PEARSON EDEXCEL A-LEVEL ECONOMICS B · 9EB0

# ECONOMICS



## MARK SCHEME

4.4 MACROECONOMIC POLICIES AND IMPACT ON FIRMS AND INDIVIDUALS

| SCORE | PERCENTAGE |
| --- | --- |
| /837 | % |

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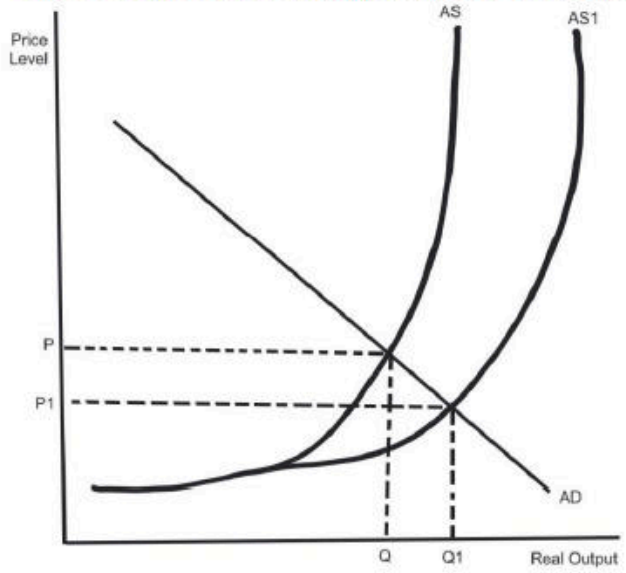
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## Mark Scheme

Q1.

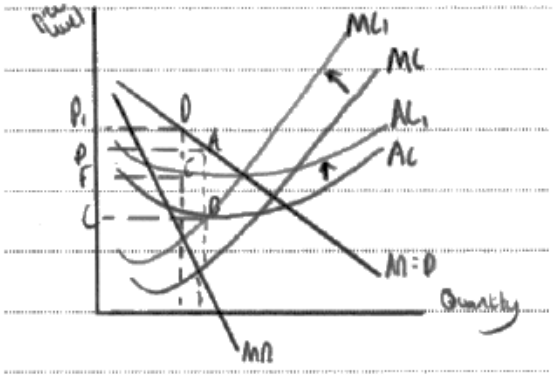
| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 2, Application 1, Analysis 1**<br><br>**Knowledge** 2 marks e.g.<br>• Aggregate supply will increase (1)<br>• Improvement in UK's capital (1)<br>• Increase in productivity/efficiency of UK economy (1)<br>• Correct diagram illustrating an increase in AS (2), e.g.:<br><br><br>**Application** 1 mark, e.g.<br>• Reduce journey times by as much as 50%<br>• £56bn spending<br><br>**Analysis** 1 mark for linked development e.g.<br>• Faster journey times means people can get to work quicker, increasing their productivity<br>• Moving freight more quickly will increase efficiency for firms | **(4)** |

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

Q2.

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

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

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

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

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 4**<br>• Depends on the proportion of costs made up by (low skilled) labour<br>• Depends on the elasticity of demand for labour, e.g. the substitutability of capital for labour<br>• Effect on profitability will depend on the ability of firms to pass on increased costs<br>• Answers might consider the counterbalancing effects of changes in both revenues and costs<br>• Increased wages have in the past led to increased value of output<br>• In the long run firms might employ younger (under 25) workers, and other possible changes implied in Extract C<br>• Demand might fall if the firm is selling inferior goods when incomes rise.<br>• Real vs. nominal changes in wages<br>• Depends on whether other costs remain the same, or if demand rises as result of increased incomes<br>• Contrast between fixed and variable cost diagrams<br>• Discussion of the supply of labour/opportunity cost of labour as wages rise | **(4)** |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context.<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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>**This mark scheme is based on a decrease in competitiveness, but answer can be given from the point of view of an *increase***<br><br>Microeconomic influences may include:<br>• Productivity – physical and human e.g. use of Figure 6 to show worsening of UK international competitiveness<br>• Unit labour costs – in terms of relative wages<br>• Market structure, e.g. low level of competition between firms<br>• Effectiveness of competition policy<br>• Non-price factors e.g. quality<br>• Labour market factors e.g. strength of trade unions, national minimum wage, labour market regulation,<br>• Taxes and subsidies on firms can be seen as micro or macro<br>• Regulation e.g. green taxes and other environmental policies<br><br>Macroeconomic influences may include:<br>• Physical and human capital<br>• Level of inflation<br>• Level of indirect taxation, including tax on labour, corporation tax<br>• Real exchange rates<br>• Infrastructure<br>• Supply side policies, including protectionism if explicitly linked to competitiveness<br>• Comparative advantage<br>• Membership of trading blocs<br>• Levels of protectionism/tariff barriers | |

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|---|---|---|
| | Possible evaluation points include:<br>• Degree to which the factor influences competitiveness e.g. ULCs more significant in countries where production has a strong manufacturing base<br>• There may be a discussion of the degree to which wages influence competitiveness<br>• Use of other countries in data e.g. to observe conflicting evidence<br>• Difficulties in measuring productivity or competitiveness, productivity puzzle<br>• Diagram might be used to show different labour market supply and demand and elasticities<br>• Data might be used to make observations, e.g. that Germany is very competitive but has higher wages.<br>• Relative significance of price vs non-price factors<br>• Problems of being competitive in non-tradables, e.g. many services are hard to trade<br><br>**NB do not award effects unless linked to further changes in competitiveness** | **(25)** |

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| Knowledge, application and analysis | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1 - 4 | Displays ability to apply knowledge in context but will focus on small range of elements.<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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects may include:<br>• on people facing reduced benefits (non-working recipients)<br>• on people facing reduced work-related benefits (e.g. working tax credits)<br>• on firms with increased supply of labour, but higher costs of labour<br>• on firms' incentives, e.g. changes in corporation tax<br>• effects on sectors of economy such as schools, policing from reduced public sector spending<br>• micro effects on supply of labour and on output of firms from changes in marginal tax rates<br><br>Macroeconomic effects may include:<br>• lower inflation (might involve a discussion of marginal propensity to consume / multiplier)<br>• lower nominal GDP<br>• change in employment / incentives to work<br>• increased income inequality<br>• reduced quality of public services in general<br>• falls in productivity and increased cost push effects as a result of cuts in education or failing infrastructure<br>• reduced crowding out effects as government spending falls in the short term (raising taxes takes longer to reduce the size of the deficit?)<br>• Laffer curve e.g. tax evasion and avoidance | |

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

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

Q3.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 1, Analysis 1**<br><br>**Knowledge/understanding (2):**<br>• Investment will increase (1)<br>• Lower interest rates reduce cost of borrowing (1)<br><br>**Application (1):**<br>A relevant reference to the data, e.g.<br>• In 2020 interest rates fell from 0.75% to 0.1% (1)<br>• In 2020 interest rates fell by 0.65 percentage points (1)<br><br>**Analysis (1):**<br>Linked development 1 mark for e.g.<br>• Firms are more incentivised to borrow money (1)<br>• Firms feel more confident to invest<br>• Investments financed by borrowing are now more profitable/less risky (1)<br>• Costs of production fall for firms (1)<br>• Fall in return on savings stimulating consumption/sales (1) | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **The only correct answer is B**<br><br>***A*** *is not correct because average house prices would be likely to rise*<br><br>***C*** *is not correct because the level of employment would be likely to rise*<br><br>***D*** *is not correct because the rate of economic growth would be likely to rise* | **(1)** |

Q4.

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

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

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

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 4**<br>• Euro may not have appreciated against all currencies.<br>• Euro may have appreciated against currencies of countries who do not receive many Eurozone exports.<br>• Magnitude discussion<br>• May change in the long term<br>• Marshall-Lerner condition<br>• J-curve effects<br>• Non-price factors may be more important | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<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)** | **Knowledge 2, Application 2, Analysis 4,**<br><br>ECB QE programme is effective:<br><br>• Explanation of process of QE<br>• should encourage banks to increase lending and thus hopefully increase consumption/investment<br>• Inflation/GDP may well have been much lower without QE<br>• Confidence of markets would have been much lower without QE<br>• QE programme to be extended for a further 6 months<br>• Lower interest rates encourages consumption/investment, thus increasing AD and therefore inflation<br>• Low government bond yields for Eurozone countries<br>• Depreciation of the Euro affecting X-M<br><br>NB One side of this argument should count as KAA and the opposing argument as Evaluation | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 4**<br><br>ECB QE programme isn't effective:<br>• Inflation likely to remain below target into at least 2017<br>• Low inflation is largely down to factors outside the central bank's control (e.g. oil prices)<br>• Lack of confidence among firms and consumers meaning they are not responding as the ECB would like to the QE programme<br>• Banks are still reluctant to lend money to firms and consumers<br>• Time lags<br>• Extension of QE programme suggests that it hasn't worked<br>• Other policies may be more effective<br><br>NB One side of this argument should count as KAA and the opposing argument as Evaluation | **(4)** |

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

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

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 6**<br><br>Evaluation of the policies, e.g.<br>• Governments in many Eurozone countries are having to focus on reducing national debt and can't afford policies such as tax cuts<br>• Supply-side policies take a long time to have an impact on the economy | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced.<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)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge** 1 mark e.g.<br>• Fall in UK economic growth (1)<br>• Reduction in UK business confidence (1)<br><br>**Analysis** 1 mark for linked development e.g.<br>• Fall in growth means economy may need more government support for longer to ensure stable growth (1)<br>• Less business confidence likely to lead to less private sector investment and so government may need to counteract this (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge** 1 mark e.g.<br>• National debt will continue to increase (1)<br><br>**Analysis** 1 mark for linked development e.g.<br>• Running a budget deficit means expenditure is greater than tax revenue (1)<br>• Government will have to finance a budget deficit by borrowing money (1) | **(2)** |

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

Q6.

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Arguments that cutting taxes will **positively** impact the economy:<br>• Firms will have more profit to reinvest into their companies, therefore increasing investment, aggregate demand, and therefore output<br>• Consumers have higher disposable income so consumption will increase<br>• Greater injections into the circular flow of income<br>• Less withdrawals form the circular flow of income<br>• Relevant AD/AS diagram illustrating an increase in AD<br>• Increase in size of multiplier<br>• Less incentive for tax evasion/avoidance<br><br>Arguments that cutting taxes will **negatively** impact the economy:<br>• Firms may not reinvest money, many other factors affect investment decisions- e.g. confidence<br>• Consumers may save any extra disposable income, thus withdrawing it from the circular flow of income<br>• Likely to result in higher government debt leading to increased crowding out<br>• Government will have less money to spend on infrastructure/education etc. that may negatively affect economic growth<br><br>One side of the argument should count as KAA and the other as EV. | **(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. |

Q7.

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Arguments that QE **has been** effective:<br>• 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<br>• 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<br>• 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<br>• 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<br>• 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 | |
| | Arguments that QE **has not been** effective:<br>• Many financial institutions used QE funding to improve their own financial stability, increase their liquid assets- rather than increasing lending to businesses/consumers<br>• Lack of consumer/business confidence meant there was a lack of demand for loans<br>• Consumers and firms were increasing savings rather than borrowing due to concerns about stability of the Eurozone economy<br>• Effect was limited by contractionary fiscal policy in many Eurozone countries<br>• Significant spare capacity in European economies during recession which QE is unable to make up for<br>• If recession proves short-lived too much QE could be inflationary<br>• Different European countries experiencing different economic situation so a 'one size fits all' QE approach may be too much for some countries & not enough for others<br><br>Candidates can use either side of this argument as KAA and the other side as evaluation | **(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. |

Q8.

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

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Application 2**<br><br>**Application**: 2 marks for e.g.<br><br>500 000 X 0.17 (1)<br><br>= 85 000<br><br>**NB Award full marks for correct answer** | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(c)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge/understanding (1):**<br>Identification of one reason, e.g.<br>• Increase in firms choosing to base themselves in the UK<br>• Increased investment by UK firms leading to increased profits<br>• Reduced tax evasion/avoidance<br><br>**Analysis**: 1 mark for linked development, e.g.<br>• With more firms locating in the UK there will be more firms paying UK corporation tax<br>• A labelled Laffer curve | **(2)** |

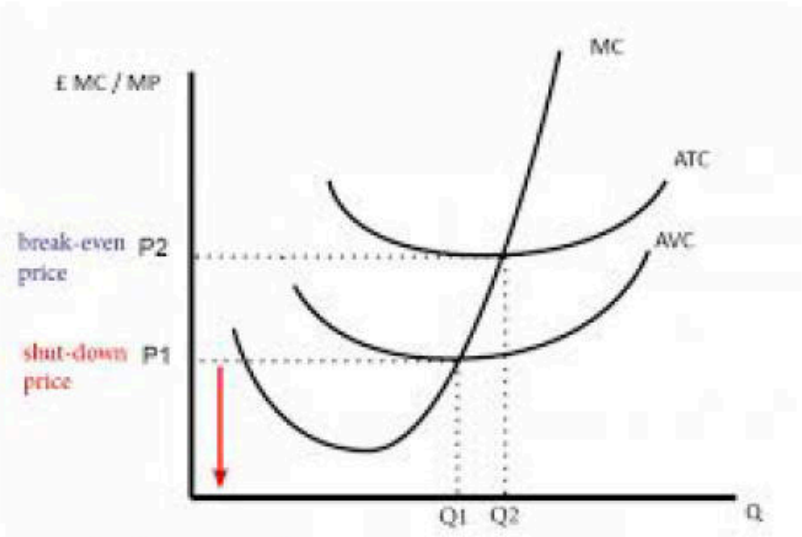
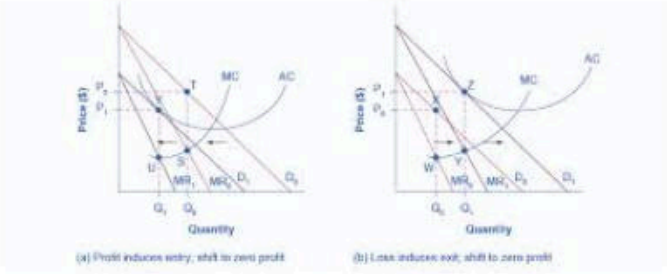
Q9.

| Question Number | Indicative content | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge and analysis (3 marks): e.g.**<br><br>• Productivity must be GDP / input (or per hour worked) to have sense of output relative to input (1) sense of relative efficiency (1)<br>• Nominal values meaning e.g. inflation is included in the figures (1) so useful firms when calculating how much revenue they have earned (1)<br>• PPPs means e.g. that the relative cost of living is taken into account, or the figures are adjusted according to the relative purchasing power (1)<br>• Makes comparison easier across countries (1) and time (1) and meaningful in the same currency (1)<br><br>**Application (2 marks for 1 point, or 1 + 1)**<br>Award valid data use only e.g.<br>• US produces 28% more per hour (1) than the UK (1) | **(5)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2**<br>**Evaluation 2**<br><br>**Knowledge/implicit understanding of one reason**<br>• Higher employment/employment has not fallen in line with falls in GDP (productivity puzzle)<br>• Inefficient businesses e.g. zombies<br>• Costs of laying off workers is high e.g. labour hoarding – both in terms of severance and loss of human capital<br>• Workers do not want to leave, because of pensions/higher living costs/lack of confidence about finding another job after the biggest crash since the 1930s<br>• Low interest rates have meant workers can be kept on despite falling sales and output, as profits are kept positive<br>• Later retirement age<br>• Lack of investment/FDI in UK (1) e.g. in advanced technology (1)<br>• Numbers in higher education<br><br>**NB do not award longer working hours unless clearly linked to hourly impact (Figure 4 is hourly productivity)** e.g. diminishing marginal productivity. Award only the **one** best reason given. | |

| | | |
|---|---|---|
| | **Application:** (2 or 1+1)<br>• Use of Figure 4 to show difference between actual and potential figures<br>• This might be shown using a PPF or AD/AS diagram (1)<br>• Use of UK recent events e.g. financial crisis (1)<br>•<br>**NB At least one application mark is reserved for use of Figure 4.**<br><br>**Evaluation** (2 marks for any relevant point, or two points 1 +1):<br>• Problems in data – productivity is being measured the wrong way<br>• Trend likely to reverse after recovery from downturn 2020/2021<br>• As employment falls from events in 2020 the trend might reverse (output per worker will rise if there are fewer workers)<br>• Magnitude of productivity gap is cause for alarm<br>• Reasons why productivity is growing in other countries – or other comment e.g. that the relative productivity (Fig 3) is more significant | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>**Knowledge and analysis**<br>• Changing consumer trends<br>• Higher business rates and other costs<br>• Use of diagram to show shut down point<br>• Explanation of diagram to explain why firms leave, e.g. P<AVC<br>• X-inefficiency in shops<br>• Low value added shops have to compete with online<br><br>**Application**<br>• Competition from online<br>• Use of Extract to give examples, e.g. Maplin could not compete with online similar products<br>• Inflation has reduced the amount you can buy with £1 – Poundworld was not viable<br>• These are saturated market with many new entrants<br>• Large rental bills and higher business rates cannot be met and banks are unwilling to lend/ provide extensions to overdrafts<br>• Falling consumer confidence | |

| | | |
|---|---|---|
| | Example of costs diagram (can use AC or ATC)<br><br><br>Example of revenue diagram:<br><br>**NB for a level 3 response there must be at least one valid diagram. The diagram can show either a fall in AR/MR or a rise in costs, or both. The diagram also earns credit as a static diagram, but explanation of changes is still required.** | **(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 |
|---|---|---|
| **(c)** continued | **Evaluation 4**<br>• Some high street stores are doing well, e.g. coffee shops and cafes<br>• Other regeneration of the high street is possible<br>• Many companies are responding to threats from online by extending their online presence<br>• Diagram might be used as part of evaluation, e.g. it depends on whether costs also fall as demand falls. Homebase is seeking lower rents (fixed costs fall).<br>• Firms will stay in business in the short run if they are making a contribution towards fixed costs, i.e. P>AVC. This might be illustrated with a diagram e.g. | |

| 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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic policies to improve competitiveness may include:<br>• Labour force policies e.g. changing NMW will affect ULCs<br>• Increased level capital by making investment more profitable/subsidy<br>• Infrastructure spending e.g. Crossrail<br>• Investment in education/skills or cutting/capping university fees<br>• Joint ventures with global companies e.g. Dyson<br><br>Macroeconomic influences may include:<br>• Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness. Also award policies that are protectionist.<br>• Tax and benefit changes e.g. corporation tax<br>• Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation<br>• Actions of other institutions e.g. banks, schools<br>• Control of price level e.g. stop QE<br><br>**NB for a Level 4 response there must be micro and macro policy (s). Some factors could be seen as micro or macroeconomics, such as labour market changes, supply side policies**<br><br>Possible evaluation points include:<br>• Degree to which the policies might be a success<br>• Depends on other countries (relative competitiveness issue)<br>• Depends on the value of the currency which cannot be directly controlled in the UK.<br>• Depends on relationship with the EU after Brexit<br>• opportunity costs of funds<br>• government failure- lack of information to know where to focus funds | **(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. |
| | 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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects may include:<br>• Loss of human capital and therefore lost incomes, consumer welfare<br>• Firms may have unfilled vacancies. Effects on costs<br>• Falling incomes in the UK mean reduced sales<br>• Skills shortages may create a need for employment of migrant workers<br>• Extra costs associated with training staff to up skill them<br>Macroeconomic effects may include:<br>• Shift in SRAS or LRAS might be drawn as costs of production rise, productivity worsens, capacity reduces<br>• Effects of immigration to fill gaps in labour market<br>• Effect on current account as UK economy becomes uncompetitive<br>• Falling tax revenues and increased G – fiscal implications<br>**NB for a Level 4 answer there must be reference to the context of young workers in the specific country's context (UK or any other)**<br>**NB for a Level 4 response there must be micro and macro effects.** | |

| | | |
|---|---|---|
| | Possible evaluation points include that the effect depends on:<br>• Effects of Brexit may mean it is harder to fill vacancies for firms using skilled EU labour<br>• Data may be misleading – difficult to measure human capital<br>• Comment on the priority literacy/numeracy is vital to long term viability of workforce. Should funding increase for education?<br>• There will always be a demand for low skilled workers<br>• Some evidence that most UK young people are better educated 2016 data- improvements likely with reforms to KS2, GCSE and A Levels focusing more on literacy and numeracy/quantitative skills.<br>• Some with poor literacy and numeracy have been highly successful entrepreneurs - there are famous (but statistically rare) examples! | **(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. |

Q10.

| Question Number | | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge:**<br><br>• 'Good' deflation - Caused by an increase in aggregate supply (1)<br>• 'Bad' deflation - caused by falling aggregate demand (1)<br><br>**Application:**<br><br>2 data references from Extract 1: (2 marks)<br><br>• For 'good' deflation - falling price of unit of computing power (1)<br>• For 'bad' deflation - recession in eurozone (1)<br><br>**Analysis**:<br><br>1 mark for explanation of the link between:<br><br>Either<br><br>• AS and 'good' deflation: because it is caused by new technology; falling raw material prices which result in higher real output (1)<br>OR<br><br>• AD and 'bad' deflation: because it is caused by falling real wages which result in lower real output. (1) | **(5)** |

| Question Number | | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge and analysis:** 1 mark for each reason, up to 2 marks **(K)**. A further 2 marks for supply and demand diagram(s) or further development or explanation **(A)**<br><br>• Fall in demand - recession in eurozone; slowdown in China and Asia<br>• Increase in supply - shale oil<br><br>**Application (1+1 marks):**<br><br>Specific data reference from Figure 1, e.g. fall in oil price from around $115 a barrel in mid 2014 (1) to just over $60 a barrel by the end of 2014 (1)<br><br>Specific data references from Extract A: e.g. 50% increase in oil supply in USA (1)<br><br>**Evaluation:** (2 marks for any relevant point):<br><br>• Prioritisation - discussion of which factor has had the greatest impact<br>• Fall in demand might be more temporary than increase in supply. | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>• Meaning of a cartel: group producers acting together; restricting supply to force up price<br>• The producers act as a monopolist when a cartel is formed<br>• All major producers must be members of the cartel for it to be able to succeed<br>• No new substitutes for the product must be available (in this case shale oil is an effective substitute for oil)<br>• Supply must be controlled – without 'cheating' by individual producers. | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1 - 2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 4**<br>• Much will depend on relative price of oil in relation to sources of renewable energy<br>• A cartel might be more successful in the short run than in the long run when alternatives may be developed and become more available<br>• Less powerful members of the cartel are likely to cheat<br>• Difficulty of controlling activities of major producers<br>• Impact of increase in shale oil/gas production<br>• Inability to prevent entry of new producers (discussion of the degree of contestability in the market. | **(4)** |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | No evaluative comments. |
| 1 | 1-2 | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| 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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects:<br>• on consumers - increase in real value of savings; falling prices so increase in consumers' surplus<br>• on producers - lower input prices leading to falling costs of production and possibly higher profits<br>• on workers - could result in nominal wage cuts<br>• on shareholders - falling profits might result in falling dividends.<br><br>Macroeconomic effects:<br>• impact on Investment - less incentive for firms to buy capital equipment<br>• impact on Employment - could lead to a 1930s type depression with massive unemployment<br>• impact on Economic growth - could result in prolonged depression<br>• impact on Real value of a country's national debt increases.<br><br>Possible evaluation points include:<br>• impact depends on the causes of deflation – whether it is 'good' or 'bad'<br>• consumers face increase in real value of mortgages and debts<br>• producers face falling revenues and profits<br>• impact on macroeconomic variables (growth, employment, balance of payments) dependent on type of deflation. | **(25)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Marks | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1 - 4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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. The answer demonstrates logical and coherent chains of reasoning. |

| Evaluation | | |
|---|---|---|
| Level | Marks | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1 - 3 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 4 - 6 | Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements.<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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects:<br>• impact on costs of production resulting in higher profits for businesses<br>• impact on revenues and profits of oil companies (reference to price inelasticity of demand)<br>• impact on investment decisions by firms in the oil market, especially with reference to shale oil<br>• impact on wages of workers in oil industry<br>• impact on consumer real incomes and on demand for other goods and services<br>• impact on green energy industries (reference to cross elasticity of demand).<br><br>Macroeconomic effects:<br>• lower global rates of inflation (AD/AS analysis)<br>• impact on global growth rates<br>• impact on balance of payments on current accounts of oil importing countries and oil exporting countries<br>• impact on $C0_2$ emissions: consideration of impact on climate change on different countries - reference to external costs.<br><br>Possible evaluation points include:<br>• impact on different industries will depend on their oil costs as a proportion of total costs<br>• impact on households will depend on cost of oil in household budgets<br>• impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt<br>• impact on inflation rates and growth rates depends on elasticities of AD and AS curves<br>• impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of oil<br>• impact on external costs depends on how different price elasticity of demand for oil. | **(25)** |

| Knowledge, application and analysis | | |
|---|---|---|
| Level | Marks | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1 - 4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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. The answer demonstrates logical and coherent chains of reasoning. |

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

Q11.

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

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

Q12.

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Understanding of marginal tax rate.<br><br>Possible impacts may include:<br>• As this is a progressive tax, it should lead to a decrease in income inequality – effect may be illustrated using a Lorenz curve<br>  ○ But it is only increasing by 2 percentage points, only affecting a relatively small number of individuals, and only in place for three years, so any effects may be small<br>• Increased incentive to work for those affected to maintain their net income<br>  ○ But reduced incentive to work for those affected as the opportunity cost of leisure time has fallen<br>• Tax revenue is forecast to rise for the Australian government<br>  ○ But an increased incentive to avoid/evade income tax<br>  ○ Possible labour flight from the Australian economy<br>  ○ And lower working hours may lead to lower tax revenue (Laffer curve analysis)<br>• If disposable incomes fall, consumption may fall, leading to a reduction in aggregate demand, and a possible fall in real GDP and average price level<br>  ○ But, highest income earners tend to have a low MPC, so consumption may not change significantly<br>  ○ But, effects on real GDP depend on the size of the multiplier and the level of spare capacity in the economy. | **(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.<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. 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. |

Q13.

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

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

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

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

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects:<br>• on price of gas to consumers – impact on consumers' surplus<br>• on price of gas to producers – impact on producers' surplus<br>• implications for producers of other forms of energy<br>• external costs – on environment and water supply<br><br>Macroeconomic effects:<br>• on investment – multiplier effect on GDP so promoting economic growth<br>• on employment – an estimate that 35 000 jobs will be created<br>• 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<br>• rate of inflation may fall – lower energy prices<br><br>Possible evaluation points include:<br>• Impact on price of energy may be less significant than in the USA<br>• Impact on other forms of energy – much will depend on how much gas is obtained from fracking<br>• Difficult to forecast the magnitude of external costs or to place a monetary value on them<br>• Impact on macroeconomic variables (growth, employment, balance of payments) dependent on amount of gas found, the price at which it sells, changes in prices of other forms of energy | **(25)** |

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

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** | **Knowledge 4, Application 4, Analysis 8**<br>Microeconomic effects:<br>• impact on revenues and profits of energy companies<br>• impact on investment decisions by firms in the energy market<br>• impact on wages of workers in energy industries<br>• impact on consumer real incomes and on demand for other goods and services.<br><br>Macroeconomic effects:<br>• lower costs of production<br>• lower global rates of inflation (AD/AS analysis)<br>• impact on global growth rates<br>• impact on balance of payments on current account of different countries<br>• increase in $CO_2$ emissions: consideration of impact on climate change on different countries, reference to external costs<br>• impact on consumers and producers of the main countries supplying energy. | |
| | Possible evaluation points include:<br>• impact on different industries will depend on their energy costs as a proportion of total costs<br>• impact on households will depend on cost of energy in household budgets<br>• impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt<br>• impact on inflation rates and growth rates depends on elasticities of AD and AS curves<br>• impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of energy<br>• impact on external costs depends on how different energy sources are affected | **(25)** |

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

## Mark Scheme

Q1.

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

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

Q2.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge/Understanding:** (1+1 or 2) marks<br>Explanation of forward markets in currencies, e.g.<br>• Firms buy their currency in advance (1)<br>• Firms agree a fixed price (1) for purchase of foreign currency in the future (1)<br><br>**Application:** (1+1) marks<br>Reference to Extract A, e.g.<br>• Currency 'has a big impact' on their business<br>• Buying currency as soon as a large order is confirmed<br>• 'The pound's post-Brexit referendum depreciation'<br>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.<br><br>**Analysis:** (1) mark<br>Linked development, e.g.<br>• Enables firms to reduce risk/uncertainty<br>• Firms can be certain about the cost of their imports in pounds | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/understanding:**<br>1+1 marks for identification of likely impacts of a fall in the value of sterling, e.g.<br>• Import inflation change in cost of production for firms<br>• Export/demand pull inflation<br>• Changes in FDI<br>• A change in unemployment<br>• Economic growth<br>• The will be an impact in the current account<br><br>**Analysis:** 2 marks for linked explanation of these impacts (1+1 or 2 marks for one well developed explanation), e.g.<br>• Fall in the value of sterling makes UK good appear cheaper to consumers in foreign countries when converted into their own currency (1)<br>• Fall in the value of sterling makes UK imports more expensive to UK consumers when converted into pounds (1) | |

| | | |
|---|---|---|
| | **Application:** (1+1) or 2 marks for reference to figure 1 and/or extract A, e.g.<br>• Pound fell from around $1.50 (1) rapidly to $1.30 (1) after the Brexit vote<br>• Pound fell further to a low over the period shown of just over $1.20 (1) in October/November 2016 (1)<br>• 'pound's post-Brexit referendum depreciation' (1)<br>• Pound fell by approximately 12% after the vote to leave the EU (2)<br>• Trend of depreciating pound (1)<br><br>**Evaluation:** 2 marks for evaluation (1+1 or 2 marks for one well developed explanation)<br>• Short-term impact - both figure 1 and extract A show how pound has risen towards mid/late 2017<br>• Price elasticity of demand for UK imports/exports<br>• J-curve effect<br>• Marshall-Lerner condition<br><br>**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** | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 2,**<br><br>Likely impacts on subjective happiness:<br>• Consumers have less real income to spend on goods/services that affect their happiness<br>• Consumers may worry more about the state of their personal finances<br>• Consumers may worry about ability to continue paying mortgages/other debts<br><br>**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** | **(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)** continued | **Evaluation 4**<br><br>• Other factors affect happiness beside real income, e.g. leisure time, environment, etc.<br>• Record low unemployment likely to lead to rising real incomes in future<br>• Rises in real income may have a different effect on happiness than falls in real income<br>• May be increased borrowing to make up for falling real incomes | **(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)** | **Knowledge 4, Application 2, Analysis 2,**<br><br>Central Bank would use monetary policy (interest rates and quantitative easing) to control inflation:<br>• Tighter monetary policy in response to rising inflation may create a conflict with objective of low unemployment- Phillips curve<br>• Higher interest rates in response to rising inflation may create rising inequality if savers benefit and borrowers suffer<br>• 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<br>• Higher interest rates likely to reduce consumption/investment and therefore AD, so controlling inflation but reducing economic growth<br><br>**NB Accept expansionary and contractionary monetary policy** | **(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 |
|---|---|---|
| **(d)** continued | **Evaluation 4**<br><br>There may not be a conflict between some macroeconomic objectives:<br>• UK economy has had both low inflation and low unemployment recently so is the Phillips curve really still valid?<br>• If incomes keep pace with inflation then inequality won't be an issue<br>• Cutting QE reduces asset prices thereby reducing inequality<br>• Depends on significance of change in monetary policy | **(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)** | **Knowledge 3, Application 3, Analysis 3**<br><br>**Arguments that providing support to banks is the best policy:**<br>• Economy is dependent on financial system working smoothly<br>• People could have lost their savings if banks had been allowed to fail, leading to massive drop in confidence<br>• Potential for risk of depression had government not intervened<br>• Government has recouped much of the money invested into bailing out the banks anyway- Government 'recovered every penny of its investment in Lloyds'<br><br>**NB Discussion of other policies, e.g. central bank regulation, can also be awarded as KAA**<br><br>**NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation** | **(9)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 6**<br><br>**Arguments that providing support to banks is not the best policy:**<br>• 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.<br>• Moral hazard: will encourage reckless behaviour from the banks in the future, expecting a bailout again<br>• Government looking unlikely to recoup losses from RBS for some time (in contrast to Lloyds)<br>• Other policies, e.g. expansionary fiscal policy, may have been more effective<br><br>**NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation** | **(6)** |

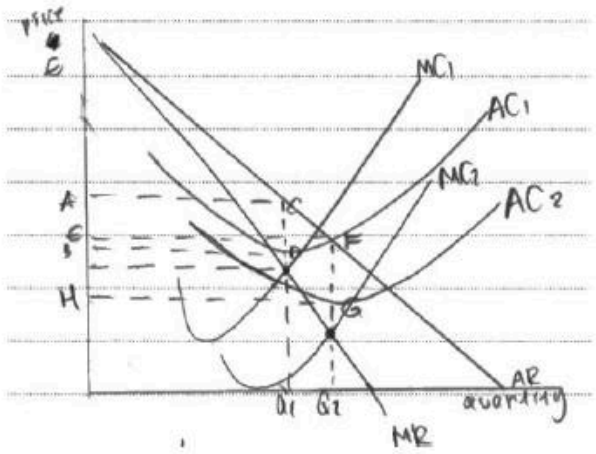
| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches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

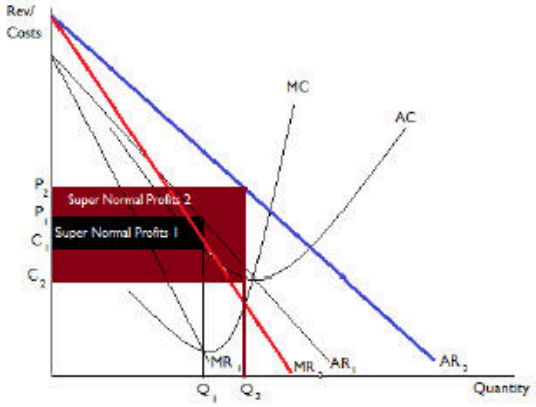
Q3.

| Question Number | Indicative content | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge and analysis:**<br>3 marks. Points might include:<br><br>• Explanation that national debt is the accumulation of pas fiscal deficits (may be implicit)<br>• National debt interest payments have an opportunity cost in terms of current spending<br>• It may be harder to raise borrowing in the future<br>• In case of a debt crisis, it might be impossible to raise new credit<br>• Also could argue that increased debt worsens the fiscal deficit through debt repayments<br>• 'Jam today not jam tomorrow' or similar idea that it's today's benefits paid for in the future<br><br>**Application (2 marks for 1 point, or 1 + 1)**<br>Award valid data use only e.g.<br>• Reference to data in Figure 2 e.g. ratio falls (1) to 60% in 2019 (1)<br>• 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)<br>• Use of other data, e.g. to keep surplus, 1.9% Fig 1 or Ext C<br>• Want to stay the largest economy in the EU. Data from any of the sources can be credited, if relevant, not just Figure 2.<br>• Maintain independence by not having to borrow | **(5)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2**<br>**Evaluation 2**<br><br>**Knowledge/implicit understanding of two effects (1 + 1) e.g.**<br>• Consumers demand falls<br>• Firms may pay lower wages<br>• Lower labour turnover<br>• Easier to recruit staff<br>• Reduction in skills, efficiency<br>• Deterioration of public sector finances further reducing spending on infrastructure<br><br>**Application:** (2 marks for any relevant point, or two points 1 +1): e.g.<br>• Unemployment is forecast to rise (1) to 6.1 percent from 5 percent (1) / 1.1 percentage points (2)<br>• This comes after several years of a declining rate of unemployment (1)<br><br>**Analysis** (1+1)<br><br>• Development of points made<br><br>**Evaluation** (2 marks for any relevant point, or two points 1 +1): e.g.<br>• Demand might rise for inferior goods<br>• Wages may be sticky downwards<br>• This is only a forecast and given events at the beginning of 2020 might end up worse.<br>• Firms exporting goods may not be affected as demand from abroad may remain strong if unemployment does not fall there<br>• The rise in unemployment is small and is still below 11.7% 2005. So, the impact will be relatively small | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **2(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>**Knowledge and analysis**<br>• Might mean costs rise in the short run and/or<br>• Costs fall in the long term – fixed or variable<br>• Demand for products might increase as firms improve product quality and choice<br><br>**Application**<br>• Some firms in Germany are expecting higher long-term profits from the investment (Extract C)<br>• Germany still far behind other countries in the area of technology especially broadband (Extract C)<br><br>**Analysis**<br>Example of diagram (can use AC or ATC or not shift MC)): | |




**NB for a level 3 response there must be at least one valid diagram. The diagram can show either a rise in AR/MR or a fall in costs, or both.**

**(8)**

| 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 |
|---|---|---|
| **(c)** continued | **Evaluation 4**<br>• Discussion of whether costs would rise (short term) or fall if successful (long term)<br>• It depends on how labour intensive the production is<br>• It depends on what competitor countries are doing<br>• New technology needs highly skilled labour and cannot be discussed in isolation | **(4)** |

| Evaluation | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context.<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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic factors to explain low growth may include:<br>• Labour force factors e.g. changing NMW will affect ULCs and therefore growth<br>• Increased level capital by making investment more profitable/subsidy<br>• Infrastructure spending e.g. schools crumbling, poor internet<br>• Investment in education/skills or cutting/capping university fees<br>• Low level of willingness to embrace modern technologies<br><br>Macroeconomic influences may include:<br>• Population changes<br>• Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness, changes in EU<br>• Tax and benefit changes<br>• Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation<br>• Actions of other institutions e.g. banks, schools<br>• Control of price level e.g. stop QE<br>• Competitiveness – use of Extract D<br><br>**NB some points such as regulation, supply-side policies, changing the interest rate, can be regarded as micro or macroeconomics** | |

| | | |
|---|---|---|
| | **NB for a Level 4 response there must be reference to Germany in context**<br><br>Possible evaluation points include:<br>• Degree to which the factors might be a success<br>• 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<br>• Depends on the value of the euro/ other currency of trading partners which cannot be directly controlled in Germany<br>• Germany might be better protected from worldwide crises such as the recent Global Health Crisis<br>• Growth is not the only desirable economic outcome (it might be argued that slower growth is better) | **(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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects may include:<br>• Employment improves or unemployment stops rising<br>• Incomes rise/stop falling<br>• Increased profits for firms e.g. motor manufacturers<br>• Other micro effects of increased spending and welfare e.g. improved health service<br>• Infrastructure improves if spending on this area<br>• Higher taxes in future might have an impact on demand and other aspects of consumer behaviour<br><br>Macroeconomic effects may include:<br>• AD increases<br>• multiplier<br>• Shift in SRAS or LRAS might be drawn e.g. capacity increases<br>• Increase in price level/output<br>• increase in borrowing – cost for future generations<br>• Diagrams might involve an increase in AD with multiplier effects<br>• Increased debt payments in the future – opportunity cost arguments may be used<br><br>**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**<br><br>**NB for a Level 4 response there must be reference to Germany** | |

| | | |
|---|---|---|
| | Possible evaluation points include:<br>• Depends on Classical vs Keynesian shape of AS<br>• Depends on size of multiplier<br>• Depends on the cost of borrowing – currently very low<br>• Impact on money markets and conflict with other policies<br>• Opportunity cost arguments<br>• Reference to budget deficit and national debt<br>• Confidence in the markets and consumers in the fiscal policy will determine whether or not it is effective<br>• Will interest rates remain low?<br>• An essential action in the recent context, and without stimulus many incomes and businesses would be lost | **(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 | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Likely effects might include:<br>• Government spending is part of aggregate demand and increased spending will increase aggregate demand<br>• Increase in injections into the circular flow of income and subsequent multiplier effects<br>• Improvement in UK productivity- developing new, more efficient ways of working can boost growth/raise living standards<br>• Improved innovation means UK may have more new goods and services that can be exported to other countries, improving current account and aggregate demand<br>• Improved infrastructure will boost productivity- e.g. better transport means less time spent in traffic jams, fewer delayed trains, etc<br>• Diagrammatic analysis may be used (e.g. AD/AS)<br><br>Evaluation might include e.g.:<br>• This is not really a very large amount of money, especially over five years and for the whole of the UK economy<br>• 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<br>• 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<br>• No guarantee that innovation will boost growth<br>• Depends on effectiveness of government at allocating resources | **(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.<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. |

Q5.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge/Understanding:** Up to 2 marks for e.g.<br>• Absolute poverty: Lacking basic necessities to survive (1)<br>• Relative poverty: Relatively poor compared to rest of your country (1)<br><br>**Application:** Up to 2 marks for e.g. (1+1 OR 2)<br>• Absolute poverty: World Bank definition: $1.90 a day (1) PPP values (1)<br>• Relative poverty: 60%/50% (1) below median household income in your country (1)<br>• Reference to Figure 1 or Extract A/B (1+1)<br><br>**Analysis:** Up to 1 mark for e.g.<br>• Absolute poverty can decline at the same time as relative poverty is increasing (1)<br>• There may be relative poverty in a country but not necessarily absolute poverty (1) | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/Understanding:**<br>Relevant factors identified (1+1), e.g.<br>• Level of education<br>• Level of healthcare<br>• Level of infrastructure<br>• Level of trade<br>• Capital flows<br>• Civil war<br>• Drought<br>• Poor governance<br>• Liberalisation of trade/tariff cuts<br><br>**Analysis:**<br>Linked development of each factor (1+1), e.g. in Sub-Saharan Africa<br>• Relative lack of education means a less skilled and therefore less productive workforce (1)<br>• Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1)<br>• Relative lack of infrastructure makes it more difficult and therefore expensive to move goods around the country to markets (1) | |

| | | |
|---|---|---|
| | **Application:**<br>2 marks (1+1) for reference to the data/candidates' own knowledge, e.g.<br>• Extract B: two thirds of 780 million illiterate adults are women<br>• Extract B: poor people- more malnutrition, lower odds of receiving health care<br>• Absolute poverty has declined far more rapidly in East Asia than Sub-Saharan Africa<br><br>**Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment<br>Evaluative comments (1+1), e.g.<br>• Significance of different factors<br>• Improvements will only occur in the long term | **(8)** |

| Question Number | Indicative Content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>Possible policies might include e.g.:<br>• 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.<br>• Expansionary monetary policy: cut in interest rates, rise in availability of credit, allows businesses to borrow for investment to help combat increased foreign competition.<br>• 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.<br><br>Candidates may discuss in the context of developed or developing countries<br><br>**NB To access Level 3 there must be reference to two valid macroeconomic policies, apart from protectionism** | **(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)** continued | **Evaluation 4**<br>• Impact of expansionary fiscal policy on budget deficit<br>• If business confidence is low, expansionary monetary policy may not lead to increased borrowing for investment<br>• Supply side policies may not be effective in the short run or have public sector cost implications<br>• Effectiveness of policies, e.g. lack of consumer confidence | **(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)** | **Knowledge 2, Application 2, Analysis 2,**<br><br>• Incentive to work hard in order to receive higher reward will help increase economic growth which can result in reduced absolute poverty<br>• More innovation due to the profit motive for firms and inventors leads to more competitive industry and faster economic growth<br>• Lower taxes or less redistribution may encourage entrepreneurs to relocate to the country<br>• Reference to rising living standards in a largely market based economy, e.g. UK, US<br><br>**NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation** | **(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)** continued | **Evaluation 4**<br><br>• Inequality reduces consumer confidence so less consumption, increase in saving. Aggregate demand may fall as a result.<br>• Excessive inequality can lead to more crime, poorer healthcare, etc.<br>• Low pay can act as a disincentive to seek employment and economic growth suffers as a result.<br><br>**NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation** | **(4)** |

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

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** | **Knowledge 3, Application 3, Analysis 3**<br><br>The role of the financial sector in the growth and development in developing countries includes:<br><br>• facilitating saving so banks have more funds for lending, facilitating investment and therefore growth<br>• promoting lending to enable more investment in the economy<br>• 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<br>• providing a market for equities<br>• Harrod-Domar model<br>• Microfinance<br>• Central banks/international organisations<br><br>**NB For a Level 3 response candidates must refer specifically to growth/development in a developing country/countries/regions** | **(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)** continued | **Evaluation 6**<br><br>• Clear rule of law required for financial sector to develop<br>• Risk of corruption<br>• Risk of market failure in financial marketss<br>• Lack of financial literacy in developing countries may limit potential<br>• Other factors may play a larger role, e.g. healthcare, infrastructure, education | **(6)** |

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

Q6.

| Question Number | Indicative content | Mark |
|---|---|---|
| | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Impacts might include:<br><br>• Impact on AD and economic growth of fiscal stimulus, with multiplier effects (net injection to circular flow)<br>• Higher purchases of government bonds/debt leading to crowding out, so less funds for investment by firms<br>• Higher contractionary fiscal policy in the future as governments start to pay off these fiscal deficits<br>• Higher interest costs of servicing debt means less money for public services and so lower standard of living<br>• Impact on a country's financial account on the balance of payments of large inflows of finance into government bonds<br>• Impact on a country's exchange rate<br><br>Possible evaluation points might include:<br><br>• Government debt isn't necessarily a problem as long as there are plenty of people/firms willing to buy it<br>• Higher debts may mean governments are investing more into improving public services, which if it improves investment in the economy will help boost GDP & pay for itself over time<br>• Short-term fiscal deficits can be balanced out by surpluses in the future<br><br>**NB For a level 4 answer candidates must use examples of a country**<br><br>**NB For a level 4 answer candidates must refer to both fiscal deficit and national debt** | **(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.<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)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge and analysis (3):**<br><br>• Definition of opportunity cost as the next best alternative foregone (1)<br>• Governments have to pay interest (1) at the expense of other expenditure (1)<br>• Servicing means paying back interest and minimum capital requirements (1) e.g. to prevent a default, loss of confidence, other repercussions (1)<br>• The debt is external (1), and in this case owed by governments as they have been borrowing from abroad (1)<br>• Use of PPF to show opportunity cost may be awarded as analysis (1)<br><br>**Application (2 marks for 1 point, or 1 + 1)**: e.g.<br>• Debt service payments above 20% of G (1) are unsustainable (Extract D) (1)<br>• £20billion raised 2010-2015 (Extract D) (1)<br>• Commodity prices soaring and foreign loans available' (Extract D) (1)<br>• 'Heavy repayment schedules at a time of low commodity prices' (Extract D) (1)<br>• Governments have taken to 'private debt too eagerly' (Extract D) (1)<br>• 'Median level of debt risen from 34% to 48% in 2017' (Extract D) (1) is heavy because of 'low tax base' (Extract D) (1)<br>• High levels of poverty – half of the 26 million people (1), so many feel the effects of reduced government expenditure (Extract E) (1)<br>• 'non-existent tuna fleet' or other hidden debt (Extract D) or corruption (1) at the expense of other government spending (1)<br>• Opportunity costs applied to any developing country, e.g. spending on poverty alleviation, education and health spending or recent cyclone April 2019 (1).<br><br>**Award a maximum of 1 application mark if there is no reference to Extract D** | **(5)** |

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

| | | |
|---|---|---|
| | **Application (1+1 or 2):** e.g.<br>• Further depreciation of the metical (Extract E)<br>• Lack of economic stability (Extract E line 26)<br>• Slowdown in FDI (Extract E)<br>• Depressed global demand (Extract E)<br>• Low levels of employment in the sector (Extract E) may imply lack of skilled workers<br>• High interest rates (Fig. 2 and Extract E line 14)<br>• High import costs (Extract E line 15)<br>• Needs urgently to improve its investment environment and confidence (Extract E line 17)<br>• Large scale emigration (Extract E)<br>• High numbers of people 'below the poverty line' (Extract E line 6) mean the market/incomes are small<br>• 'Economic dependence on South Africa' (Extract E) may limit prices/market power of firms. | |

| | | |
|---|---|---|
| | **Analysis (1+1)**<br><br>• Development of each point, up to 1 mark for each valid factor<br><br>**Evaluation** (2 marks for any relevant point, two points 1+1):<br><br>• The development of the gas fields (Extract E) will 'transform the economy'<br>• Pick up in coal and electricity (Extract E) which are probably larger firms and may have impact on manufacturing<br>• may consider whether this is because of choice or lack of opportunity<br>• Long term 'prospects are promising' (Extract E, line 20) e.g. sustainable agreement, gas fields production in 2020s or other initiatives such as trade blocs<br><br>**NB Cost of finance, financial economies of scale etc are allowed. It is only ACCESS to finance e.g. unavailability of microfinance, savings gap, loss of external lenders which is excluded.**<br><br>**NB Access to finance *may* be credited as part of the evaluation but not as KAA** | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>• Microfinance meaning and role<br>• Plugs the savings gap / Harrod-Domar model<br>• Enables firms to be set up – fixed or start-up costs<br>• enables firms to invest in human capital and overcome primary product dependency<br>• Use of Figure 3 to illustrate size and importance of microfinance operations<br>• Use of Extract F – e.g. '100 000 borrowers', many new business start-ups which could not have gained finance from any other source', 'unfulfilled demand for microfinance'<br>• How borrowers benefit – small firms can be set up or expanded, allowing firms to gain capital and materials to set up businesses, provide more employment, lead to improved living standards<br>• Borrowers lack collateral so cannot borrow from banks in the normal way<br>• The money is in small amounts £200 to £300, paid back regularly and over a short period of time, on which basis the firm forms a business plan for which the lender will approve or advise<br>• Microfinance allows firms to form without the stigma of aid or the dependence of FDI<br>• Use of cost/revenue analysis to support arguments (perfect/monopolistic competitive market)<br>• Macro analysis (AD/AS) must link back to borrowers, e.g. increased standard of living, allows firms to expand/invest<br><br>**NB For Level 3, answers must link to borrowers**<br><br>**NB The answer can take the form that there are more costs than benefits as part of the KAA, using the benefits as the evaluation** | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 4**<br>• Use of Figure 2 to show high base rates and Figure 3 to show average 75% APR on microfinance<br>• Large potential for expansion (Extract F)<br>• May encounter lack of demand as more than half of the population live below the poverty line<br>• Weak infrastructure does not allow borrowers to access markets<br>• Alternatives to microfinance could be considered, e.g. aid, FDI, debt relief<br>• Reasons why microfinance can be damaging to borrowers, e.g. pressure on women (98% of borrowers), over-indebtedness, poor guidance given to borrowers, macro-finance is needed for economies of scale, people borrowing multiple times, for uses which are social not business orientated.<br>• Large numbers of people setting up similar businesses/highly competitive e.g. food stalls, so profits tend to be low/need for dynamic efficiency<br>• Funds from private banks very different from NGOs – banks might be more cautious, and therefore more likely to succeed, might be better advice, support from specialists, softer terms from either institution might lead to moral hazard | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context.<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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic influences may include:<br>• Labour force and other demographic factors e.g. emigration of skilled/educated workers, disease, low life expectancy<br>• Small firms with low levels of capital<br>• Low levels of personal saving/high levels of personal debt<br>• Primary product dependency<br>• Volatility of commodity prices<br>• Debt – although do not award access to credit and banking. Allow arguments based on dependency or opportunity cost, for example<br>• Lack of infrastructure/other capital<br>• Absence of property rights<br>• Non-economic factors e.g. natural disasters, social problems<br>• Joint ventures with global companies<br><br>Macroeconomic influences may include:<br>• Trade liberalisation – may refer to tariffs or trade agreements<br>• Role of FDI e.g. the tuna fleet cover-up dries up FDI<br>• Government policy failure, e.g. weak expansion in fiscal policy, high interest rates, lack of subsidies, privatisation, interventionist strategies, e.g. management of exchange rate, buffer stocks<br>• Actions of other international institutions e.g. IMF or NGOs<br>• Macroeconomic stability, e.g. rate of inflation (might refer to Figure 2), rate of economic growth, exchange rate (metical at a 'new low') | |

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| | Possible evaluation points include:<br>• Degree to which the factors are inevitable<br>• Signs of improvements in passages<br>• Some factors are temporary, e.g. fall in commodity prices such as coal and drought affecting production and exports to other countries within Africa<br><br>**NB Do not award KAA for arguments based on ACCESS TO credit and banking, although this approach is permitted as part of the evaluation**<br><br>**NB for a Level 4 response there must be micro and macro factors (s). There must be reference to both growth and development for Level 4** | |

| | | |
|---|---|---|
| | **PPD/ Harrod-Domar/ debt/ aid/ debt relief/ cost of credit/ non-economic factors/currency issues / competitiveness index can be used as micro or macro.** | **(25)** |

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

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| | **NB do not award rise in unemployment/fall in growth unless a valid chain of reasoning is given**<br><br>Possible evaluation points include that the effect depends on:<br>• Whether wages rise in line with inflation<br>• The degree of inflation, and the policy and international responses.<br>• The PED of countries buying the African exports<br>• The PED of importing countries as imports become relatively cheap | |

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| | • Whether African countries are trading with each other the effects of inflation may be cancelled out e.g. use of Figure 2 to show neighbouring countries with higher inflation rates<br>• Whether asset prices rise as to the redistributive impact<br>• Depends on whether this is a long-term inflation problem- could be short term e.g. linked to commodity price rises. Only a problem if it is sustained.<br>• The figures are in one month in July 2017 and may not reflect inflation story for full year. Time series data may be more useful.<br>• Depends on the type of inflation – e.g. cost push or demand pull.<br>• Impact on exchange rates e.g. higher inflation may erode the value of the currency. This might cancel out the impact on competitiveness<br><br>**NB for a Level 4 answer there must be reference to the context of African countries (not just one)**<br><br>**NB for a Level 4 response there must be micro and macro effect (s). Costs/ shift in PPF/ currency/labour markets/competitiveness etc. can be used as micro or macro.** | **(25)** |

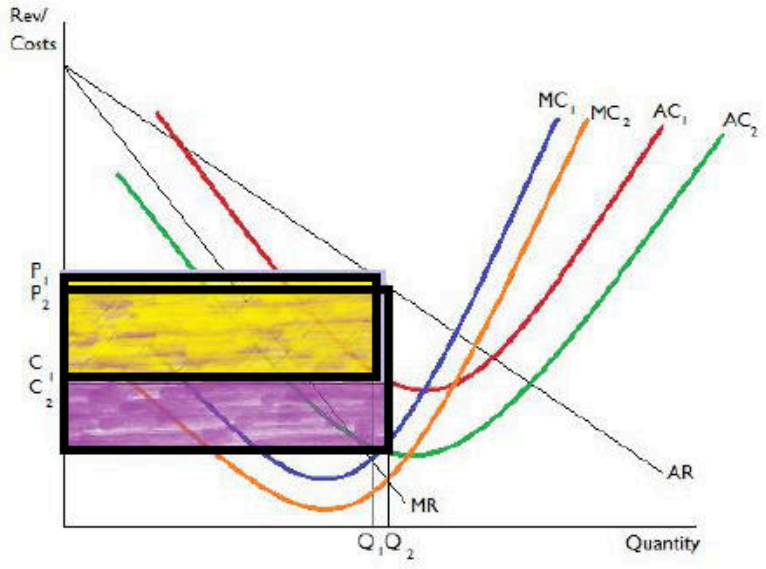
| Knowledge, application and analysis | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<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. |

Q8.

| Question Number | | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge and analysis:**<br>• Terms of trade definition or formula e.g. index of export prices / index of import prices x 100 (1)<br>• Import prices have risen (1) (e.g. because exchange rate fell) relative to export prices (1)<br>• Import prices stay constant (1) relative to main export prices falling (1)<br>• Fewer imports can be bought for the same amount of exports (2)<br><br>**Application** 2 marks for e.g.<br>• It is likely to have worsened (1)<br>• Coal is the main export (1), 11% of revenues (1)<br>• Export prices/commodity prices have fallen Figures 4 & 5 e.g. coal prices have fallen Fig 4 (1+1)<br>• Export price of coal has fallen from US$125 to US$50 per tonne (1+1)<br>• The exchange rate (rupiah) has fallen (1) 30% (1)<br><br>**NB award application if the answer says that the terms of trade falls, goes down, or that it is a negative change** | **(5)** |

| Question Number | | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2 Evaluation 2**<br><br>**Diagram (2) Reserve 2 marks for costs and revenue diagram.** This can be awarded as 2 application marks or 1AN + 1AP.<br><br>**Knowledge and analysis (1+1): e.g.**<br><br>• Increasing efficiency resulting from investment lowers costs for firms **(K)** which means AC falls – might also show fall in MC **(A)**<br>• Profit increases **(K)** with new area shown on diagram linking the new MC=MR with the AR and new AC **(A)**<br><br>**Application (2 or 1+1):** answer relates to the output of farmers increasing relative to input, e.g.<br>Productivity of each farm increases (1) as rice output doubles (1);<br>Plans for 65 dams, 16 already under construction (1)<br><br>Or: 'two harvests a year' (1) means more output from same fixed land/factor (1) | |

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| | 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 **consistent** with the description, although shift/non shift in MC might be implicit.<br><br><br><br><br>• 1 mark for correct shift in cost (relevant to answer given) and<br>• 1 mark for new correct profit area shown.<br>Diagram may show a fall in costs and/or an increase in revenue **if linked** to double the number of harvests, or a decrease in revenue **if linked** to falling worldwide prices, more firms entering the market. Diagram may be perfect competition. | |

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| | **Evaluation** (2 marks for any relevant point, or two points 1+1)<br>• The investment is taking many years and may not be completed<br>• Governments might increase tax on farmers to compensate for increased costs of dam investment<br>• The farmers might face other increased costs as output rises e.g. law of diminishing returns<br>• There may be more efficient and effective ways of increasing output, e.g. better technology, fertiliser<br>• Increased world supply could lower the price per unit, and with low PED the revenue and therefore profit could fall. | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 4**<br>• Specific impact on Indonesia:<br>  ○ Recovery from the Tsunami / financial crisis (Extract D);<br>  ○ impact of reconstruction investment;<br>  ○ impact on the likely poverty trap that many Indonesians will find themselves in;<br>  ○ the impact of the cash transfer;<br>  ○ the long term problems of conditional loans;<br>  ○ the long term impact of constructing two new power stations (via Japan's development agency)<br>  ○ lack of tax revenue due to inefficient tax collection and low tax base (10%) Ext E.<br>• 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)<br>• Aid is being used to pay for education and health, transfers of cash, $2.3 billion a year<br>• Consideration of macro effects, e.g. multiplier effects, shifts in AD, equality<br>• Consideration of development theory, e.g. Harrod-Domar, plugging the savings gap / foreign exchange gap | **(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)** continued | **Evaluation 4**<br>• Aid can lead to moral hazard, over-dependence, corruption, poor governance e.g. Ext E tax incentives offered by Mr Widodo might widen inequality<br>• Dependency theory might be use to show the problems of aid<br>• Alternative to aid e.g. debt relief, microfinance, investment by TNCs, loan from the World Bank<br>• 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<br>• Aid may be more effective if used in conjunction with supply side measures<br>• 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. | **(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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>**Microeconomic effects might include:**<br>• Producer revenue from exports is volatile from primary products. Firms might close down when prices fall.<br>• Other primary product dependency arguments – a diagram showing low PED and PES might be used.<br>• Labour market – impact on wages and employment<br>• Diagram showing effects on revenue, consumer/producer surplus, price, profits might be used<br>• Local firms might go out of business<br><br>**Macroeconomic effects might include:**<br>• 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)<br>• Government finances – the government might rely on export taxes<br>• Primary product dependency/over-dependence on one sector can cause problems if natural disaster or changes in worldwide demand, e.g. China slowdown<br>• Dutch Disease impact on exchange rate – e.g. higher value of rupiah when coal prices rise<br>• Increased use of protectionism<br>• Inflation (Extract E)<br>• Limits investment (might link to Harrod Domar model)<br>• Limits government and private expenditure on health and education | |

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| | **NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics, if developed appropriately.**<br><br>**NB for a Level 4 answer there must be reference to the context of *Indonesia* and *volatility.***<br><br>**Evaluation points might include:**<br>• 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<br>• Depends on the PED and/or YED of importing countries for the specific commodities<br>• Fiscal expansion (Extract E) has offset the effects of falling prices<br>• There may be no alternative to primary product dependency/Lewis model is flawed<br>• Comparative advantage argument<br>• 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')<br>• Buffer stock schemes<br>• Financial markets can help limit effects, e.g. through futures contracts<br>• Improved infrastructure can help farmers be more aware of price trends and take products to markets at high prices | **(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.<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. |

| 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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>**Microeconomic effects might include:**<br><br>• on firms e.g. from quicker planning approvals, tax incentives locating to special economic zones, better roads and ports<br>• improved quality of labour force e.g. from education and health reforms (Extract D)<br>• lower bureaucratic costs<br>• lower prices as competition increases<br><br>**Macroeconomic effects might include:**<br><br>• lower inflation (might be shown by rightwards or downwards shift of LRAS)<br>• improved balance of payments as exports improve<br>• infrastructure improvements attracts FDI<br>• indirect increased AD via G, I or X, and multiplier effects<br>• increase in real GDP | |
| | **NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics if developed appropriately.**<br><br>**NB for a Level 4 answer there must be reference to the context of *Indonesia*.**<br><br>**Evaluation points might include:**<br>• impact will depend on success of policies – may refer to previous underinvestment in the Extract E, or higher investment in neighbouring countries<br>• Some supply side policies conflict with other policies, e.g. fiscal and there is a fiscal constraint by law (Extract E)<br>• depends on whether supply side policies are interventionist or market-based as to whether there will be an inflationary effect, crowding out effect etc.<br>• labour market still appears to be inflexible (Extract E)<br>• collecting tax to pay for the capital spending or repayment of loans can have negative impact, e.g. government failure, aid dependency | **(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.<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. |

| 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 |
|---|---|---|
| **(a)** | **Knowledge 2**<br><br>**Knowledge** 1+1 mark e.g.<br>Definition of income (1) and/or wealth (1)<br>• Income is a flow (1) whereas wealth is a stock (1)<br>• Income can create wealth (1) and/or wealth can create income (1)<br>• Income comes from salaries/wages/dividends/profits/interest/rent (1) whereas wealth is the value of assets (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge/understanding:**<br>Identification of one reason (1), e.g.<br>• Rise in asset prices<br>• Lack of education<br>• Lack of healthcare<br>• Inheritance entrenches inequality<br>• Rise of MNCs<br>• Lack of government intervention to reduce inequality<br>• Government policy e.g. regressive taxes, corruption<br>• External shocks<br><br>**Analysis:**<br>Linked development relating to wealth (1), e.g.<br>• Poor education means people lack the skills to take on higher-paying jobs which could lead to wealth creation | **(2)** |

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

Q10.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**NB an answer which sees highly concentrated as having a large number of firms will not earn knowledge or analysis marks**<br><br>**Knowledge and analysis:** 3 marks for e.g.<br>• Identification of **high** concentration - high market share of some firms (1) few large firms dominate (1) uncompetitive (1)<br>• Identification of market structure - there is a *legal* monopoly (Walkers) **OR** oligopoly **OR** duopoly (1)<br>• Firms can set prices (1) control output (1) / monopoly power (1)<br>• Interdependent (1)<br>• High barriers to entry/exit (1) low contestability (1)<br><br>**Application:**<br>2 marks for data references e.g.<br>• Walkers have over 50% of market share (1)<br>• Use of concentration ratio e.g. 2 firm CR 78.0% (2), 3 firm CR 82.2% (2)<br>• Extract A refers to ban making market more competitive (1) implying prices are currently uncompetitive/high (1)<br>• Extract A – high levels of advertising (1)<br>• common features: they tend to be dominated by a small number of firms that sell multiple brands and that heavily advertise their products (1)<br><br>**NB Concentration ratio calculation can be awarded as analysis or application**<br><br>**Award a maximum of 1 application mark if there is no reference to Figure 1 or Extract A** | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/ implicit understanding: (1+1)** marks for reason e.g.<br>• Educational/skills/wage differences<br>• Changing patterns of trade/globalisation<br>• Government policy/austerity/universal credit<br>• Income generated from inheritance<br>• Payments generated from debt<br>• Race, gender, age, geographical issues<br>• Changes in direct tax<br>• Stage of the economic cycle/Financial Crisis 2008<br>• House prices (must relate to income not wealth)<br>• Weakened power of trade unions<br>• Level of unemployment/underemployment<br>• Irrational behaviour/information gaps/myopia<br><br>**Application (1+1 or 2):**<br>• Any valid application to **causing inequality** 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) | |

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| | **Analysis (1+1):**<br>• Linked development of the **two** points made<br><br>**Evaluation (1+1 or 2)**. Points might include discussion of:<br>• The role of transfer payments/minimum wages in narrowing/failing to narrow inequality<br>• Changes rather than levels of income inequality, absolute vs relative issues<br>• Relationship with wealth e.g. as a more significant inequality issue<br>• Relative significance of different factors e.g. direct taxes more proportional than indirect taxes (regressive)<br>• Time lags e.g. education has effects as yet unfolded, government policy might change, Brexit has not yet happened.<br><br>**NB Do not allow indirect taxes or subsidies as KAA**<br>**NB Use of Gini coefficient or Lorenz curves could be used as application or analysis** | **(8)** |

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| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>• Firms are interdependent so they will respond in the face of what other firms might do<br>• Firms may not reach the same outcome as if they operated alone<br>• Firms are cutting prices because they want to expand market share/steal other firms' markets<br>• All firms responding in this way means that firms make less profit overall<br>• Effects of advertising ban may make market more contestable, with possible effects on entrant<br>• Price cuts could be a form of limit pricing, i.e. reducing contestability (effects on possible entrants may be shown)<br><br>• **Game theory** e.g. a payoff matrix or kinked demand curve to illustrate behaviour, for example cartel-like or collusive behaviour, price leadership<br><br>**NB to access Level 3 there must be correct use of game theory and application to the data.** | **(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. |

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| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** continued | **Evaluation 4**<br><br>• Firms such as Walkers have significant market share and brand loyalty, even if competition lower price they may not switch<br>• 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.<br>• Size of market shrinking overall so behaviour more aggressive<br>• Firms setting low prices in a long run equilibrium might not the best option for the firms or other stakeholders.<br>• Advertising ban affects children mainly - so price competition less needed for older target audiences that can still be targeted.<br>• Reference to only 10% loss in sales compared to 15% - still a large impact on firms (Extract A). | **(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. |

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| Question Number | Indicative content | Mark |
|---|---|---|
| **(d)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>16 marks for KAA, for effects of increased spending on education to promote heathy eating in the UK.<br>Microeconomic effects may include:<br>• Effects of increased demand for healthy foods/consumer surplus/increased prices (may include supply and demand diagram) or fall in price of HFSS foods<br>• Positive externalities in consumption are internalised (may include divergent MSB and MPB diagram and corresponding movement toward social optimum at MSB=MSC)<br>• 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.<br>• Increased profits for healthy food producers e.g. shown on a costs/revenue diagram<br>• labour market issues, e.g. workforce becomes healthier, and reduced obesity might make workers more productive (increase marginal product)<br>• Opportunity cost of spending on education<br><br>Macroeconomic effects may include:<br>• 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.<br>• Healthier workforce shifts out the LRAS, with impact of lower prices and higher output<br>• Fiscal implications – crowding out, effect on balancing budget | |

| | | |
|---|---|---|
| | **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.**<br><br>9 marks for evaluation – questioning might include:<br>• Expansionary fiscal policies not necessarily happening. It might mean expenditure elsewhere is cut (opportunity cost arguments)<br>• Trade-off between objectives e.g. increased spending might cause inflation, depends on the state of the fiscal balance, multiplier etc.<br>• Questioning whether education is effective, or whether other policies are needed, e.g. tax, banning advertisements<br>• Education might be counter-productive/role of state might be questioned e.g. government failure, crowding out effect | **(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.<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)** | **Knowledge 4, Application 4, Analysis 8 Evaluation 9**<br><br>16 marks for KAA, for effects of increase in tax on HFSS foods.<br>Microeconomic effects may include:<br>• 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).<br>• 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<br>• Cross elasticity of demand – evidence (e.g. Extract C) that a rise in price may cause a rise in demand for healthy food.<br>• 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.<br>• 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.<br>• 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. | |

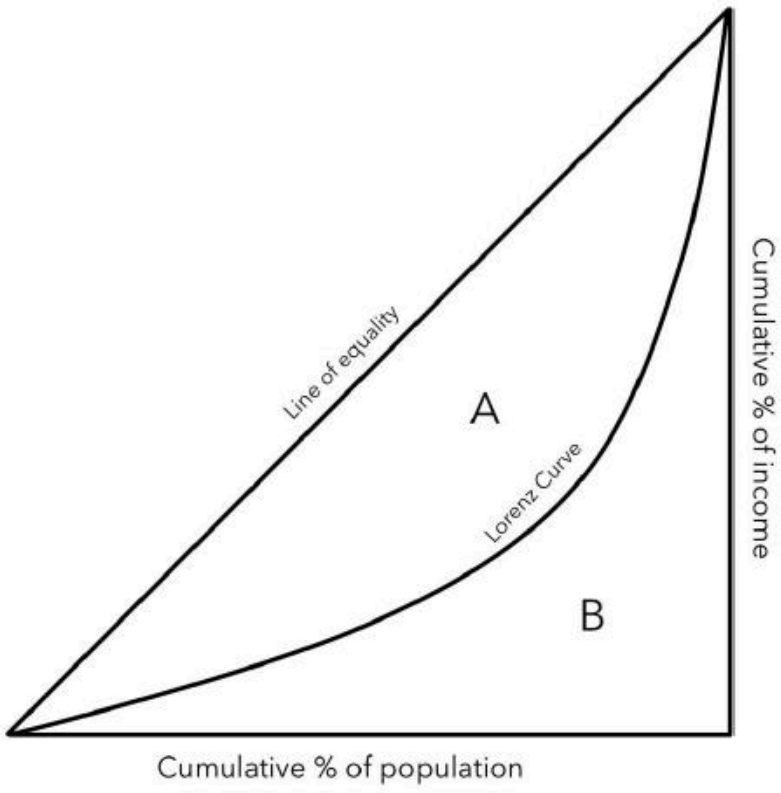
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|---|---|---|
| | Macroeconomic effects may include:<br>• Redistribution (micro or macro issue): indirect taxes of this sort are regressive, disproportionately affecting the elderly and the poor. Taxes on HFSS foods moderate consumers, as well as the obese overeaters they are intended to target.<br>• Cost push inflation – a one-off rise in prices. This might be shown by an upwards/leftwards movement of AS<br>• 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%.<br>• Governments might gain revenue which can be used elsewhere in the economy / lose revenue – Laffer curve (Extract C)<br><br>**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** | |

| | | |
|---|---|---|
| | **used as micro or macro.**<br><br>Up to 9 marks for evaluation. Points might include:<br>• Depends if firms respond by cutting prices (Extract B)<br>• 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<br>• 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<br>• Depends on magnitude- the proportion of income may be low<br>• The price elasticity of demand will determine the incidence of the tax - inelastic larger consumer incidence and elastic larger producer incidence.<br>• Depends on how funds are used - e.g. to promote healthy eating through subsidies and education<br>• The intervention may mean free markets work less well – theory of unintended consequences<br>• Other unintended consequences e.g. counterfeit, smuggling | **(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.<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. |

Q11.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge/Understanding:** Up to 2 marks for e.g.<br>• Gini coefficient is A/(A+B) (1)<br>• Correct labelling of axes on Lorenz curve as % cumulative share of income & % households by income distribution (or similar wording) (1)<br><br>**Application:** Up to 2 marks for e.g.<br>• UK's Gini coefficient is 0.34 (1)<br>• Correct drawing of Lorenz curve on diagram (labelled/referred to in text) (1)<br><br>**Analysis:** Up to 1 mark for e.g.<br>• Further away from the line of perfect equality, the more unequal a country/region is (1)<br>• The higher the Gini coefficient value, the more unequal a country/region is (1) | |
| | Diagram (1+1) e.g.:<br><br><br><br><br>**NB If no Lorenz Curve diagram award maximum of 3 marks** | **(5)** |

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| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/Understanding:**<br>Relevant reasons identified (1+1), e.g.<br>• Level/quality of education<br>• Level/quality of healthcare<br>• Level of infrastructure spending<br>• Unequal access to job opportunities across the UK<br>• Progressive nature of taxation<br>• Degree of employment protection<br>• Strength of trade unions<br>• Differing wage rates<br>• Globalisation<br>**Analysis:**<br>Linked development of each factor (1+1), e.g. in the UK:<br>• Less education means the workforce may be less skilled & therefore receive lower average pay (1)<br>• Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1)<br>• Relative lack of infrastructure makes it harder for people to get to work/will discourage firms from investing in the region (1)<br>• Jobs in London/South-East may be more skilled and therefore higher paying when compared to jobs in the North-East (1) | |
| | **Application:**<br>2 marks (1+1 or 2), e.g.<br>• Gross disposable household income was £19 000-£21 000 in London (1)<br>• Gross disposable household income was £13 000 - £13 999 in North East (1)<br>• UK's Gini coefficient is 0.34<br><br>**Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment<br>Evaluative comments (1+1 or 2), e.g.<br>• Infrastructure investment in the North of England is increasing so this may change in the future<br>• Education levels across the UK are improving<br>• Higher education may not lead to higher incomes- depends on degree/qualifications<br>• Relative significance of different reasons<br>• It is hard to be definite about specific reasons as it is a combination of factors that causes inequality | **(8)** |

| Question Number | Indicative Content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 2,**<br><br>• Higher incomes mean people have more money to spend on purchasing goods & services that increase their standard of living<br>• Higher incomes mean people will feel less anxious about their ability to repay debts<br>• People can afford larger repayments on mortgages & loans for durable goods<br>• Higher income may lead to wealth creation, e.g. able to save for future/retirement<br>• People earning over £40 000 are happier than people earning £10 000 to £40 000 (figure 2)<br><br>**NB Allow the argument that a higher income does not increase happiness as KAA and that it does as EV**<br><br>**NB:**<br>**To achieve full KAA marks there needs to be at least one reference to Figure 2** | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 4**<br><br>• There are other things that affect subjective happiness apart from money- e.g. family & friends<br>• Amount of leisure time may be more important to people's happiness rather than their level of income<br>• People on higher incomes may be in more stressful jobs<br>• The happiest people are those earning less than £10 000 (figure 2)<br>• Reliability of survey data in determining happiness<br><br>**NB Allow the argument that a higher income does not increase happiness as KAA and that it does as EV** | **(4)** |

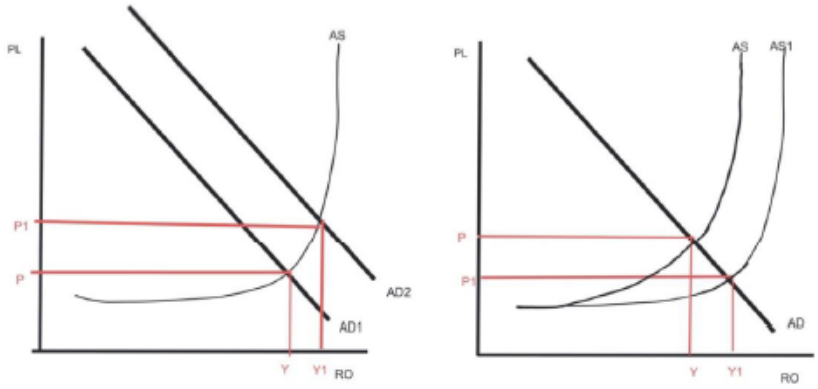
| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning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

| Question Number | Indicative Content | Mark |
|---|---|---|
| **(d)** | **Knowledge 2, Application 2, Analysis 4**<br><br>Methods might include e.g.:<br>Either from Extract C:<br>• Increasing tax on houses: Housing is a large part of the UK economy and many people may feel this is in need of an update to reflect changing house prices since 1991. This could also provide a good opportunity to increase overall revenue from the tax<br>• A one-off wealth tax: This would raise a very large amount of money, £260 billion, and would focus on those with the most wealth. Only one-off so shouldn't have any long-term impacts<br>• Increasing corporation tax: The UK has a very low rate of corporation tax, so it would make sense to raise it without risking too many firms leaving the UK whilst still raising extra revenue yearly going forward- e.g. £17.2 billion in 2025-26<br>Or other possible methods e.g.:<br>• Cutting corporation tax to incentivise firms to increase investments in UK/attract FDI leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve.<br>• Cutting income tax to incentivise workers to work harder/less incentive to avoid tax leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve.<br><br>**NB:**<br>**To achieve level 3 at least one reference must be made to Extract C somewhere in the whole answer** | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 4**<br>• Higher tax rates may not lead to higher revenue, perhaps with reference to Laffer curve/tax evasion/tax avoidance/disincentive effect<br>• Updating tax on houses could see some people experiencing a significant rise in the tax they have to pay which may be unaffordable for them<br>• A one-off tax won't help generate tax revenue long-term<br>• Increase in regressive taxes could worsen inequality<br>• Disincentive to invest having a long term impact on LRAS | **(4)** |

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

| Question Number | Indicative content | Mark |
|---|---|---|
| **(e)** | **Knowledge 3, Application 3, Analysis 3**<br>• People can access jobs further away from where they live, reducing unemployment<br>• Improved ability to transport goods around the country and/or abroad quicker/cheaper<br>• Greater injections into the circular flow leading to a multiplier effect<br>• Helping to reduce inequality across the country by focusing spending on poorer areas of the country, e.g., new train station in Wales, leading to new businesses, jobs, etc.<br>• Diagram showing an increase in AD and/or AS, e.g.:<br><br>**NB A correct AD/AS diagram is needed for KAA level 3**<br>**Reference to Extract B is needed for KAA level 3** | **(9)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<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)** continued | **Evaluation 6**<br>• Significance of impact- will a few new train stations will make that much difference to economic growth?<br>• Depends on the quality of the new infrastructure provided<br>• Depends on if the infrastructure is in the right location to help improve connectivity<br>• Opportunity cost- perhaps spending on education or healthcare would have a larger impact?<br>• Time lag- large infrastructure projects take a long time from initial planning to being completed<br>• Impact on public finances and national debt<br>• Crowding out<br>• Depends on the value of the multiplier | **(6)** |

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

Q12.

| Question Number | Answer | Mark |
|---|---|---|
| **(a)** | **Knowledge 1, Application 2, Analysis 2**<br><br>Calculate 2011 total:<br><br>10.29m X $123 = $1 265.67 million (2)<br><br>Calculate 2012 total:<br><br>10.55m X $83 = $875.65 million (2)<br><br>Change = $1 265.67 million – $875.65 million<br><br>= -$390.02 million / 390.02 million<br><br>Award full 5 marks for correct answer<br><br>Award 4/5 marks for $390.02<br><br>**N.B. When interpreting graph:**<br>For 2011 allow range of values: 10.25m - 10.35m<br>For 2012 allow range of values: 10.5m – 10.6m | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/Understanding:**<br>Likely benefits identified (1+1), e.g.<br>• Increase in size of workforce (1)<br>• Increase in consumption (1)<br>• Increase in government tax revenue (1)<br>• Increase in economic output of the country (1)<br><br>**Analysis:**<br>Linked development of each factor (1+1), e.g.<br>• Increase in AS as country now has a larger workforce so can produce more (1)<br>• More consumers creates more demand for Rwandan firms, increasing AD and economic growth (1)<br>• More government spending on education/infrastructure to further improve AS (1) | |

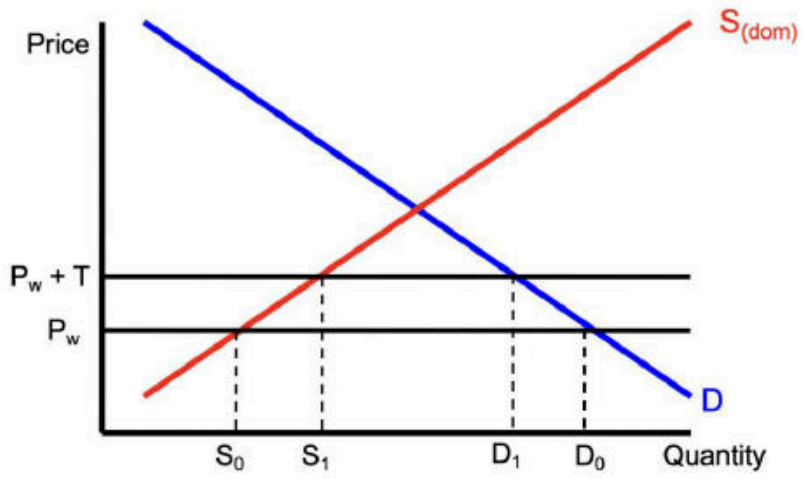
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|---|---|---|
| | **Application:**<br>2 marks (1+1) for reference to the data/candidates' own knowledge, e.g.<br>• Population grew from 10.8m in 2013 (1) to 11.4m in 2015 (1)<br>• Population grew by 5.6% from 2013 to 2015 (2)<br>• Rwanda's GDP grew by almost 9% in 2015 (1)<br>• Absolute poverty declined by 20 percentage points from 2001 to 2014 (1)<br><br>**Evaluation:** 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment<br>Evaluative comments (1+1), e.g.<br>• Larger population may increase unemployment if number of jobs do not also increase (1)<br>• Government expenditure on providing education, health, etc. may increase (1), cancelling out benefits from extra tax revenue (1)<br><br>Impact on AD/AS may be shown diagrammatically | **(8)** |

| Question Number | Indicative Content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 2,**<br><br>• Aid has fallen from around $103 per capita to around $91<br>• Less funding for supply-side policies such as improvements to education, which may impact Rwanda's 'near-universal primary school enrolment' and healthcare- perhaps slowing the fall in child mortality, which has dropped by two-thirds<br>• Less injections into Rwanda's circular flow of income/less aggregate demand in Rwanda<br>• Fall in standard of living in Rwanda<br>• Less investment/capital accumulation (Harrod-Domar model)<br>• Reduction in support to lift people out of absolute poverty- perhaps absolute poverty won't fall further than the 39% it was in 2017<br>• Less funding for schemes to reduce inequality<br>• Increase in Rwanda's budget deficit/national debt as government attempt to make up for shortfall in aid funding | **(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)** continued | **Evaluation 4**<br><br>• Private investment may have increased over time<br>• Government may now be more capable of funding education/healthcare schemes<br>• Significance of fall in aid funding<br>• Aid money increased the following year<br>• Absolute poverty decline 59% to 39% 2001 to 2014 (or other references to extract B) suggesting there is less need for aid | **(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 |
|---|---|---|
| **(d)** | **Knowledge 2, Application 2, Analysis 4**<br><br>Likely impacts might include e.g.:<br>• Increase in price of imported textiles<br>• Lower standard of living<br>• Loss of consumer surplus- e.g. higher prices of clothing for consumers<br>• Increased producer surplus<br>• Rwandan firms (e.g. factory in Kigali from extract A) able to sell at higher prices, therefore increased profits<br>• tariff revenue can be used to subsidise clothing retailers/ provide consumers with healthcare and education<br>• Risk of retaliation from other countries such as USA<br><br>**NB To access Level 3 there must be an accurate diagram, for example:**<br><br><br> | **(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 |
|---|---|---|
| **(d)** continued | **Evaluation 4**<br>• Depends on elasticity of demand for imports<br>• Significance of increase in tariff<br>• Increase in employment in domestic textile industry would benefit consumers<br>• Domestic producers may still be unable to compete with significantly cheaper used clothing imports | **(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 |
|---|---|---|
| **(e)** | **Knowledge 3, Application 3, Analysis 3**<br><br>Policies the Rwandan government could use include:<br><br>• Subsidising textile manufacturers to purchase new machinery to increase efficiency<br>• Improve infrastructure, e.g. roads & ports, to make it easier/cheaper for Rwandan firms to export their clothing<br>• Increased education spending to improve efficiency of workforce<br>• Investment in cheaper renewable electricity for factories to reduce their costs<br>• Deregulation to increase efficiency<br>• Reduce corporation tax to encourage firms to invest more<br>• Incentives to encourage FDI into Rwandan manufacturing industry<br><br>**NB: Do not award discussion of import tariffs** | **(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)** continued | **Evaluation 6**<br><br>• Opportunity cost of government spending- money could have bigger impact on Rwandan economy if invested in other industries or used to improve public services<br>• Rwanda should focus on industries where it has a comparative advantage, not textiles<br>• Time lag for policies to have any significant impact<br>• Risk of corruption, e.g. funding for construction projects may not be spent where it was intended<br>• Highly educated workforce may emigrate to more developed countries that offer higher wages | **(6)** |

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

Q13.

| Question Number | Answer | Mark |
|---|---|---|
| (a) | **Knowledge 2, Application 2, Analysis 1**<br><br>**Knowledge and analysis**<br>Up to 3 marks for:<br><br>• the meaning of externalities, e.g. effect on third party, outside the transaction, difference between social cost and private cost (1).<br>Points might include:<br>• use of plastic which is hard to recycle/other single use plastic arguments (1)<br>• HFSS food can cause obesity and have third party effects (1)<br>• more congestion/air pollution from food deliveries (1)<br>• (positive) externality due to rise in productivity generated by cash rich, time poor professionals might allow people do impact third parties positively (1)<br><br>**Application:**<br>2 marks for data (1+1 or 2):<br>• 1.4 billion containers (1) or other plastic items to allow food to travel safely e.g. heat retention (1)<br>• over-consumption / order more food (1) e.g. impact on other NHS users (1)<br>• HFSS food (1)<br>• falling profit margins (1) or increased competition in food delivery might mean wages fall so fewer wider macro benefits (1)<br>• don't even have to get up/lack of exercise of consumers ordering from their sofa (1)<br><br>**NB 2 marks may be awarded for a diagram**<br>e.g. a negative externalities in production of food that has to be delivered | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **(b)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge/implicit understanding:** (1+1) marks e.g.<br>• demand is price inelastic means that the percentage change in price causes a smaller percentage change in quantity demanded<br>• demand is income elastic means that percentage change in income causes a greater percentage change in demand<br><br>**Application:** (1+1 or 2) e.g.<br>• food delivery firms' charge of £5 is a very small percentage of consumer income so they might be seen as essential or basic goods (Ext B line 5)<br>• three dominant firms Just Eat, Uber Eats and Deliveroo (Ext B line2)<br>• The food delivery industry has boomed in recent years (Ext B line 2)<br>• cash rich, time poor (Ext B line 7)<br>• income growth prior to 2020 meant delivery has boomed<br>• HFSS addiction/habit forming<br>• Convenient mobile app, so PED inelastic<br>• 5 times more expensive than cooking at home<br><br>**Analysis:** (1+1) development of each type of elasticity, e.g.<br>• if demand is price inelastic then **revenue** will rise for the firm when it raises price<br>• habit forming behaviour so PED inelastic<br>• few close substitutes so PED inelastic<br>• small part of overall consumer spending so PED inelastic<br>• food delivery services are a very small percentage of consumer income so they might be seen as essential or basic goods<br>• if food delivery is a luxury the demand likely to be income elastic, e.g. then the firms will benefit in times of economic growth, but lose demand in a recession<br>• if food delivery is a treat in an economic downturn then it is an inferior good<br>**NB up to 2 marks may be awarded for diagram(s) (1+1)** | |

| | | |
|---|---|---|
| | **Evaluation:** (2 marks for any relevant point, or two points 1 +1)<br>• the 30% of prices paid by restaurants is not seen by the consumer<br>• depends on geographical areas e.g. rural vs urban areas.<br>• the worldwide health crisis might have caused distortions in the data<br>• third-party food delivery firms are inferior goods if demand rises when incomes fall<br>• other factors affect demand apart from income, e.g., availability of substitutes (eating in restaurants is impossible in global health crisis)<br>• discussion of normal vs inferior question e.g. compared to eating in a restaurant or cooking at home<br>• income elastic vs. inelastic e.g. demand for third-party food delivery is price elastic for some income groups when incomes fall as it takes up a larger percentage of income | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **(c)** | **Knowledge 2, Application 2, Analysis 4**<br><br>Points might include:<br>• integration includes horizontal/vertical/ conglomerate joining of firms<br>• leads to economies of scale<br>• increased market share<br>• removal of competition<br>• increased monopoly power<br>• international rivals can avoid taxes<br>• prices higher for consumers<br>• reduced choice for restaurants and consumers<br>• monopsony power over restaurants<br>• technical advantages of vertical integration<br>• vertical power over firms can leave other firms with high barriers to entry<br>• Just Eat has bought out rivals e.g. merger between Just Eat and Takeaway.com<br>• Amazon has partially bought Deliveroo (16% so far) which may have saved it, and/or improved it on the tech side<br><br>**NB effects might include more than one types of economies of scale, or other combined analysis. Award diagrammatic analysis e.g. economies of scale LRAC** | **(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)** continued | **Evaluation 4**<br>• mergers might be necessary to ensure the survival of firms (e.g. Deliveroo case)<br>• further mergers might be limited by the CMA<br>• supernormal profits might lead to lower prices, better technology and/or a more consumer-led market<br>• prices may fall due to fall in average costs due to e.g. economies of scale<br>• diseconomies of scale | **(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.<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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>Microeconomic effects of depreciation may include:<br>• higher cost of imports of food and therefore higher cost of production for hospitality sector<br>• lower profits for firms in hospitality<br>• higher prices of food for consumers<br>• consumers have lower standards of living if they are on fixed incomes/<br>• falling real incomes so demand for restaurant meals and food delivery services might shift left<br>• workers have higher incomes if working in exporting firms in other industries, so might use more delivery services<br>• restaurants might begin to use more locally produced food<br><br>Macroeconomic effects of depreciation may include:<br>• capital in-flows, e.g. benefits to multinational firms such as Just Eat for investment in the US using other currencies/ AD and/or LRAS shift out<br>• cost push inflation/SRAS shifts in<br>• more injections and fewer withdrawals leading to rise in AD and multiplier effect<br>• increased employment<br>• incentive to use transfer pricing<br>• UK tourism might be boosted by depreciation which would improve local restaurants<br><br>**NB for a Level 4 response there must be micro and macro effects and use of data with reference to restaurants or other food delivery services. Higher costs, changes in competitiveness, environmental changes could be seen as micro or macro, for example, can be used as either micro or macroeconomics.**<br><br>**NB Effects in KAA could be used as evaluation and vice-versa.** | **(25)** |

| | | |
|---|---|---|
| | 9 marks for evaluation – points might include:<br><br>• depends on the nature of the restaurant. Some try to use locally sourced ingredients<br>• the pound has recovered significantly since 2016<br>• food costs are a small cost relative to other costs, e.g. rent and delivery<br>• some restaurants are specialised in UK food so cost effect very low<br>• other factors are more important, e.g. the heavy fiscal spending in response to the global health crisis<br>• other factors determining capital inflows<br>• relative depreciation or trade weighting of other currencies<br>• offsetting costs with altering portion sizes or changing menu options<br>• impact on tourism small relative to the increase in the production of food<br>• regional differences with the UK e.g. whether there is a local food supply option<br>• Marshall Lerner<br>• J-curve | |

| **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)** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>16 marks for KAA, for effects of increased minimum wage<br><br>Microeconomic effects may include:<br>• rise in wages will benefit very low paid workers. Might be shown on increasing NMW diagram<br>• effect on cost to firms e.g. reduced profit margins. Might be shown on a cost and revenue diagram.<br>• excess supply of hospitality workers<br>• effect on prices consumer surplus falls, output falls, price increases<br>• impact on quantity of labour demanded/contraction of labour demand<br>• impact on productivity<br>• inefficient resource allocation due to distortion of price mechanism<br><br>Macroeconomic effects may include:<br>• income equality improvements – may use Gini/Lorenz<br>• prices rise – inflationary effects<br>• reduction in relative poverty<br>• AD: increase in consumption as incomes increase/fall in investment as profits fall<br>• SRAS: cost-push<br>• LRAS: if investment falls, then LRAS shifts in<br>• reduced employment<br>• higher income tax revenue<br>• lower unemployment related benefits<br><br>**NB for a Level 4 response there must be micro and macro effect (s) and use of data with reference to restaurants or other food delivery services. Employment or welfare issues could be seen as micro or macro, for example, can be used as either micro or macroeconomics.**<br><br>**NB Effects in KAA could be used as evaluation and vice-versa.** | **(25)** |

| | | |
|---|---|---|
| | 9 marks for evaluation – points might include:<br><br>• effect on firms depends on how much wage costs are as a proportion of overall costs<br>• impact on real output depends on level of spare capacity/elasticity of LRAS/magnitude of multiplier<br>• effect on workforce of employment regulation depends on elasticity for demand for labour, and degree with which it can be replaced with capital<br>• depends on PED of food delivery firm market as a whole<br>• consumers might also have increases in wages so profits might not fall<br>• some firms will face decreased demand and go out of business. Loss of jobs and other economic activity<br>• depends on the PED and PES in factor market and product market as a whole<br>• LRAS might rise as economically inactive workers enter labour force to look for jobs<br>• higher tax revenue may not occur if unemployment increases or investment decreases<br>• higher unemployment related benefits if unemployment increase<br>• productivity/motivation arguments | |

| **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. |