

# ECONOMICS



**EXAM QUESTION PACK**

## 2.6 INTRODUCTION TO MACROECONOMIC POLICY

**SCORE**

**/1034**

**PERCENTAGE**

**%**

**STEMUP**

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## **Questions**

Q1.

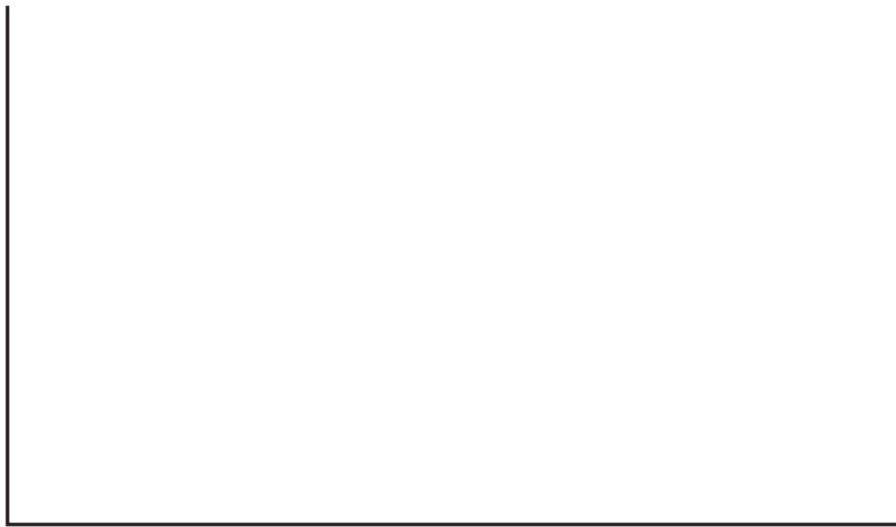
**Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.**

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

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

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

**(4)**



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

**(1)**

An increase in:

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

**(Total for question = 5 marks)**

Q2.

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

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

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

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

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

(4)

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

(1)

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

(Total for question = 5 marks)

Q3.

**Chile**

**Figure 1: Copper prices, US dollars per tonne, 2007-2015**

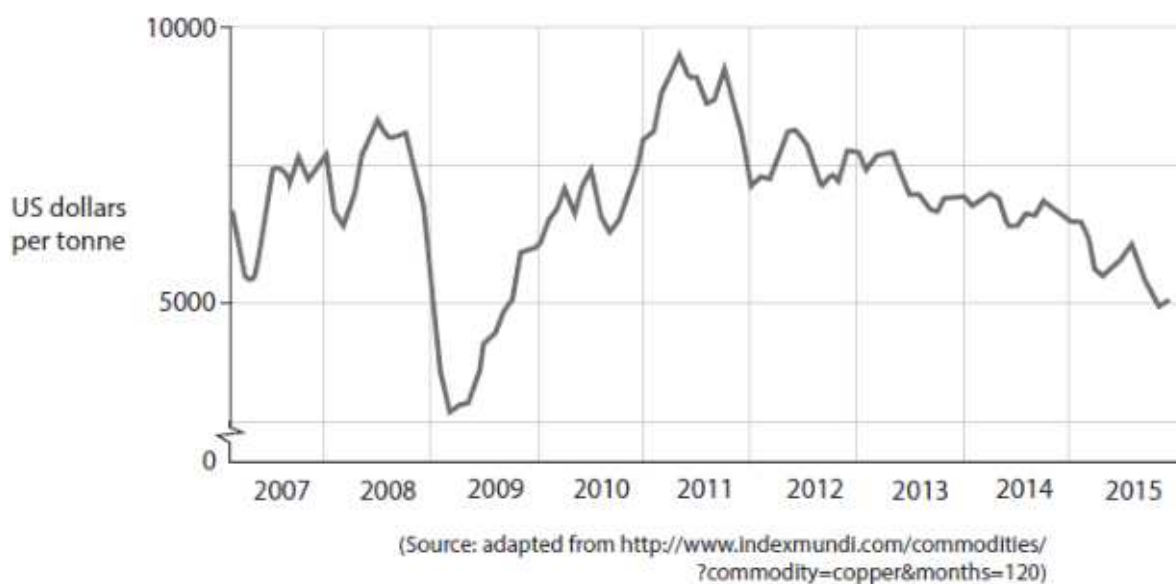
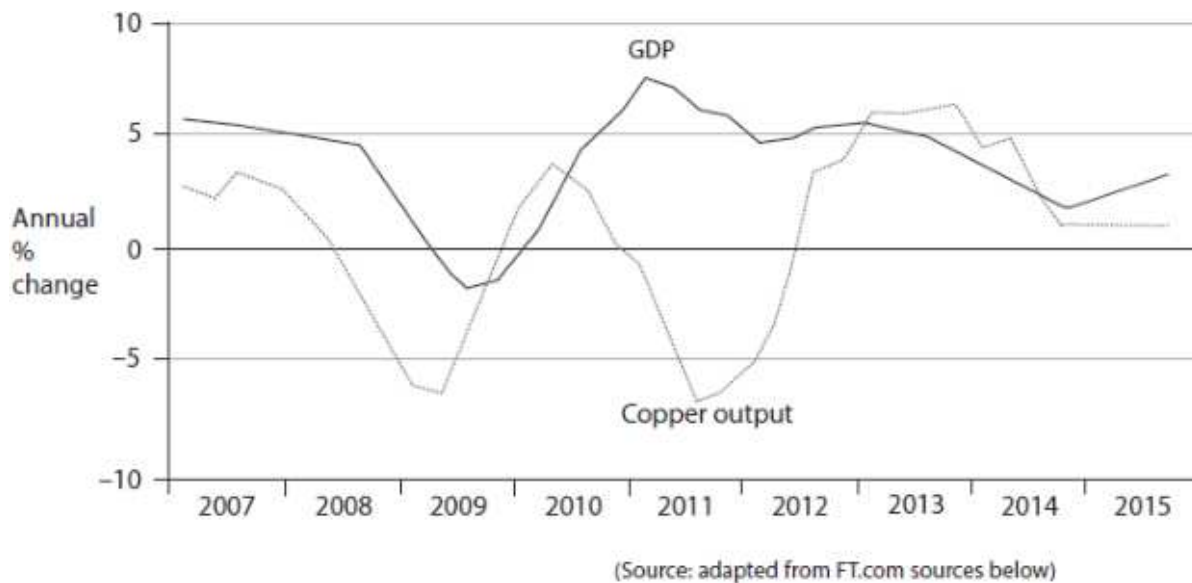


**Figure 2: US dollar per 100 Chile pesos exchange rate, 2007-2015**



**Figure 3: Chile: copper output and real GDP growth, 2007-2015**



## Extract A

### Chile's economic outlook brightens

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached \$11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices.                                                                                      | 5        |
| Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP.                                                                                                                                                                          | 10<br>15 |
| Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies. | 20       |
| However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence.                             | 25<br>30 |
| Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential.                                                                                                                | 35       |

(Sources: adapted from <http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de.html#axzz3pCnzT3PC> FT 20 April 2015 and <http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC> FT 19 October 2015 and <http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC> FT 19 October 2015 all by Benedict Mander)

## Extract B

### Chile's copper mining on a downward track

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia.                                                                              | 5  |
| By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns \$70 000 a year, \$10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive. | 10 |
| Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production.                                                                                                                                                                                                                                                                                                                                  | 15 |
| Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly.                                                                                                                                                                          | 20 |
| Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days.                                                                                                                                                                                                                                                                                                                         | 25 |

(Source: adapted from <http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20if45k> Gideon Long September 27, 2015)

(a) With reference to Figure 2, explain **one** likely reason for the change in the Chile peso exchange rate between 2013 and 2015.

(5)

(b) Examine the likely impact of externalities of copper mining on firms and communities within Chile.

(8)

(c) Apart from externalities, discuss the problems that Chile faces as a result of dependency on copper mining.

(12)

## **EITHER**

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of policies that could be used to stimulate economic growth and development in Chile.

(25)

## **OR**

(e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic impact on Chile's economy of changes in the level of investment.

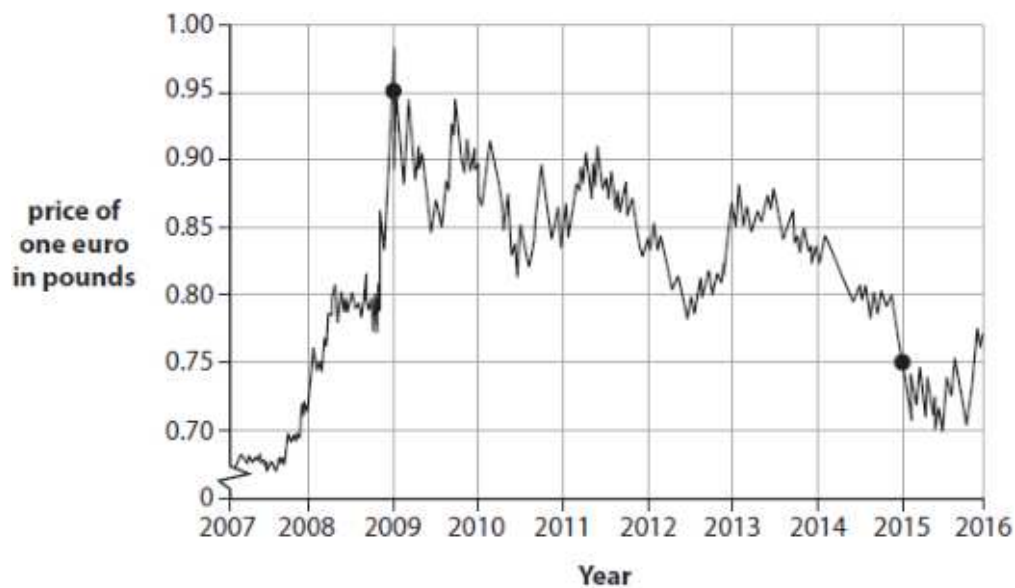
(25)

(Total for question = 50 marks)

Q4.

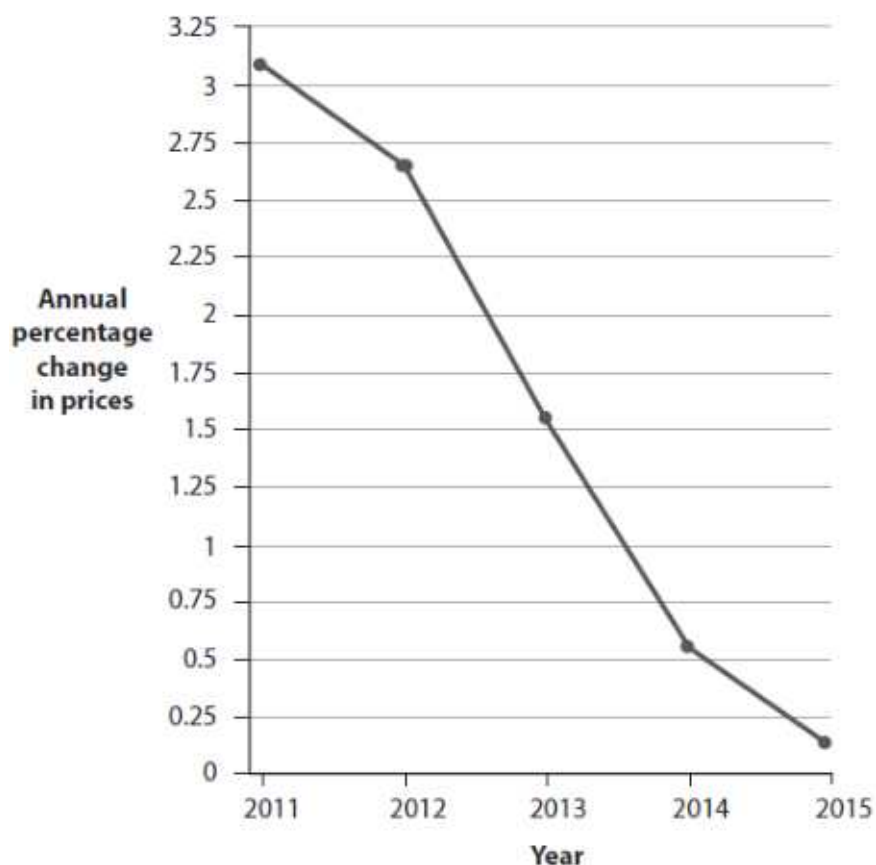
### The Eurozone economy

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



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

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



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

## Extract A

### European Central Bank disappoints markets with weaker than expected stimulus

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

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

5

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

10

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

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

15

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

20

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

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

(5)

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

(8)

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

(10)

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

(12)

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

(15)

**(Total for question = 50 marks)**

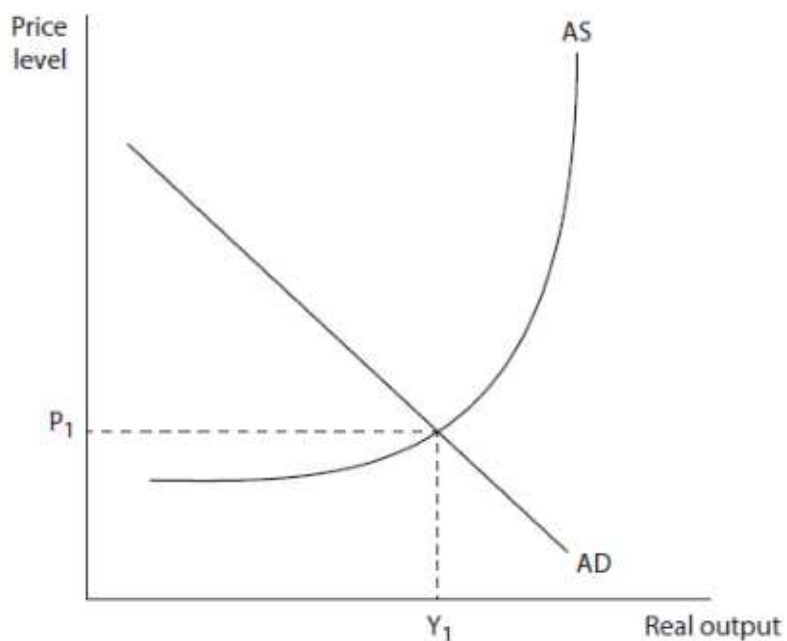
Q5.

The Chancellor announced in the 2015 Budget that the personal allowance (the annual income that can be earned before starting to pay income tax) would increase from £10 600 to £11 000 in April 2016. This means most consumers will pay less income tax.

(Source: adapted from <http://www.telegraph.co.uk/finance/personalfinance/how-budget-affect-me/11721785/Budget-2015-what-to-expect-for-income-tax-and-the-personal-allowance.html>)

(a) Annotate the aggregate demand and aggregate supply diagram below to show the likely impact of the increase in the personal allowance on the UK's price level and real output.

(2)



(b) Define the term 'direct tax'.

(1)

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(c) Which **one** of the following is an example of a direct tax?

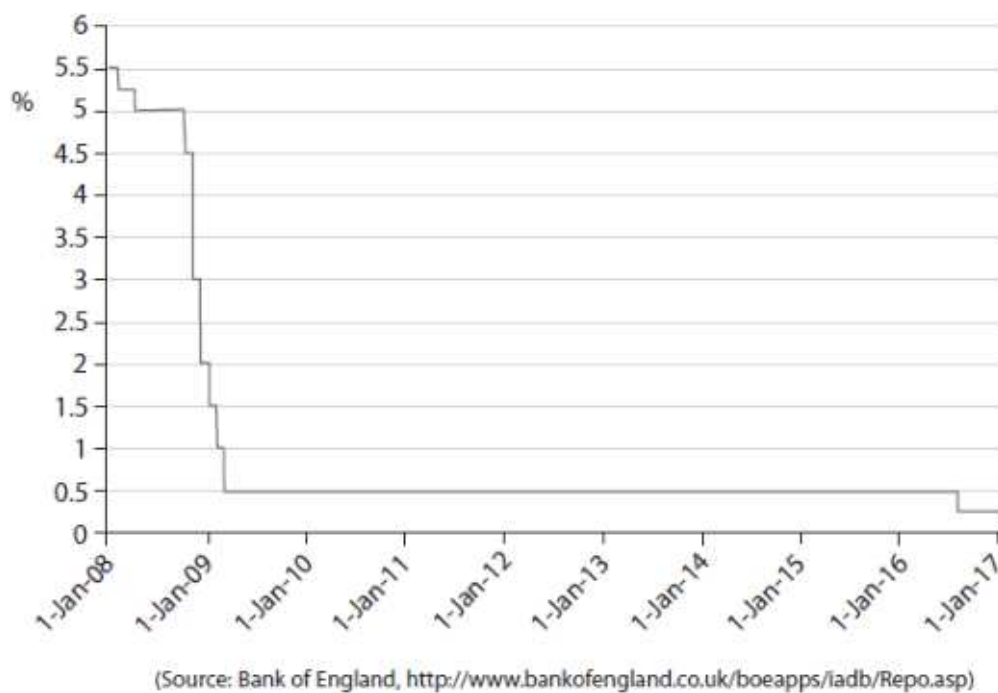
(1)

- ☒ A Value Added Tax
- ☒ B Vehicle Excise Duty
- ☒ C Corporation tax
- ☒ D Alcohol duty

**(Total for question = 4 marks)**

Q6.

**UK base interest rate, January 2008 to January 2017**



(a) With reference to the chart above, explain **one** factor that the Monetary Policy Committee (MPC) of the Bank of England may have considered when reducing the base interest rate.

This image shows a blank sheet of white paper with horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(b) Which **one** of the following is the most likely effect of the Bank of England's quantitative easing?

- ☒ **A** A fall in economic growth
- ☒ **B** A fall in the money supply
- ☒ **C** An increase in the rate of inflation
- ☒ **D** An increase in unemployment

**(Total for question = 4 marks)**

Q7.

The UK has experienced a budget deficit since 2001. The government aimed to reach a budget surplus by 2019, but in 2016 this target was abandoned.

(Source: adapted from <https://www.gov.uk/government/news/autumnstatement-2016-some-of-the-things-weve-announced>)

(a) Explain **one** likely reason why the 2019 budget surplus target was abandoned.

**(2)**

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(b) Explain the likely impact of abandoning the budget surplus target on the UK national debt.

**(2)**

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(c) If a government takes decisions to target a budget surplus, this is an example of:

(1)

- ☒ A contractionary monetary policy
- ☒ B discretionary fiscal policy
- ☒ C expansionary fiscal policy
- ☒ D expansionary monetary policy

(Total for question = 5 marks)

Q8.

**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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Q9.

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

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

In August 2018 the Monetary Policy Committee of the Bank of England raised the UK's base interest rate from 0.5% to 0.75%.

(a) Define the term 'interest rate'.

(1)

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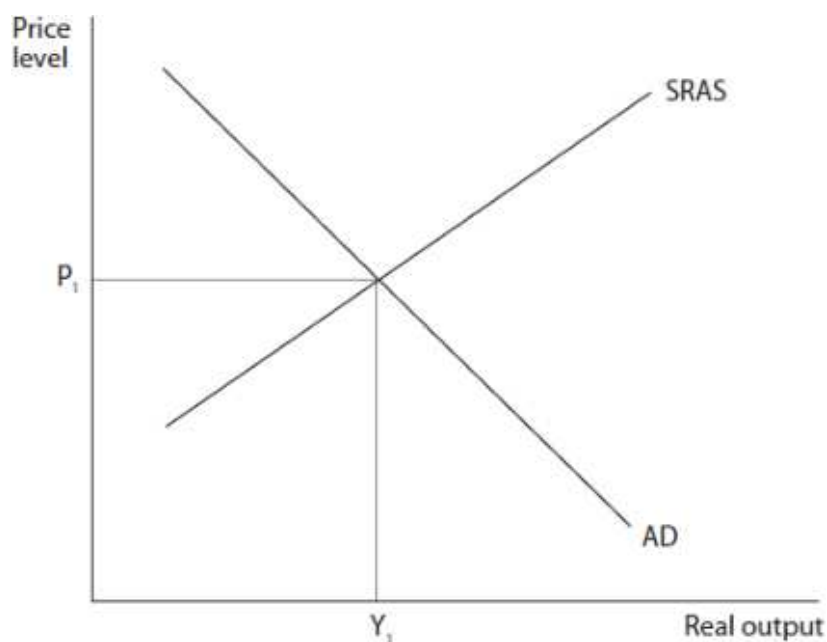
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the possible impact of a rise in the base interest rate on the equilibrium level of real output and the price level.

(2)



(c) Which **one** of the following demand-side policies best explains a rise in the base interest rate?

(1)

- ☒ **A** Contractionary fiscal policy
- ☒ **B** Contractionary monetary policy
- ☒ **C** Expansionary fiscal policy
- ☒ **D** Expansionary monetary policy

**(Total for question = 4 marks)**

Q10.

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

In 2018, the United States Government cut the corporation tax rate (tax on company profits) from 35% to 21%. Income tax rates for US citizens were also reduced: for example, the top rate of income tax was cut from 39.6% to 37%.

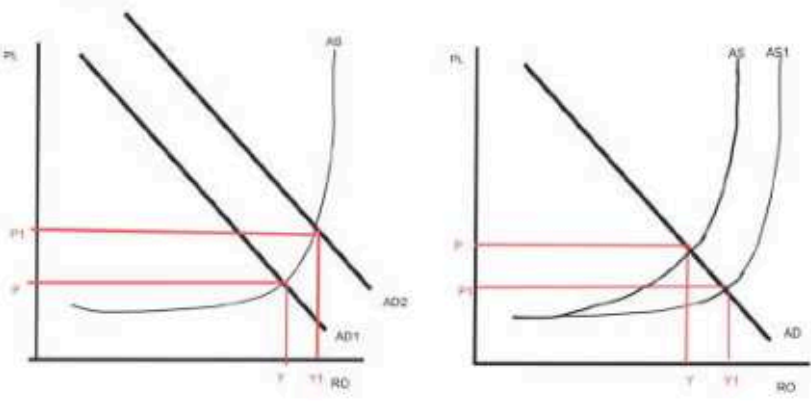
(Source adapted from: <https://www.nytimes.com/>)

Evaluate the likely impact of cutting tax rates as a policy to increase economic growth.

**(Total for question = 25 marks)**

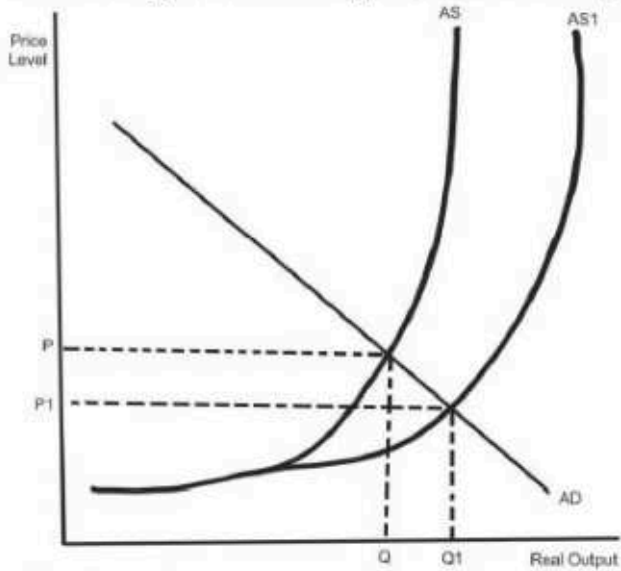
## **Mark Scheme**

Q1.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (a)             | <p align="center"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding:</b><br/>Accurate diagram with correct labels on axes (1) and lines (1)</p>  <p><b>Application:</b><br/>Correct shift of line(s) (1) showing change in price level and/or real output (1)<br/>For example:<br/>N.B. Other AS curves are acceptable. Allow outward shift of both AD and AS.</p> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (b)             | <p><b>The only correct answer is A</b></p> <p><i>B is not correct because it is not infrastructure</i></p> <p><i>C is not correct because it is spending on salaries, not infrastructure</i></p> <p><i>D is not correct because it is spending on welfare, not infrastructure</i></p> | <b>(1)</b> |

Q2.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark |
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| (a)             | <p><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge 2</b> marks e.g.</p> <ul style="list-style-type: none"> <li>Aggregate supply will increase (1)</li> <li>Improvement in UK's capital (1)</li> <li>Increase in productivity/efficiency of UK economy (1)</li> <li>Correct diagram illustrating an increase in AS (2), e.g.:</li> </ul>  <p><b>Application 1</b> mark, e.g.</p> <ul style="list-style-type: none"> <li>Reduce journey times by as much as 50%</li> <li>£56bn spending</li> </ul> <p><b>Analysis 1</b> mark for linked development e.g.</p> <ul style="list-style-type: none"> <li>Faster journey times means people can get to work quicker, increasing their productivity</li> <li>Moving freight more quickly will increase efficiency for firms</li> </ul> | (4)  |

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

Q3.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge:</b><br/>1 mark for identification of a possible reason and 1 mark for its relevance to a fall in the value of the currency.</p> <p>Possible reasons:</p> <ul style="list-style-type: none"> <li>• Fall in demand for peso (1) with reason (1)</li> <li>• Increase in supply of peso (1) with reason (1)</li> <li>• Current account balance: <ul style="list-style-type: none"> <li>◦ Fall in the value of X (1) because export prices have fallen (1)</li> <li>◦ Rise in the value of M (1) because of economic growth (1)</li> </ul> </li> <li>• Decrease in interest rates (1) in Chile relative to other countries (1)</li> <li>• Fall in FDI (1) with reason e.g. reduced foreign investment in Chilean mining (1)</li> <li>• Change in hot money flows (1) with reason e.g. speculative selling of peso (1)</li> <li>• Rise in value of other countries' exchange rates (1) with a change in relative rates (1)</li> <li>• Relatively high inflation in Chile (1) compared to other countries with which it trades (1)</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |     |
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|  | <p><b>Application:</b><br/>2 marks for data references e.g.</p> <ul style="list-style-type: none"> <li>• Copper prices have fallen, Fig. 1 (1) e.g. to \$5000 (1)</li> <li>• The Chilean peso has decreased in value (1)</li> <li>• Calculation based on data (award a range of answers because the data is given for the whole year) e.g. <math>0.2</math> to <math>0.14 = 30\%</math> fall (or similar) (1 + 1)</li> <li>• Inflation 5% in Chile (1)/above 2-4% target (1)/ e.g. because of higher unit labour costs (implied by high truck drivers' wages, Extract B) (1)</li> <li>• Fall in FDI as mining dries up, therefore reduced demand for peso</li> <li>• Application of an exchange rate diagram e.g. with peso on vertical axis with shift (1)</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• 1 mark for explanation of the process linking to the cause to the identified change e.g. fall in copper prices means that the value of exports fall because demand is price inelastic (1) or imports rise in value because of economic growth sucking in imports (1) diagram showing shifts in demand or supply of pesos linked to correct explanation (1)</li> </ul> <p><b>NB only award 1 mark in total for use of a diagram</b></p> | (5) |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>NB</b> an answer might provide positive externalities as KAA and negative externalities as evaluation</p> <p><b>NB</b> do not award effects on copper mining firms, unless an indirect effect.</p> <p><b>NB</b> an answer which does not relate both to firms and communities is limited to 5/6 KAA marks.</p> <p><b>NB</b> do not award externalities themselves, e.g. pollution, the environment. Award the <i>impact</i>.<br/><b>Knowledge and Analysis</b></p> <p>Knowledge/ implicit understanding of externalities <b>(1)</b><br/>e.g. knowledge that externalities are an effect on third parties, or outside (or not accounted for by) the market mechanism, or the difference between private and social costs or benefits</p> <p>Firms (in businesses other than mining)<br/>Points showing the impact on <b>firms</b> might include:</p> <ul style="list-style-type: none"> <li>• farms lacking water because mining companies are using it <b>(1+1)</b></li> <li>• high demand for energy means that other firms will face high energy costs <b>(1+1)</b></li> <li>• high exchange rate can cause problems for other exporting firms <b>(1+1)</b></li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |  |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|  | <p>Communities</p> <p>Points showing the impact on <b>communities</b> might include:</p> <ul style="list-style-type: none"> <li>• problems of water access for households <b>(1+1)</b>,</li> <li>• large-scale transport causes noise, air pollution <b>(1+1)</b>,</li> <li>• people have to move away to find work (social dislocation) <b>(1+1)</b></li> <li>• impact on employment and incomes as mining declines <b>(1+1)</b></li> <li>• impact on firms that supply the mining sector <b>(1+1)</b></li> </ul> <p>Some impacts could be seen as firms and communities, e.g. impact on wider economy of higher wages as firms have to compete with unionised highly paid copper miners for employment.</p> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• <b>Externality diagram</b> illustrating negative or positive impact using marginal analysis (up to 2 marks: 1 mark for correct MSC and MPC drawn, 1 mark for correct equilibrium shown/deadweight loss)</li> <li>• Water has to be pumped 200km (Extract B paragraph 4) which uses fossil fuels/is noisy/ugly/affects tourist areas</li> <li>• Mines are deeper and use more fuel (carbon emissions have impact on climate and therefore on welfare of many)</li> <li>• Desalination plants might affect other firms or consumers (this might be negative or positive)</li> </ul> |  |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |            |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
|  | <p><b>Evaluation</b> (2 marks for any relevant point, two points 1 +1):</p> <ul style="list-style-type: none"> <li>• Positive externalities, e.g. <ul style="list-style-type: none"> <li>◦ impact of local multiplier on economy, improved infrastructure affects other industries</li> <li>◦ Improved wages and working conditions for workers (in businesses other than mining)</li> <li>◦ The copper mining has already helped to fund improvements in welfare, such as the financial system and pensions</li> <li>◦ Benefits of higher value of currency, e.g. terms of trade improvement</li> </ul> </li> <li>• Difficult to know how large the externalities are or who is bearing the cost</li> <li>• The benefits might outweigh the costs, e.g. reduction in poverty, improved fiscal powers, strength of financial markets, improved local infrastructure</li> <li>• Other standard evaluation points, e.g. Extract B a drought has made the problem more severe, time to acquire environmental impact assessments (Extract B paragraph 5) might not be a reliable indicator</li> </ul> | <b>(8)</b> |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p data-bbox="363 141 922 174"><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul data-bbox="292 235 986 981" style="list-style-type: none"> <li>• Link between falling copper prices and falling incomes and government revenue e.g. dramatic loss of government revenue from peak of \$11.5 billion</li> <li>• Exposure to risk e.g. high proportion of GDP and exports dependent on copper so this could cause risk of falling incomes</li> <li>• Price volatility e.g. might cause reduced FDI/investment</li> <li>• Impact of declining terms of trade might be used</li> <li>• Successful exports of copper might force up the exchange rate, other 'Dutch disease' issues e.g. impact on non-copper sector</li> <li>• Falling demand for copper might cause peso to fall in value, causing declining terms of trade/cost push inflation</li> <li>• May use diagram to illustrate effects of low PES, PED</li> <li>• Award use of concepts or theories such as Prebisch-Singer, with link to terms of trade and changing world incomes.</li> <li>• Firms may close down e.g. Extract A lines 8-9: award a microeconomics diagram showing shutdown point</li> </ul> <p data-bbox="248 1010 959 1070"><b>NB Do not award any parts of answers which are related to externalities</b></p> <p data-bbox="248 1104 959 1256"><b>A KAA point referring to changes in tax revenues can only be awarded Level 3 if a specific link is made to the source of the tax revenue e.g. – corporation tax or profits of a state-owned enterprise</b></p> <p data-bbox="248 1290 983 1413"><b>For a Level 3 answer there must be reference to dependency rather than just falls in copper prices, and the wider economy rather than just copper mining firms</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Advantages of copper dependency for Chile's economy: <ul style="list-style-type: none"> <li>◦ Copper dependency is an advantage when copper prices are high e.g. they have been high for a prolonged period, with many advantages</li> <li>◦ Use of data to support this, e.g. \$11.5 bn a year tax revenue, or percentage changes in prices Figure 1</li> <li>◦ Low national debt, falling levels of poverty, inward direct investment</li> </ul> </li> <li>• Other industries thriving e.g. salmon industry</li> <li>• Chile's economy 'best run in the region' and has financial strength to overcome copper price changes, relative to other countries who are dependent on primary products e.g. Venezuela</li> <li>• The fall in the exchange rate corrects the problem of over dependency</li> <li>• Copper prices are far less volatile than 2007-2011</li> </ul> | <b>(4)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                                                                                                                   |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                                                                                                      |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                                                                                                              |
| Level 2 | 3–4  | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark        |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| (d)             | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>16 marks for KAA, for effects of policies:<br/>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• fiscal, e.g. 'mildly expansionary policies' such as cutting income tax will increase real wages</li> <li>• monetary e.g. cutting interest rates can reduce the costs of borrowing for individuals and firms.</li> <li>• supply side policies, e.g. privatisation, free trade can make markets more competitive</li> <li>• growth and development strategies e.g. education, debt relief etc. can further alleviate poverty</li> <li>• price controls</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Cutting interest rate might cause the peso to further decrease in value, which would cause inflation / increase the value of exports leading to current account improving</li> <li>• Privatisation or other supply side policies can increase international competitiveness</li> </ul> <p><b>NB for a Level 4 response there must be reference to both economic growth (e.g. rising incomes) and economic development (e.g. longer life expectancy through improved living standards) and a focus on effects for Level 3 and above.</b></p> <p>9 marks for evaluation – might include:</p> <ul style="list-style-type: none"> <li>• Expansionary fiscal policies might involve an improvement in the redistribution of income</li> <li>• Objectives might conflict, e.g. cutting interest rates can cause inflation or widen inequality, or increased government spending to produce growth might cause inflation (e.g. Phillips Curve)</li> <li>• Policies might conflict, e.g. increasing length of time to gain a permit to reduce externalities can cause a negative supply side impact e.g. by raising production costs for firms.</li> </ul> | <b>(25)</b> |

| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                                      | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                      |
|                                            | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                               |
| Level 1                                    | 1–4   | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                              |
|-------------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                                                                   |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                                                                      |
| Level 1           | 1–3  | Identification of evaluative comments without explanation.                                                                                                                                                                                                                   |
| Level 2           | 4–6  | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.                                                                                                             |
| Level 3           | 7–9  | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>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)             | <p><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p><b>This mark scheme is based on an increase in I, but answer can be given from the point of view of a decrease</b></p> <p>Up to 16 marks for effects:</p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Effects on workers – higher incomes, more jobs</li> <li>• Effect on firms, e.g. increase in productivity, or for firms that produce capital goods, a change in demand</li> <li>• Increase in demand as consumer and business confidence improves</li> <li>• Improved quality of life as a result of research into and development of products</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Shift (increase) in AD, with multiplier effects, increasing real GDP</li> <li>• Shift (increase) in AS increasing capacity e.g. through investment in education (Extract A paragraph 5) (LRAS shift only, may be implicit)</li> <li>• Inflation, if linked to expansionary macroeconomics policies</li> <li>• Balance of payments – e.g. effects of inward FDI: short term improvement on financial account, long term impact on current account</li> </ul> <p>Award Keynesian and Classical approaches with equal weight. The opposing viewpoints may be used as evaluation.</p> <p><b>NB a Level 4 answer refer to <i>changes in investment</i> rather than levels. This may be implicit e.g. through a fall in AD</b></p> <p><b>NB do not award for impact other than on Chile. Do not award for causes rather than effects.</b></p> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |      |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|  | <p>Up to 9 marks for evaluation points include:</p> <ul style="list-style-type: none"> <li>• Investment in capital might decrease employment</li> <li>• Investment in human capital e.g. education in Extract A, is hard to measure in terms of effectiveness</li> <li>• Data points to both increases and decreases in investment. Other forms of injection into the circular flow might be more sustainable, e.g. G</li> <li>• Depends if the investment is internal or FDI as to the effects on the balance of payments</li> <li>• Depends on whether there is a demand deficiency (Keynesian viewpoint) or failings in the supply side</li> </ul> | (25) |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                                      | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                      |
|                                            | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                               |
| Level 1                                    | 1–4   | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| <b>Evaluation</b> |      |                                                                                                                                                                  |
|-------------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                       |
|                   | 0    | No evaluative comments.                                                                                                                                          |
| Level 1           | 1–3  | Identification of evaluative comments without explanation.                                                                                                       |
| Level 2           | 4–6  | Evaluative comments with limited explanations.<br>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.<br>Evaluation recognises different viewpoints and can be critical of the evidence provided.                 |

Q4.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/Understanding:</b><br/>Identifying data 0.95 &amp; 0.75 (1)</p> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• Correct percentage change formula (1)</li> <li>• Correct data inputted into formula (1)</li> </ul> <p><b>Analysis:</b><br/>Calculation of the percentage change in the exchange rate:<br/> <math display="block">0.75 - 0.95 / 0.95 \times 100 = -21\% \text{ (2)}</math></p> <p><b>N.B. award full marks for correct answer between -21% and -21.1%</b></p> <p><b>NB If no reference to minus/fall/decrease then maximum 4 marks</b></p> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/understanding:</b> 2 marks for identification of two factors (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• falling oil prices</li> <li>• falling commodity prices</li> <li>• changing relative exchange rates</li> <li>• government fiscal tightening</li> <li>• low consumer or business confidence</li> <li>• increase in savings</li> </ul> <p><b>Analysis:</b> 2 marks for linked explanation of how these explain the fall in Eurozone inflation (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Falling oil prices in the world economy reduce key costs of production such as transportation, reducing prices of many products in the economy</li> </ul> <p><b>Application:</b> 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g.</p> <ul style="list-style-type: none"> <li>• From figure 2, Eurozone inflation 0.1% in 2015 (1)</li> <li>• ECB predicts Eurozone inflation to rise 'by just 1 per cent in 2016' (extract A) (1)</li> <li>• Figure 2 shows disinflation occurring (1)</li> <li>• Inflation fell from just over 3% in 2011 (1) to less than 0.25% in 2015 (1)</li> </ul> <p><b>Evaluation:</b> 2 marks for evaluation (1+1 / 2)</p> <ul style="list-style-type: none"> <li>• Inflation likely to rise in the future, with ECB expecting 1.6% in 2017</li> <li>• Oil prices are very volatile and could easily rise rapidly due to world events such as instability in the Middle East</li> <li>• Rising GDP in the Eurozone may mean more demand-pull inflation in the future</li> <li>• Depends on extent of fiscal tightening by government</li> <li>• Oil prices a significant cost of production for businesses</li> </ul> | (8)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                     | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p><b>Knowledge 2, Application 2, Analysis 2,</b></p> <p>Likely impacts on the current accounts include:</p> <ul style="list-style-type: none"> <li>• Reduced demand for Eurozone exports as they appear more expensive when converted into other currencies.</li> <li>• Increased demand for Eurozone imports as they appear cheaper when converted into other currencies.</li> </ul> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number  | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (c)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Euro may not have appreciated against all currencies.</li> <li>• Euro may have appreciated against currencies of countries who do not receive many Eurozone exports.</li> <li>• Magnitude discussion</li> <li>• May change in the long term</li> <li>• Marshall-Lerner condition</li> <li>• J-curve effects</li> <li>• Non-price factors may be more important</li> </ul> | <b>(4)</b> |

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

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (d)             | <p><b>Knowledge 2, Application 2, Analysis 4,</b></p> <p>ECB QE programme is effective:</p> <ul style="list-style-type: none"> <li>• Explanation of process of QE</li> <li>• should encourage banks to increase lending and thus hopefully increase consumption/investment</li> <li>• Inflation/GDP may well have been much lower without QE</li> <li>• Confidence of markets would have been much lower without QE</li> <li>• QE programme to be extended for a further 6 months</li> <li>• Lower interest rates encourages consumption/investment, thus increasing AD and therefore inflation</li> <li>• Low government bond yields for Eurozone countries</li> <li>• Depreciation of the Euro affecting X-M</li> </ul> <p>NB One side of this argument should count as KAA and the opposing argument as Evaluation</p> | <b>(8)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <p>ECB QE programme isn't effective:</p> <ul style="list-style-type: none"> <li>• Inflation likely to remain below target into at least 2017</li> <li>• Low inflation is largely down to factors outside the central bank's control (e.g. oil prices)</li> <li>• Lack of confidence among firms and consumers meaning they are not responding as the ECB would like to the QE programme</li> <li>• Banks are still reluctant to lend money to firms and consumers</li> <li>• Time lags</li> <li>• Extension of QE programme suggests that it hasn't worked</li> <li>• Other policies may be more effective</li> </ul> <p>NB One side of this argument should count as KAA and the opposing argument as Evaluation</p> | <b>(4)</b> |

| 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. |

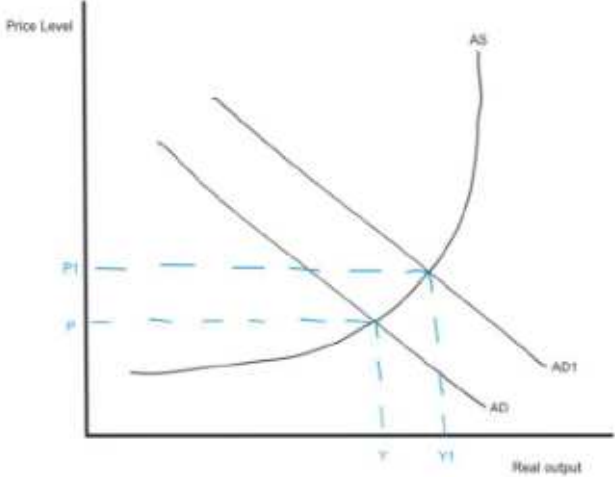
| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (e)             | <p style="text-align: center;"><b>Knowledge 3, Application 3, Analysis 3</b></p> <p><b>Potential policies may include:</b></p> <ul style="list-style-type: none"> <li>• Fiscal policies, e.g. reduced corporation tax to increase investment and therefore increase AD</li> <li>• Supply-side policies, e.g. increased investment in education to create a more highly-skilled and therefore more productive workforce</li> </ul> <p>N.B. Candidates may discuss more than one of each type of policy</p> <p>N.B. Candidates must discuss both fiscal and supply-side policies for level 3</p> | <b>(9)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>Evaluation of the policies, e.g.</p> <ul style="list-style-type: none"> <li>• Governments in many Eurozone countries are having to focus on reducing national debt and can't afford policies such as tax cuts</li> <li>• Supply-side policies take a long time to have an impact on the economy</li> </ul> | <b>(6)</b> |

| 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.<br>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.<br>Evaluation recognises different viewpoints and/or is critical of the evidence.     |

Q5.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• Correct rightward shift in AD: (1)</li> <li>• Correct new equilibrium point showing higher price level and higher real output (1)</li> </ul>  <p>NB Allow shift in AS curve to the right with lower price level and higher real output (1 + 1)</p> | (2)  |

| Question Number | Answer                                                                                                                                                                                                                                                 | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding</b><br/>1 mark for, e.g.</p> <ul style="list-style-type: none"> <li>• Tax on <b>income / earnings</b> (1)</li> <li>• Tax on business <b>profits</b> (1)</li> </ul> | (1)  |

| Question Number | Answer | Mark |
|-----------------|--------|------|
| (c)             | C      | (1)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 1, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding</b><br/>1 mark for identifying one relevant factor, e.g.</p> <ul style="list-style-type: none"> <li>• Expected inflation rate (1)</li> <li>• Confidence (1)</li> <li>• Growth rate (1)</li> <li>• House prices (1)</li> </ul> <p><b>Application</b><br/>1 mark for reference to the chart, for e.g.</p> <ul style="list-style-type: none"> <li>• Global Financial Crisis of 2008 (1)</li> <li>• Interest rate has decreased from 5.5% in 2008 to 0.5% in 2009 or has decreased by 5 percentage points (1)</li> <li>• Brexit decision 2016 (1)</li> </ul> <p><b>Analysis</b><br/>1 mark, e.g.</p> <ul style="list-style-type: none"> <li>• Consumer and business confidence: can indicate turning points in the business cycle (1)</li> <li>• GDP growth rate and spare capacity: ensure that AD grows in line with productive potential (1)</li> <li>• House prices and share prices: that help decide household wealth, which translates through to borrowing and spending (1)</li> </ul> | (3)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because quantitative easing will increase AD and therefore economic growth</p> <p><b>B</b> is not correct because quantitative easing increases the money supply as the central bank buys government bonds</p> <p><b>D</b> is not correct because quantitative easing would lead to increase in AD and a fall in the level of unemployment as real output increases</p> | (1)  |

Q7.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge</b> 1 mark e.g.</p> <ul style="list-style-type: none"> <li>Fall in UK economic growth (1)</li> <li>Reduction in UK business confidence (1)</li> </ul> <p><b>Analysis</b> 1 mark for linked development e.g.</p> <ul style="list-style-type: none"> <li>Fall in growth means economy may need more government support for longer to ensure stable growth (1)</li> <li>Less business confidence likely to lead to less private sector investment and so government may need to counteract this (1)</li> </ul> | (2)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge</b> 1 mark e.g.</p> <ul style="list-style-type: none"> <li>National debt will continue to increase (1)</li> </ul> <p><b>Analysis</b> 1 mark for linked development e.g.</p> <ul style="list-style-type: none"> <li>Running a budget deficit means expenditure is greater than tax revenue (1)</li> <li>Government will have to finance a budget deficit by borrowing money (1)</li> </ul> | (2)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                  | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p><b>The only correct answer is B</b></p> <p><i>A is not correct because this is monetary policy not fiscal policy</i></p> <p><i>C is not correct because this would involve a budget deficit</i></p> <p><i>D is not correct because this is monetary policy not fiscal policy</i></p> | (1)  |

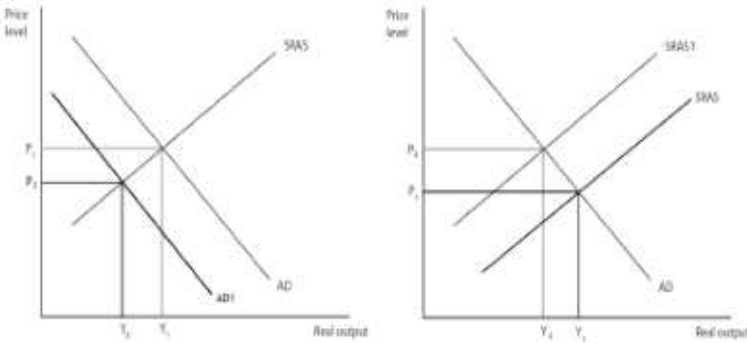
Q8.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                    | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because exports is an injection into the circular flow of income</p> <p><b>B</b> is not correct because government spending is an injection into the circular flow of income</p> <p><b>C</b> is not correct because investment is an injection into the circular flow of income</p> | (1)  |

| Question Number | Answer                                                                                                                                                                                                                   | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p style="text-align: center;"><b>Application 2</b></p> <p>1.5 X 800 billion (1)</p> <p>= 1 200 billion / \$1 200 billion</p> <p>Award two marks for correct answer</p> <p>Award 1 mark if candidate has put \$1 200</p> | (2)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p style="text-align: center;"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge/understanding (1):</b></p> <ul style="list-style-type: none"> <li>Identify increase in national debt</li> <li>Definition of national debt</li> </ul> <p><b>Analysis:</b></p> <p>1 mark for linked development:</p> <p>e.g.</p> <ul style="list-style-type: none"> <li>Fiscal deficit means spending is greater than taxation</li> <li>The government will need to borrow more money to fund this spending</li> </ul> <p><b>NB</b> Analysis must be linked to national debt</p> | (2)  |

| Question Number | Answer                                                                                                                                                                                                                                    | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (a)             | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• Cost of borrowing (1) /</li> <li>• Reward for saving (1)</li> </ul> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (b)             | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• Correct leftward shift of AD (1)</li> <li>• Correct new equilibrium point (1)</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>• Correct shift of SRAS (1)</li> <li>• Correct new equilibrium point (1)</li> </ul> <div style="display: flex; justify-content: space-around; align-items: flex-end;">  </div> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (c)             | <p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because contractionary fiscal policy involves the government increasing tax rates and reducing government spending</p> <p><b>C</b> is not correct because expansionary fiscal policy involves the government reducing tax rates and increasing government spending</p> <p><b>D</b> is not correct because an expansionary monetary policy involves reducing interest rates and increasing asset purchases (quantitative easing)</p> | <b>(1)</b> |

Q10.

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                 | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Arguments that cutting taxes will <b>positively</b> impact the economy:</p> <ul style="list-style-type: none"> <li>• Firms will have more profit to reinvest into their companies, therefore increasing investment, aggregate demand, and therefore output</li> <li>• Consumers have higher disposable income so consumption will increase</li> <li>• Greater injections into the circular flow of income</li> <li>• Less withdrawals form the circular flow of income</li> <li>• Relevant AD/AS diagram illustrating an increase in AD</li> <li>• Increase in size of multiplier</li> <li>• Less incentive for tax evasion/avoidance</li> </ul> <p>Arguments that cutting taxes will <b>negatively</b> impact the economy:</p> <ul style="list-style-type: none"> <li>• Firms may not reinvest money, many other factors affect investment decisions- e.g. confidence</li> <li>• Consumers may save any extra disposable income, thus withdrawing it from the circular flow of income</li> <li>• Likely to result in higher government debt leading to increased crowding out</li> <li>• Government will have less money to spend on infrastructure/education etc. that may negatively affect economic growth</li> </ul> <p>One side of the argument should count as KAA and the other as EV.</p> | (25) |

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation |      |                                                                                                                                                                                                                                                                          |
|------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level      | Mark | Descriptor                                                                                                                                                                                                                                                               |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1    | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2    | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

## Questions

Q1.

### UK incomes, inflation and monetary policy

**Figure 1 - UK average weekly household real income**

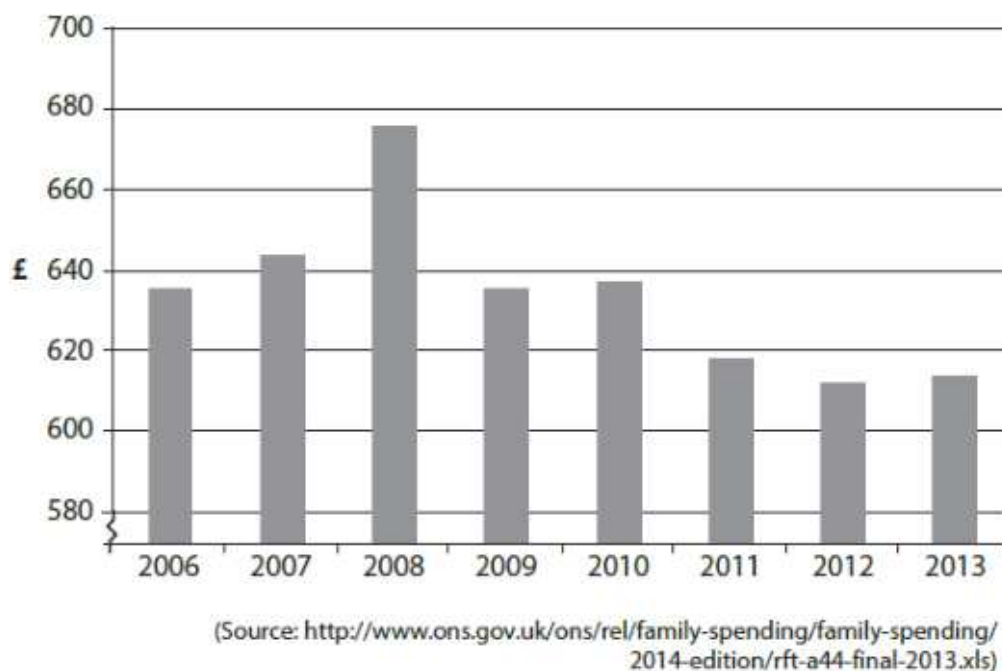


**Figure 2 - UK inflation rate as measured by percentage changes in the Consumer Price Index (CPI)**



### 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)

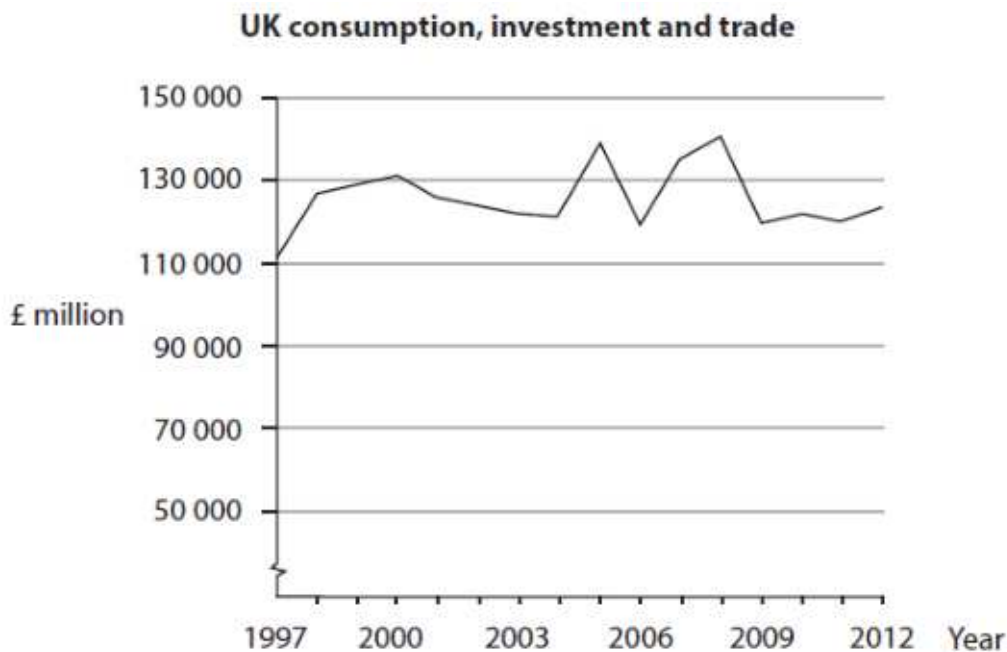
**OR**

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

(20)

**(Total for question = 60 marks)**

Q2.

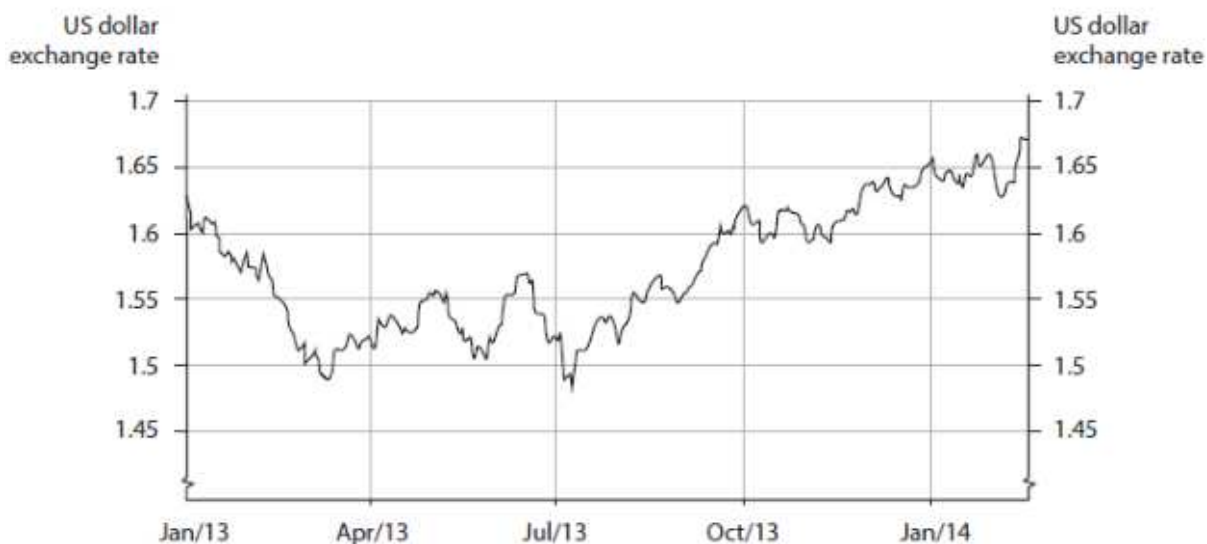


(Source: <http://www.ons.gov.uk/ons/rel/bus-invest/business-investment/q3-2013-provisional-results/stb-business-investment-q3-2013-provisional.html#tab-Business-Investment-and-other-components-of-GFCF>)

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

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

(4)



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

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

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

(5)

## Extract A

### Why Britain needs a pay rise

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

5

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

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

10

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

15

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

20

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

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

25

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

30

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

35

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

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

(6)

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

(10)

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

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

(15)

**EITHER**

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

(20)

**OR**

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

(20)

**(Total for question = 60 marks)**

Q3.

**Turkey - an emerging economy**

**Figure 1: Turkey's central bank lending rate, percent, 2013-2018**

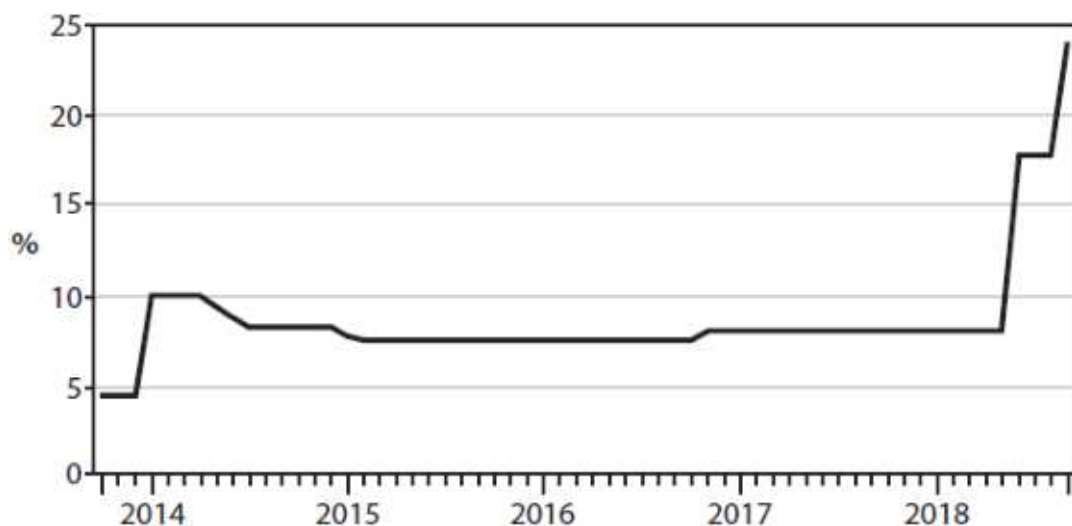
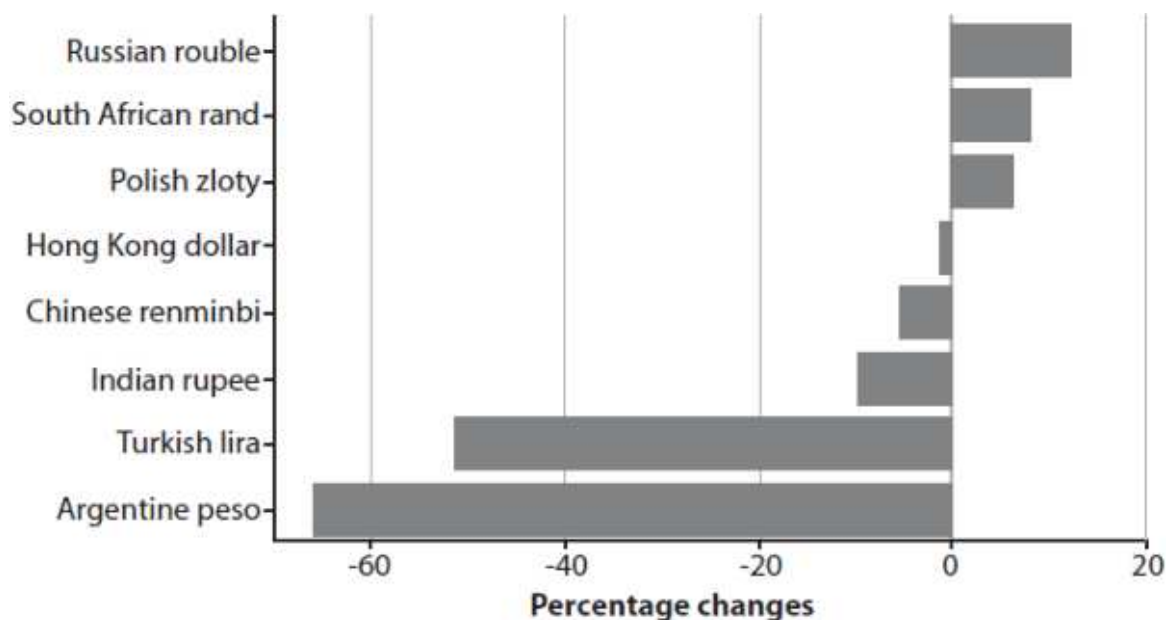


**Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.**



(Source adapted from: FT.com)

## Extract A

### Can Turkey's central bank avoid another rate rise?

At an annual rate of 25%, Turkey's inflation is alarming. However, it may have peaked. This may be a turning point for the economically struggling country, whose currency (the Turkish lira) has lost nearly a third of its value against the US dollar in 2018. The central bank may be able to avoid tightening monetary policy further, as a severe economic adjustment is already well under way. Turkey is highly indebted in foreign currency. The Turkish government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks. The financial market faces difficulties in trying to restore foreign investors' confidence.

5

Consumer prices increased by 2.7% in October 2018, a much lower rate than the 6.3% recorded in September 2018. The lira has stabilised, having risen 16% since the central bank raised interest rates by 6.25 percentage points. However, the government wants lower borrowing costs to fuel credit growth and economic expansion. Timothy Ash at a London investment bank says at this point it's "illogical" to raise interest rates again in Turkey. That's because Turkey's economy is already experiencing a severe slowdown.

10

15

In the long term Turkey's economic growth is expected to be above that of other emerging markets such as Brazil, Russia and China. Turkey's private sector is resilient. Between 2018–50 we expect Turkey to grow by an annual average of 3.1%. Brazil is expected to grow by an annual average of 2.1%, Russia by 1.6% and China by 2.8%. GDP growth will nevertheless be well below that recorded in 2004–07 and 2010–15. Average growth in GDP per head will be substantially lower, mainly reflecting the expected rise in the total population.

20

(Source adapted from: <https://ftalphaville.ft.com/2018/11/06/1541508141000/Can-Turkey-s-central-bank-avoid-another-rate-hike-/>, 6 Nov 2018 Colby Smith and one sentence The president wants lower borrowing costs to fuel credit growth and economic expansion from <https://www.theguardian.com/world/2018/aug/07/turkey-urged-to-announce-emergency-interest-rate-hike> Larry Elliott 7/8/18 and <http://country.eiu.com/article.aspx?articleid=157174199&Country=Turkey&topic=Economy&subtopic=Long-term+outlook&subsubtopic=Summary>)

## Extract B

### Turkey aims to bin the plastic bag

You get a free plastic bag whenever you go to a shop, even if it is just to buy a loaf of bread or a chocolate bar. In Turkey, plastic bags are everywhere, with millions being thrown away, and their use is causing a growing environmental problem.

In Istanbul, the country's biggest city with about 12 million people, around 10 000 tonnes of waste are being collected every day. Plastic bags and other plastic waste make up 950 tonnes, or almost 10%, of the total waste. 5

The Turkish government said it was looking at ways to discourage the consumption of single-use plastic bags. One possible step currently under review is a ban of the black bags that are said to contain carcinogens. Another is that the state may raise taxes on plastic products, which could lead to supermarkets charging consumers for the bags. In Corlu, a town north-west of Istanbul, a local environmental group distributed 20 000 canvas bags to shoppers in one month. In some parts of Turkey, plastic bags are completely banned, with heavy fines for both firms and consumers who use them. 10

(Source adapted from: tseibert@thenational.ae  
<https://www.thenational.ae/world/europe/turkey-aims-to-bin-the-plastic-bag-1.530059> accessed 11/11/18)

## Extract C

### Istanbul's third airport set to be the busiest in the world

Istanbul's third airport is being constructed over an area of 76.5 million square metres, to the north of Istanbul. When complete, the new airport will have six runways and have an annual passenger capacity of up to 200 million people, making it potentially the world's busiest airport. "This airport is going to be the most important hub between Asia and Europe," said one business leader. 5

The airport design includes high vaulted ceilings and spacious, modern and efficient design – and its tulip-shaped air traffic control tower won the 2016 International Architecture Award. It uses mobile applications and artificial intelligence for customers, is energy efficient and has a high-tech security system. The site employs 36 000 people and is estimated to cost the equivalent of £10 billion. However, the rush to meet the deadline set by the Turkish government is a major cause of accidents on the construction site, according to the construction workers' union. 10

(Source adapted from: <https://www.lonelyplanet.com/news/2018/08/08/istanbuls-huge-new-airport/> and <https://www.voanews.com/a/istanbul-to-unveil-new-airport-seeks-to-be-world-s-biggest/4632308.html>)

(a) Explain how the Turkish central bank intervenes in the currency market to prevent 'excessive appreciation or depreciation of the Turkish lira' (Extract A, lines 7–8).

(5)

(b) Examine **two** reasons why the Turkish government may want to avoid a significant fall in the exchange rate of the Turkish lira.

(8)

(c) Discuss the likely success of policies to reduce the consumption of single-use plastic bags in cities such as Istanbul.

(12)

## EITHER

(d) Evaluate the likely microeconomic and macroeconomic effects of a rise in interest rates in Turkey.

(25)

**OR**

(e) Evaluate the microeconomic and macroeconomic impact of large infrastructure projects such as the building of a third airport in Istanbul.

**(25)**

**(Total for question = 50 marks)**

Q4.

(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)**

Q5.

## UK economic recovery

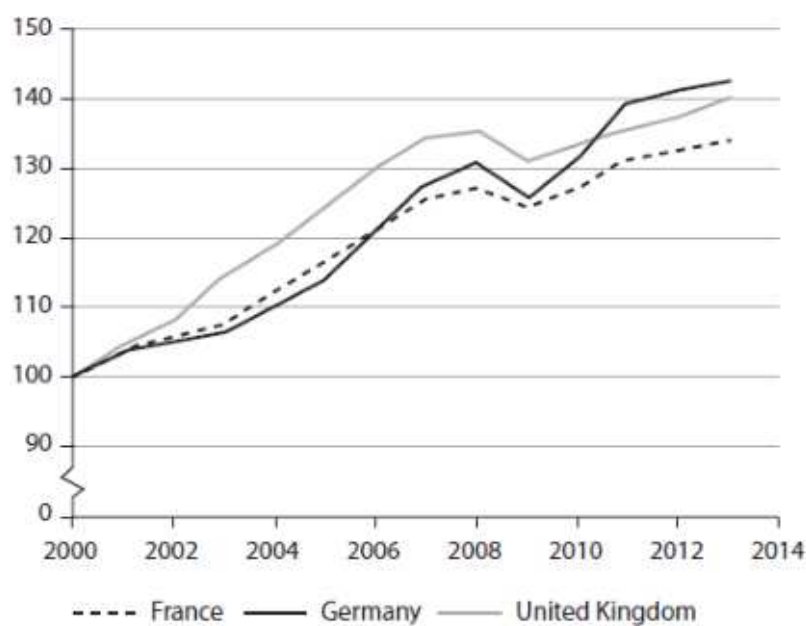
**Figure 1: Components of aggregate demand in selected countries 2014**

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

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

(Source: World Bank 2014)

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



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

## Extract A

### The UK economy - a strange recovery

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

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

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

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

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

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

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

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

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

## EITHER

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

(20)

## OR

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

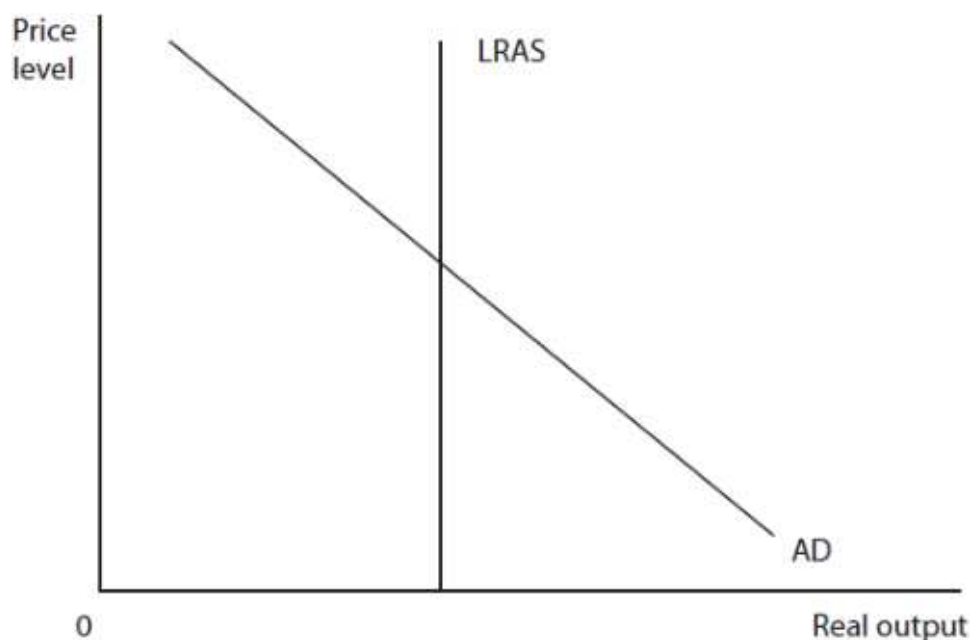
(20)

**(Total for question = 60 marks)**

Q6.

**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)

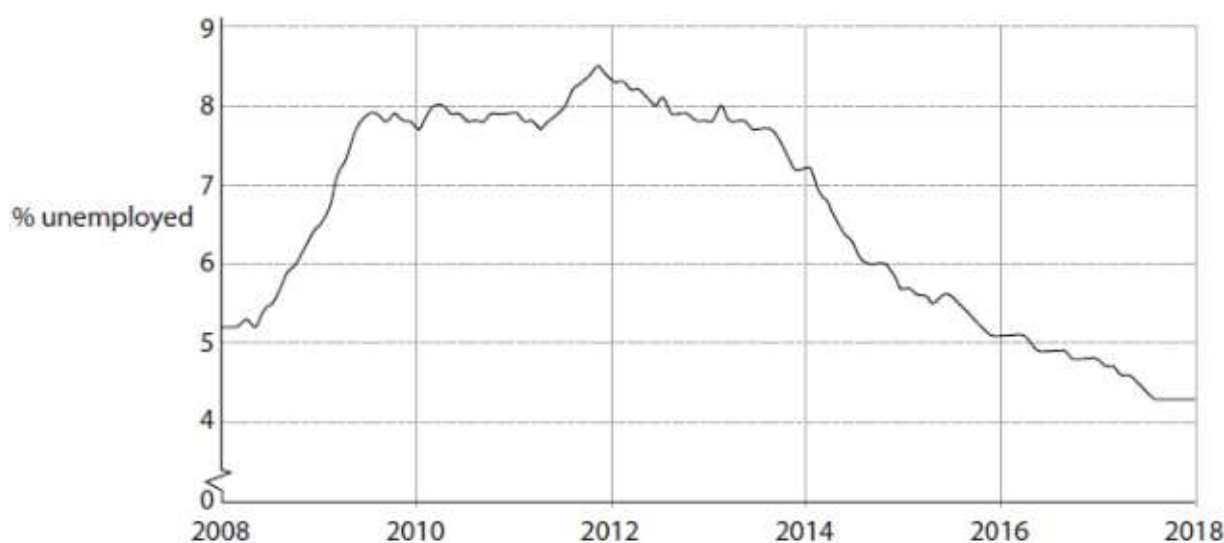
- ☒ **A** An improvement in infrastructure
- ☒ **B** An increase in indirect taxation
- ☒ **C** An increase in interest rates
- ☒ **D** An increase in the regulation of markets

(Total for question = 4 marks)

Q7.

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

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



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

(a) With reference to the chart above, explain **one** likely economic effect of the change in the

UK unemployment rate between 2012 and 2018.

(3)

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

(1)

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

(Total for question = 4 marks)

Q8.

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

It has been estimated that if climate change led to the world's temperature rising 2.5°C compared to the temperature in 2010, then global GDP per capita would be 15% lower by 2100. If temperatures rise by 4°C compared to the temperature in 2010, then by 2100 global GDP per capita would decline by more than 30%.

(Source adapted from: <https://www.nature.com/articles/s41586-018-0071-9>)

Evaluate the potential trade-offs between environmental protection and other macroeconomic objectives.

**(Total for question = 25 marks)**

Q9.

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

The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020.

(Source: adapted from <https://www.ft.com/content/7579f124-5742-11e7-9fed-c19e2700005f>)

(a) This would be an example of:

**(1)**

- ☐ **A** a contractionary monetary policy
- ☐ **B** an exchange rate policy
- ☐ **C** an expansionary monetary policy
- ☐ **D** a supply-side policy

(b) If a company makes £500 000 pre-tax profit in 2020, calculate how much corporation tax it will pay. Assume that the government cuts the rate of corporation tax as planned.

**(2)**

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(c) Explain **one** possible reason why the revenue from corporation tax could increase if the government cuts the rate of tax.

(2)

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**(Total for question = 5 marks)**

Q10.

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

The European Central Bank introduced a new round of quantitative easing (QE) in March 2020, purchasing up to €750 billion of assets. The objective of this QE was to reduce the serious risks to the effectiveness of monetary policy resulting from a significant recession. The European Central Bank's target for inflation remains at 'below but close to 2%'.

(Source adapted from: [https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318\\_1~3949d6f266.en.html](https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html))

Evaluate the effectiveness of quantitative easing during 'a significant recession'.

**(Total for question = 2 marks)**

## **Mark Scheme**

Q1.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
|                 | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"><li>• Income is money received as payment for work (1)</li><li>• Real means adjusted for inflation/purchasing power of income (1)</li></ul> <p><b>Application</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"><li>• Real income has fallen (1)</li><li>• From approximately £675 in 2008 to £615 in 2013 (1)</li></ul> | <b>(4)</b> |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
|                 | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"><li>• Lower incomes means lower consumption</li><li>• Consumer confidence falls</li><li>• Aggregate demand therefore falls</li><li>• Fall in standard of living</li><li>• Falling demand for firms means lower profits; rising unemployment</li><li>• Less ability to save &amp; possible consequences of this, e.g. mortgage deposit; confidence</li></ul> <p>Candidates may illustrate this with an accurate AD/AS diagram showing AD decreasing</p> | <b>(6)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| continued       | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Depends on other factors in the economy, such as government spending or demand for exports</li> <li>• Changes in benefits and/or tax allowances may offset fall in real income</li> <li>• Only short-term fall (Figure 1 shows slight increase in 2013)</li> <li>• Inflation falling recently, improving likelihood of real income rises</li> <li>• 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</li> </ul> | <b>(4)</b> |

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

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                 | <p><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>1 marks, e.g.</p> <ul style="list-style-type: none"> <li>• Definition of aggregate demand</li> <li>• Understanding of a rise in value of the pound</li> </ul> <p><b>Application</b><br/>2 marks (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Aggregate demand will fall (1)</li> <li>• Lagged effect (1)</li> <li>• Declining imported food and commodity prices (1)</li> </ul> <p><b>Analysis</b><br/>Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Imports become cheaper so aggregate demand falls (1)</li> <li>• Exports become expensive so aggregate demand falls (1)</li> </ul> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                 | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge</b><br/>Identification of two reasons (1+1)</p> <ul style="list-style-type: none"> <li>• Falling energy prices</li> <li>• Falling telecommunication prices</li> <li>• Falling shipping costs</li> <li>• Falling non-energy industrial goods prices</li> <li>• Slowdown in world economic growth</li> <li>• Slowdown in consumer spending</li> <li>• Slowdown in house construction</li> </ul> <p><b>Application</b><br/>2 relevant pieces of application from Extract B (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• inflation at 0.3% (1)</li> </ul> <p><b>Analysis</b><br/>Linked development of how reasons identified cause falling inflation rate (1+1)<br/>e.g.</p> <ul style="list-style-type: none"> <li>• falling oil prices makes transport of goods cheaper (1)</li> </ul> <p>N.B. Falling inflation rate does not necessarily mean prices are falling, so students may talk about reasons for disinflation and/or deflation</p> | (6)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                 | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>The MPC <b>should</b> be concerned because:</p> <ul style="list-style-type: none"> <li>• Risk of deflationary spiral; hard to 'escape' from such a situation</li> <li>• Example of Japan</li> <li>• Consumer expectations of very low/falling prices become embedded</li> <li>• Limited ability of the MPC to get the economy out of deflation (interest rates already only 0.5%)</li> <li>• Harder for MPC to react to/influence supply-side factors such as falling oil prices</li> </ul> <p>Diagrammatic analysis may also be used as part of an answer.</p> <p>NB Candidates may, alternatively, argue that the MPC should <b>not</b> be concerned about deflation for KAA and that they <b>should</b> for evaluation</p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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       | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>MPC <b>should not</b> be concerned because:</p> <ul style="list-style-type: none"> <li>• Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year</li> <li>• Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy</li> <li>• Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy</li> <li>• Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand</li> <li>• May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD</li> </ul> <p>NB Candidates may, alternatively, argue that the MPC should <b>not</b> be concerned about deflation for KAA and that they <b>should</b> for evaluation</p> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                               |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                                         |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation recognises different viewpoints and/or is critical of the evidence.     |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark               |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
|                 | <p><b>Knowledge 4, Application 4, Analysis 6,</b></p> <ul style="list-style-type: none"> <li>• Changing interest rates and quantitative easing/asset purchases to influence money supply as monetary policies</li> <li>• AD/AS diagram could be used to aid effective analysis</li> </ul> <p>MPC has been successful at controlling inflation:</p> <ul style="list-style-type: none"> <li>• According to Figure 2 highest inflation rate was only just over 5%, good by historical standards</li> <li>• Independent of government</li> <li>• Regular monthly MPC meetings implies flexibility</li> <li>• Willingness to use other unorthodox tools such as QE and forward guidance to additionally control inflation</li> <li>• QE helped to avoid risk of deflation during global economic crisis</li> <li>• Powerful transmission mechanisms</li> <li>• Contrast with Japan.</li> </ul> <p>MPC has <b>not</b> been successful at controlling inflation:</p> <ul style="list-style-type: none"> <li>• Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target</li> <li>• MPC struggles to respond to supply-side factors, e.g. rising food/commodity prices in 2008/9 and now falling prices in 2014</li> <li>• 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</li> <li>• Banking failure</li> <li>• In the period shown, interest rates have been 0.5% but inflation has continued to fall</li> </ul> <p>NB Candidates may, alternatively, argue that the MPC <b>has not</b> been successful for KAA and that they <b>have</b> been successful for evaluation</p> | <p><b>(14)</b></p> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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       | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>MPC has <b>not</b> been successful at controlling inflation:</p> <ul style="list-style-type: none"> <li>• Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target</li> <li>• MPC struggles to respond to supply-side factors, e.g. falling food and commodity prices in 2014</li> <li>• 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</li> <li>• Banking failure</li> <li>• In the period shown, interest rates have been 0.5% but inflation has continued to fall</li> </ul> | <b>(6)</b> |

| 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        |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
|                 | <p><b>Knowledge 4, Application 4, Analysis 6,</b></p> <ul style="list-style-type: none"> <li>• Understanding of demand-side policies to include monetary and/or fiscal policy</li> <li>• Understanding of Global Financial Crisis of 2008 in UK and/or other countries</li> <li>• AD/AS diagram may be used to aid effective analysis</li> </ul> <p>Examples of demand-side policies that students may discuss. These need to be clearly linked to responding to a financial crisis:</p> <ul style="list-style-type: none"> <li>• Reduction of interest rates to boost aggregate demand in a recession.</li> <li>• Quantitative easing to increase liquidity</li> <li>• Bailout of banks</li> <li>• Increase in government spending e.g. infrastructure</li> <li>• Cut in taxation</li> </ul> | <b>(14)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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       | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Short run/long run issues, e.g. interest rates take at least a year to have a full effect</li> <li>• Interest rates cannot be cut much further; relative interest rates are important</li> <li>• The uncertainty of the impact of QE, e.g. do banks pass on the credit, is it inflationary?</li> <li>• Size of the multiplier</li> <li>• Problems in financing government deficit/fiscal austerity issues</li> <li>• Impact of different tax cuts, e.g. income tax vs. VAT</li> <li>• Relative success of US or other country's policies in response to the crisis compared to the UK</li> </ul> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                                                                  |
|---------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                                                     |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 5–6  | Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

Q2.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (a)             | <p align="center"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>Investment is an increase in the capital stock (1).</li> <li>Real means adjusted for inflation (1).</li> </ul> <p><b>Application</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>Investment has fallen (1).</li> <li>Data reference from Figure 1, e.g. by approximately £20bn in 2011 and 2012 (1).</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge</b><br/>1 mark for, e.g.</p> <ul style="list-style-type: none"> <li>An appreciation means that one pound becomes worth more US dollars (1).</li> </ul> <p><b>Application</b><br/>2 marks for two data references from Figure 2, e.g.</p> <ul style="list-style-type: none"> <li>the pound has appreciated from £1 = \$1.52 on 1 July 2013 (1), to £1 = \$1.65 on 1 January 2014 (1).</li> </ul> <p><b>Analysis</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>The British pound price of goods and services imported from the US will be lower (1).</li> <li>The US dollar price of goods and services exported from the UK will be higher (1).</li> </ul> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b></p> <ul style="list-style-type: none"> <li>Identification of two reasons (1+1).</li> </ul> <p><b>Application</b></p> <ul style="list-style-type: none"> <li>Reference to Extract 1 (1+1).</li> </ul> <p><b>Analysis</b><br/>Linked development of why each factor led to increased consumption (1+1), e.g.</p> <ul style="list-style-type: none"> <li>delayed impact of the cut in the bank rate (1) to 0.5% (1), making borrowing cheaper and providing less incentive to save (1)</li> <li>the Funding for Lending Scheme (1) meant that high street banks became more willing to lend to consumers/to lend at lower rates of interest (1), reducing the cost of borrowing (1)</li> <li>rising consumer confidence (1): the FLS led to rising house prices (1), which created a positive wealth effect/raising consumers' confidence and making them more likely to spend (1).</li> </ul> | (6)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Interest rates:</p> <ul style="list-style-type: none"> <li>• current rates will influence the cost of servicing loans (interest payments)</li> <li>• expectations of future interest rates may influence cost projections and project viability</li> </ul> <p>Other factors to consider might include:</p> <ul style="list-style-type: none"> <li>• willingness of banks to lend to firms (FLS)</li> <li>• company profitability</li> <li>• level of cash held by firms</li> <li>• business confidence</li> <li>• sustained consumer spending (may be linked to rising real incomes)</li> <li>• rate of depreciation of capital</li> <li>• inflation rate (current and future expectations)</li> <li>• cost of raw materials / wage rates.</li> </ul> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(d)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Expectations of future values as important as current values (e.g. interest rates).</li> <li>• Weighing up of different factors – extract implies confidence is the most important.</li> <li>• Different factors may be more important for different firms/different regions of the UK.</li> </ul> | <b>(4)</b> |

| Level   | Mark | Descriptor                                                                                                                                                            |
|---------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                               |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                      |
| Level 2 | 3–4  | Evaluative comments supported by chains of reasoning and appropriate reference to context<br>Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <ul style="list-style-type: none"> <li>Understanding of inflationary pressures/inflation.</li> </ul> <p>The effect of a lack of investment:</p> <ul style="list-style-type: none"> <li>a lack of new investment may mean that depreciation occurs at a quicker rate than investment, reducing the productive potential of the economy</li> <li>this could lead to a decrease in the economy's level of aggregate supply/an inward shift of its PPF</li> <li>candidates may draw an AS/AD diagram to show the effects of a reduction in (LR)AS</li> <li>cost-push inflationary pressures would build in the economy.</li> </ul> <p>The effect of a stronger pound:</p> <ul style="list-style-type: none"> <li>a stronger pound makes imports cheaper. The price of imported goods in the CPI basket should fall, reducing inflationary pressures</li> <li>cheaper imports and more expensive exports may lead to a worsening of the trade balance, reducing UK aggregate demand (this may be illustrated on an AS/AD diagram). This would lead to a fall in demand-pull inflationary pressures</li> <li>imported raw materials become cheaper (particularly oil, which is priced in US dollars). This could reduce firms' production costs, leading to an increase in (SR)AS, and a reduction in cost-push inflationary pressures.</li> </ul> <p>NB Level 3 responses must consider the effect of both the lack of investment and the appreciation of the currency.</p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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       |
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| <b>(e)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• It depends on the rate of depreciation of capital.</li> <li>• It depends on the level of spare capacity in the economy.</li> <li>• It depends on the elasticity of the AD curve, and/or whether a lack of investment reduces AD too.</li> <li>• Comment on the significance of the appreciation.</li> <li>• The effect on the trade balance and hence AD of the appreciation depends on the PED for imports and exports.</li> </ul> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                               |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                                         |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
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| (f)             | <p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Understanding of economic growth.</li> <li>• Understanding of macroeconomics objectives.</li> </ul> <p>Candidates may address this question in different ways.</p> <ul style="list-style-type: none"> <li>• Explanation of the likely benefits of economic growth to: <ul style="list-style-type: none"> <li>◦ consumers</li> <li>◦ firms</li> <li>◦ the government</li> <li>◦ income distribution</li> <li>◦ the environment</li> <li>◦ current and future living standards</li> </ul> </li> <li>• Explanation of the likely costs of economic growth to: <ul style="list-style-type: none"> <li>◦ consumers</li> <li>◦ firms</li> <li>◦ the government</li> <li>◦ income distribution</li> <li>◦ the environment</li> <li>◦ current and future living standards</li> </ul> </li> <li>• Explanation that economic growth may support the achievement of some of the government's other macroeconomic objectives: <ul style="list-style-type: none"> <li>◦ low unemployment</li> <li>◦ balanced government budget</li> <li>◦ achieving environmental goals</li> </ul> </li> </ul> |      |
|                 | <ul style="list-style-type: none"> <li>• Explanation that economic growth may conflict with the achievement of some of the government's other macroeconomic objectives: <ul style="list-style-type: none"> <li>◦ balance of payments equilibrium</li> <li>◦ low, stable inflation</li> <li>◦ reduced income inequality</li> <li>◦ achieving environmental goals</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | (20) |

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1–3   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

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

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark |
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| (g)             | <p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Understanding of monetary policies.</li> <li>• Understanding of macroeconomic objectives.</li> </ul> <p>Candidates may consider either the impact of two monetary policies on one or more macroeconomic objectives each, or the impact of one monetary policy on all of the macroeconomic objectives.</p> <p>In evaluation, candidates may consider either the macroeconomic objectives that wouldn't be met through the use of monetary policies, or may consider the significance of their arguments more generally.</p> <p>Monetary policies which may be considered:</p> <ul style="list-style-type: none"> <li>• change in the interest rate</li> <li>• change in the value of asset purchases to affect the money supply.</li> </ul> <p>The effect of loose monetary policy on the macroeconomic objectives:</p> <ul style="list-style-type: none"> <li>• an increase in AD should lead to an increase in real GDP, creating economic growth for the economy but this depends on the level of spare capacity in the economy, as well as consumer and business confidence levels</li> </ul> |      |

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|  | <ul style="list-style-type: none"> <li>• demand-pull inflationary pressures would be increased, affecting the low, stable inflation objective but inflation rates also depend on the level of cost-push inflationary pressures in the economy</li> <li>• unemployment should fall in the economy</li> <li>• time lag – unemployment tends to be a lagging indicator, particularly if firms already have spare capacity</li> <li>• government budget balance would improve in the long run if the policy was successful in generating economic growth but contractionary fiscal policy might be more effective at achieving this objective, certainly in the short run</li> <li>• the environment might be harmed by the increased levels of economic activity generated</li> <li>• in developed economies such as UK, economic growth tends to reduce the level of environmental degradation</li> <li>• income inequality might worsen as economic growth tends to widen the gap between high and low income earners but lower interest rates tend to redistribute income from savers to borrowers, which would tend to improved income distribution</li> </ul> | (20) |
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| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1–3   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

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

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge:</b><br/>2 marks for identification of how intervention might work e.g.</p> <ul style="list-style-type: none"> <li>• Raising/lowering interest rates (1) which affects exchange rates/hot money flows (1)</li> <li>• Buying/selling foreign currencies (1) which affects their exchange rate (1)</li> <li>• Buying/selling domestic currencies (1) which affects their exchange rate (1)</li> <li>• Quantitative easing/changing the money supply might be used (1)</li> <li>• Sets a ceiling and floor (1)</li> </ul> <p><b>Application:</b><br/>2 marks for data references e.g.</p> <ul style="list-style-type: none"> <li>• Use of Figure 1 to show interest rate changes: e.g. central bank rose rates to 6.25 percentage points in 2018 (1) which caused the lira to appreciate 11% (1) lira has lost a third of its value against the dollar in 2018 (1)</li> <li>• Use of text to give example of Turkish government buying and selling: e.g. the country is highly indebted on foreign currency (1)</li> <li>• This might be shown by an exchange rate diagram (1)</li> </ul> |      |

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|  | <p><b>Analysis:</b><br/>1 mark for explanation e.g.</p> <ul style="list-style-type: none"> <li>• Process by which the intervention affects exchange rate/interest rate e.g. the government buys US dollars to decrease the price of Turkish lira (1) by increasing the supply of lira on the forex market (1) or raises interest rate to increase the price of Turkish lira (1)</li> </ul> <p><b>NB a diagram can be seen as application or analysis, if used in a valid context.</b></p> | (5) |
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| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
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| (b)             | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/ implicit understanding:</b><br/> 2 marks (1+1) for each reason and explanation e.g. a lower exchange rate can:</p> <ul style="list-style-type: none"> <li>• Reduces financial risks</li> <li>• To bring stability/security in the economy</li> <li>• Harms borrowers who have borrowed in foreign currency</li> <li>• Causes inflation as import costs rise</li> <li>• Worsens the terms of trade</li> <li>• Worsens living standards</li> <li>• Short term J-curve effects on current account of the Balance of Payments</li> </ul> <p><b>Application:</b> (2 marks: 1+1 or 2)</p> <ul style="list-style-type: none"> <li>• Turkish inflation 25%</li> <li>• Lira has lost a third of its value of US dollar 2018 (1)</li> <li>• Turkey is highly indebted in foreign currency (1)</li> <li>• Government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks (1)</li> <li>• The financial market faces difficulties in trying to restore <i>foreign investors'</i> confidence (1)</li> </ul> |      |

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|  | <p><b>Analysis:</b><br/>2 marks (1+1) for linked development of each point<br/>e.g.</p> <ul style="list-style-type: none"> <li>• A weaker currency can lead to cost push inflation as import prices rise</li> <li>• A weaker currency worsens the terms of trade as export prices fall relative to import prices</li> <li>• There will be less investment if there is a loss of foreign investors' confidence/AD shift</li> </ul> <p><b>Evaluation</b> (2 marks: two points 1+1 or 2). Points might include:</p> <ul style="list-style-type: none"> <li>• Inflation is very high (25%) so this should be main reason not to allow a fall in the exchange rate</li> <li>• Inflation is showing signs of reversing so a fall in the exchange rate may be less problematic</li> <li>• Problems caused by inflation might be outweighed by the other benefits such as export-led growth/improved competitiveness</li> <li>• Benefits of weak exchange rate, e.g. exports cheap,</li> <li>• Other benefits of weak currency e.g. stimulus of economy, increased competitiveness, higher employment and FDI</li> </ul> | (8) |
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| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
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| (c)             | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <p><b>Knowledge/implicit understanding:</b><br/>Policies identified might include:</p> <ul style="list-style-type: none"> <li>• Indirect tax/charges</li> <li>• Ban or other regulation</li> <li>• Free bags/nets or other state provision</li> <li>• Fines</li> <li>• Behavioural economics policy</li> </ul> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• Tax or charge on each item. Might be illustrated through a specific tax diagram or similar.</li> <li>• Ban in some parts of Turkey for specific types (carcinogenic black bags). Might be supported by a limit on supply diagram.</li> <li>• Fines for consumers and retailers in some parts of Turkey</li> <li>• Free bags/nets or other state provision in e.g. 20 000 in Corlu near Istanbul</li> <li>• 950 tonnes of plastic waste</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• Explanation of process linking the intervention to the reduction in use of bags.</li> <li>• This might be shown through a diagram(s).</li> </ul> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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 |
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| (c)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>Charges work in other countries, e.g. UK</li> <li>Emerging economies/countries might have more problems facing the cost of interventions e.g. inequality issue, poverty</li> <li>The problem is much wider than plastic/single use bags, and the interventions will only affect a few on-street purchases</li> <li>Likely to succeed because it taps into the social conscience of consumers and even a small charge may have a dramatic impact as in the UK</li> <li>The tax/charge makes up a small proportion of income so many have minimal impact. PED is very inelastic/close to zero</li> <li>Unintended consequences: e.g. multiple-use/ bags for life often contain more plastic and unless used many times can be more environmentally damaging</li> <li>First paragraph suggests they are everywhere so given habitual behaviour people may continue to use them despite charges/ tax</li> <li>opportunity cost of giving away 20 000 bags in a month – is this socially efficient?</li> </ul> | (4)  |

| Level   | Mark | Descriptor                                                                                                                                                                                                                                                                |
|---------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                                                                                                   |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                              |
| Level 2 | 3–4  | Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark |
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| (d)             | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>16 marks for KAA, for effects of increased interest rates.</p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Fixed costs to firms will rise. May cause shut down/loss of competitiveness</li> <li>• Fall in consumer demand as consumption expenditure falls - likely reduction in AR for normal goods</li> <li>• Other costs to consumers/firms/a government e.g. increased burden of debt and loan repayments/servicing costs</li> <li>• Fall in investment by firms - reducing dynamic efficiency in the economy as less funds for R&amp;D</li> <li>• Impact on Turkish housing market</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Link between higher interest rates and lower investment and lower consumption- reducing AD: inward shift of AD (or slowing outward shift) with multiplier effects with macroeconomic impacts e.g. unemployment</li> <li>• Rise in the value of the lira – worsening of current account of the Balance of Payments – possibly with effects on other countries</li> <li>• Redistribution of income e.g. from borrowers to savers/lenders, from asset holders to renters</li> <li>• Cost of financing public deficit/debt (may refer to opportunity cost) may mean less government spending elsewhere, e.g. limited ability to spend on education</li> </ul> <p><b>NB for a Level 4 response there must be micro and macro effect (s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.</b></p> |      |

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|  | <p>9 marks for evaluation – points might include:</p> <ul style="list-style-type: none"> <li>• Interest rate might not be the most significant cost for firms</li> <li>• Contractionary monetary policies already very tight. Depends on the interest rates in other markets</li> <li>• Inflation has peaked and there are signs that it will fall so the rise in interest rates is not necessary</li> <li>• Trade-off between objectives or prioritisation e.g. lower inflation at the cost of higher unemployment might be shown with critical use of a Phillips Curve</li> <li>• Depends on interest rates in other markets- do we mean lending rates in other countries.</li> <li>• Turkey's private sector is resilient - they may refer to this explaining that shut down is less likely <ul style="list-style-type: none"> <li>• Impact on housing market will depend on whether people own homes and are mortgaged or whether they rent, or whether mortgage is fixed or variable rate</li> </ul> </li> <li>• Magnitude the interest rate change - Figure 1 suggests large increases and therefore significant impact/large changes are unable to have much further effect</li> </ul> | (25) |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                      |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                               |
| Level 1                             | 1–4   | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation |      |                                                                                                                                                                                                                                                                              |
|------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level      | Mark | Descriptor                                                                                                                                                                                                                                                                   |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                      |
| Level 1    | 1–3  | Identification of evaluative comments without explanation.                                                                                                                                                                                                                   |
| Level 2    | 4–6  | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.                                                                                                             |
| Level 3    | 7–9  | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>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)             | <p><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>16 marks for KAA, for effects of increased infrastructure spending</p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Wages higher</li> <li>• Improved infrastructure affects firms e.g. businesses' fixed or variable costs fall as transport costs fall</li> <li>• Investment seen to boost business confidence, lead to further investment and spending within firms</li> <li>• External benefits/external costs associated with the project - especially given the size, number of runways and amount of traffic outlined in Extract C.</li> <li>• External economies of scale</li> <li>• Accept answers based on impact on costs and/or revenues if the building occurs in the private sector, with appropriate diagram</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Redistribution of incomes</li> <li>• Outward shift of AD/injection (I or G) into circular flow (or further outward shift in AD) with multiplier effects, with macroeconomic impacts e.g. employment and incomes rising</li> <li>• AS shift right with a movement in capacity of the productive economy shown (Keynesian or Classical AS)</li> <li>• Fiscal loosening – effects of increased budget deficit if funded without increase in tax</li> <li>• Effects of a rise in tax, if linked to government decision to raise tax to fund the projects</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |      |
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|  | <p><b>NB for a Level 4 response there must be micro and macro effect (s). Some factors could be seen as micro or macroeconomics, such as a rise in tax, increased FDI, redistribution and confidence.</b></p> <p>Up to 9 marks for evaluation. Points might include:</p> <ul style="list-style-type: none"> <li>• Opportunity cost of spending on infrastructure e.g. schools, or higher taxes,</li> <li>• Crowding out – financial or resource</li> <li>• Might be a white elephant project</li> <li>• Depends on relations with EU/other countries as to whether the airport will reach full capacity</li> <li>• Depends on the size of the multiplier effect</li> <li>• Depends on the state of the financial sector</li> <li>• True costs not accounted for - externalities ignored</li> <li>• Large projects require a lot of coordination and getting behind schedule putting lives at risk.</li> <li>• Difficulty in placing value on external benefits and costs associated with the project</li> </ul> | (25) |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                      |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                               |
| Level 1                             | 1–4   | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation |      |                                                                                                                                                                                                                                                                              |
|------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level      | Mark | Descriptor                                                                                                                                                                                                                                                                   |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                      |
| Level 1    | 1–3  | Identification of evaluative comments without explanation.                                                                                                                                                                                                                   |
| Level 2    | 4–6  | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.                                                                                                             |
| Level 3    | 7–9  | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q4.

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge</b><br/>1 mark for identification of a possible cause and 1 mark for its relevance to energy use<br/>Possible causes:</p> <ul style="list-style-type: none"> <li>• Increase in world population (1)</li> <li>• Increase in devices requiring electricity (1)</li> <li>• Increase in world GDP and living standards (1)</li> </ul> <p><b>Application:</b><br/>2 marks for data references from Figure 1 (identifying the forecast change):</p> <ul style="list-style-type: none"> <li>• Demand for nuclear and renewable more than double</li> <li>• Demand for gas doubles</li> <li>• Demand for coal and oil increase by between 30% and 50%</li> <li>• Comment on increase in overall demand</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• 1 mark for explanation of the link between the identified case and energy use</li> </ul> | (5)  |

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (b)             | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge and analysis</b></p> <ul style="list-style-type: none"> <li>Increasing injections (exports) <b>(K)</b> may lead to a boost to the circular flow and an increase in AD if not offset by greater leakages <b>(A)</b></li> <li>Decreasing leakages (imports) <b>(K)</b> may lead to a reduction in the circular flow and reduce AD <b>(A)</b></li> </ul> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>Exports increasing, imports decreasing, but until 2020, leakages still greater than injections so overall leakage from circular flow (2)</li> <li>Or 2 specific data references from figure 4</li> </ul> <p><b>Evaluation</b> (2 marks for any relevant point):</p> <ul style="list-style-type: none"> <li>These are forecasts so the impact on the circular flow may be different from that described above</li> <li>Other injections and leakages influence the circular flow which may offset the changes described above</li> </ul> | <b>(8)</b> |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul style="list-style-type: none"> <li>• recognition that gas and solar energy/nuclear energy are substitutes</li> <li>• application of cross elasticity of demand: definition or formula<br/>value will be positive</li> <li>• 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.</li> </ul> | (8)  |

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

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark       |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(c)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• much will depend on relative price of gas in relation to solar and nuclear energy</li> <li>• recognition that there will be a time lag before any impact on market for other forms of energy because supply very price inelastic</li> <li>• investors will want to be certain that change in relative prices is long term</li> <li>• impact may be limited due to the rising demand for global energy</li> </ul> | <b>(4)</b> |

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

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark        |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| (d)             | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8,<br/>Evaluation 9</b></p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> <li>• on price of gas to consumers – impact on consumers’ surplus</li> <li>• on price of gas to producers – impact on producers’ surplus</li> <li>• implications for producers of other forms of energy</li> <li>• external costs – on environment and water supply</li> </ul> <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> <li>• on investment – multiplier effect on GDP so promoting economic growth</li> <li>• on employment – an estimate that 35 000 jobs will be created</li> <li>• 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</li> <li>• rate of inflation may fall – lower energy prices</li> </ul> <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• Impact on price of energy may be less significant than in the USA</li> <li>• Impact on other forms of energy – much will depend on how much gas is obtained from fracking</li> <li>• Difficult to forecast the magnitude of external costs or to place a monetary value on them</li> <li>• 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</li> </ul> | <b>(25)</b> |

| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| <b>Evaluation</b> |       |                                                                                                                                                                  |
|-------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>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.<br>Evaluation recognises different viewpoints and can be critical of the evidence provided.                 |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 4, Application 4, Analysis 8</b></p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> <li>• impact on revenues and profits of energy companies</li> <li>• impact on investment decisions by firms in the energy market</li> <li>• impact on wages of workers in energy industries</li> <li>• impact on consumer real incomes and on demand for other goods and services.</li> </ul> <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> <li>• lower costs of production</li> <li>• lower global rates of inflation (AD/AS analysis)</li> <li>• impact on global growth rates</li> <li>• impact on balance of payments on current account of different countries</li> <li>• increase in CO<sub>2</sub> emissions: consideration of impact on climate change on different countries, reference to external costs</li> <li>• impact on consumers and producers of the main countries supplying energy.</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |      |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|  | <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• impact on different industries will depend on their energy costs as a proportion of total costs</li> <li>• impact on households will depend on cost of energy in household budgets</li> <li>• impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt</li> <li>• impact on inflation rates and growth rates depends on elasticities of AD and AS curves</li> <li>• impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of energy</li> <li>• impact on external costs depends on how different energy sources are affected</li> </ul> | (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.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>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.<br>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.<br>Evaluation recognises different viewpoints and can be critical of the evidence provided.                 |

Q5.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (a)             | <p align="center"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/> 1 mark for e.g.<br/> <ul style="list-style-type: none"> <li>Exports – imports / <math>X - M</math> (1)</li> </ul> 2 marks for e.g.<br/> <ul style="list-style-type: none"> <li>Difference between total <b>value</b> of a country's exports and imports (2)</li> </ul> <p><b>Application</b><br/> 2 marks for e.g.<br/> <ul style="list-style-type: none"> <li>The UK net trade was -2% (1)</li> <li>The UK has a trade <b>deficit</b> (1)</li> <li>China has a trade <b>surplus</b> (1)</li> <li>China's net trade was 3% (1)</li> </ul> <p><b>e.g.</b> Germany had a trade surplus of 6% = 2 marks</p> </p></p> | <b>(4)</b> |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                       | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (b)             | <p align="center"><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>Data reference to figure 1 of -2% for net trade</li> <li>Strong value of the pound</li> <li>Rising real income</li> <li>Slow growth in the world economy</li> <li>Low productivity in the UK e.g. around 20 percentage points below the G7 average</li> </ul> | <b>(6)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number  | Indicative content                                                                                                                                                                                                                                                                                                                                                                                     | Mark       |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (b)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Export of services has grown</li> <li>• Productivity difficult to measure e.g. especially large service sector</li> <li>• Investment is increasing so productivity may rise in the future</li> <li>• Time period under consideration e.g. the pound is weakening against various currencies</li> </ul> | <b>(4)</b> |

| Level   | Mark | Descriptor                                                                                                                                                             |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                       |
| Level 2 | 3–4  | Evaluative comments supported by chains of reasoning and appropriate reference to context.<br>Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (c)             | <p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge</b><br/>1 mark for, e.g.</p> <ul style="list-style-type: none"> <li>• Business confidence (1)</li> <li>• Interest rates (1)</li> <li>• Access to credit (1)</li> <li>• Rise in demand for UK exports (1)</li> </ul> <p><b>Application</b><br/>2 marks for relevant references to context or one reference to context plus development, e.g.</p> <ul style="list-style-type: none"> <li>• 5% growth in investment (1)</li> <li>• Output rising at the fastest rate in the G7 (1)</li> <li>• GDP growth has remained strong (1)</li> <li>• Unemployment continued to drop (1)</li> </ul> <p><b>Analysis</b><br/>Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Lower interest rates reduces cost of borrowing incentivising firms to invest</li> </ul> | <b>(5)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/> Identification of two reasons (1+1)</p> <ul style="list-style-type: none"> <li>• Rising UK population relative to Germany's</li> <li>• Falling productivity in UK</li> <li>• Lack of exports in UK</li> <li>• Increased imports in UK (largely due to increased domestic consumption)</li> <li>• Change in relative cost of living</li> <li>• Different inflation rates in UK and Germany</li> <li>• Changes to PPP method of calculation, e.g. items in basket of goods</li> <li>• Change in value of US Dollar used for PPP calculations</li> </ul> <p><b>Application</b><br/> 2 marks for two data references from Figure 2 and/or extract A, or application of a diagram (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• UK current account deficit 6% of GDP in third quarter 2014 (1)</li> <li>• Identify difference in growth of GDP per capita in Figure 2 e.g. 7 percentage points between 2010 and 2013 for the UK (1)</li> </ul> <p><b>Analysis</b><br/> Linked development of reasons (1+1). e.g.</p> <ul style="list-style-type: none"> <li>• falling UK productivity increases average cost of UK exports, making them more expensive relative to Germany's</li> </ul> | (6)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>Policies may include:</p> <ul style="list-style-type: none"> <li>• Improved education/training to increase skill level of workforce</li> <li>• Increase in provision and quality of apprenticeships</li> <li>• Improved healthcare to ensure workers take less time off/are healthier at work</li> <li>• Improved infrastructure, e.g. roads, railways, ports, airports, to reduce delays in transporting goods around the country/abroad</li> <li>• Improved telecommunications infrastructure (e.g. faster broadband internet) so businesses can work quicker, communicate with foreign firms better, etc.</li> <li>• Relaxing the planning system to improve house-building and efficiency in construction industry; improve labour mobility</li> </ul> <p><b>NB For a Level 3 response, answers must make clear links to increases in productivity rather than production or output</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>Points may include:</p> <ul style="list-style-type: none"> <li>• Many of these policies will have quite a long time lag e.g. nursery school vouchers will have short term and long term impacts on different stakeholders</li> <li>• Magnitude of the impact of the policies e.g. Crossrail just affects London</li> <li>• Opportunity cost of the policies</li> <li>• Conflicts between objectives e.g. impact on the environment</li> <li>• Conflicts between policies e.g. increased spending on apprenticeships may have fiscal implications</li> </ul> | (6)  |

| Level   | Mark | Descriptor                                                                                                                                                                               |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                          |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (f)             | <p><b>Knowledge 4, Application 4, Analysis 6</b></p> <ul style="list-style-type: none"> <li>• Explicit or implicit understanding of economic growth – a measure of the increase in either real GDP or real GDP per head or potential GDP</li> <li>• Relevant diagram e.g. AD/AS diagram showing rightward shift in AD and/or AS curve</li> <li>• Increased tax revenues for the government which may be used to improve public services or redistribute incomes</li> <li>• Higher profits for companies which may be used to improve quality products or to produce new products</li> <li>• Consumers' living standards improve e.g. can afford to buy more goods and services and/or have more leisure time</li> <li>• More employment opportunities/lower unemployment</li> <li>• If there is export-led growth, then the current account of the Balance of Payments would improve</li> <li>• Real economic growth increases LRAS and could lower inflation</li> <li>• An increase in business confidence which may lead to increase in investment</li> <li>• Investment in sustainable technology can have environmental benefits</li> </ul> <p><b>NB the benefits of growth can be seen as KAA or evaluation and the costs of growth vice versa.</b><br/> <b>NB For a level 4 response there must be explicit reference to "a number of concerns" which include:</b></p> <ul style="list-style-type: none"> <li>• current account deficit</li> <li>• decline in rate of return on UK investments</li> <li>• low export growth</li> <li>• growth lower than target</li> <li>• struggling goods industries</li> <li>• output falling in construction/manufacturing</li> <li>• growing household debt</li> <li>• imbalance of consumer driven growth</li> <li>• low productivity</li> <li>• skills shortage</li> <li>• house shortages</li> <li>• burdens on UK manufacturers</li> </ul> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Demand pull inflation – may be shown by a rightward/upward shift in AD curve</li> <li>• Greater inequality e.g. companies may not invest but distribute profits to shareholders</li> <li>• Growth might involve depletion of natural resources</li> <li>• External costs of growth</li> <li>• Lack of sustainability</li> <li>• Short run/long run effects e.g. technological unemployment</li> <li>• Growth could cause a deterioration in the Balance of payments since Britain has a high marginal propensity to import</li> <li>• Growth from supply side improvements may reduce inflationary pressure</li> <li>• Social impact of increased economic activity e.g. work-life balance</li> </ul> | (6)  |

| Level   | Mark | Descriptor                                                                                                                                                                                                                     |
|---------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (g)             | <p><b>Knowledge 4, Application 4, Analysis 6</b></p> <ul style="list-style-type: none"> <li>• High percentage of consumption in UK's aggregate demand in contrast to other countries in Figure 1</li> <li>• Lack of export-led growth, resulting from the state of the global economy so the UK government's £1 trillion target is unrealistic</li> <li>• Falling rate of return on investments abroad</li> <li>• Rising consumer indebtedness</li> <li>• Dependence of consumer confidence on rising house prices which may not be sustainable</li> <li>• Size of UK government budget deficit/national debt may create problems as interest rates start to rise</li> <li>• Relevant diagram e.g. trade cycle</li> <li>• Fall in real incomes</li> </ul> <p><b>NB One side of this argument should count as KAA and the opposing argument as Evaluation</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• UK has generally been a very consumer-driven economy</li> <li>• UK has persistently had a current account deficit/trade deficit and the economy has continued to grow</li> <li>• Financial reforms and increased oversight by the Bank of England have made a financial crisis less likely in the future</li> <li>• Falling commodity prices/low inflation generally benefits the UK economy as it is a net importer</li> <li>• Government is committed to a plan to get government debt under control in the long-term. This also increases confidence of UK government's lenders.</li> <li>• Macro policies, well timed, could prevent recession</li> <li>• Investment increasing 5% could counteract any recessionary pressures</li> <li>• Impact of Brexit / fall in the pound since 2016</li> <li>• Global growth would have positive impact on UK especially service sector exports</li> </ul> | (6)  |

| Level   | Mark | Descriptor                                                                                                                                                                                                                     |
|---------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

Q6.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                           | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>Price level is the <b>average</b> of the current prices of goods and services in the economy (1)</li> <li>CPI or RPI (1)</li> </ul> <p><b>NB Do not accept inflation</b></p> | (1)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b><br/>2 marks for,</p> <ul style="list-style-type: none"> <li>Correct rightward shift of LRAS (1)</li> <li>Correct new equilibrium point showing lower price level and higher real output (1)</li> </ul> | (2)  |

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

Q7.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 1, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for identifying one relevant factor, e.g.</p> <ul style="list-style-type: none"> <li>• Increased tax revenue/ lower welfare payments (1)</li> <li>• Increase in disposable income (1)</li> <li>• Less potential output will be lost (1)</li> <li>• Increase in consumption/AD/GDP (1)</li> </ul> <p><b>Application:</b><br/>1 mark for reference to the chart, for e.g.</p> <ul style="list-style-type: none"> <li>• Unemployment rate has fallen (1)</li> <li>• Unemployment rate has decreased from nearly 8.3% in 2012 to around 4.3% in 2018 or has decreased by 4 percentage points (1)</li> </ul> <p><b>Analysis:</b><br/>1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> <li>• Budget deficit would decrease (1)</li> <li>• Confidence/consumption increase (1)</li> <li>• Less waste of scarce resources / fall in spare capacity (1)</li> </ul> | (3)  |

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

Q8.

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                 | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>There may be a trade-off between environmental protection and other macroeconomic objectives, e.g.:</p> <ul style="list-style-type: none"> <li>• <b>Higher economic growth:</b> this leads to more energy usage, much of this energy is still powered by non-renewable sources such as gas (especially in the UK) or coal (e.g. Germany)</li> <li>• <b>Inflation:</b> measures to protect the environment (e.g. packaging modifications, recycling costs) may increase costs for firms, pushing up prices &amp; causing inflation</li> <li>• <b>Income inequality:</b> Replacing non-renewable energy requires huge capital expenditure which may increase energy costs for poorer people, especially in developing countries</li> <li>• <b>Unemployment:</b> Employees in polluting industries may lose their jobs if firms are forced to close due to government policies to reduce pollution</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|  | <p>The trade-offs may not occur:</p> <ul style="list-style-type: none"> <li>Increased economic growth means governments have more money to invest in environmentally-friendly solutions such as better public transport</li> <li>Firms may take this opportunity to increase their efficiency, e.g. new more environmentally friendly machinery may also be more efficient. Firms can make money from recycling products/using recycled products in production may be cheaper</li> <li>In the long term renewable energy will be cheaper for consumers and isn't subject to fluctuating world oil &amp; gas prices</li> <li>Many new jobs have been created in sectors such as renewable energy, research into carbon capture, and recycling</li> </ul> | (25) |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1-4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation |      |                                                                                                                                                                                                                                                                          |
|------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level      | Mark | Descriptor                                                                                                                                                                                                                                                               |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1    | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2    | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q9.

| Question Number | Answer                                                                                                                                                                                                                                                                                       | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(a)</b>      | <p><b>The only correct answer is D</b></p> <p><i>A is not correct because that would involve interest rates/QE</i></p> <p><i>B is not correct because that would involve changing the value of the pound</i></p> <p><i>C is not correct because that would involve interest rates/QE</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                             | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(b)</b>      | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b> 2 marks for e.g.</p> <p>500 000 X 0.17 (1)</p> <p>= 85 000</p> <p><b>NB Award full marks for correct answer</b></p> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (c)             | <p align="center"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge/understanding (1):</b><br/>Identification of one reason, e.g.</p> <ul style="list-style-type: none"> <li>• Increase in firms choosing to base themselves in the UK</li> <li>• Increased investment by UK firms leading to increased profits</li> <li>• Reduced tax evasion/avoidance</li> </ul> <p><b>Analysis:</b> 1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> <li>• With more firms locating in the UK there will be more firms paying UK corporation tax</li> <li>• A labelled Laffer curve</li> </ul> | <b>(2)</b> |

Q10.

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                 | <p align="center"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Arguments that QE <b>has been</b> effective:</p> <ul style="list-style-type: none"> <li>• QE provided financial institutions with additional funding to allow them to increase lending to businesses, thus increasing investment in the economy and therefore economic growth</li> <li>• QE provided financial institutions with additional funding to allow them to increase lending to consumers, thus increasing consumption in the economy and therefore economic growth</li> <li>• Without QE the Eurozone economy may have gone into deflation, thus significantly prolonging the recession due to further reduced consumer demand in anticipation of further falls in price</li> <li>• QE was necessary as an additional monetary policy tool for the central bank after they had already cut interest rates as low as possible and the economy had not responded</li> <li>• Commercial interest rates did not drop as much as the ECB base rate due to confidence concerns from banks, so this acted as another way to reduce interest rates</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |      |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|  | <p>Arguments that QE <b>has not been</b> effective:</p> <ul style="list-style-type: none"> <li>• Many financial institutions used QE funding to improve their own financial stability, increase their liquid assets- rather than increasing lending to businesses/consumers</li> <li>• Lack of consumer/business confidence meant there was a lack of demand for loans</li> <li>• Consumers and firms were increasing savings rather than borrowing due to concerns about stability of the Eurozone economy</li> <li>• Effect was limited by contractionary fiscal policy in many Eurozone countries</li> <li>• Significant spare capacity in European economies during recession which QE is unable to make up for</li> <li>• If recession proves short-lived too much QE could be inflationary</li> <li>• Different European countries experiencing different economic situation so a 'one size fits all' QE approach may be too much for some countries &amp; not enough for others</li> </ul> <p>Candidates can use either side of this argument as KAA and the other side as evaluation</p> | (25) |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1-4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation |      |                                                                                                                                                                                                                                                                          |
|------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level      | Mark | Descriptor                                                                                                                                                                                                                                                               |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1    | 1-3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2    | 4-6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

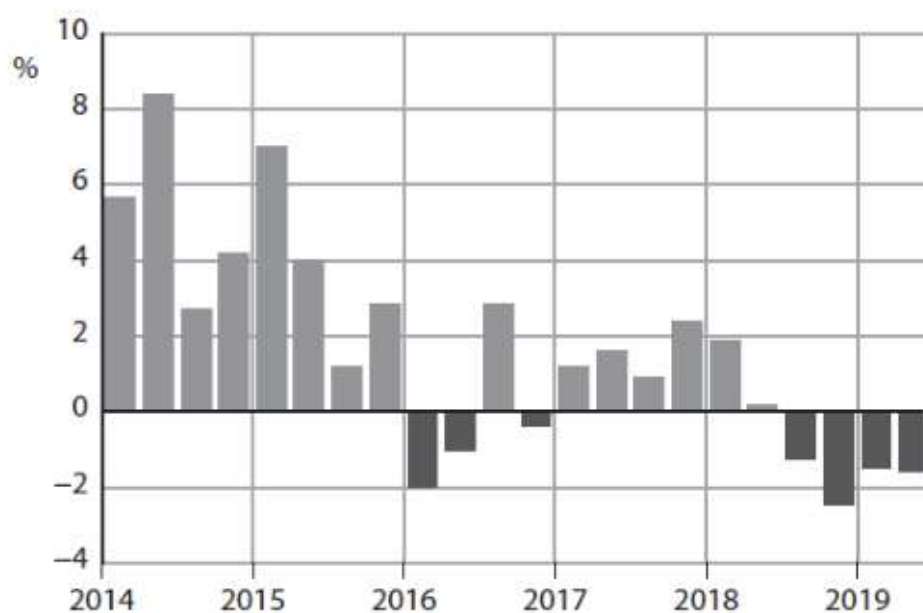
## Questions

Q1.

Read Figures 1 and 2 below and Extract A before answering this question.

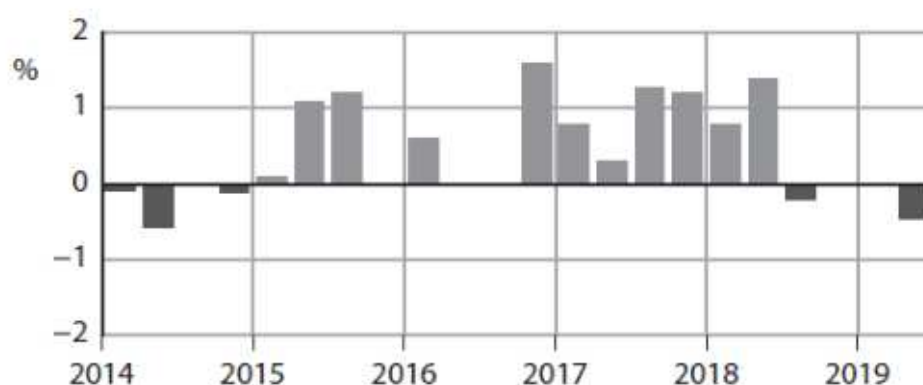
### UK investment and productivity

Figure 1: UK investment, annual percentage change, 2014 to 2019



(Source adapted from: <https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203>)

Figure 2: UK labour productivity, annual percentage change, 2014 to 2019



(Source adapted from: <https://www.theguardian.com/business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour>)

## Extract A

### Another recession?

For the first time in nearly seven years, the UK economy contracted by 0.2% in the second quarter of 2019. This was as a result of a significantly weaker than expected performance in almost every part of the UK economy.

Business investment has been weak across the world, but it is particularly low in the UK. Firms are reluctant to commit to capital spending while there is economic uncertainty. Growth in investment, in areas such as transport and machinery, has slowed. Global trade tensions are also affecting investment decisions.

5

Labour productivity decreased by 0.5% in the second quarter of 2019, the worst performance since mid-2014. Declining productivity is a concern especially as it comes at a time when the unemployment rate has been one of the lowest. The rate of unemployment decreased from 6% in July 2014 to 3.8% in July 2019.

10

The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting technology. This has decreased the prospects for increases in workers' pay. Without business investment and improvements in productivity, short-term growth in real GDP is likely to slow further and reduce living standards.

15

However, the UK Government expects the UK economy to perform better than Germany and Italy. These export-focused countries are highly exposed to the slowdown in world trade and the fall in average global incomes.

20

The UK economy is seeing continued strength in consumer spending. Consumption will support growth, provided there is no sudden shock to the UK labour market. Household incomes are strong, primarily due to high employment. Government expenditure has also been rising since the end of 2018. The UK Government has promised more money for schools and infrastructure improvements.

25

Despite this, some economists believe that the UK economy is likely to experience another recession. They claim that low income households cannot cope with a new downturn. The overall picture for the UK economy does not look promising because most businesses are reluctant to invest, productivity is low and economic growth relies on continued consumption.

30

(Source adapted from: 'On the brink: Britain's economy braced for Brexit shock', FT, <https://www.ft.com/content/40c604d2-c01c-11e9-89e2-41e555e96722>; 'Recession threat hangs over UK economy ahead of Brexit', FT, <https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203>; 'UK productivity falls at fastest pace in five years as Brexit dents investment', The Guardian, <https://www.theguardian.com/business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour>)

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

(4)

(b) With reference to Extract A, explain **two** influences on the level of UK investment.

(6)

(c) With reference to the fourth paragraph of Extract A, assess the limitations of using GDP to compare living standards over time.

(10)

(d) Explain **one** likely reason why 'the UK Government expects the UK economy to perform better than Germany and Italy' (Extract A, lines 19–20).

(5)

(e) With reference to the information provided, discuss the likely impact of a recession on the UK economy.

(15)

**EITHER**

(f) Evaluate the fiscal policies the UK Government could use if it believes that 'the UK economy is likely to experience another recession' (Extract A, lines 27–28).

(20)

OR

(g) Evaluate the supply-side policies the UK Government could use to increase the UK's productivity.

(20)

**(Total for question = 60 marks)**

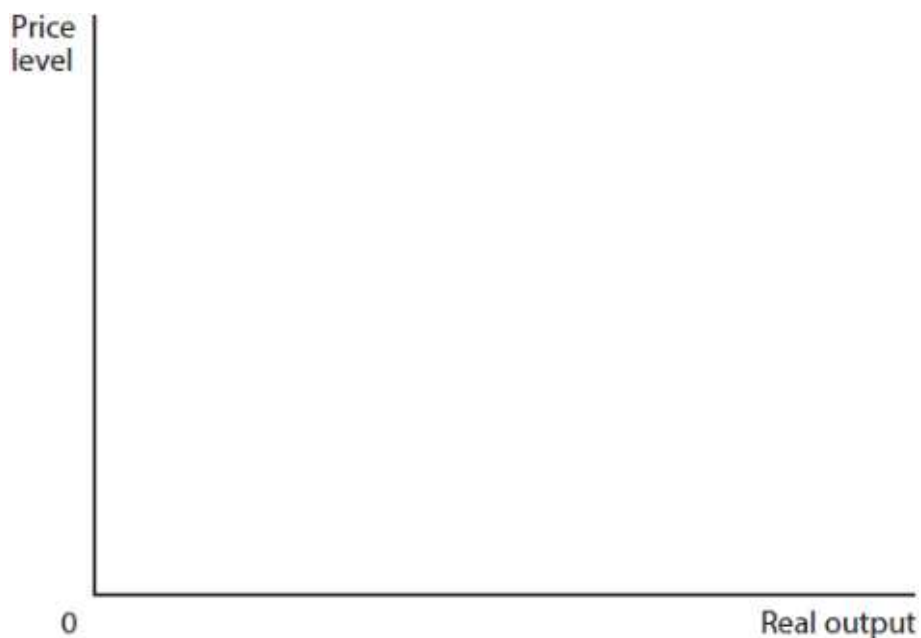
Q2.

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

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

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

(1)



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

(2)

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

(1)

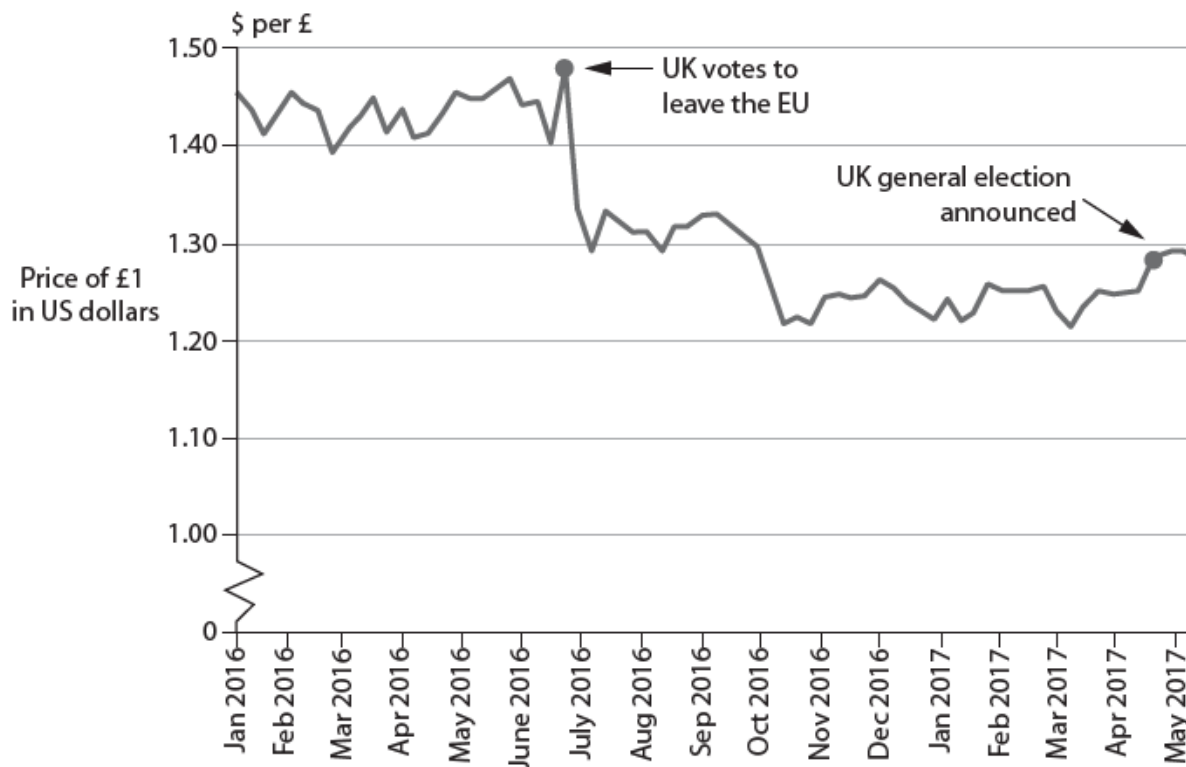
- ☒ **A** A reduction in unemployment benefits
- ☒ **B** Construction of new transportation links
- ☒ **C** Government-funded apprenticeship schemes
- ☒ **D** Increased government spending on healthcare

**(Total for question = 4 marks)**

Q3.

## The UK economy since the financial crisis

**Figure 1: Pound sterling to US\$ exchange rate, 2016-17**



(Source: adapted from <https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec>)

### Extract A

#### UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

5

10

(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. <https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec>)

### Extract B

#### Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

5  
10

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts,' by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd <https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds> and 'Lloyds bank bailout repaid in full, Philip Hammond claims,' by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims>)

## Extract C

### Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

5  
10

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 <https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b>)

(a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

**(Total for question = 50 marks)**

Q4.

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

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

In March 2020 the Monetary Policy Committee (MPC) of the Bank of England reintroduced its quantitative easing programme.

(a) Which **one** of the following is the most likely effect of this quantitative easing?

(1)

- ☐ **A** A fall in economic growth
- ☐ **B** A fall in the rate of inflation
- ☐ **C** An increase in the money supply
- ☐ **D** An increase in unemployment

The MPC of the Bank of England also cut the UK's base interest rate from 0.75% to 0.1% in March 2020.

(b) Explain **one** likely impact of a decrease in the base interest rate on inflation.

(3)

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**(Total for question = 4 marks)**

Q5.

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

**The German economy**

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

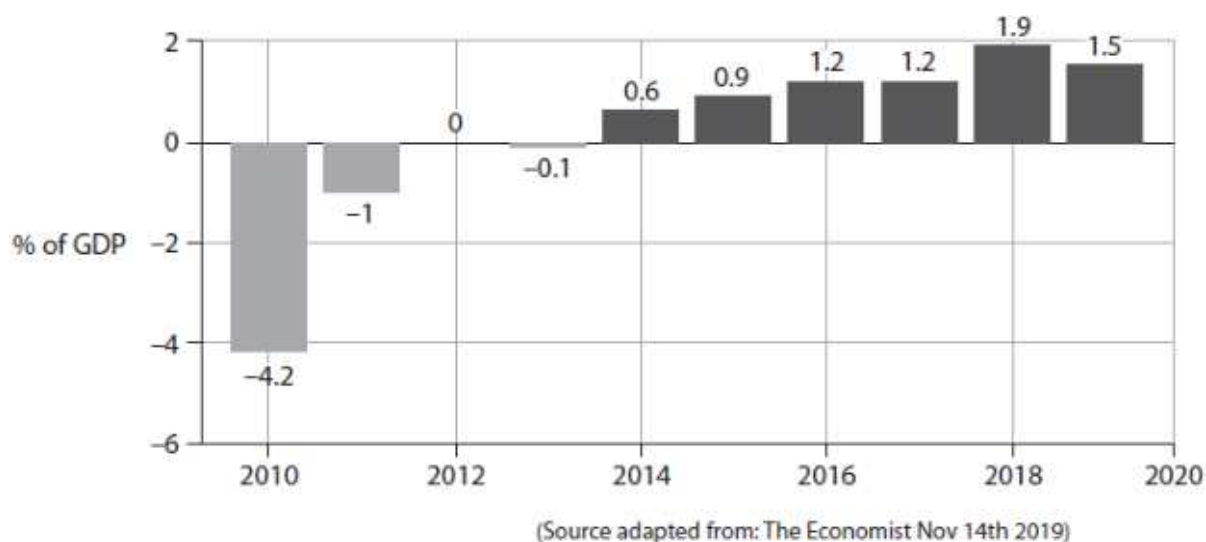


**Figure 2: German national debt, percentage of GDP, 2010 to 2019**

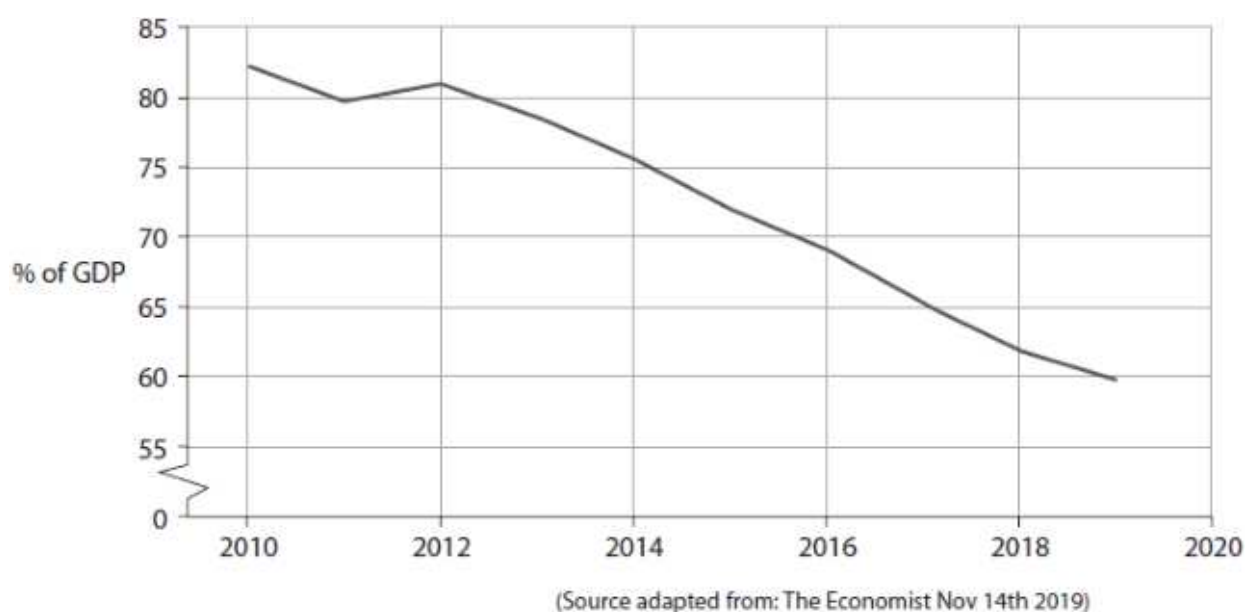


**Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)**

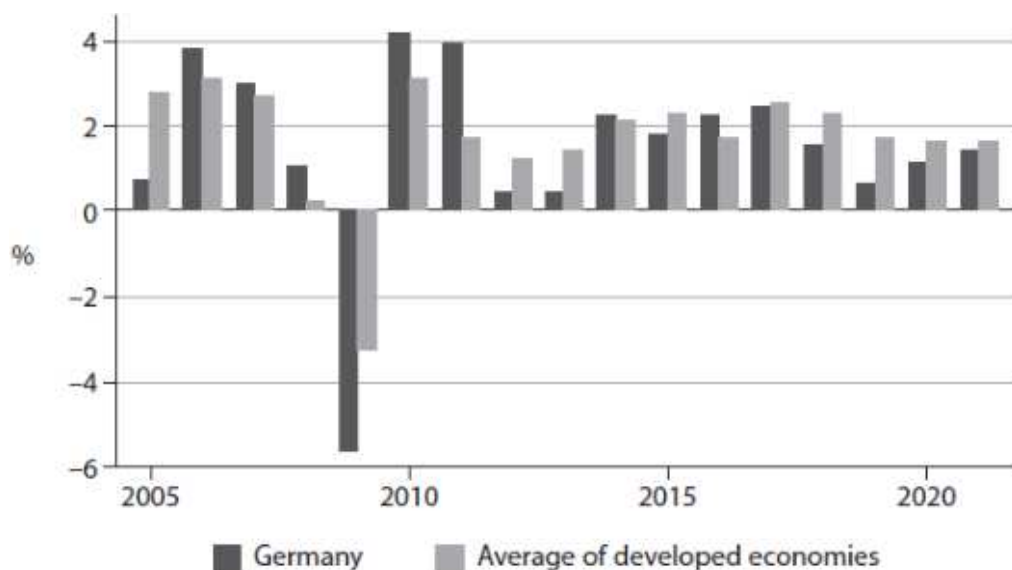
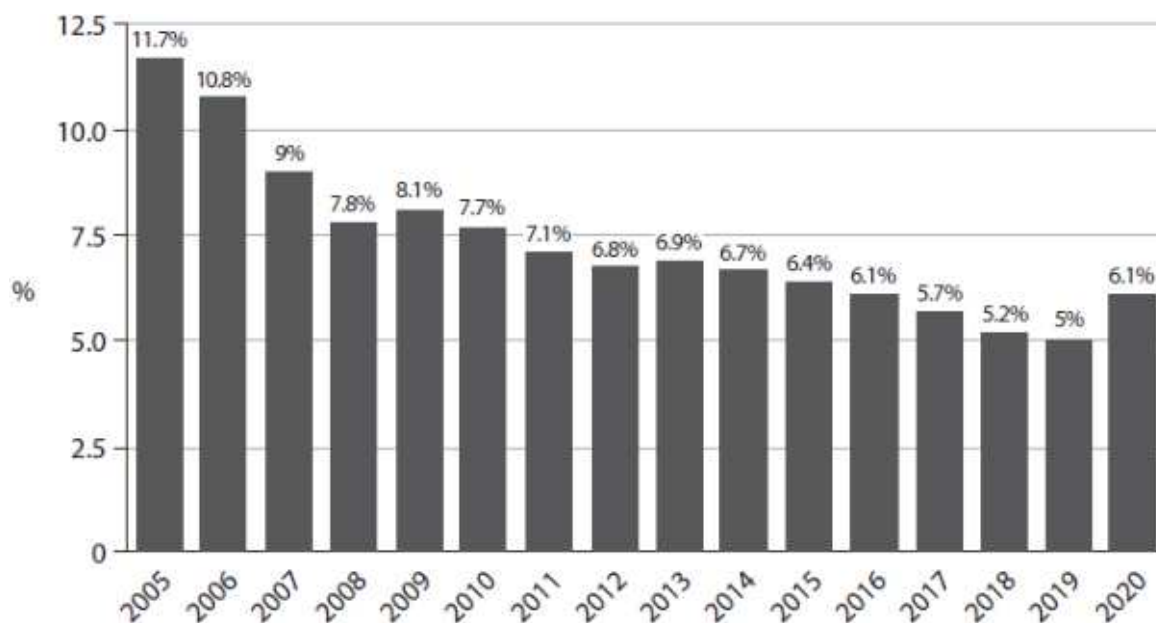


**Figure 4: Unemployment rate in Germany, percentage of labour force, 2005 to 2020**

(2020 figure is forecasted)



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

## Extract C

### Why Germany keeps to budget rules despite a slowdown in growth

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

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

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

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

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

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

## Extract D

### Germany drops to number 7 in the Global Competitiveness Index

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

5

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

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

(5)

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

(8)

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

(12)

## EITHER

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

(25)

## OR

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

(25)

**(Total for question = 50 marks)**

Q6.

In 2016 the UK Chancellor of the Exchequer announced that the government would spend an extra £23 billion on innovation and infrastructure over the following five years.

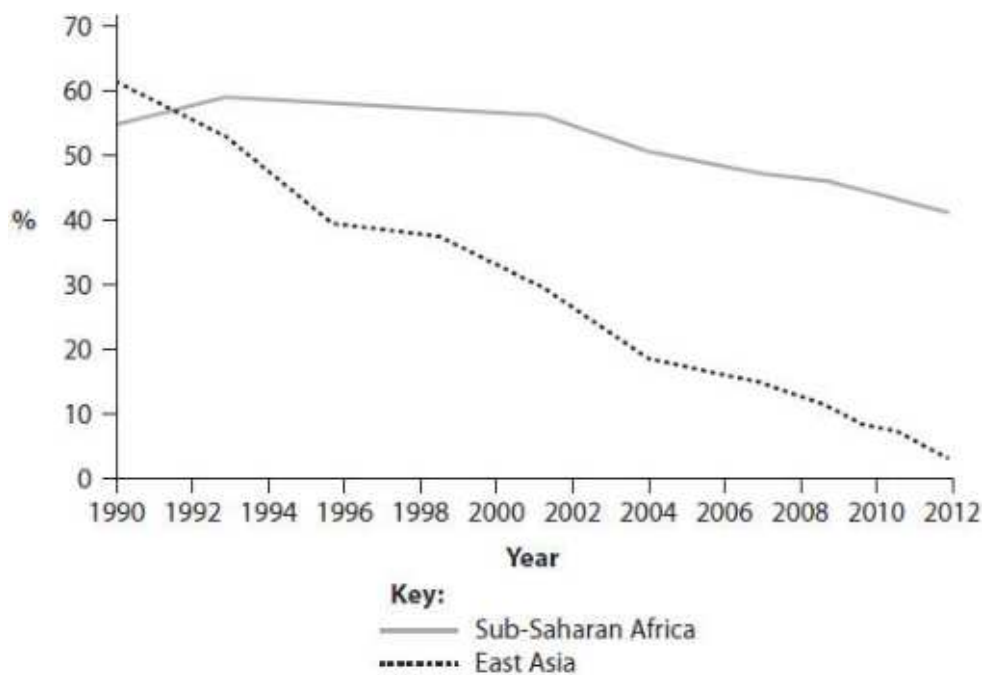
Evaluate the likely economic effects of this planned increase in government expenditure.

**(Total for question = 25 marks)**

Q7.

### **Globalisation and Inequality**

**Figure 1: Proportion of population in absolute poverty (US\$1.90-a-day 2011 PPP)**



(Source: <https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf>)

### **Lessons from globalisation**

#### **Extract A**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.                                                                                                                                                                                                                                                                                                                                  | 5  |
| In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself. | 10 |
| The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.                                                                                                                                                                                                                                                                                                                       | 15 |
| The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.                                                                                                                                                                                                                                                                                                                                                                 | 20 |
| (Source: adapted from <a href="https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism">https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism</a> )                                                                                                                                                                                                                                                                                                                                                                                   |    |

## Extract B

### Tackling inequality

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.                                                                                              | 5  |
| These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution. | 10 |
| Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.                                                                                                                                                                                    | 20 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 25 |
| (Source: adapted from <a href="https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf">https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf</a> )                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |    |

(a) With reference to the information provided, explain the distinction between absolute poverty and relative poverty.

(5)

(b) With reference to the information provided and your own knowledge, examine **two** factors that might explain the differing rates of decline in absolute poverty in East Asia and Sub-Saharan Africa.

(8)

(c) With reference to Extract A, discuss **two** macroeconomic policies, apart from protectionism, that a government could use to reduce the negative effects of globalisation.

(12)

(d) Assess the view that 'some level of inequality is desirable to maintain an appropriate incentive structure in the economy' (Extract B, lines 19 and 20).

(10)

(e) Discuss the role of the financial sector in the growth and development of developing countries.

(15)

**(Total for question = 50 marks)**

Q8.

Japan's budget deficit for 2017/18 is expected to be 4.6% of GDP. Its national debt is forecast to increase to above 250% of GDP by 2019.

Evaluate the impact of a large fiscal deficit and national debt on a country's economy.

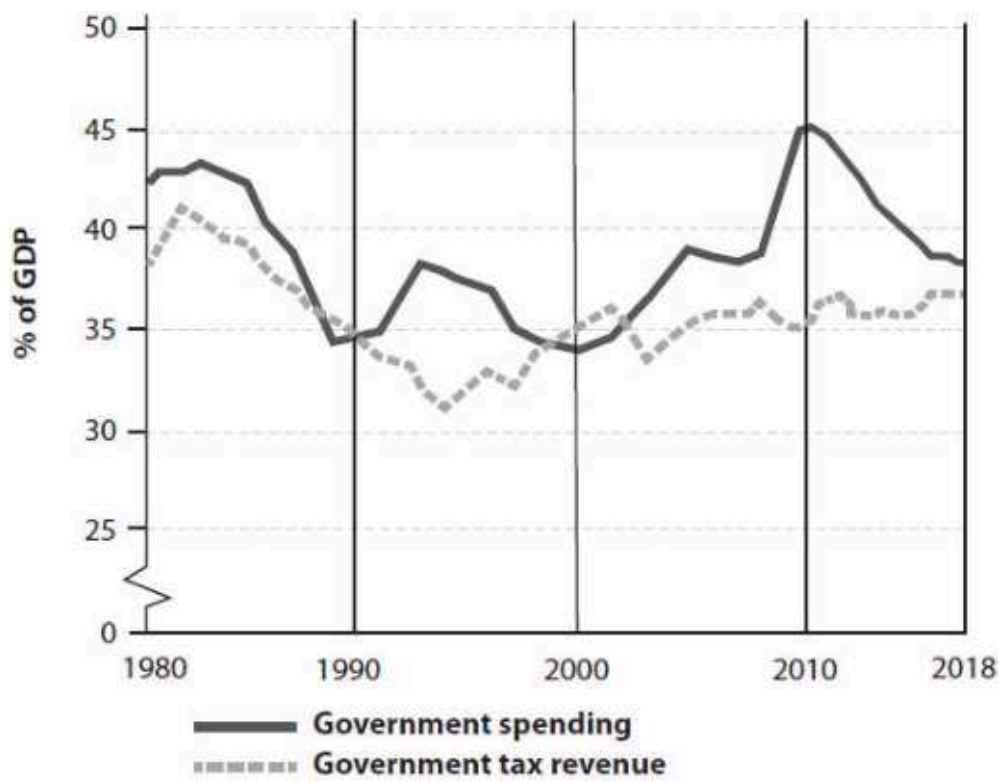
**(Total for question = 25 marks)**

Q9.

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

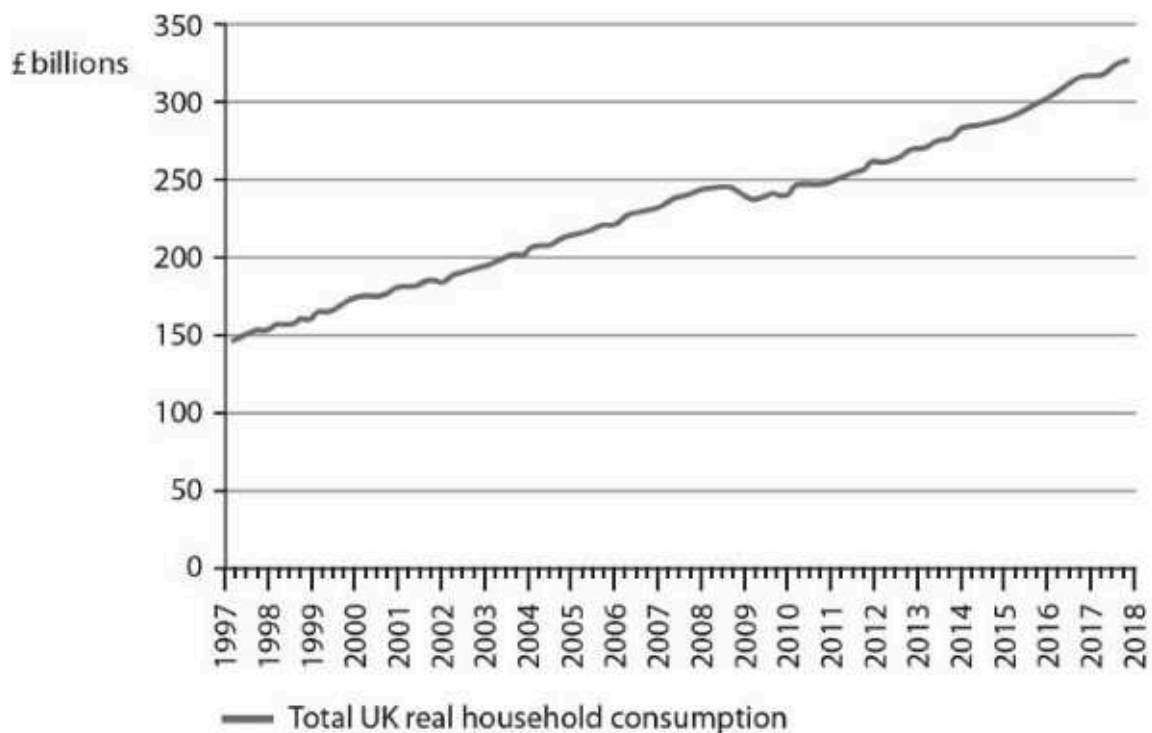
**UK government budget and household consumption**

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



(Source: adapted from Office for Budget Responsibility (OBR), [http://cdn.obr.uk/EFO-MaRch\\_2018.pdf](http://cdn.obr.uk/EFO-MaRch_2018.pdf) © Crown copyright 2018)

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



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

## Extract A

### UK household consumption

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

5

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

10

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

## Extract B

### Reduction of the UK's budget deficit

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

5

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

10

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

15

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

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

(4)

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

Refer to Extract A in your answer.

(5)

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

(6)

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

5-6).

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

(10)

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

(Extract B lines 9-10).

(15)

**EITHER**

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

(20)

**OR**

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

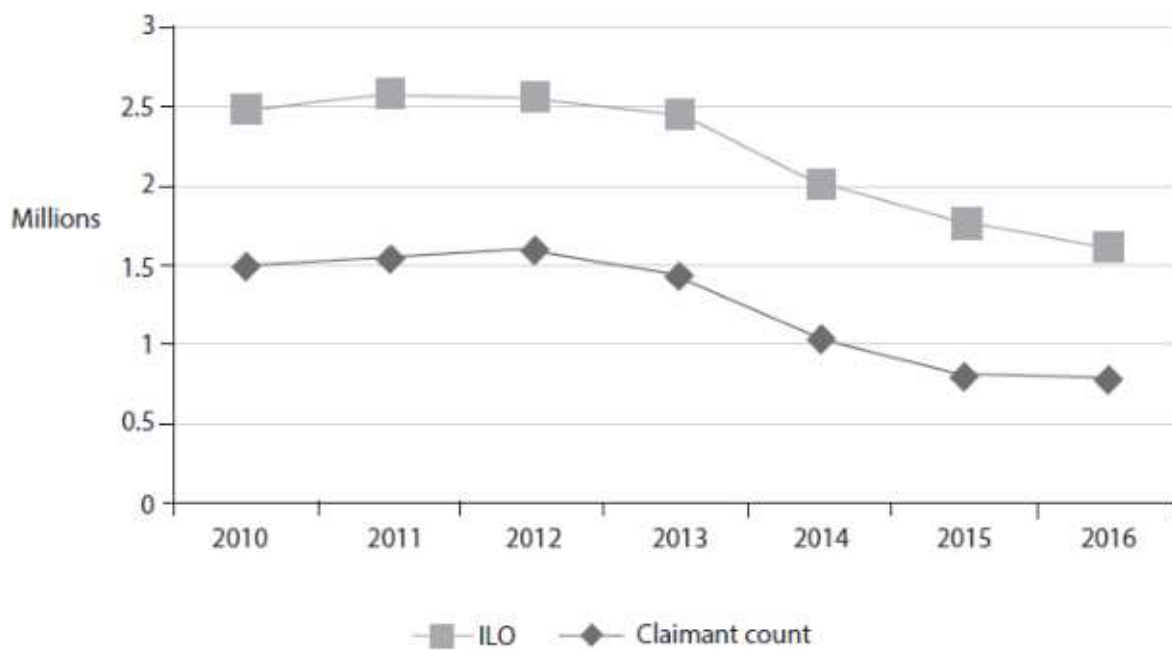
(20)

**(Total for question = 60 marks)**

Q10.

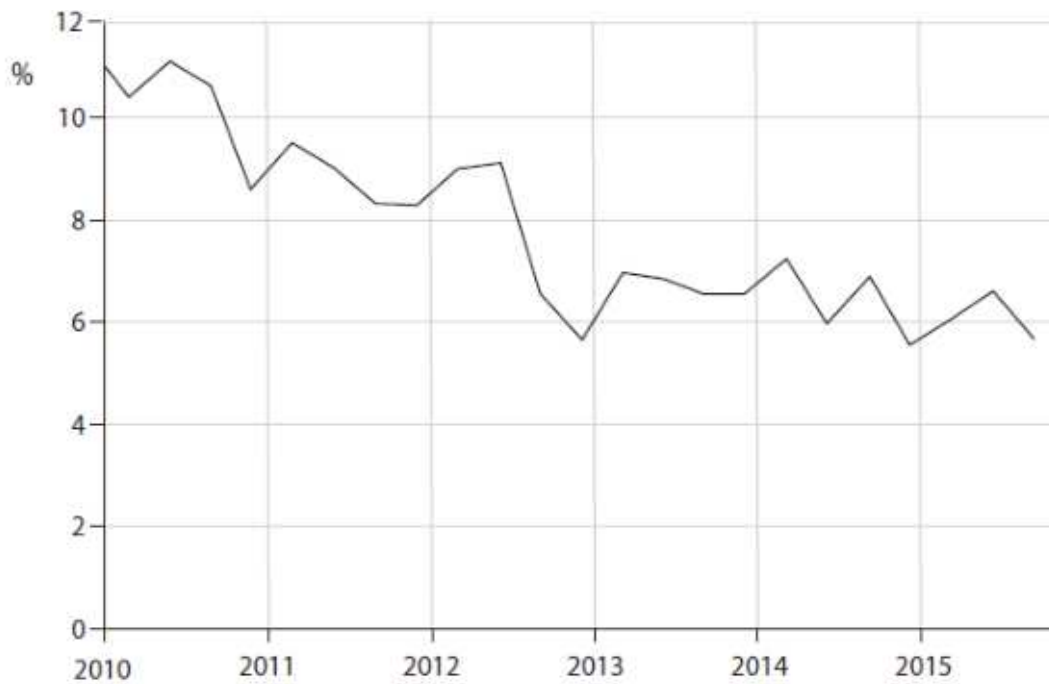
**The UK economy**

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



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

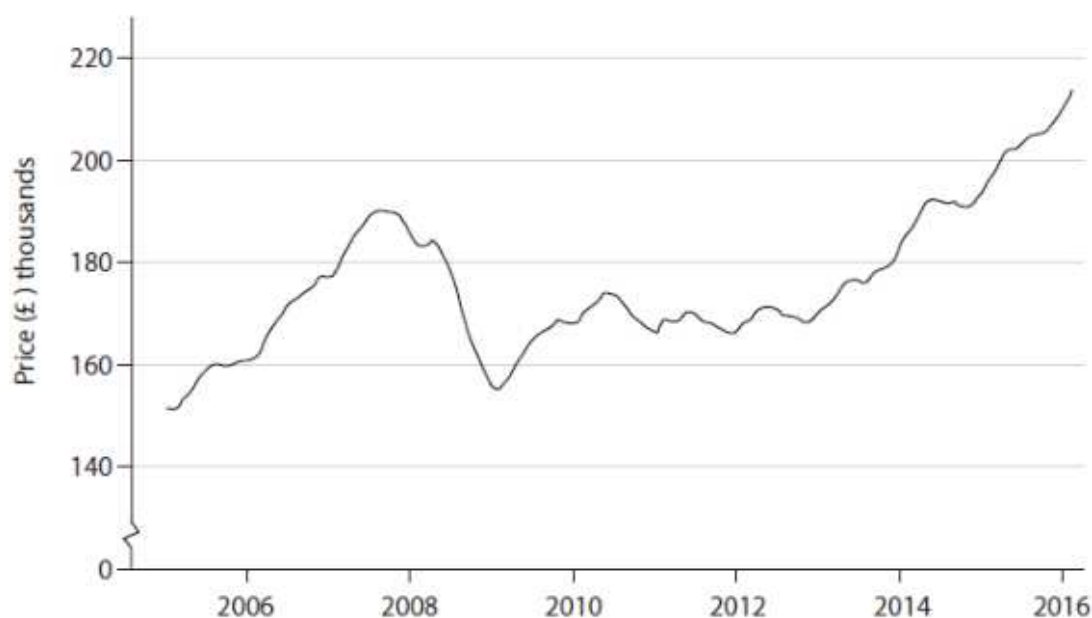
**Figure 2: Household savings\*, 2010-2015**



\* 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)**

Q11.

## Indonesia

**Figure 4: World coal prices, 2006-2016, US dollars per tonne**

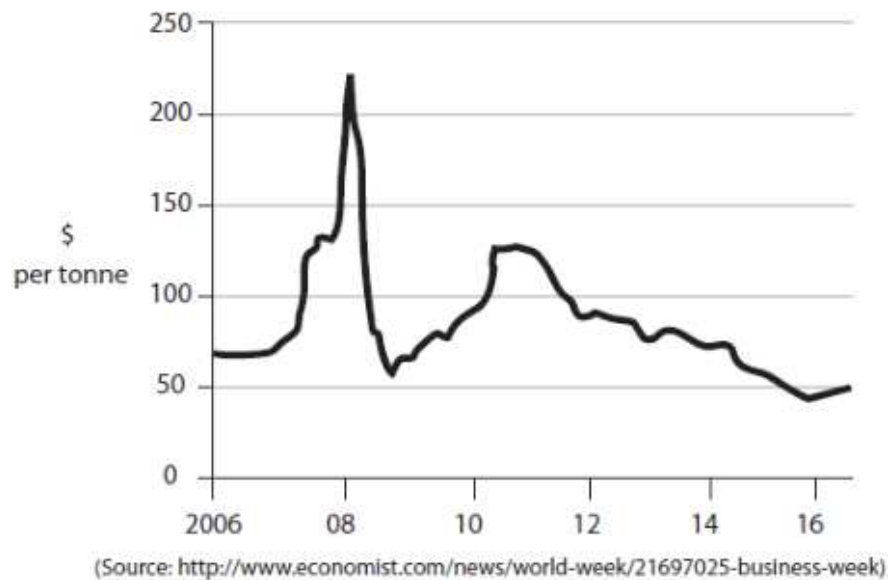
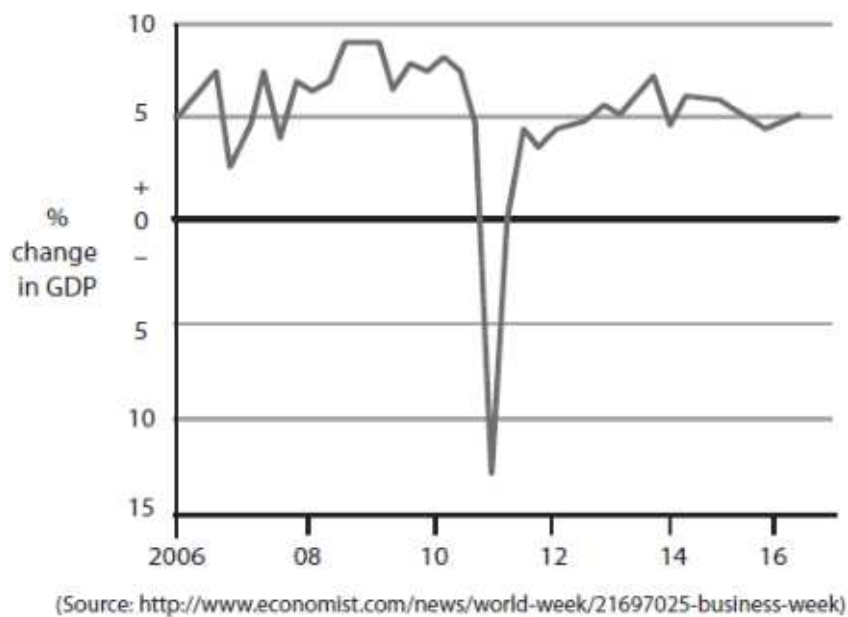


**Figure 5: Indonesia's real GDP, annual percentage change**



## Extract D

### Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones. 5

Indonesia receives US\$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US\$14.37) a month. The World Bank has approved US\$800 million in infrastructure loans to Indonesia, with another US\$950 million as conditional loans. The Asian Development Bank has committed itself to lending US\$2 billion. In December Japan's development agency lent Indonesia US\$535 million to construct two power stations. 10 15 20

(Sources: adapted from <http://country.elu.com/Indonesia> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)

## Extract E

### Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US\$50 per tonne, against US\$125 in 2011. 5

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly. 10

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP. 15

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

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The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

35

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

40

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(Sources: adapted from <http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)

(a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

## EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

## OR

(e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

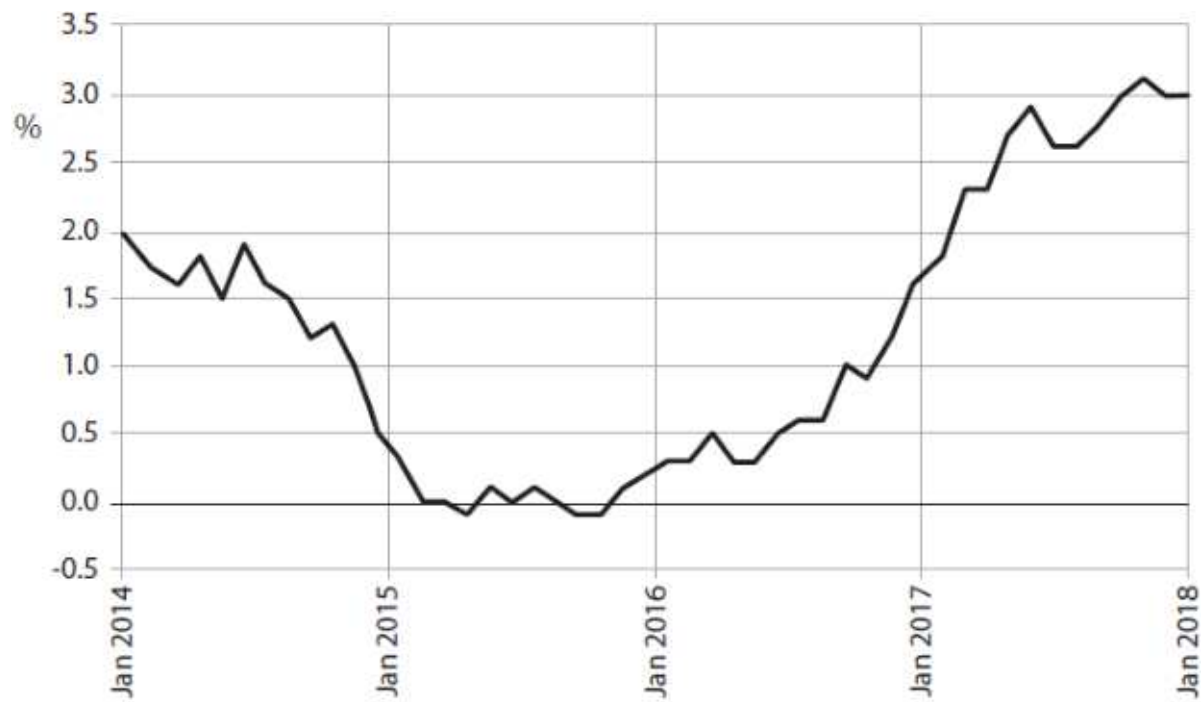
(25)

(Total for question = 50 marks)

Q12.

**UK inflation and economic growth**

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



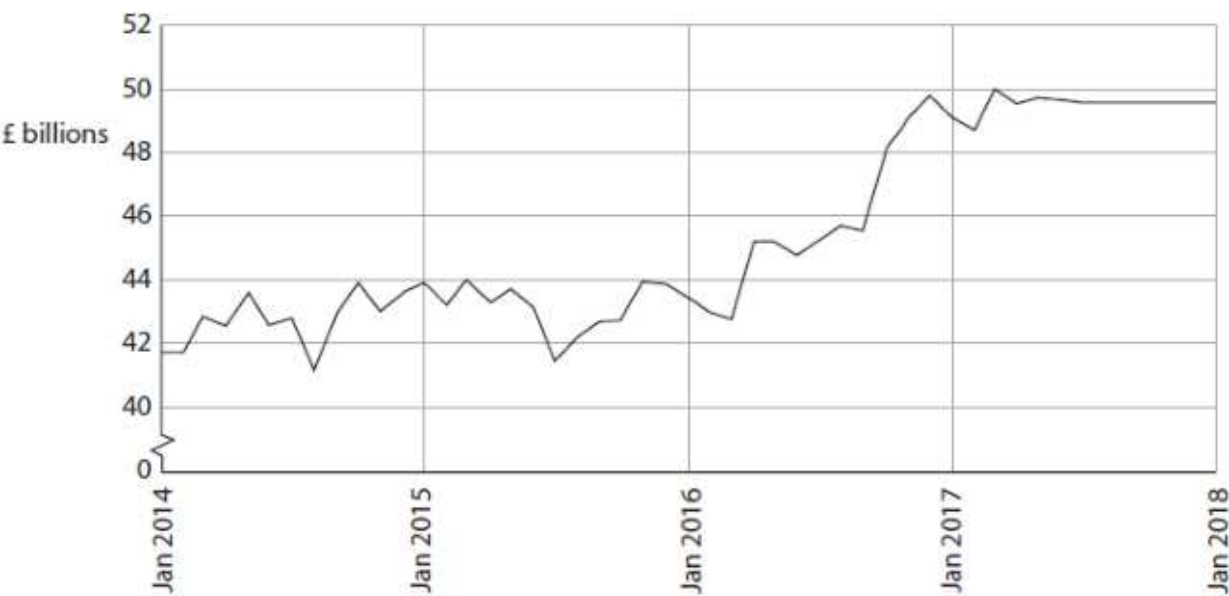
(Source: [www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx](http://www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx))

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

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

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

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



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

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

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

(Source: IMF, World Economic Outlook 2017)

**Extract A**

**Rising inflation**

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

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

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

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

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

## Extract B

### Economic growth and living standards

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

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

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

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

(4)

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

(6)

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

(5)

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

(10)

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

(15)

**EITHER**

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

(20)

**OR**

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

(20)

**(Total for question = 60 marks)**

Q13.

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

According to the charity Oxfam, the combined wealth of the 62 richest people in the world is the same as the wealth of the poorest half of the world's population. The value of the combined wealth of the poorest half of the world's population has fallen by 38% between 2010 and 2016.

(Source: adapted from <https://www.oxfam.org/en/pressroom/pressreleases/2016-01-18/62-people-own-same-half-world-reveals-oxfam-davos-report>)

(a) Explain the distinction between income and wealth.

(2)

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(b) Explain **one** likely reason why global wealth inequality has increased.

(2)

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(c) Which **one** of the following would be most likely to reduce a country's Gini coefficient?

An increase in:

(1)

- ☐ **A** import tariffs
- ☐ **B** progressive taxes
- ☐ **C** regressive taxes
- ☐ **D** value added tax

Q14.

**Markets for food and drinks high in fat, salt or sugar (HFSS)****Figure 1: UK market share of potato crisps, 2017**

| Firm    | Brand                         | Size | Market share of firm | Market share of product | Price (£) |
|---------|-------------------------------|------|----------------------|-------------------------|-----------|
| Walkers | All Walkers                   |      | 55.3%                |                         |           |
|         | of which:<br>Regular Standard | 35 g |                      | 28.1%                   | 0.45      |
|         | Regular Max                   | 50 g |                      | 7.4%                    | 0.63      |
|         | Sensations                    | 40 g |                      | 2.0%                    | 0.59      |
|         | Doritos                       | 40 g |                      | 4.7%                    | 0.45      |
|         | Other                         |      |                      | 13.1%                   |           |
| KP      | KP                            | 50 g | 22.7%                |                         | 0.52      |
| Tayto   | Golden Wonder                 |      | 4.2%                 |                         |           |
|         |                               | <40g |                      | 3.1%                    | 0.38      |
|         |                               | 40g+ |                      | 1.1%                    | 0.72      |
| Other   | Other                         |      | 17.8%                |                         |           |

(Source: adapted from <https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food> 6 April 2017)

**Extract A****The effects of a total ban on advertising of HFSS foods**

Food and drinks which are high in fat, salt or sugar (HFSS) tend to be sold in highly concentrated markets. Tough new rules banning advertisements for HFSS products, such as those for confectionery, fizzy drinks and potato crisps, come into effect in July 2017 as a means to reduce consumption. The rules apply to media targeted at under-16s and will mean a major reduction in the number of advertisements children see for HFSS products in posters near schools, in films targeted at children, on catch-up television and in social media if it is directed at children. 5

There are three main factors that will determine the effectiveness of the intervention: first, whether advertising acts to expand the market share or steal rivals' market share. Secondly, how firms in the market adapt their behaviour in response to the ban. Thirdly, what substitute products do consumers turn to if they opted out of the targeted market. 10

Results from a recent survey in the UK suggest that the total quantity of crisps sold would fall by around 15% in the presence of an advertising ban, or by 10% if firms respond with price cuts, since the ban acts to make the market more competitive and firms respond to the ban by, on average, lowering their prices. 15

The survey showed that following a ban, consumers are more likely to switch to another junk food than to a healthy food, which (in addition to the pricing response of firms) acts to partially offset any health gains from the policy.

(Source: adapted from The Effects of Banning Advertising in Junk Food Markets, Dubois, Pierre; Griffith, Rachel, Review of Economic Studies Copyright © 2017, Oxford University Press <https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food> 6 April 2017 and <https://www.asa.org.uk/news/tougher-new-food-and-drink-rules-come-into-effect-in-children-s-media.html> 30 June 2017)

## Extract B

### Taxing HFSS foods and subsidising healthy eating widens inequality

Since low-income groups spend a higher proportion of their income on food and tend to eat less healthily, they are the main targets of taxes on products that are high in fat, salt or sugar (HFSS). Subsidies on healthy food are seen as an alternative policy approach to encourage healthy eating. While data on the impact of such policies are scarce, a recent study on the distributional impacts of HFSS taxes and healthy food subsidies found that these actually widened health and fiscal inequalities. The policies tend to be regressive and favour higher-income consumers. Taxes on unhealthy food increase prices which have a greater impact on low income groups rather than higher income groups. Lower income groups prefer to buy HFSS food. 5 10

Subsidies encouraged all income groups to buy more fruit and vegetables. However, those on higher incomes proved more responsive and the average share of budget spent on healthy food actually increased for the higher income groups who were more likely to buy the subsidised healthy food and then spend the savings they had enjoyed on yet more healthy food. The diets of the higher income groups before the subsidy tended to be healthier. The choices of the higher income groups are more responsive to price changes. By contrast, lower income groups, if they responded to lower prices, often used the money saved to buy unhealthy items or something else entirely. The long-term benefits of a healthier diet are harder to grasp for consumers when information gaps exist. Often the immediate boost of a tasty treat is more appealing. Taxes and subsidies do not change that. Other strategies are needed to promote healthy eating, especially education. 15 20

(Source: adapted from Economist 5 October 2017 <https://www.economist.com/news/finance-and-economics/21730033-study-suggests-lower-income-families-end-up-paying-more-their-food-taxing-fat> and [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3031005](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3031005) The Economic Journal September 2017 Vol 127 Issue 604)

## Extract C

### Tax on fatty foods in Denmark is an economic disaster

Denmark introduced a specific tax on saturated fat in October 2011. Recognised as a world-leading public health policy, it was abandoned just 15 months later having been both an economic and political disaster.

Indirect taxes of this sort are invariably regressive, disproportionately affecting the elderly and the poor. The specific tax led to prices rising on average 15% for highest-fat products, yielding a total decrease of 5% in the intake of saturated fat from products such as minced beef and cream. 80% of Danish consumers did not change their shopping habits at all. The behavioural change was economically damaging as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping. Danish tax revenue fell as a result.

(Source: adapted from <https://iea.org.uk/in-the-media/press-release/evidence-shows-a-fat-tax-would-hit-poorest-the-hardest> 25 May 2013 and <https://www.cambridge.org/core/journals/public-health-nutrition/article/effects-of-the-danish-saturated-fat-tax-on-the-demand-for-meat-and-dairy-products/984CF03634C819D50E66C7B5DC5209DA/core-reader>)

(a) With reference to Figure 1 and Extract A, explain what is meant by a 'highly concentrated' market for potato crisps (Extract A, lines 2–3).

(5)

(b) Apart from changes in indirect taxes and subsidies, examine **two** causes of income inequality within a developed economy such as the UK.

(8)

(c) In Extract A, lines 15–16, it was suggested that some firms may respond to the advertising ban by cutting the prices of their products.

Using game theory and the information provided in Figure 1 and Extract A, discuss the effects **on firms** of cutting prices in an oligopolistic market.

(12)

## EITHER

(d) Evaluate the microeconomic and macroeconomic effects of increased government spending on education to promote healthy eating in the UK.

(25)

## OR

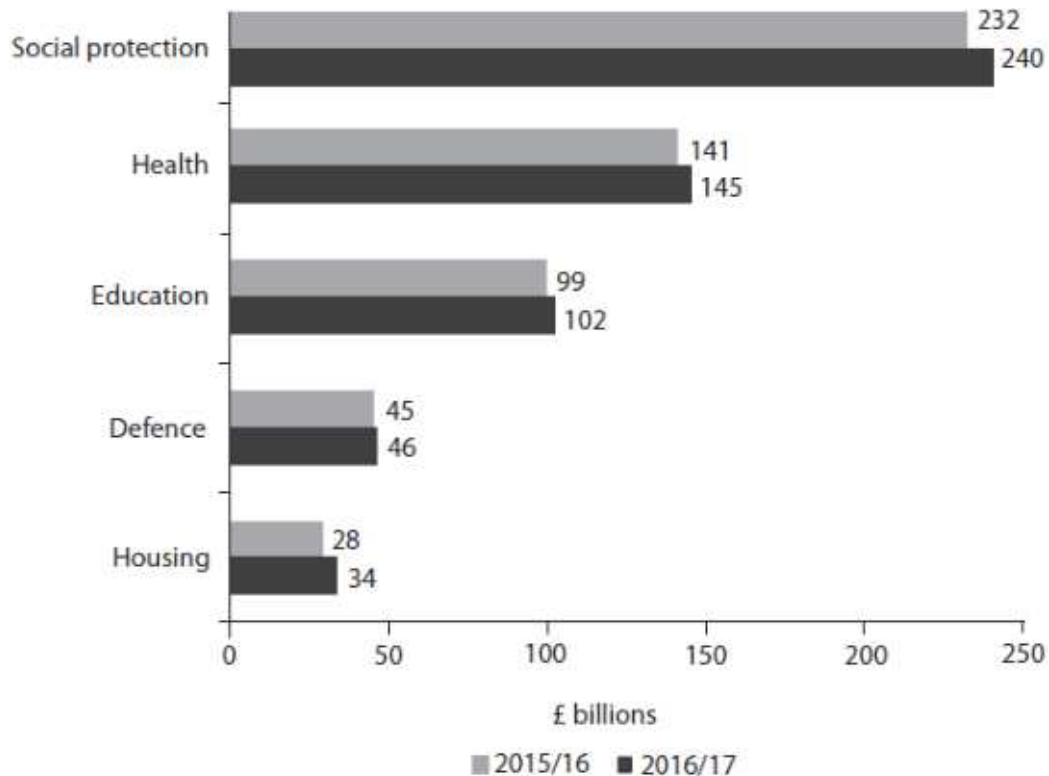
(e) Evaluate the likely microeconomic and macroeconomic effects of imposing a tax on HFSS foods.

(25)

**(Total for question = 50 marks)**

Q15.

The chart below shows selected areas of forecast UK government spending for 2015/16 and 2016/17.



(Source: Budget 2015, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/416330/47881\\_Budget\\_2015\\_Web\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf); Budget 2016, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/508193/HMT\\_Budget\\_2016\\_Web\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf))

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

In 2016/17:

(1)

- ☒ **A** the change in forecast UK government spending is highest on education
- ☒ **B** the forecast UK government spending in all areas has fallen from 2015/16
- ☒ **C** the forecast UK government spending on defence is twice as much as the forecast spending on housing
- ☒ **D** the percentage change in forecast UK government spending on health, from 2015/16, is 2.84%

(b) In 2016/17 total forecast UK government spending amounted to £772 billion and total forecast tax receipts amounted to £716 billion.

Calculate forecast UK government spending on social protection as a percentage of total forecast UK government spending in 2016/17. You are advised to show your working.

(2)

[illegible]

(c) Define the term 'budget deficit'.

(1)

.....

.....

.....

**(Total for question = 4 marks)**

## Mark Scheme

Q1.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• An increase in (1) capital stock of the economy (1)</li> <li>• Money spent on purchasing capital goods/improving factors of production (1) to raise productivity/LRAS/produce consumer goods (1)</li> <li>• An injection (1) into the circular flow of income (1)</li> </ul> <p><b>Application</b><br/>2 marks for 2 data references from Figure 1 (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• In Q1 2015, investment increased by 4% (1) and in Q1 2016, investment decreased by 2% (1)</li> <li>• Between Q3 2018 and Q2 2019, investment has been falling each quarter (1)</li> <li>• In Q2 2014, highest percentage change (1) was approximately 8.2% (1)</li> </ul> | (4)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding and analysis</b><br/>1 mark for identification of each influence (1+1) and 1 mark each for linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Business confidence/expectations/animal spirits (1K): firms will only invest if there is less uncertainty about future costs and revenues, and sales (1AN)</li> <li>• Demand for exports (1K): lower the demand in a country to which a firm is trying to export, the less the investment (1AN)</li> <li>• Rate of economic growth (1K): fall in GDP will mean firms do not invest in capital goods as there is lower demand (1AN)</li> </ul> <p><b>Application</b><br/>1 mark for each data reference (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Firms are reluctant to commit to capital spending while there is economic uncertainty (1)</li> <li>• uncertainty over the UK's future trade relationship has discouraged companies from investing (1)</li> <li>• trade tensions are also affecting investment (1)</li> <li>• fall of 0.2% in Gross Domestic Product (GDP) (1)</li> <li>• another recession? (1)</li> </ul> <p><b>NB Award up to 4 marks for one influence well developed (1kn + 1ap + 2an)</b></p> | (6)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (c)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Understanding of the term GDP / living standards</p> <p>Limitations may include:</p> <ul style="list-style-type: none"> <li>• Percentage changes are misleading without any reference to total GDP</li> <li>• Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income</li> <li>• Differences in distribution of income as growth varies across the country with jobs and wages distributed unevenly</li> <li>• Quality of life issues such as spending on health and education – impact is difficult to measure</li> <li>• Subsistence, barter, and the hidden economy will undervalue the real output and national income shall not reflect true living standards</li> <li>• Currency values do not effectively calculate an accurate purchasing power parity</li> <li>• Population growth in developing countries may account for most growth in GDP</li> <li>• Spending on investment goods may raise future living standards at the expense of the current</li> <li>• Methods of calculation and reliability of data</li> <li>• Size of the public sector spending which may or may not improve the standard of living</li> </ul> <p>Students may consider the limitations of real or nominal GDP</p> | <b>(6)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark       |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(c)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <p>Points may include:</p> <ul style="list-style-type: none"> <li>• Ease of using GDP data for comparison over time</li> <li>• Benefits of using GDP for comparison – standard measure and well understood</li> <li>• GDP is internationally recognised and still possibly the best measure available for comparison</li> <li>• Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards</li> <li>• Standard of living is subjective, and it cannot be measured effectively and accurately</li> </ul> | <b>(4)</b> |

| 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       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(d)</b>      | <p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding and analysis</b><br/>1 mark for identification of <b>one</b> reason and up to 2 marks for linked development (1+1), for e.g.</p> <ul style="list-style-type: none"> <li>• Export-led growth (1K): a decrease in net exports will decrease their AD (1AN), leading to lower real output/economic growth (this may be shown diagrammatically) (1AN)</li> <li>• Slowdown in economic growth of trading partners (1K): so when Germany and Italy encounter lack of demand for their exports (1AN) there is a fall in the net trade component of their AD (1AN)</li> </ul> <p><b>NB Answers can be analysed and explained in any combination of the above points</b></p> <p><b>Application</b><br/>2 marks (1+1), for e.g.</p> <ul style="list-style-type: none"> <li>• Germany and Italy are export-focused (1)</li> <li>• The UK economy is consumption driven (1)</li> <li>• Highly exposed to the slowdown in world trade (1)</li> <li>• There has been a fall in average global incomes (1)</li> <li>• Contribution of exports to Germany's and Italy's GDP/economic growth is greater than that of UK (1)</li> <li>• Germany and Italy are more reliant/dependent on international trade than the UK (1)</li> </ul> | <b>(5)</b> |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>Impact (cost) may include:</p> <ul style="list-style-type: none"> <li>• Consumers will receive lower average incomes and they will not be able to afford more goods/services nor increase their standard of living; poverty rates could potentially rise; house prices depressed</li> <li>• With lower real GDP, firms employ less workers creating unemployment; wages fall and creates greater inequality .. "low income households cannot cope with a new downturn"</li> <li>• Firms are likely to make less profits as consumer spending falls; less production implies lower future investment into R&amp;D/innovation</li> <li>• With lower GDP, fewer resources can be devoted to promoting the use of renewable resources</li> <li>• Reduction in tax revenues and higher government spending on unemployment and welfare benefits; greater borrowing and debt to GDP ratios</li> <li>• High social dislocation/crime/civil unrest/stress issues/high divorce rates; worsens health; lower life expectancy</li> </ul> <p><b>NB Responses can discuss costs as KAA and benefits as EV (and vice versa)</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark       |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(e)</b><br>continued | <p align="center"><b>Evaluation 6</b></p> <p>Impact (benefit) may include:</p> <ul style="list-style-type: none"> <li>• Lower demand may reduce demand-pull and cost-push inflationary pressures; the central bank may decide to lower interest rates to control inflation</li> <li>• Lower external costs due to less output production by firms; less exploitation of finite resources and less depletion of non-renewable resources</li> <li>• Lower spending on imports as marginal propensity to import will fall, causing an improvement in the current account deficit of the balance of payments</li> <li>• Lower inequality: those with assets may witness a proportionally smaller rise in the market value of their income on their wealth</li> <li>• Depressed house prices make houses affordable to non-homeowners</li> <li>• Many problems of crime/excessive consumption of demerit goods are committed by people in work – this is likely to fall</li> <li>• <i>Other evaluative comments:</i> just a -0.2% contraction thus the impact will be relatively small/the size of the recession is important in terms of the impact</li> <li>• Recession did not occur in 2019 as there were no two quarters negative growth</li> </ul> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                               |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                          |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (f)             | <p><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>KAA:</p> <ul style="list-style-type: none"> <li>• Definition of expansionary fiscal policy</li> <li>• AD/AS diagram showing change in AD/AS consistent with analysis</li> </ul> <p>Possible policies include:</p> <ul style="list-style-type: none"> <li>• Increase government expenditure, e.g. on training and apprenticeship programmes</li> <li>• Education spending by offering more bursaries for university courses and subsidies to universities</li> <li>• Government spending on infrastructure and housing policies (mortgage relief, key worker subsidies)</li> <li>• Cut in the rate of income tax – increase purchasing power and disposable income; will lead to greater consumption and promote economic growth</li> <li>• Lower corporation tax will reduce the firms cost of production giving them an incentive to invest more – use of Figure 1</li> <li>• Increased income tax threshold, decrease in national insurance contributions</li> <li>• Lower indirect taxes, e.g. VAT</li> <li>• Relaxation of austerity measures</li> <li>• Increase in unemployment benefits</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |      |
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|  | <p><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Significance of the fiscal policy - monetary policy may be seen as an ineffective tool (as interest rates have been historically low) in tackling future downturns</li> <li>• Conflict with other macroeconomic objectives such as reducing budget deficit and national debt (can award conflicts with different objectives)</li> <li>• Long run and short run impacts (18 to 24 months time lags)/implementation lags</li> <li>• Depends on the value of the multiplier in the UK</li> <li>• If consumer and business confidence is low, the effects may not be as large or significant</li> <li>• Depends on the level of spare capacity in the economy/elasticity of the LRAS</li> <li>• Relative importance and likely effectiveness of the policies discussed, e.g. raising benefits provides less incentive to find employment</li> <li>• Free market economists argue that higher spending will be wasted on inefficient spending projects</li> <li>• Can lead to higher bond yields, increasing the cost of debt repayments</li> </ul> | (20) |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                     |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1           | 1-2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

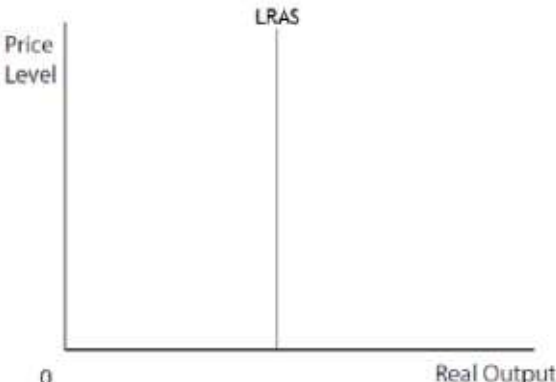
| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>(g)</b>      | <p><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>KAA:</p> <ul style="list-style-type: none"> <li>• Understanding/definition of supply-side policies</li> <li>• Understanding/definition of productivity</li> <li>• AD/AS diagram showing change in AS consistent with analysis/use of PPF diagram</li> <li>• Increased government spending on education and/or training - this would increase skills and productivity</li> <li>• Increased government spending on healthcare – this should reduce the number of days absent from work</li> <li>• Reducing level of benefits and/or income tax – this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work</li> <li>• Cutting cost of bureaucracy and/or reduce regulation of firms – this would raise productivity</li> <li>• Improving regulation and/or competition of inefficient industries – this would increase the UK's productivity</li> <li>• Privatisation - this may lead to increased competition, innovation and efficiency in the UK</li> <li>• Increased government spending on infrastructure investment (e.g. broadband or roads) – this would reduce industry costs or improve access to market</li> <li>• Reducing corporation tax – therefore increasing the international competitiveness for investment</li> <li>• Government schemes to improve childcare provision</li> <li>• Increased flexibility and/or mobility of labour</li> </ul> <p><b>NB Award a maximum of Level 3 if there is no link to or discussion of productivity</b></p> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |             |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
|  | <p><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Significant time lag for supply-side policies</li> <li>• Difficult to accurately measure productivity</li> <li>• Consideration of effectiveness of supply-side policies such as infrastructure, education and healthcare at delivering sustainable growth</li> <li>• Privatisation may lead to private monopolies and less efficiency and lower economic growth</li> <li>• Cut in income tax designed as an incentive to work and investment may be ineffective if workers use it as an opportunity to work less for the same income</li> <li>• Cut in corporation tax ineffective if companies use the cut in corporation tax to boost their short-term profits rather investment on productivity-boosting technology</li> <li>• Increase in UK taxation elsewhere may have an effect on incentives to work</li> </ul> | <b>(20)</b> |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|

| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                     |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1           | 1-2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

Q2.

| Question Number | Answer                                                                                                                                                                                                        | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge:</b></p>  <p style="text-align: right;"><b>(1)</b></p> |      |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding:</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>Economy operates at full capacity/no spare capacity (1) so there are no unused factors of production/ resources (1)</li> <li>Wages and prices are seen as flexible, and markets efficient (1) so that the labour market adjusts to maintain full employment (1)</li> </ul> <p style="text-align: right;"><b>(2)</b></p> |      |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                 | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because this is an interventionist supply-side policy</p> <p><b>C</b> is not correct because this is an interventionist supply-side policy</p> <p><b>D</b> is not correct because this is an interventionist supply-side policy</p> <p style="text-align: right;"><b>(1)</b></p> |      |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge/Understanding:</b> (1+1 or 2) marks<br/>Explanation of forward markets in currencies, e.g.</p> <ul style="list-style-type: none"> <li>• Firms buy their currency in advance (1)</li> <li>• Firms agree a fixed price (1) for purchase of foreign currency in the future (1)</li> </ul> <p><b>Application:</b> (1+1) marks<br/>Reference to Extract A, e.g.</p> <ul style="list-style-type: none"> <li>• Currency 'has a big impact' on their business</li> <li>• Buying currency as soon as a large order is confirmed</li> <li>• 'The pound's post-Brexit referendum depreciation'</li> </ul> <p>Other application e.g. use of Figure 1. NB at least one piece of data must come from Extract A for the full 2 Ap marks.</p> <p><b>Analysis:</b> (1) mark<br/>Linked development, e.g.</p> <ul style="list-style-type: none"> <li>• Enables firms to reduce risk/uncertainty</li> <li>• Firms can be certain about the cost of their imports in pounds</li> </ul> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/understanding:</b><br/>1+1 marks for identification of likely impacts of a fall in the value of sterling, e.g.</p> <ul style="list-style-type: none"> <li>• Import inflation change in cost of production for firms</li> <li>• Export/demand pull inflation</li> <li>• Changes in FDI</li> <li>• A change in unemployment</li> <li>• Economic growth</li> <li>• The will be an impact in the current account</li> </ul> <p><b>Analysis:</b> 2 marks for linked explanation of these impacts (1+1 or 2 marks for one well developed explanation), e.g.</p> <ul style="list-style-type: none"> <li>• Fall in the value of sterling makes UK good appear cheaper to consumers in foreign countries when converted into their own currency (1)</li> <li>• Fall in the value of sterling makes UK imports more expensive to UK consumers when converted into pounds (1)</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |     |
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|  | <p><b>Application:</b> (1+1) or 2 marks for reference to figure 1 and/or extract A, e.g.</p> <ul style="list-style-type: none"> <li>• Pound fell from around \$1.50 (1) rapidly to \$1.30 (1) after the Brexit vote</li> <li>• Pound fell further to a low over the period shown of just over \$1.20 (1) in October/November 2016 (1)</li> <li>• 'pound's post-Brexit referendum depreciation' (1)</li> <li>• Pound fell by approximately 12% after the vote to leave the EU (2)</li> <li>• Trend of depreciating pound (1)</li> </ul> <p><b>Evaluation:</b> 2 marks for evaluation (1+1 or 2 marks for one well developed explanation)</p> <ul style="list-style-type: none"> <li>• Short-term impact - both figure 1 and extract A show how pound has risen towards mid/late 2017</li> <li>• Price elasticity of demand for UK imports/exports</li> <li>• J-curve effect</li> <li>• Marshall-Lerner condition</li> </ul> <p><b>NB If the answer relates to a small rise in exchange rates e.g. since March 2017 then full marks can be awarded for a rise in exchange rate</b></p> | (8) |
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| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark                                                                                                                                                                                                                                                                                             |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (c)             | <p><b>Knowledge 2, Application 2, Analysis 2,</b></p> <p>Likely impacts on subjective happiness:</p> <ul style="list-style-type: none"> <li>• Consumers have less real income to spend on goods/services that affect their happiness</li> <li>• Consumers may worry more about the state of their personal finances</li> <li>• Consumers may worry about ability to continue paying mortgages/other debts</li> </ul> <p><b>NB For a level 3 answer there must be context from last paragraph of Extract C e.g. reference to credit cards and personal loan repayments</b></p> | (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>(c)</b><br>continued | <b>Evaluation 4</b> <ul style="list-style-type: none"> <li>• Other factors affect happiness beside real income, e.g. leisure time, environment, etc.</li> <li>• Record low unemployment likely to lead to rising real incomes in future</li> <li>• Rises in real income may have a different effect on happiness than falls in real income</li> <li>• May be increased borrowing to make up for falling real incomes</li> </ul> |                                                                                                                                                                             | <b>(4)</b> |
| Level                   | Mark                                                                                                                                                                                                                                                                                                                                                                                                                            | Descriptor                                                                                                                                                                  |            |
|                         | 0                                                                                                                                                                                                                                                                                                                                                                                                                               | No evaluative comments.                                                                                                                                                     |            |
| Level 1                 | 1–2                                                                                                                                                                                                                                                                                                                                                                                                                             | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                            |            |
| Level 2                 | 3–4                                                                                                                                                                                                                                                                                                                                                                                                                             | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |            |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark       |
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| <b>(d)</b>      | <b>Knowledge 4, Application 2, Analysis 2,</b><br><br>Central Bank would use monetary policy (interest rates and quantitative easing) to control inflation: <ul style="list-style-type: none"> <li>• Tighter monetary policy in response to rising inflation may create a conflict with objective of low unemployment- Phillips curve</li> <li>• Higher interest rates in response to rising inflation may create rising inequality if savers benefit and borrowers suffer</li> <li>• Higher interest rates in response to rising inflation may cause the sterling exchange rate to rise which can worsen the balance of payments on current account</li> <li>• Higher interest rates likely to reduce consumption/investment and therefore AD, so controlling inflation but reducing economic growth</li> </ul> <b>NB Accept expansionary and contractionary monetary policy</b> | <b>(8)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark                                                                                                                                                                        |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>(d)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <p>There may not be a conflict between some macroeconomic objectives:</p> <ul style="list-style-type: none"> <li>• UK economy has had both low inflation and low unemployment recently so is the Phillips curve really still valid?</li> <li>• If incomes keep pace with inflation then inequality won't be an issue</li> <li>• Cutting QE reduces asset prices thereby reducing inequality</li> <li>• Depends on significance of change in monetary policy</li> </ul> | <b>(4)</b>                                                                                                                                                                  |
| 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.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p><b>Arguments that providing support to banks is the best policy:</b></p> <ul style="list-style-type: none"> <li>• Economy is dependent on financial system working smoothly</li> <li>• People could have lost their savings if banks had been allowed to fail, leading to massive drop in confidence</li> <li>• Potential for risk of depression had government not intervened</li> <li>• Government has recouped much of the money invested into bailing out the banks anyway- Government 'recovered every penny of its investment in Lloyds'</li> </ul> <p><b>NB Discussion of other policies, e.g. central bank regulation, can also be awarded as KAA</b></p> <p><b>NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark                                                                                                                                                                                     |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>(e)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <p><b>Arguments that providing support to banks is not the best policy:</b></p> <ul style="list-style-type: none"> <li>• Huge expenditure for government that, for example in the case of the UK, already has a significant national debt- £65bn bailout of RBS and LBG. Will have to be repaid by future generations of taxpayers.</li> <li>• Moral hazard: will encourage reckless behaviour from the banks in the future, expecting a bailout again</li> <li>• Government looking unlikely to recoup losses from RBS for some time (in contrast to Lloyds)</li> <li>• Other policies, e.g. expansionary fiscal policy, may have been more effective</li> </ul> <p><b>NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation</b></p> | <b>(6)</b>                                                                                                                                                                               |
| 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.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning. |
| Level 3                 | 5–6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.        |

Q4.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(a)</b>      | <p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because quantitative easing will increase AD and therefore economic growth</p> <p><b>B</b> is not correct because quantitative easing increases inflationary pressures due to an increase in AD</p> <p><b>D</b> is not correct because quantitative easing would lead to increase in AD and a fall in the level of unemployment as real output increases</p> | <b>(1)</b> |

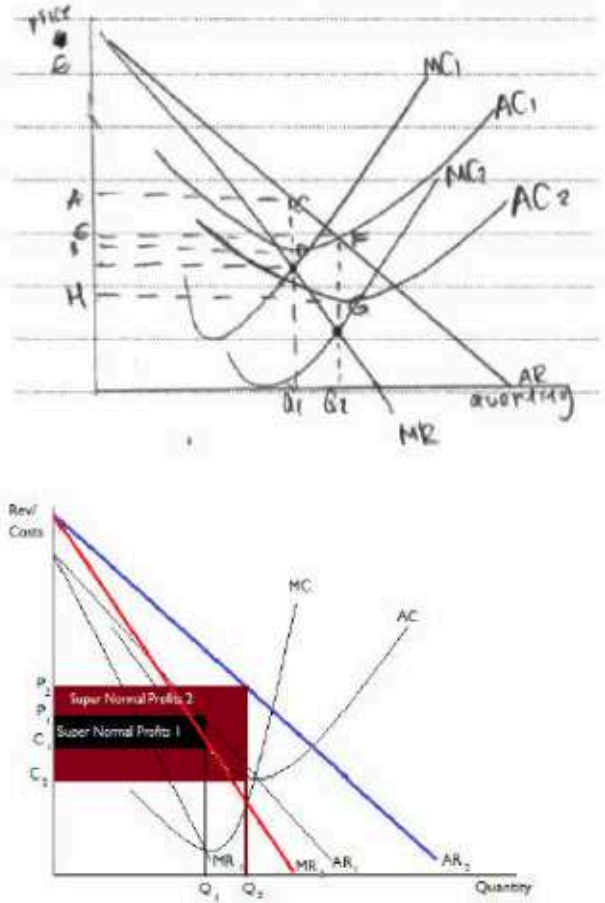
| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 1, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for, e.g.</p> <ul style="list-style-type: none"> <li>• Decreases reward for saving (1)</li> <li>• Decreases cost of borrowing (1)</li> <li>• Decreases hot money flows (1)</li> </ul> <p><b>Application:</b><br/>1 mark for, for e.g.</p> <ul style="list-style-type: none"> <li>• Cut the UK's base interest rate from 0.75% to 0.1% in March 2020 (1)</li> <li>• Interest rate decreased by 0.65 percentage points in March 2020 (1)</li> <li>• Interest rate already at a very low level (1)</li> <li>• Cheaper mortgages/loans (1)</li> <li>• Greater R&amp;D spending by firms (1)</li> </ul> <p><b>Analysis:</b><br/>1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> <li>• Consumption will increase, AD and inflation rises (1)</li> <li>• Investment will increase as cost of production will decrease, AD and inflation rises (1)</li> <li>• Exchange rate will depreciate and will raise (X-M); therefore AD and inflation rises (1)</li> </ul> | (3)  |

Q5.

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge and analysis:</b><br/>3 marks. Points might include:</p> <ul style="list-style-type: none"> <li>• Explanation that national debt is the accumulation of past fiscal deficits (may be implicit)</li> <li>• National debt interest payments have an opportunity cost in terms of current spending</li> <li>• It may be harder to raise borrowing in the future</li> <li>• In case of a debt crisis, it might be impossible to raise new credit</li> <li>• Also could argue that increased debt worsens the fiscal deficit through debt repayments</li> <li>• 'Jam today not jam tomorrow' or similar idea that it's today's benefits paid for in the future</li> </ul> <p><b>Application (2 marks for 1 point, or 1 + 1)</b><br/>Award valid data use only e.g.</p> <ul style="list-style-type: none"> <li>• Reference to data in Figure 2 e.g. ratio falls (1) to 60% in 2019 (1)</li> <li>• Fig 2: debt is falling as a percentage of GDP which is either because there is a fiscal surplus (Fig 1) or because there is economic growth (Fig 3)</li> <li>• Use of other data, e.g. to keep surplus, 1.9% Fig 1 or Ext C</li> <li>• Want to stay the largest economy in the EU. Data from any of the sources can be credited, if relevant, not just Figure 2.</li> <li>• Maintain independence by not having to borrow</li> </ul> | (5)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2<br/>Evaluation 2</b></p> <p><b>Knowledge/implicit understanding of two effects (1 + 1) e.g.</b></p> <ul style="list-style-type: none"> <li>• Consumers demand falls</li> <li>• Firms may pay lower wages</li> <li>• Lower labour turnover</li> <li>• Easier to recruit staff</li> <li>• Reduction in skills, efficiency</li> <li>• Deterioration of public sector finances further reducing spending on infrastructure</li> </ul> <p><b>Application:</b> (2 marks for any relevant point, or two points 1 +1):<br/>e.g.</p> <ul style="list-style-type: none"> <li>• Unemployment is forecast to rise (1) to 6.1 percent from 5 percent (1) / 1.1 percentage points (2)</li> <li>• This comes after several years of a declining rate of unemployment (1)</li> </ul> <p><b>Analysis (1+1)</b></p> <ul style="list-style-type: none"> <li>• Development of points made</li> </ul> <p><b>Evaluation</b> (2 marks for any relevant point, or two points 1 +1):<br/>e.g.</p> <ul style="list-style-type: none"> <li>• Demand might rise for inferior goods</li> <li>• Wages may be sticky downwards</li> <li>• This is only a forecast and given events at the beginning of 2020 might end up worse.</li> <li>• Firms exporting goods may not be affected as demand from abroad may remain strong if unemployment does not fall there</li> <li>• The rise in unemployment is small and is still below 11.7% 2005. So, the impact will be relatively small</li> </ul> | (8)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2(c)            | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <p><b>Knowledge and analysis</b></p> <ul style="list-style-type: none"> <li>• Might mean costs rise in the short run and/or</li> <li>• Costs fall in the long term – fixed or variable</li> <li>• Demand for products might increase as firms improve product quality and choice</li> </ul> <p><b>Application</b></p> <ul style="list-style-type: none"> <li>• Some firms in Germany are expecting higher long-term profits from the investment (Extract C)</li> <li>• Germany still far behind other countries in the area of technology especially broadband (Extract C)</li> </ul> <p><b>Analysis</b></p> <p>Example of diagram (can use AC or ATC or not shift MC):</p> |      |

|  |                                                                                                                                                                                                                                         |     |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
|  |  <p>NB for a level 3 response there must be at least one valid diagram. The diagram can show either a rise in AR/MR or a fall in costs, or both.</p> | (8) |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|

| Knowledge, application and analysis |      |                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark | Descriptor                                                                                                                                                                                                                                                                                                                                                                                |
|                                     | 0    | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                         |
| Level 1                             | 1–2  | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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 |
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| (c)<br>continued | <p><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Discussion of whether costs would rise (short term) or fall if successful (long term)</li> <li>• It depends on how labour intensive the production is</li> <li>• It depends on what competitor countries are doing</li> <li>• New technology needs highly skilled labour and cannot be discussed in isolation</li> </ul> | (4)  |

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

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Microeconomic factors to explain low growth may include:</p> <ul style="list-style-type: none"> <li>• Labour force factors e.g. changing NMW will affect ULCs and therefore growth</li> <li>• Increased level capital by making investment more profitable/subsidy</li> <li>• Infrastructure spending e.g. schools crumbling, poor internet</li> <li>• Investment in education/skills or cutting/capping university fees</li> <li>• Low level of willingness to embrace modern technologies</li> </ul> <p>Macroeconomic influences may include:</p> <ul style="list-style-type: none"> <li>• Population changes</li> <li>• Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness, changes in EU</li> <li>• Tax and benefit changes</li> <li>• Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation</li> <li>• Actions of other institutions e.g. banks, schools</li> <li>• Control of price level e.g. stop QE</li> <li>• Competitiveness – use of Extract D</li> </ul> <p><b>NB some points such as regulation, supply-side policies, changing the interest rate, can be regarded as micro or macroeconomics</b></p> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |      |
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|  | <p><b>NB for a Level 4 response there must be reference to Germany in context</b></p> <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• Degree to which the factors might be a success</li> <li>• Depends on other countries (relative competitiveness issue) – it could be that other countries have a comparative or absolute advantage/other trade pattern and trade bloc arguments</li> <li>• Depends on the value of the euro/ other currency of trading partners which cannot be directly controlled in Germany</li> <li>• Germany might be better protected from worldwide crises such as the recent Global Health Crisis</li> <li>• Growth is not the only desirable economic outcome (it might be argued that slower growth is better)</li> </ul> | (25) |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |         |                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark    | Descriptor                                                                                                                                                                                                                                                                                                                      |
|                                     | 0       | A completely inaccurate response.                                                                                                                                                                                                                                                                                               |
| Level 1                             | 1 - 4   | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation |      |                                                                                                                                                                                                                                                                              |
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| Level      | Mark | Descriptor                                                                                                                                                                                                                                                                   |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                      |
| Level 1    | 1-3  | Identification of evaluative comments without explanation.                                                                                                                                                                                                                   |
| Level 2    | 4-6  | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.                                                                                                             |
| Level 3    | 7-9  | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>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)             | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Employment improves or unemployment stops rising</li> <li>• Incomes rise/stop falling</li> <li>• Increased profits for firms e.g. motor manufacturers</li> <li>• Other micro effects of increased spending and welfare e.g. improved health service</li> <li>• Infrastructure improves if spending on this area</li> <li>• Higher taxes in future might have an impact on demand and other aspects of consumer behaviour</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• AD increases</li> <li>• multiplier</li> <li>• Shift in SRAS or LRAS might be drawn e.g. capacity increases</li> <li>• Increase in price level/output</li> <li>• increase in borrowing – cost for future generations</li> <li>• Diagrams might involve an increase in AD with multiplier effects</li> <li>• Increased debt payments in the future – opportunity cost arguments may be used</li> </ul> <p><b>NB for a Level 4 answer there must be reference to the German fiscal policy. Some effects such as lower costs or increased investment could be seen as micro or macro</b></p> <p><b>NB for a Level 4 response there must be reference to Germany</b></p> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |      |
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|  | <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• Depends on Classical vs Keynesian shape of AS</li> <li>• Depends on size of multiplier</li> <li>• Depends on the cost of borrowing – currently very low</li> <li>• Impact on money markets and conflict with other policies</li> <li>• Opportunity cost arguments</li> <li>• Reference to budget deficit and national debt</li> <li>• Confidence in the markets and consumers in the fiscal policy will determine whether or not it is effective</li> <li>• Will interest rates remain low?</li> <li>• An essential action in the recent context, and without stimulus many incomes and businesses would be lost</li> </ul> | (25) |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |         |                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark    | Descriptor                                                                                                                                                                                                                                                                                                                      |
|                                     | 0       | A completely inaccurate response.                                                                                                                                                                                                                                                                                               |
| Level 1                             | 1–4     | Displays ability to apply knowledge in context but will focus on small range of elements.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| Evaluation |       |                                                                                                                                                                                                                                                                              |
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| Level      | Mark  | Descriptor                                                                                                                                                                                                                                                                   |
|            | 0     | No evaluative comments.                                                                                                                                                                                                                                                      |
| Level 1    | 1–3   | Identification of evaluative comments without explanation.                                                                                                                                                                                                                   |
| Level 2    | 4 – 6 | Evaluative comments with limited explanations.<br>Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.                                                                                                             |
| Level 3    | 7 – 9 | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>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 | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark        |
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|                 | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Likely effects might include:</p> <ul style="list-style-type: none"> <li>• Government spending is part of aggregate demand and increased spending will increase aggregate demand</li> <li>• Increase in injections into the circular flow of income and subsequent multiplier effects</li> <li>• Improvement in UK productivity- developing new, more efficient ways of working can boost growth/raise living standards</li> <li>• Improved innovation means UK may have more new goods and services that can be exported to other countries, improving current account and aggregate demand</li> <li>• Improved infrastructure will boost productivity- e.g. better transport means less time spent in traffic jams, fewer delayed trains, etc</li> <li>• Diagrammatic analysis may be used (e.g. AD/AS)</li> </ul> <p>Evaluation might include e.g.:</p> <ul style="list-style-type: none"> <li>• This is not really a very large amount of money, especially over five years and for the whole of the UK economy</li> <li>• Many significant issues with poor quality infrastructure that will need a lot more money to solve- e.g. average speeds falling on roads in London, ageing rail infrastructure causing lots of delays</li> <li>• UK productivity has lagged behind other countries for some time so will need a significant boost just to catch up with the rest of the world</li> <li>• No guarantee that innovation will boost growth</li> <li>• Depends on effectiveness of government at allocating resources</li> </ul> | <b>(25)</b> |

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation |      |                                                                                                                                                                                                                                                                          |
|------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level      | Mark | Descriptor                                                                                                                                                                                                                                                               |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1    | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2    | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q7.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge/Understanding:</b> Up to 2 marks for e.g.</p> <ul style="list-style-type: none"> <li>• Absolute poverty: Lacking basic necessities to survive (1)</li> <li>• Relative poverty: Relatively poor compared to rest of your country (1)</li> </ul> <p><b>Application:</b> Up to 2 marks for e.g. (1+1 OR 2)</p> <ul style="list-style-type: none"> <li>• Absolute poverty: World Bank definition: \$1.90 a day (1) PPP values (1)</li> <li>• Relative poverty: 60%/50% (1) below median household income in your country (1)</li> <li>• Reference to Figure 1 or Extract A/B (1+1)</li> </ul> <p><b>Analysis:</b> Up to 1 mark for e.g.</p> <ul style="list-style-type: none"> <li>• Absolute poverty can decline at the same time as relative poverty is increasing (1)</li> <li>• There may be relative poverty in a country but not necessarily absolute poverty (1)</li> </ul> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/Understanding:</b><br/>Relevant factors identified (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Level of education</li> <li>• Level of healthcare</li> <li>• Level of infrastructure</li> <li>• Level of trade</li> <li>• Capital flows</li> <li>• Civil war</li> <li>• Drought</li> <li>• Poor governance</li> <li>• Liberalisation of trade/tariff cuts</li> </ul> <p><b>Analysis:</b><br/>Linked development of each factor (1+1), e.g. in Sub-Saharan Africa</p> <ul style="list-style-type: none"> <li>• Relative lack of education means a less skilled and therefore less productive workforce (1)</li> <li>• Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1)</li> <li>• Relative lack of infrastructure makes it more difficult and therefore expensive to move goods around the country to markets (1)</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |     |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
|  | <p><b>Application:</b><br/>2 marks (1+1) for reference to the data/candidates' own knowledge, e.g.</p> <ul style="list-style-type: none"> <li>• Extract B: two thirds of 780 million illiterate adults are women</li> <li>• Extract B: poor people- more malnutrition, lower odds of receiving health care</li> <li>• Absolute poverty has declined far more rapidly in East Asia than Sub-Saharan Africa</li> </ul> <p><b>Evaluation:</b> 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment<br/>Evaluative comments (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Significance of different factors</li> <li>• Improvements will only occur in the long term</li> </ul> | (8) |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|

| Question Number | Indicative Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <p>Possible policies might include e.g.:</p> <ul style="list-style-type: none"> <li>• Fiscal policy: increase people's disposable incomes, increase employment and so reduce downsides of low wages and unemployment due to foreign competition. A more redistributive tax/welfare system to reduce inequality/poverty caused by globalisation.</li> <li>• Expansionary monetary policy: cut in interest rates, rise in availability of credit, allows businesses to borrow for investment to help combat increased foreign competition.</li> <li>• Supply side policies, e.g. improved education, healthcare, infrastructure, etc.: Improvements in these will boost productivity and this boost GDP as well as meaning firms would be more likely to be able to pay higher wages. Higher productivity would enable firms to better compete with foreign competition in the form of lower prices.</li> </ul> <p>Candidates may discuss in the context of developed or developing countries</p> <p><b>NB To access Level 3 there must be reference to two valid macroeconomic policies, apart from protectionism</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Impact of expansionary fiscal policy on budget deficit</li> <li>• If business confidence is low, expansionary monetary policy may not lead to increased borrowing for investment</li> <li>• Supply side policies may not be effective in the short run or have public sector cost implications</li> <li>• Effectiveness of policies, e.g. lack of consumer confidence</li> </ul> | <b>(4)</b> |

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

| Question Number | Indicative Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p><b>Knowledge 2, Application 2, Analysis 2,</b></p> <ul style="list-style-type: none"> <li>• Incentive to work hard in order to receive higher reward will help increase economic growth which can result in reduced absolute poverty</li> <li>• More innovation due to the profit motive for firms and inventors leads to more competitive industry and faster economic growth</li> <li>• Lower taxes or less redistribution may encourage entrepreneurs to relocate to the country</li> <li>• Reference to rising living standards in a largely market based economy, e.g. UK, US</li> </ul> <p><b>NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number  | Indicative Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark |
|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)<br>continued | <p><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Inequality reduces consumer confidence so less consumption, increase in saving. Aggregate demand may fall as a result.</li> <li>• Excessive inequality can lead to more crime, poorer healthcare, etc.</li> <li>• Low pay can act as a disincentive to seek employment and economic growth suffers as a result.</li> </ul> <p><b>NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation</b></p> | (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.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>The role of the financial sector in the growth and development in developing countries includes:</p> <ul style="list-style-type: none"> <li>• facilitating saving so banks have more funds for lending, facilitating investment and therefore growth</li> <li>• promoting lending to enable more investment in the economy</li> <li>• exchanging currencies- enabling firms to imports parts and materials- often more cheaply- and also enabling them to export - helping to increase size of their market</li> <li>• providing a market for equities</li> <li>• Harrod-Domar model</li> <li>• Microfinance</li> <li>• Central banks/international organisations</li> </ul> <p><b>NB For a Level 3 response candidates must refer specifically to growth/development in a developing country/countries/regions</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Clear rule of law required for financial sector to develop</li> <li>• Risk of corruption</li> <li>• Risk of market failure in financial markets</li> <li>• Lack of financial literacy in developing countries may limit potential</li> <li>• Other factors may play a larger role, e.g. healthcare, infrastructure, education</li> </ul> | <b>(6)</b> |

| 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.<br>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.<br>Evaluation recognises different viewpoints and/or is critical of the evidence.     |

Q8.

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                 | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Impacts might include:</p> <ul style="list-style-type: none"> <li>• Impact on AD and economic growth of fiscal stimulus, with multiplier effects (net injection to circular flow)</li> <li>• Higher purchases of government bonds/debt leading to crowding out, so less funds for investment by firms</li> <li>• Higher contractionary fiscal policy in the future as governments start to pay off these fiscal deficits</li> <li>• Higher interest costs of servicing debt means less money for public services and so lower standard of living</li> <li>• Impact on a country's financial account on the balance of payments of large inflows of finance into government bonds</li> <li>• Impact on a country's exchange rate</li> </ul> <p>Possible evaluation points might include:</p> <ul style="list-style-type: none"> <li>• Government debt isn't necessarily a problem as long as there are plenty of people/firms willing to buy it</li> <li>• Higher debts may mean governments are investing more into improving public services, which if it improves investment in the economy will help boost GDP &amp; pay for itself over time</li> <li>• Short-term fiscal deficits can be balanced out by surpluses in the future</li> </ul> <p><b>NB For a level 4 answer candidates must use examples of a country</b></p> <p><b>NB For a level 4 answer candidates must refer to both fiscal deficit and national debt</b></p> | (25) |

| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                                      | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                            | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                                    | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                          |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                                                               |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1           | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2           | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q9.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• Government spending equals (1) tax revenue/ income (1)</li> <li>• Neither a budget deficit nor a budget surplus (1)</li> </ul> <p><b>Application</b><br/>2 marks for 2 data references from Figure 1 (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• UK experienced a balanced budget in 1990 (1) at nearly 35% of GDP (1)</li> <li>• Overall trend/data point shows there is a budget deficit (1)</li> </ul> | (4)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>1 mark, for e.g.</p> <ul style="list-style-type: none"> <li>• Explanation/formula of aggregate demand (1)</li> <li>• Understanding of a depreciation of the exchange rate (1)</li> <li>• Simple explanation of what a weaker currency means (1)</li> </ul> <p><b>Application</b><br/>2 marks (1+1), for e.g.</p> <ul style="list-style-type: none"> <li>• Aggregate demand will increase (1) shown on a diagram (1)</li> <li>• Weaker pound due to a lack of confidence as a result of the UK's decision to leave the EU (1)</li> <li>• Low interest rate and less hot money flows (1)</li> </ul> <p><b>Analysis</b><br/>2 marks for linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Imports become relatively more expensive, so aggregate demand rises (1)</li> <li>• Exports become relatively cheaper, so aggregate demand rises (1)</li> </ul> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (c)             | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/> Identification of two influences (1+1) for, e.g.</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Disposable incomes</li> <li>• Consumer confidence</li> <li>• Positive wealth effects</li> </ul> <p><b>Application</b><br/> 1 mark for data reference from Figure 2 and 1 mark from Extract A (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Figure 2 – real household consumption increased by approximately 1.7% between 2016 and 2017</li> <li>• Extract A – Annual spending per person increased by £589 (1)</li> <li>• Increase in consumption has also been driven by low interest rates / average increase of 5.1% in house prices (1)</li> </ul> <p><b>Analysis</b><br/> Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Low interest rate implies low reward for saving / low cost of borrowing (1)</li> <li>• Higher incomes incentivise consumers to spend, but at a slower rate as people tend to save more as earnings rise (1)</li> <li>• High consumer confidence / wealth effects implies consumers are likely to make purchases that they know they can pay for in the future (1)</li> </ul> | <b>(6)</b> |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Explanation of the term consumption, e.g. the expenditure on consumer goods and services</li> <li>• Consumption is a component of aggregate demand</li> <li>• Aggregate demand will increase from AD1 to AD2</li> <li>• Inflationary pressures will increase from P1 to P2</li> <li>• Real output will increase from Y1 to Y2</li> <li>• Consequently, unemployment will decrease</li> <li>• Figure 1: household consumption has increased by nearly 117% between 1998 and 2018</li> <li>• Extract A: spending per person increased by £589</li> </ul> <p>Diagram, e.g.:</p> <p><b>NB Candidates must answer with a valid AD/AS diagram showing an increase in AD to access Level 3</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number  | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark       |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (d)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Consumption is largest component of aggregate demand, therefore will have a significant impact</li> <li>• Significance of the elasticity of the AS curve and the state of the UK economy</li> <li>• UK consumers have financed their spending by borrowing – “borrowing on credit cards rose by 9.6%”: it creates an unstable and unbalanced economy</li> <li>• Consumer spending could be constrained in the long term if the central bank raises the base interest rate – “more expensive credit could constrain the ability of households to spend”</li> <li>• Depends on other factors in the economy, such as net trade and investment</li> </ul> | <b>(4)</b> |

|         |     |                                                                                                                                                                     |
|---------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0   | No evaluative comments.                                                                                                                                             |
| Level 1 | 1-2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                    |
| Level 2 | 3-4 | Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>Understanding of long-term trend rate of growth</p> <p>Possible factors include:</p> <ul style="list-style-type: none"> <li>• Fall in relative productivity, “the fall in the level of productivity is a long-term issue” – costs per unit rise and export prices increase; exports fall</li> <li>• Lower technological advances will reduce efficiency and raise the cost of supplying goods and services; lack of innovation due to less R&amp;D spending</li> <li>• Slow growth in the level of UK’s investment into capital goods since the “financial crisis” – due to lack of business confidence</li> <li>• Lack of government spending on education and training – has a negative impact on the skills of the workforce, thereby reducing human capital</li> <li>• Slower rate of immigration – fewer workers coming into the country as a result of the UK’s decision to leave the EU; this decreases growth of the active labour force and hence lower rate of output produced</li> <li>• Stricter government regulations – markets are less flexible and reduces competition in industries</li> <li>• External factors, e.g. slow global growth rates</li> <li>• Accept demand side factors if linked to growth</li> </ul> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>Points may include:</p> <ul style="list-style-type: none"> <li>• Significance of the most important factor affecting growth; "productivity is a long-term issue"</li> <li>• Depends on the size of the fall in UK productivity and on the productivity of the UK's main trading partners, such as the US and EU</li> <li>• Uncertainty over the UK's decision to leave the EU is more important than the financial crisis as this was over 10 years ago; effects of the lower investment may not yet be seen</li> <li>• Inaccuracies/inadequacies of data may mean that the UK's long-term growth might not be low as it has been estimated</li> <li>• Uncertainty of world economy</li> </ul> | <b>(6)</b> |

| 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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (f)             | <p><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>KAA:</p> <ul style="list-style-type: none"> <li>• Understanding/definition of supply-side policies</li> <li>• Understanding/definition of economic growth</li> <li>• AD/AS diagram showing change in AS consistent with analysis / use of PPF diagram</li> <li>• Increased government spending on education and/or training - this would increase skills and productivity</li> <li>• Increased government spending on healthcare - this should reduce the number of days absent from work</li> <li>• Reducing level of benefits and/or income tax - this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work</li> <li>• Cutting cost of bureaucracy and/or reduce regulation of firms - this would raise productivity</li> <li>• Financial support for investment in the economically deprived regions - this may help overcome structural unemployment and increase the UK's total output</li> <li>• Improving regulation and/or competition of inefficient industries - this would increase the UK's productivity</li> <li>• Privatisation - this may lead to increased competition, innovation and efficiency in the UK</li> <li>• Increased government spending on infrastructure investment (e.g. broadband or roads) - this would reduce industry costs or improve access to market</li> <li>• Reducing corporation tax - therefore increasing the international competitiveness for investment</li> <li>• Government schemes to improve childcare provision</li> <li>• Increased flexibility and/or mobility of labour</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |      |
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|  | <p><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Significant time lags for supply-side policies</li> <li>• Consideration of the effectiveness of supply-side policies such as infrastructure/ education/ healthcare at delivering sustainable growth</li> <li>• Privatisation may lead to private monopolies and less efficiency and lower economic growth</li> <li>• Cut in the income tax designed as an incentive to work and investment may be ineffective if workers use it as an opportunity to work less for the same income</li> <li>• Cut in corporation tax ineffective if companies use the cut in corporation tax to boost short-term profits rather investment</li> <li>• Increase in UK taxation elsewhere may have an effect on incentives to work</li> </ul> | (20) |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1–3   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

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

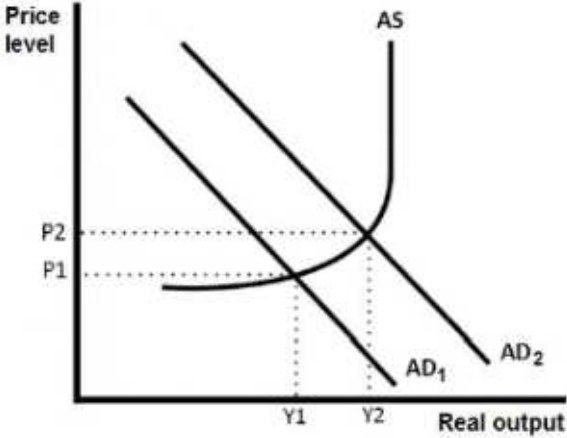
| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (g)             | <p><b>Knowledge 4, Application 4, Analysis 6,</b></p> <p>KAA:<br/>Possible effects include:</p> <ul style="list-style-type: none"> <li>• Reduction in real output / economic growth</li> <li>• Deflationary effect / reduce inflationary pressures</li> <li>• Rising unemployment / falling real wages in the public sector – government “introduced additional rounds of departmental spending cuts”</li> <li>• Increasing inequality – “the government further decreased welfare payments”</li> <li>• Falling real incomes / standard of living – “slow growth in real household disposable incomes” / “decline in living standards”</li> <li>• Reference to the impact of reduced government investment on long-term growth of the economy – “should not pursue further reductions in the budget deficit as this would allow for a significant increase in public investment”</li> <li>• Improvement in balance of payments on current account as net exports rise</li> <li>• Reference to the impact on the environment</li> </ul> <p>N.B. Candidates can discuss macroeconomic effects using an accurately labelled AD/AS diagram / accept a circular flow of income diagram that demonstrates a reduction in the circular flow of income</p> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |      |
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|  | <p><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Depends on size of the multiplier effect</li> <li>• Shape of the AS curve/spare capacity</li> <li>• Reduction in transfer payments may reduce frictional/voluntary unemployment</li> <li>• Effects depend on to what extent private sector spending/employment can replace public sector spending/employment</li> <li>• Short-run and long-run macroeconomic effects</li> <li>• Effects depend on what areas of government spending/taxes are changed</li> <li>• Potential increase in hidden economy (e.g. rise in cash in hand work)</li> </ul> | (20) |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                  |
| Level 1                             | 1-3   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

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

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/> Identification of one reason (1) with development (1),<br/> e.g.</p> <ul style="list-style-type: none"> <li>• Different reasons for collection/different methods of collection: imply different results</li> <li>• 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</li> <li>• Stigma issues when people are unemployed with no stigma for ILO but high stigma for unemployment related benefits</li> <li>• Increase in frictional unemployment which would increase ILO but may show no change in unemployment related benefits</li> <li>• State of the economy where more vacancies in a boom so harder to claim unemployment related benefits</li> </ul> <p><b>Application</b><br/> 2 marks for two data references from Figure 1 (1+1),<br/> e.g. Between 2010 and 2016:</p> <ul style="list-style-type: none"> <li>• Claimant count is below ILO (1)</li> <li>• Claimant count fell by around 48% / 0.7m (1)</li> <li>• ILO unemployment fell by around 35% / 0.9m (1)</li> <li>• In 2010, ILO unemployment was 2.5m (1) and CC unemployment was 1.5m (1)</li> </ul> | (4)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Rise in value of houses will lead to wealth effect</li> <li>• An increase in householder's confidence</li> <li>• Encourage households to consume more (and/or save less)</li> <li>• Aggregate demand (AD) will increase</li> <li>• Lead to an increase in real output or a faster rate of economic growth</li> <li>• Credit for discussion of other effects besides wealth effect, e.g. impact on:             <ul style="list-style-type: none"> <li>• Balance of Payments</li> <li>• Unemployment</li> <li>• Budget deficit</li> <li>• Price level</li> </ul> </li> <li>• Increase in investment from the construction industry</li> <li>• Diagram e.g.</li> </ul>  <p>"£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</p> <p><b>NB Candidates have to show impacts with accurate AD/AS diagram presenting a relevant change in AD to access Level 3</b></p> <p><b>NB Benefits to rising house prices can be seen as KAA and negative effect as Evaluation, or vice versa</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5-6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number  | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark |
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| (b)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>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</li> <li>SR vs LR – "house prices will fall 1% across the UK in 2017" / wealth effects take time to trigger spending changes</li> <li>Regional differences in impact – "House price growth was strongest in London"</li> <li>"home ownership has risen to 78.6% among those aged 65-to-74" – it may not raise AD / consumption</li> <li>Discussion of the significance of falling real wages</li> <li>Significance of the elasticity of the AS curve</li> <li>Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship</li> <li>Lower confidence for areas where it will be harder to move to find jobs, because of price differentials</li> <li>Effect on first-time buyers – may lead to their consumption falling (discussion of real wages and home ownership)</li> </ul> | (4)  |

| Level   | Mark | Descriptor                                                                                                                                                          |
|---------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                             |
| Level 1 | 1-2  | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>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)             | <p><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>1 mark for identification, e.g.</p> <ul style="list-style-type: none"> <li>Income (1)</li> <li>Interest rates (1)</li> <li>Unemployment (1)</li> <li>Consumer confidence (1)</li> </ul> <p><b>Application</b><br/>2 marks for data reference (1+1), e.g.</p> <ul style="list-style-type: none"> <li>real incomes in the UK have fallen (1) by 10.4% (1)</li> <li>unemployment fell (1) according to ILO and CC (1)</li> <li>savings ratio has fallen (1) between 2010 and 2015 (1)</li> <li>Britain's vote to leave the EU – Extract A Line 6 (1)</li> </ul> <p><b>Analysis</b><br/>Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>Fall in income is likely to reduce savings leading to a fall in the marginal propensity to save</li> <li>Lower unemployment is likely to cause a rise in consumer spending due to greater disposable incomes, leading to fall in savings ratio</li> </ul> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>Definition/understanding of the multiplier (1)</li> <li>Identification of factors which can cause the multiplier to rise (1+1)</li> </ul> <p><b>Application</b><br/>1 mark for each data reference from Figure 2 or linked application (1+1), e.g.</p> <ul style="list-style-type: none"> <li>savings ratio decreased from 11.5% in Q1 of 2010 (1)</li> <li>to approximately 5.7% in Q1 of 2016 (1)</li> <li>Use of multiplier formula (2)</li> <li>application by means of simple numerical example (up to 2 marks)</li> </ul> <p><b>Analysis</b><br/>1 mark for linked development of each factor (1+1), e.g.</p> <ul style="list-style-type: none"> <li>A fall in withdrawals from circular flow of income will lead to a rise in the value of the multiplier (1)</li> <li>An increase in mpc will cause the value of the multiplier to rise (1)</li> </ul> | (6)  |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>Effects for employment:</p> <ul style="list-style-type: none"> <li>• "Work remains the most common reason for long-term migration (312 000)" – this is most likely to lead to an increase in employment</li> <li>• "182 000 of these coming with a definite job" – these migrants could fill those vacancies that cannot be filled by indigenous workers</li> <li>• Increased size of population means that there is increase in supply of labour, thus reducing wage rate and increasing demand for labour</li> <li>• Increased consumer spending from an increased population means more jobs are created</li> <li>• Increased demand for public services creating an increased demand for public sector workers</li> </ul> <p>Effects for unemployment:</p> <ul style="list-style-type: none"> <li>• "130 000 looking for work" – these migrants could displace the current indigenous workers</li> <li>• "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</li> </ul> <p><b>NB Answer must refer to both <i>employment and unemployment</i> to access Level 3</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>Points may include:</p> <ul style="list-style-type: none"> <li>• Magnitude and the significance of net migration – the figures on emigration have not been provided</li> <li>• "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</li> <li>• If the UK economy starts to grow, it can take on more labour without increasing unemployment</li> <li>• 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</li> <li>• Depends on the skills of migrants</li> <li>• "Dependents" may or may not have an effect</li> <li>• Depends on the percentage of asylum seekers granted leave to remain (Extract B)</li> <li>• Different industries may be affected differently</li> </ul> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                               |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                          |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (f)             | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6</b></p> <ul style="list-style-type: none"> <li>• Understanding / identification of government policies as fiscal policy or supply-side policy</li> <li>• Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve</li> <li>• Investment in education and training to provide a more skilled workforce through increases in the level of human capital</li> <li>• Changes in minimum wage to incentivise employment</li> <li>• Reduction in unemployment and associated benefits to increase incentive to find work</li> <li>• Grants/subsidies/tax breaks to firms</li> <li>• Reduction in tax rates to encourage firms to expand or set up in UK, therefore increasing employment</li> <li>• Reduction in income tax creating a much larger incentive to work, increasing consumption and therefore, employment</li> <li>• Policies to increase real wage flexibility e.g. helping to reduce real wage unemployment</li> <li>• Tax breaks to firms who set up in depressed areas / giving some financial assistance to unemployed workers who move to areas with high employment</li> <li>• Government improving the labour market flexibility by making it easier to hire and fire workers may encourage more job creation</li> <li>• Increase in the provision of free childcare and other measures to increase the activity rate</li> </ul> <p><b>NB Answer must be linked to <i>government</i> policies to access Level 3 or above.</b></p> <p><b>NB Answer must be linked to <i>employment</i> to access Level 3 or above.</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Magnitude of the policy change</li> <li>• Conflicts between the policies</li> <li>• Depends if there is spare capacity</li> <li>• Creditworthiness of the UK government</li> <li>• Conflicts with other UK economic objectives</li> <li>• Discussion of effectiveness of individual policies</li> <li>• External factors beyond UK government's control, e.g. slowdown in global economy</li> <li>• Time lags (for e.g. education takes a long time to have impact on productivity)/implementation lags</li> </ul> <p>Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks</p> | (6)  |

| Level   | Mark | Descriptor                                                                                                                                                                                                                     |
|---------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
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| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (g)             | <p><b>Knowledge 4, Application 4, Analysis 6,</b></p> <ul style="list-style-type: none"> <li>• Implicit or explicit identification of the various UK's macroeconomic objectives</li> <li>• Understanding of inflation</li> <li>• May reduce growth owing to costs of inflation</li> <li>• Reduction in purchasing power and real incomes</li> <li>• Equality e.g. effect on those who have fixed incomes (are not protected by inflation) who are often the poorest</li> <li>• May make the national debt smaller in real terms making it cheaper to finance and pay back</li> <li>• Reduction in competitiveness of British goods which worsens the current account of the balance of payments deficit and reduces international competitiveness</li> <li>• Unemployment may rise through increased levels of inefficiency and stagflation / using a Phillips curve</li> <li>• Higher inflation associated with increasing AD may have detrimental impact on environment</li> <li>• Possible beneficial effect on the environment as economic growth slows</li> <li>• Loss of both business and consumer confidence</li> <li>• 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</li> </ul> <p><b>NB KAA can be awarded for positive impacts on the objectives and evaluation as the negative impacts or vice versa</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

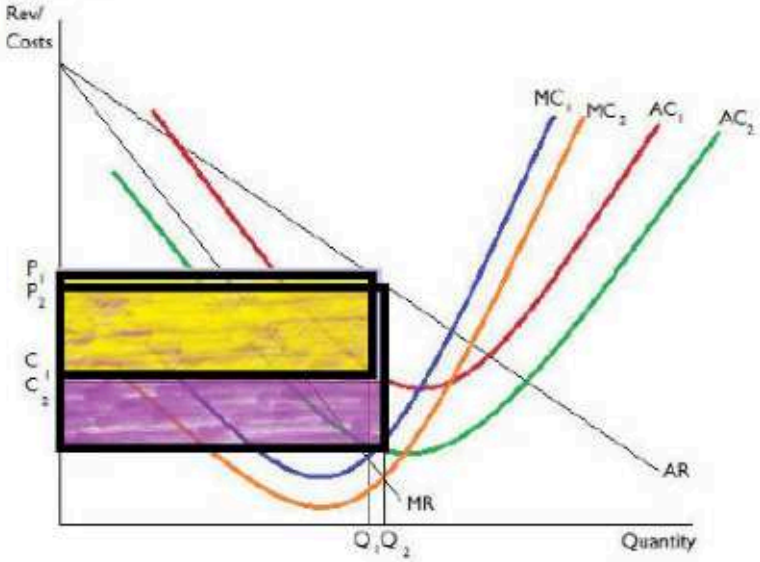
| Question Number  | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (g)<br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Inflation might not translate through to higher wages and unemployment if the workforce has little power</li> <li>• If growth is low, slightly higher inflation is worth the risk to avoid deflation or depression</li> <li>• Impact depends on the relative inflation rates</li> <li>• Impact of high inflation might depend on policy response - interest rates may have to be raised</li> <li>• Other factors may have a larger effect: exchange rates or other macro objectives (ceteris paribus)</li> <li>• Possible beneficial effect on the environment</li> </ul> | (6)  |

| Level   | Mark | Descriptor                                                                                                                                                                                                                     |
|---------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

Q11.

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge and analysis:</b></p> <ul style="list-style-type: none"> <li>• Terms of trade definition or formula e.g. index of export prices / index of import prices x 100 (1)</li> <li>• Import prices have risen (1) (e.g. because exchange rate fell) relative to export prices (1)</li> <li>• Import prices stay constant (1) relative to main export prices falling (1)</li> <li>• Fewer imports can be bought for the same amount of exports (2)</li> </ul> <p><b>Application 2 marks for e.g.</b></p> <ul style="list-style-type: none"> <li>• It is likely to have worsened (1)</li> <li>• Coal is the main export (1), 11% of revenues (1)</li> <li>• Export prices/commodity prices have fallen Figures 4 &amp; 5 e.g. coal prices have fallen Fig 4 (1+1)</li> <li>• Export price of coal has fallen from US\$125 to US\$50 per tonne (1+1)</li> <li>• The exchange rate (rupiah) has fallen (1) 30% (1)</li> </ul> <p><b>NB award application if the answer says that the terms of trade falls, goes down, or that it is a negative change</b></p> | (5)  |

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark |
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| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2 Evaluation 2</b></p> <p><b>Diagram (2) Reserve 2 marks for costs and revenue diagram.</b> This can be awarded as 2 application marks or 1AN + 1AP.</p> <p><b>Knowledge and analysis (1+1): e.g.</b></p> <ul style="list-style-type: none"> <li>Increasing efficiency resulting from investment lowers costs for firms (<b>K</b>) which means AC falls – might also show fall in MC (<b>A</b>)</li> <li>Profit increases (<b>K</b>) with new area shown on diagram linking the new MC=MR with the AR and new AC (<b>A</b>)</li> </ul> <p><b>Application (2 or 1+1):</b> answer relates to the output of farmers increasing relative to input, e.g. Productivity of each farm increases (1) as rice output doubles (1); Plans for 65 dams, 16 already under construction (1)</p> <p>Or: 'two harvests a year' (1) means more output from same fixed land/factor (1)</p> |      |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |
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| <p>Diagram e.g. shows a decrease in AC (if fixed costs) or decrease in AC and MC (if variable costs) e.g. as shown below. The diagram must be <b>consistent</b> with the description, although shift/non shift in MC might be implicit.</p>  <ul style="list-style-type: none"> <li>1 mark for correct shift in cost (relevant to answer given) and</li> <li>1 mark for new correct profit area shown.</li> </ul> <p>Diagram may show a fall in costs and/or an increase in revenue <b>if linked</b> to double the number of harvests, or a decrease in revenue <b>if linked</b> to falling worldwide prices, more firms entering the market. Diagram may be perfect competition.</p> |  |
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|  | <p><b>Evaluation</b> (2 marks for any relevant point, or two points 1+1)</p> <ul style="list-style-type: none"> <li>• The investment is taking many years and may not be completed</li> <li>• Governments might increase tax on farmers to compensate for increased costs of dam investment</li> <li>• The farmers might face other increased costs as output rises e.g. law of diminishing returns</li> <li>• There may be more efficient and effective ways of increasing output, e.g. better technology, fertiliser</li> <li>• Increased world supply could lower the price per unit, and with low PED the revenue and therefore profit could fall.</li> </ul> | <b>(8)</b> |
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| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(c)</b>      | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul style="list-style-type: none"> <li>• Specific impact on Indonesia: <ul style="list-style-type: none"> <li>◦ Recovery from the Tsunami / financial crisis (Extract D);</li> <li>◦ impact of reconstruction investment;</li> <li>◦ impact on the likely poverty trap that many Indonesians will find themselves in;</li> <li>◦ the impact of the cash transfer;</li> <li>◦ the long term problems of conditional loans;</li> <li>◦ the long term impact of constructing two new power stations (via Japan's development agency)</li> <li>◦ lack of tax revenue due to inefficient tax collection and low tax base (10%) Ext E.</li> </ul> </li> <li>• Aid is the transfer of resources on concessional terms – allow wide variety of aid e.g. from international institutions such as the IMF/World Bank, from NGOs, concessional loans (interest paid is below market rates, or with softer repayment conditions than in free market)</li> <li>• Aid is being used to pay for education and health, transfers of cash, \$2.3 billion a year</li> <li>• Consideration of macro effects, e.g. multiplier effects, shifts in AD, equality</li> <li>• Consideration of development theory, e.g. Harrod-Domar, plugging the savings gap / foreign exchange gap</li> </ul> | <b>(8)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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       |
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| (c)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Aid can lead to moral hazard, over-dependence, corruption, poor governance e.g. Ext E tax incentives offered by Mr Widodo might widen inequality</li> <li>• Dependency theory might be used to show the problems of aid</li> <li>• Alternative to aid e.g. debt relief, microfinance, investment by TNCs, loan from the World Bank</li> <li>• Conditions attached to aid may have negative consequences, e.g. not clear that the loans offered in Extract D are concessionary, or interest rates may still have a high opportunity cost</li> <li>• Aid may be more effective if used in conjunction with supply side measures</li> <li>• The concessionary loans need to be paid back, Extract E. These can increase a country's indebtedness and exposure to risk, and could affect government finance, where tax collection is inefficient and tax base (10%) is small.</li> </ul> | <b>(4)</b> |

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

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p align="center"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p><b>Microeconomic effects might include:</b></p> <ul style="list-style-type: none"> <li>• Producer revenue from exports is volatile from primary products. Firms might close down when prices fall.</li> <li>• Other primary product dependency arguments – a diagram showing low PED and PES might be used.</li> <li>• Labour market – impact on wages and employment</li> <li>• Diagram showing effects on revenue, consumer/producer surplus, price, profits might be used</li> <li>• Local firms might go out of business</li> </ul> <p><b>Macroeconomic effects might include:</b></p> <ul style="list-style-type: none"> <li>• Balance of payments problems – Prebisch-Singer (declining terms of trade) might be used for products such as coal in reference to falling prices (NB this only addresses part of the volatility issue)</li> <li>• Government finances – the government might rely on export taxes</li> <li>• Primary product dependency/over-dependence on one sector can cause problems if natural disaster or changes in worldwide demand, e.g. China slowdown</li> <li>• Dutch Disease impact on exchange rate – e.g. higher value of rupiah when coal prices rise</li> <li>• Increased use of protectionism</li> <li>• Inflation (Extract E)</li> <li>• Limits investment (might link to Harrod Domar model)</li> <li>• Limits government and private expenditure on health and education</li> </ul> |      |

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|  | <p><b>NB</b> Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics, if developed appropriately.</p> <p><b>NB</b> for a Level 4 answer there must be reference to the context of <i>Indonesia</i> and <i>volatility</i>.</p> <p><b>Evaluation points might include:</b></p> <ul style="list-style-type: none"> <li>• Degree to which GDP is dependent on commodity exports. Data suggests Indonesia GDP has not suffered as much as other countries from the fall in commodity/coal prices (Extract E) and Figures 4 and 5</li> <li>• Depends on the PED and/or YED of importing countries for the specific commodities</li> <li>• Fiscal expansion (Extract E) has offset the effects of falling prices</li> <li>• There may be no alternative to primary product dependency/Lewis model is flawed</li> <li>• Comparative advantage argument</li> <li>• The reduction in prices might be short term/there are benefits to rising prices/depends if it is just one commodity which distorts the exchange rate for other commodities ('Dutch disease')</li> <li>• Buffer stock schemes</li> <li>• Financial markets can help limit effects, e.g. through futures contracts</li> <li>• Improved infrastructure can help farmers be more aware of price trends and take products to markets at high prices</li> </ul> | (25) |
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| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                                      | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                            | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Level 1                                    | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples.<br>Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                          |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                                                               |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1           | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2           | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements.<br>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.<br>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 |
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| (e)             | <p><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p><b>Microeconomic effects might include:</b></p> <ul style="list-style-type: none"> <li>• on firms e.g. from quicker planning approvals, tax incentives locating to special economic zones, better roads and ports</li> <li>• improved quality of labour force e.g. from education and health reforms (Extract D)</li> <li>• lower bureaucratic costs</li> <li>• lower prices as competition increases</li> </ul> <p><b>Macroeconomic effects might include:</b></p> <ul style="list-style-type: none"> <li>• lower inflation (might be shown by rightwards or downwards shift of LRAS)</li> <li>• improved balance of payments as exports improve</li> <li>• infrastructure improvements attracts FDI</li> <li>• indirect increased AD via G, I or X, and multiplier effects</li> <li>• increase in real GDP</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |
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|  | <p><b>NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics if developed appropriately.</b></p> <p><b>NB for a Level 4 answer there must be reference to the context of <i>Indonesia</i>.</b></p> <p><b>Evaluation points might include:</b></p> <ul style="list-style-type: none"> <li>• impact will depend on success of policies – may refer to previous underinvestment in the Extract E, or higher investment in neighbouring countries</li> <li>• Some supply side policies conflict with other policies, e.g. fiscal and there is a fiscal constraint by law (Extract E)</li> <li>• depends on whether supply side policies are interventionist or market-based as to whether there will be an inflationary effect, crowding out effect etc.</li> <li>• labour market still appears to be inflexible (Extract E)</li> <li>• collecting tax to pay for the capital spending or repayment of loans can have negative impact, e.g. government failure, aid dependency</li> </ul> | (25) |
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| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                                      | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                            | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Level 1                                    | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples.<br>Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning. |

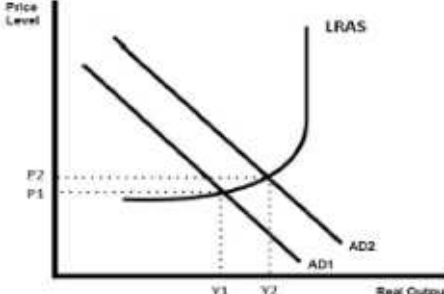
| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                          |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                                                               |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1           | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2           | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q12.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/> Identification of impact (1) with development (1), e.g.</p> <ul style="list-style-type: none"> <li>• Imports relatively more expensive (1)</li> <li>• Leading to (cost push) inflation (1)</li> <li>• Exports are relatively cheaper (1)</li> <li>• Leading to (demand pull) inflation (1)</li> </ul> <p><b>Application</b><br/> 2 marks for two data references (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• There has been fall in the exchange rate/value of the pound/weaker pound (1)</li> <li>• UK is a net importer of food that has a relatively inelastic demand (1)</li> <li>• Food prices have increased by 3.5 percentage points (1)</li> <li>• Inflation has increased by 1 percentage point since the start of 2017 (1)</li> <li>• CPI has exceeded the 2% target (1)</li> </ul> | (4)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (b)             | <p align="center"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/> Identification of two effects (1+1) for, e.g.</p> <ul style="list-style-type: none"> <li>• Real value of personal debt falls</li> <li>• MPC raises base rate of interest</li> <li>• An increase in income inequality</li> <li>• Worsening of the current account</li> <li>• Fall in real wages/purchasing power</li> </ul> <p><b>Application</b><br/> 1 mark for each data reference from Extract A or linked application (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Increase in size of personal debts as consumers are using credit cards and taking out short-term loan (1)</li> <li>• Base rate of interest increased by 0.25 percentage points to 0.5% in November 2017 (1)</li> <li>• Low fixed income households are left with very little money to spend on relatively more expensive items/ spend more on food (1)</li> <li>• Inflation is expected to rise by 3% (1) and wages are only expected to increase by 1% (1) / wages growth lower than inflation (1)</li> </ul> <p><b>Analysis</b><br/> 1 mark for linked development of each effect (1+1) e.g.</p> <ul style="list-style-type: none"> <li>• Borrowers will benefit as the real value of their loan repayments are reduced over time (1)</li> <li>• Increases the cost of borrowing / reward for saving, hence consumption falls (1)</li> <li>• People on low fixed incomes spend larger proportion of income on necessities (1)</li> <li>• Exports become less internationally competitive (1)</li> <li>• Fall in real wages / purchasing power implies lower confidence, lower consumption and lower standard of living (1)</li> </ul> <p><b>NB Award up to 4 marks for one effect well developed (1kn + 1ap + 2an)</b></p> | <b>(6)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (c)             | <p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/> 1 mark for identification, e.g.</p> <ul style="list-style-type: none"> <li>• To ensure that inflation/cost of living/CPI basket is accurately measured (1)</li> <li>• To ensure that consumption trends/spending are reflected (1)</li> <li>• To adjust the weightings in the CPI basket (1)</li> </ul> <p><b>Application</b><br/> 2 marks for 2 relevant data references (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Inclusion of non-dairy milk (1) / jigsaw puzzles (1) / child scooters (1) / cycling helmets (1)</li> <li>• Exclusion of menthol cigarettes (1) / apple cider (1) / child swings (1) / basic mobile phones (1)</li> <li>• A move towards health, fitness and gluten-free products (1)</li> </ul> <p><b>Analysis</b><br/> Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Technological advancements (1) implies consumers switch to newly developed goods and services (1)</li> <li>• Consumer tastes change frequently (1) but the CPI basket is updated annually (1)</li> <li>• Consumers could have switched away (1) from those goods and services that have increased in price (1)</li> </ul> | <b>(5)</b> |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• An injection into the circular flow of income</li> <li>• Economic growth is the increase in real GDP / increase in productive capacity of the economy</li> <li>• Positive relationship between an increase in exports and economic growth</li> <li>• Reference to the multiplier</li> <li>• Exports is a component of AD</li> <li>• AD will increase</li> <li>• Economic growth / real output will increase</li> <li>• Figure 3: since mid-2016, exports grew due to the fall in the exchange rate of the pound as a result of the referendum vote</li> </ul>  <p><b>NB Candidates must answer with an accurately drawn AD/AS diagram presenting an increase in AD to access Level 3</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5-6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                     | Mark       |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(d)</b><br>continued | <b>Evaluation 4</b> <ul style="list-style-type: none"> <li>Exports are only a small component of AD</li> <li>Investment might be more significant as it is 10% to 15% of AD – "Economic growth is expected to speed up again as investment rises"</li> <li>Exporters are vulnerable to changes in demand in other countries and exchange rates which are out of UK's control – "which is largely due to the fall in the value of the pound"</li> <li>Figure 3 – UK exports have not risen significantly since the start of 2017</li> <li>Depends on other factors in the economy, such as imports, government spending and consumption</li> <li>Significance of the global economic recovery in increasing exports</li> </ul> |                                                                                                                                                                     | <b>(4)</b> |
| Level                   | Mark                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Descriptor                                                                                                                                                          |            |
|                         | 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | No evaluative comments.                                                                                                                                             |            |
| Level 1                 | 1–2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                    |            |
| Level 2                 | 3–4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question. |            |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (e)             | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>Understanding of the term GDP / living standards</p> <p>Limitations of comparison may include:</p> <ul style="list-style-type: none"> <li>• Percentage changes are misleading without any reference to total GDP</li> <li>• Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income – “size of informal economy of developing countries was nearly five times more than that of the UK”</li> <li>• Differences in distribution of income – “growth varies across the country with jobs and wages distributed unevenly”</li> <li>• Quality of life issues such as spending on health and education – impact is difficult to measure</li> <li>• Subsistence, barter and the hidden economy will undervalue the real output and national income shall not reflect true living standards</li> <li>• Currency values do not effectively calculate an accurate purchasing power parity / exchange rates might not accurately reflect differences in purchasing power of currencies</li> <li>• Population growth in developing countries may account for most growth in GDP</li> <li>• Spending on investment goods may raise future living standards at the expense of the current</li> <li>• Methods of calculation and reliability of data</li> <li>• Size of the public sector spending which may or may not improve the standard of living</li> </ul> <p>Reference to Figure 4 – UK economic growth is lower than developing countries throughout the years / “the quality of economic growth needs to be measured”</p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number         | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark       |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(e)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>Points may include:</p> <ul style="list-style-type: none"> <li>• Ease of using GDP data for comparison over time</li> <li>• Benefits of using GDP for comparison – standard measure and well understood</li> <li>• GDP is internationally recognised and still possibly the best measure available for comparison</li> <li>• Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards</li> <li>• Standard of living is subjective and it cannot be measured effectively and accurately</li> </ul> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                               |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                          |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark |
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| (f)             | <p><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>KAA:</p> <ul style="list-style-type: none"> <li>• Interest rate is used by MPC of the Bank of England</li> <li>• AD/AS diagram showing a change in AD and/or AS consistent with analysis</li> <li>• Identification of low and stable inflation as a government objective / inflation target</li> <li>• Use of Figure 1 to support arguments for using a contractionary monetary policy (in 2017)</li> <li>• Award arguments which consider expansionary / contractionary policy to achieve inflation target using Figure 1</li> <li>• High interest rate discourage borrowing by both households and firms as it increases the cost of borrowing, thus reducing inflationary pressures</li> <li>• Increasing rate of saving (the opportunity cost of spending has risen), which will slow the economy</li> <li>• Rise in mortgage interest repayments will reduce homeowners' real "effective" disposable income. Increase in mortgage costs would reduce market demand in housing market, reducing inflation</li> <li>• Business investment may also fall, as the cost of borrowing funds will surge. Planned investment projects will now become unprofitable and, as a result, AD will fall, reducing inflationary pressures</li> <li>• Higher interest rate increases the value of pound due to hot money flows; (X-M) component of AD falls, reducing inflationary pressures</li> </ul> |      |

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|  | <p><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Impact depends on the magnitude of the change in the interest rate</li> <li>• Time lag factor – changes may take a long time to feed through into inflation</li> <li>• Higher rates may mean lower investment which reduce LRAS, increasing inflationary pressures</li> <li>• Many mortgages and loans are on a fixed rate; the change in base rate may have little impact</li> <li>• Commercial banks may not change their rates</li> <li>• Impact from change in AD will depend upon position on the LRAS curve / spare capacity</li> <li>• External factors are beyond Bank of England's control – Extract A suggests inflation caused by rising food prices due to the fall in exchange rate</li> <li>• Conflicts with macroeconomic objectives / policies</li> <li>• Depends on consumer and business confidence, e.g. animal spirits, size of the multiplier</li> </ul> | (20) |
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| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                     |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1           | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (g)             | <p><b>Knowledge 4, Application 4, Analysis 6,</b></p> <p>KAA:</p> <ul style="list-style-type: none"> <li>• Understanding of economic growth objective</li> <li>• Implicit or explicit identification of the UK's macroeconomic objectives</li> <li>• Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve</li> <li>• Potential conflicts include: <ul style="list-style-type: none"> <li>• Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in the supply chain cause cost and wage pressures</li> <li>• Balance of payments position may deteriorate as incomes rise and more imports are demanded as UK has a high marginal propensity to import</li> <li>• Growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do</li> <li>• Increased growth tends to lead to high external costs / deterioration of the environment from congestion and pollution</li> </ul> </li> </ul> |      |

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|  | <p><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Significance of the stage in trade cycle which the country is in, and implications for elasticity of AS</li> <li>• If it is supply side growth (rather than demand-side) then fewer conflicts with other objectives</li> <li>• Initial state of inflation: reference to Figure 1</li> <li>• The rate of actual growth in comparison to the growth of the productive capacity</li> <li>• Proximity to full employment level of output</li> <li>• Full employment/fiscal position should not conflict with economic growth</li> <li>• Increase in AS tends to happen in the longer run</li> <li>• Extent of domestic economy's capacity to meet rising demand (i.e. if economy can supply wants)</li> <li>• Extent of country's international competitiveness</li> <li>• Extent of effectiveness of environmental policies</li> <li>• Balance of payments position may improve if it is export-led growth / if generated through increase in productivity (such as through investment)</li> <li>• Growth may lead to higher government revenues and scope to improve polluting old technologies</li> <li>• Developed economies may use green technology</li> </ul> | (20) |
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| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                     |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                        |
| Level 1           | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

Q13.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(a)</b>      | <p align="center"><b>Knowledge 2</b></p> <p><b>Knowledge</b> 1+1 mark e.g.<br/> Definition of income (1) and/or wealth (1)</p> <ul style="list-style-type: none"> <li>• Income is a flow (1) whereas wealth is a stock (1)</li> <li>• Income can create wealth (1) and/or wealth can create income (1)</li> <li>• Income comes from salaries/wages/dividends/profits/interest/rent (1) whereas wealth is the value of assets (1)</li> </ul> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(b)</b>      | <p align="center"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b><br/> Identification of one reason (1), e.g.</p> <ul style="list-style-type: none"> <li>• Rise in asset prices</li> <li>• Lack of education</li> <li>• Lack of healthcare</li> <li>• Inheritance entrenches inequality</li> <li>• Rise of MNCs</li> <li>• Lack of government intervention to reduce inequality</li> <li>• Government policy e.g. regressive taxes, corruption</li> <li>• External shocks</li> </ul> <p><b>Analysis:</b><br/> Linked development relating to wealth (1), e.g.</p> <ul style="list-style-type: none"> <li>• Poor education means people lack the skills to take on higher-paying jobs which could lead to wealth creation</li> </ul> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                     | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>(c)</b>      | <p><b>The only correct answer is B</b></p> <p><i>A is not correct because that would affect imports/exports, not income inequality</i></p> <p><i>C is not correct because that would increase the Gini coefficient</i></p> <p><i>D is not correct because that would increase the Gini coefficient</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>NB an answer which sees highly concentrated as having a large number of firms will not earn knowledge or analysis marks</b></p> <p><b>Knowledge and analysis:</b> 3 marks for e.g.</p> <ul style="list-style-type: none"> <li>• Identification of <b>high</b> concentration - high market share of some firms (1) few large firms dominate (1) uncompetitive (1)</li> <li>• Identification of market structure - there is a <i>legal</i> monopoly (Walkers) <b>OR</b> oligopoly <b>OR</b> duopoly (1)</li> <li>• Firms can set prices (1) control output (1) / monopoly power (1)</li> <li>• Interdependent (1)</li> <li>• High barriers to entry/exit (1) low contestability (1)</li> </ul> <p><b>Application:</b><br/>2 marks for data references e.g.</p> <ul style="list-style-type: none"> <li>• Walkers have over 50% of market share (1)</li> <li>• Use of concentration ratio e.g. 2 firm CR 78.0% (2), 3 firm CR 82.2% (2)</li> <li>• Extract A refers to ban making market more competitive (1) implying prices are currently uncompetitive/high (1)</li> <li>• Extract A – high levels of advertising (1)</li> <li>• common features: they tend to be dominated by a small number of firms that sell multiple brands and that heavily advertise their products (1)</li> </ul> <p><b>NB Concentration ratio calculation can be awarded as analysis or application</b></p> <p><b>Award a maximum of 1 application mark if there is no reference to Figure 1 or Extract A</b></p> | (5)  |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/ implicit understanding: (1+1) marks</b><br/>for reason e.g.</p> <ul style="list-style-type: none"> <li>• Educational/skills/wage differences</li> <li>• Changing patterns of trade/globalisation</li> <li>• Government policy/austerity/universal credit</li> <li>• Income generated from inheritance</li> <li>• Payments generated from debt</li> <li>• Race, gender, age, geographical issues</li> <li>• Changes in direct tax</li> <li>• Stage of the economic cycle/Financial Crisis 2008</li> <li>• House prices (must relate to income not wealth)</li> <li>• Weakened power of trade unions</li> <li>• Level of unemployment/underemployment</li> <li>• Irrational behaviour/information gaps/myopia</li> </ul> <p><b>Application (1+1 or 2):</b></p> <ul style="list-style-type: none"> <li>• Any valid application to <b>causing inequality</b> in the UK or other developed country, e.g. unaffordable house prices in the UK mean the younger generation has little income after rent (1); cut in the top rate of income tax, rise in NICs, change in tax thresholds; university fees at £9250 a year is widening the income gap if fewer low income households go to university (1); pensions rising below average incomes (1); educational differences such as an economics degree has a higher impact on future earnings than other degrees (1)</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |     |
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|  | <p><b>Analysis (1+1):</b></p> <ul style="list-style-type: none"> <li>• Linked development of the <b>two</b> points made</li> </ul> <p><b>Evaluation (1+1 or 2).</b> Points might include discussion of:</p> <ul style="list-style-type: none"> <li>• The role of transfer payments/minimum wages in narrowing/failing to narrow inequality</li> <li>• Changes rather than levels of income inequality, absolute vs relative issues</li> <li>• Relationship with wealth e.g. as a more significant inequality issue</li> <li>• Relative significance of different factors e.g. direct taxes more proportional than indirect taxes (regressive)</li> <li>• Time lags e.g. education has effects as yet unfolded, government policy might change, Brexit has not yet happened.</li> </ul> <p><b>NB Do not allow indirect taxes or subsidies as KAA</b><br/><b>NB Use of Gini coefficient or Lorenz curves could be used as application or analysis</b></p> | (8) |
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| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
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| (c)             | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul style="list-style-type: none"> <li>Firms are interdependent so they will respond in the face of what other firms might do</li> <li>Firms may not reach the same outcome as if they operated alone</li> <li>Firms are cutting prices because they want to expand market share/steal other firms' markets</li> <li>All firms responding in this way means that firms make less profit overall</li> <li>Effects of advertising ban may make market more contestable, with possible effects on entrant</li> <li>Price cuts could be a form of limit pricing, i.e. reducing contestability (effects on possible entrants may be shown)</li> <li><b>Game theory</b> e.g. a payoff matrix or kinked demand curve to illustrate behaviour, for example cartel-like or collusive behaviour, price leadership</li> </ul> <p><b>NB to access Level 3 there must be correct use of game theory and application to the data.</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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 |
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| (c)<br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>Firms such as Walkers have significant market share and brand loyalty, even if competition lower price they may not switch</li> <li>Use of context to show that firms are cutting prices because of a regulation and not because of the actions of other firms. No sign of interdependence.</li> <li>Size of market shrinking overall so behaviour more aggressive</li> <li>Firms setting low prices in a long run equilibrium might not be the best option for the firms or other stakeholders.</li> <li>Advertising ban affects children mainly - so price competition less needed for older target audiences that can still be targeted.</li> <li>Reference to only 10% loss in sales compared to 15% - still a large impact on firms (Extract A).</li> </ul> |                                                                                                                                                                             | (4)  |
| Level            | Mark                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Descriptor                                                                                                                                                                  |      |
|                  | 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | No evaluative comments.                                                                                                                                                     |      |
| Level 1          | 1-2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                             |      |
| Level 2          | 3-4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |      |

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (d)             | <p><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>16 marks for KAA, for effects of increased spending on education to promote healthy eating in the UK.<br/>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Effects of increased demand for healthy foods/consumer surplus/increased prices (may include supply and demand diagram) or fall in price of HFSS foods</li> <li>• Positive externalities in consumption are internalised (may include divergent MSB and MPB diagram and corresponding movement toward social optimum at <math>MSB=MSC</math>)</li> <li>• Impact on firms which make unhealthy products – increased costs if they diversify/reduced demand e.g. use of healthier ingredients with higher costs. This might be shown on a cost/revenue diagram.</li> <li>• Increased profits for healthy food producers e.g. shown on a costs/revenue diagram</li> <li>• labour market issues, e.g. workforce becomes healthier, and reduced obesity might make workers more productive (increase marginal product)</li> <li>• Opportunity cost of spending on education</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Effects on price level and output as G increases, with multiplier effects. May be shown by shift out in AD with effects on price level and real output.</li> <li>• Healthier workforce shifts out the LRAS, with impact of lower prices and higher output</li> <li>• Fiscal implications – crowding out, effect on balancing budget</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |             |
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|  | <p><b>NB for a Level 4 response there must be micro and macro effect (s). Opportunity cost/shift in PPF/labour markets/competitiveness etc. can be used as micro or macro.</b></p> <p>9 marks for evaluation – questioning might include:</p> <ul style="list-style-type: none"> <li>• Expansionary fiscal policies not necessarily happening. It might mean expenditure elsewhere is cut (opportunity cost arguments)</li> <li>• Trade-off between objectives e.g. increased spending might cause inflation, depends on the state of the fiscal balance, multiplier etc.</li> <li>• Questioning whether education is effective, or whether other policies are needed, e.g. tax, banning advertisements</li> <li>• Education might be counter-productive/role of state might be questioned e.g. government failure, crowding out effect</li> </ul> | <b>(25)</b> |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|

| Knowledge, application and analysis |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                               | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|                                     | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Level 1                             | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation |      |                                                                                                                                                                                                                                                                          |
|------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level      | Mark | Descriptor                                                                                                                                                                                                                                                               |
|            | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1    | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2    | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>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.<br>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)             | <p><b>Knowledge 4, Application 4, Analysis 8 Evaluation 9</b></p> <p>16 marks for KAA, for effects of increase in tax on HFSS foods.</p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Rational economics implies people will change consumption patterns. Consumer preferences will change away from HFSS foods e.g. as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping (Extract C).</li> <li>• An ad valorem or specific tax diagram might be used to illustrate the effects on prices/quantity in each market, and the incidence of tax</li> <li>• Cross elasticity of demand – evidence (e.g. Extract C) that a rise in price may cause a rise in demand for healthy food.</li> <li>• Welfare changes, e.g. loss of consumer, producer surplus/higher prices and deadweight welfare loss. This might be shown with an externalities diagram, e.g. positive in consumption of healthier foods.</li> <li>• Impact on firms, e.g. loss in profits on HFSS as costs rise/demand falls. This might be illustrated using a costs/revenue diagram; increased profits for healthier options.</li> <li>• Impact on labour market. Healthier workers, or effects of cut in real wages as costs of living increase. Changing employment opportunities. e.g. reduced employment for HFSS manufacturers and increased employment for healthy foods firms.</li> </ul> |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |
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|  | <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Redistribution (micro or macro issue): indirect taxes of this sort are regressive, disproportionately affecting the elderly and the poor. Taxes on HFSS foods moderate consumers, as well as the obese overeaters they are intended to target.</li> <li>• Cost push inflation – a one-off rise in prices. This might be shown by an upwards/leftwards movement of AS</li> <li>• Effects on incomes/net exports – may be linked to a fall in AD, e.g. in Denmark the policy helped push up food prices in a year in which real wages fell by 0.8%.</li> <li>• Governments might gain revenue which can be used elsewhere in the economy / lose revenue – Laffer curve (Extract C)</li> </ul> <p><b>NB for a Level 4 response there must be micro and macro effect (s). Opportunity cost/shift in PPF/labour markets/productivity/competitiveness etc. can be</b></p> |  |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                    |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
|  | <p><b>used as micro or macro.</b></p> <p>Up to 9 marks for evaluation. Points might include:</p> <ul style="list-style-type: none"> <li>• Depends if firms respond by cutting prices (Extract B)</li> <li>• The tax makes people buy other unhealthier food (in Extract C) e.g. increases price and people may substitute to cheaper even unhealthier or low-quality alternatives that are more affordable</li> <li>• Tax is not an efficient deterrent to obesity. The policy had a very limited impact on the consumption of HFSS in the data foods: 80% of Danes did not change their shopping habits at all (Ext C). Not only is demand for food relatively inelastic, prices often fluctuate, and consumers become immune to changes</li> <li>• Depends on magnitude- the proportion of income may be low</li> <li>• The price elasticity of demand will determine the incidence of the tax - inelastic larger consumer incidence and elastic larger producer incidence.</li> <li>• Depends on how funds are used - e.g. to promote healthy eating through subsidies and education</li> <li>• The intervention may mean free markets work less well – theory of unintended consequences</li> <li>• Other unintended consequences e.g. counterfeit, smuggling</li> </ul> | <p><b>(25)</b></p> |
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| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level                                      | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|                                            | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Level 1                                    | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                          |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level             | Mark | Descriptor                                                                                                                                                                                                                                                               |
|                   | 0    | No evaluative comments.                                                                                                                                                                                                                                                  |
| Level 1           | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.                                                                                                                             |
| Level 2           | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

Q15.

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (a)             | <p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because the change in forecast UK government spending is highest on social protection</p> <p><b>B</b> is not correct because the forecast UK government spending in all areas has risen from 2015/16</p> <p><b>C</b> is not correct because forecast UK government spending on defence is less than twice as much as forecast spending on housing</p> | (1)  |

| Question Number | Answer                                                                                                                                                                                                                                                                         | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (b)             | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application</b><br/>1 mark for appropriate calculation, e.g.</p> <p><math>(240 / 772) \times 100</math>    (1)</p> <p>Answer = <b>31.1</b> (accept range 31 to 31.1)</p> <p>Award 2 marks for correct answer</p> | (2)  |

| Question Number | Answer                                                                                                                                                                                                                                                  | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| (c)             | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>Budget deficit is when government spending exceeds (tax) revenue/receipts</li> </ul> | (1)  |