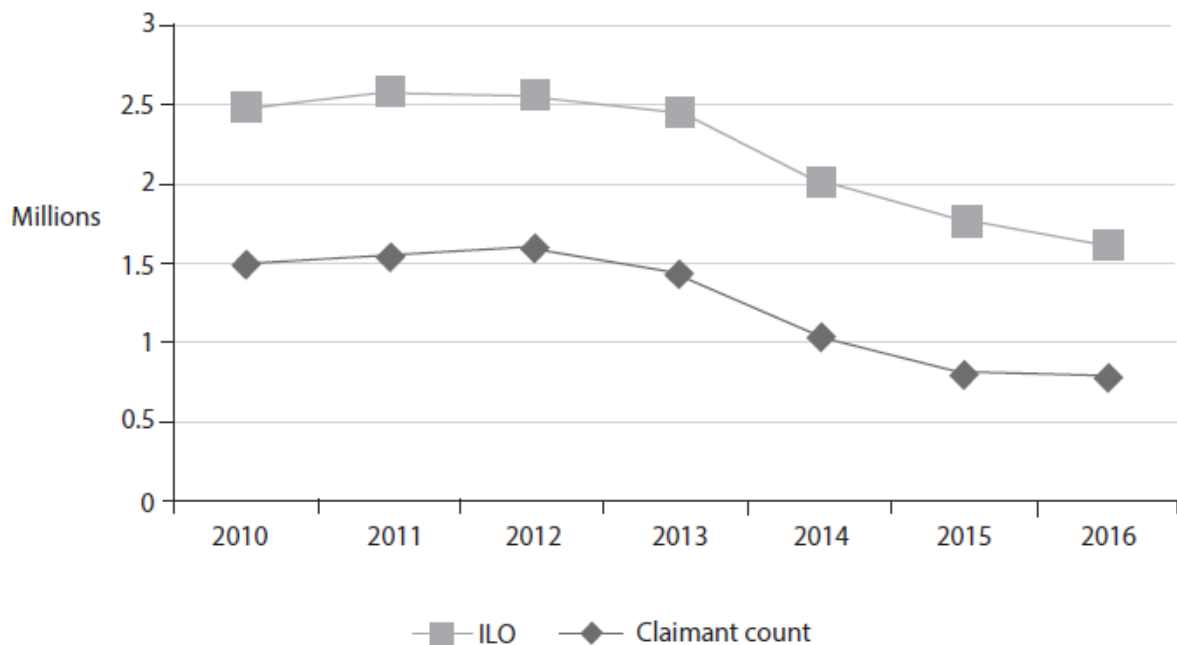
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(Total for question = 5 marks)

Q14.

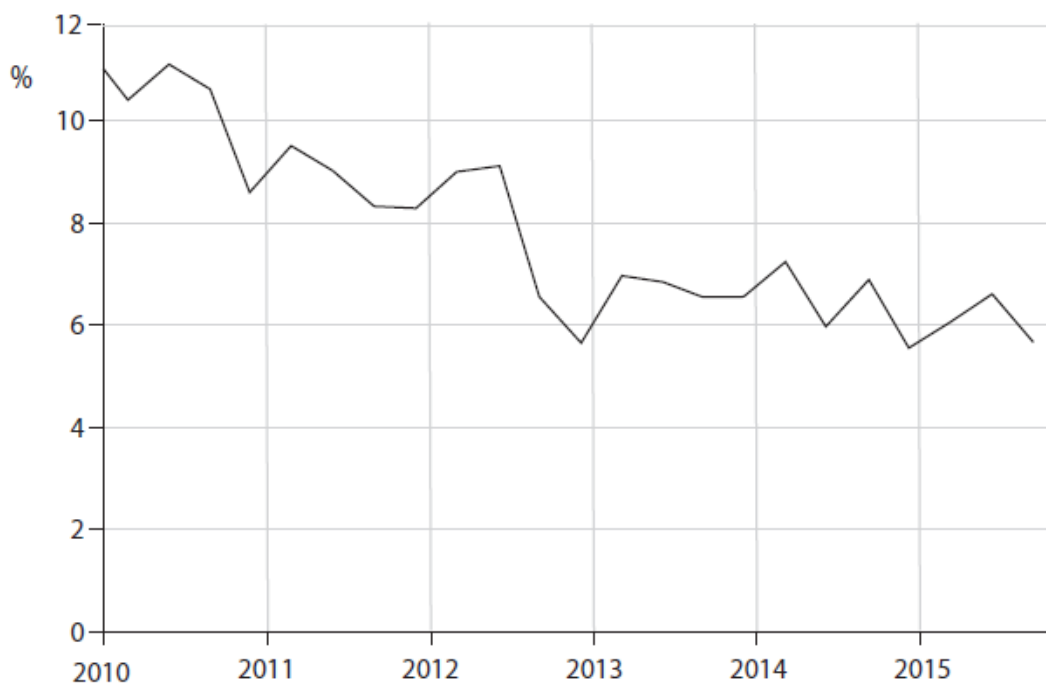
The UK economy

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



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

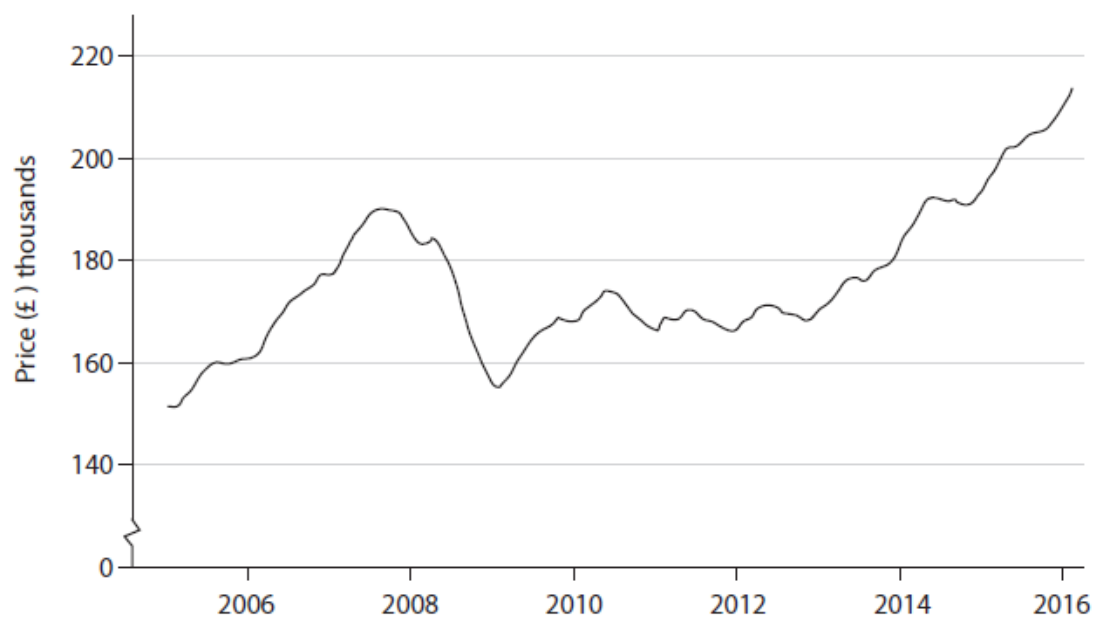
Figure 2: Household savings*, 2010-2015



* 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)

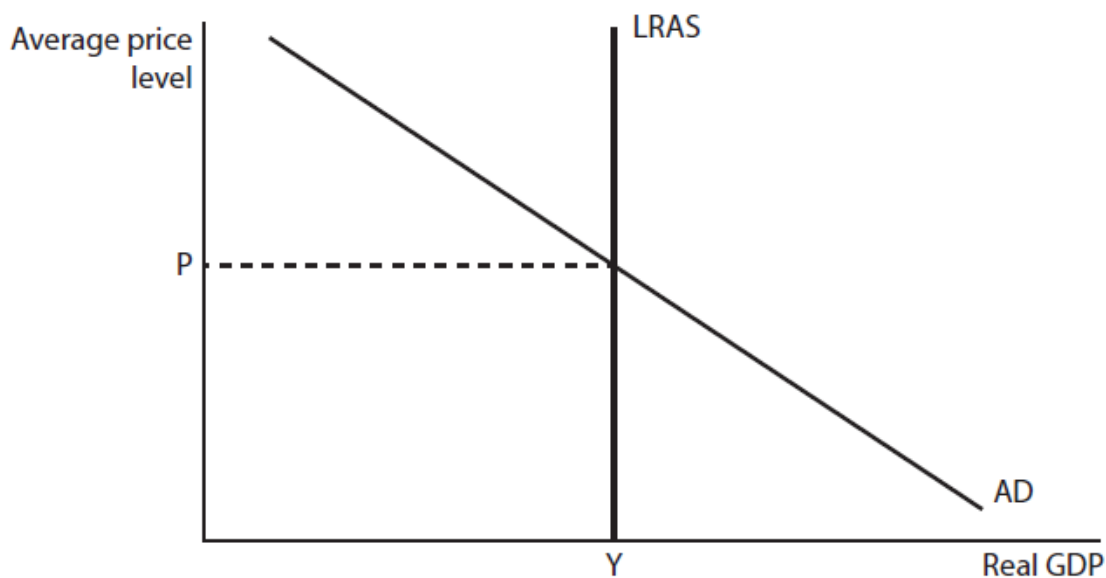
Q15.

- (a) Define the term 'productivity'. (1)

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- (b) Using a classic long-run AS curve, annotate the diagram below to show the effect of an increase in productivity on the equilibrium level of real national output and the average price level of the economy. (2)



(c) Which **one** of the following statements is correct?

(1)

- A** The Keynesian long-run AS curve implies that an economy may have a negative output gap in the long run
- B** The Keynesian long-run AS curve is perfectly inelastic at all levels of real national output
- C** The classic long-run AS curve implies that an economy may have spare capacity in the long run
- D** The classical long-run AS curve is perfectly elastic at all levels of real national output

Answer

☐

(Total for question = 4 marks)

Q16.

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.

According to the Bank of England, the UK's marginal propensity to consume is estimated to be 0.64.

(a) Using the information above, calculate the total reduction in the UK's GDP from a fall in government spending of £20 million.

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(b) Which **one** of the following is an injection into the circular flow of income?

(1)

- ☐ **A** Imports
- ☐ **B** Investment
- ☐ **C** Savings
- ☐ **D** Taxation

(Total for question = 5 marks)

Q17.

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 planned investment in the redevelopment of Dover Port will cost £115 million. The Chief Executive said it will lead to many 'new job opportunities for local people and a transformed waterfront experience' with new cafés, bars, and shops.

(Source adapted from: <https://www.kentonline.co.uk/dover/news/docklands-redevelopment-work-to-start-118581/>)

(a) If the value of the multiplier is 1.8, which one of the following will be the total increase in GDP from the

redevelopment, assuming other things are equal?

(1)

- ☐ **A** £64 million
- ☐ **B** £115 million
- ☐ **C** £207 million
- ☐ **D** £230 million

(b) Using the example above, explain how the multiplier process leads to an increase in aggregate demand.

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(Total for question = 5 marks)

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 $\times 2 =$ £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's economy - degree of price fluctuation depends on price elasticities of demand and supply - price fluctuations might act as an incentive for countries to diversify and/or develop manufacturing and tertiary industries - possibility of government intervention to stabilise farmers' incomes e.g. through the introduction of a buffer stock scheme.	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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

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

	Possible evaluation points include: • 20% depreciation is significant but much depends on whether this is sustained in the medium term • impact on individual Brazilian producers depends on their reliance on imports and/or exports • inflation is a problem so any competitive advantage may be lost quickly. (Depreciation raises the cost of imported raw materials and goods) • impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • Also: short run and long run effect on the current account may be analysed using the J curve effect.	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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

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.
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.

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 = 2.5×0.318 (1) = 0.795 • Contribution from non-food items = 1.2×0.682 (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)

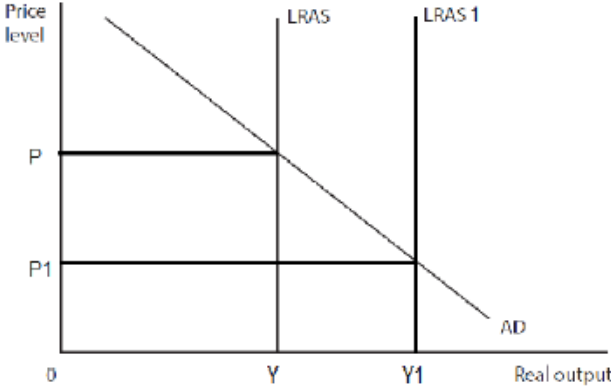
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes 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.
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 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 CO₂ 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)
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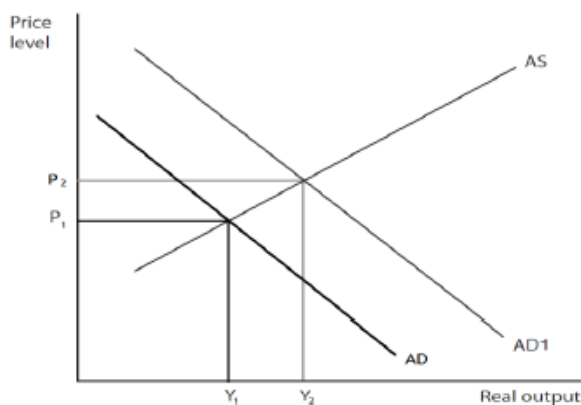
Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding 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.

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.

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.

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)

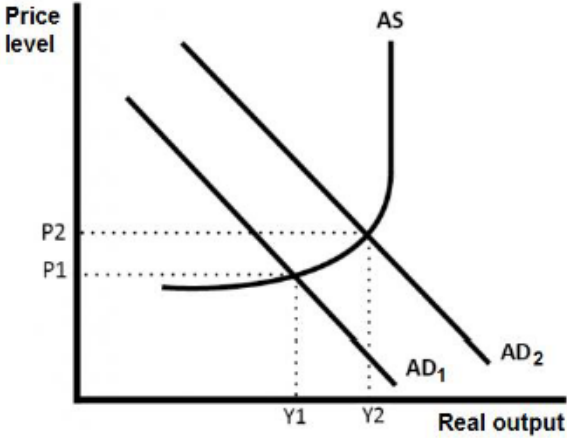
Q13.

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 <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.

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 <i>A is not correct because it is £115m divided by 1.8</i> <i>B is not correct because it is the value from the extract</i> <i>D is not correct because it is £115m doubled</i>	(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)