Pearson Edexcel

Mark Scheme (Results)

Summer 2023

Pearson Edexcel GCE AS Level
In Economics A (8EC0)
Paper 02 The UK Economy - Performance and Policies

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for, e.g. • Aggregate supply will increase **(1)** • Diagram showing rightward shift of AS **(1)** **Application:** 1 mark for, for e.g. • Between 2019 and 2020, Government expenditure on healthcare increased by 25.6%/£44.8 billion **(1)** **Analysis:** 1 mark for linked development, e.g. • People will be healthier, therefore increasing their efficiency **(1)** • More people attend/do not miss work, increasing productivity **(1)** • Lower price level/higher real output (may be shown diagrammatically) **(1)**	**(3)**

Question Number	Answer	Mark
1(b)	**The only correct answer is C** **A** is not correct because this is a market-based supply-side policy **B** is not correct because this is a market-based supply-side policy **D** is not correct because this is a market-based supply-side policy	**(1)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge:** 1 mark for definition, e.g. • GDP divided by population **(1)** • Output per person **(1)**	**(1)**

Question Number	Answer	Mark
2(b)	**The only correct answer is A** **B** is not correct because a decrease in GDP per capita is likely to increase unemployment **C** is not correct because with a decrease in real GDP per capita, consumer confidence and consumption decreases **D** is not correct because with a decrease in real GDP per capita, consumers will spend less so price level falls	**(1)**

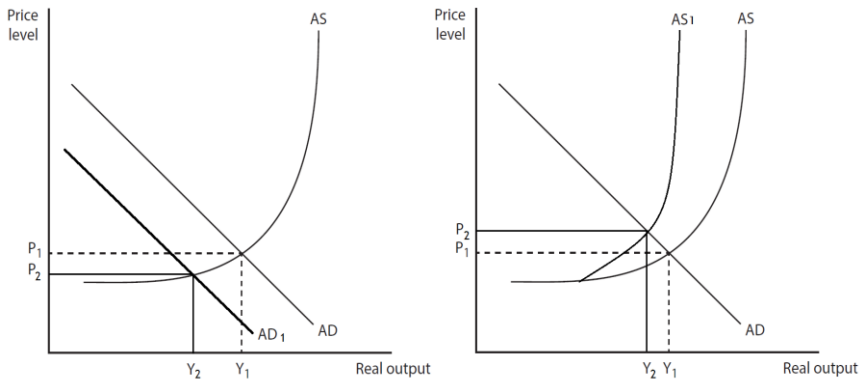
Question Number	Answer	Mark
2(c)	**Knowledge 2** **Knowledge/understanding:** Up to 2 marks for, e.g. • PPP is calculated by comparing price of a basket of comparable goods/services in different countries **(1)** • To improve accuracy when comparing data between countries **(1)** • PPP compares cost of living/buying power between different countries **(1)**	**(2)**

Question Number	Answer	Mark
3(a)	**The only correct answer is C** **A** is not correct because corporation tax revenue is lower than excise duties **B** is not correct because income tax raises more revenue than Value Added Tax (VAT) **D** is not correct because tax revenues from NICs are around 3.7 times greater than tax revenues from council tax	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one impact, e.g. • There is budget (fiscal) deficit **(1)** **Application:** 1 mark, for e.g. • Budget deficit of £233 billion in 2021-22 **(1)** **Analysis:** 1 mark for linked development, e.g. • The UK Government expenditure is greater than the revenue it receives from taxation **(1)** • The UK Government will have to borrow more funds to finance its expenditure **(1)**	**(3)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Increase in capital stock of the economy **(1)** • Increase in spending on capital goods **(1)** • Injection into the circular flow of income **(1)**	**(1)**

Question Number	Answer	Mark
4(b)	**The only correct answer is B** **A** is not correct because this is the percentage change **C** is not correct because this is the base year **D** is not correct because this is the index number for 2019, using 2020 as base year	**(1)**

Question Number	Answer	Mark
4(c)	**Application 2** **Application:** 2 marks for, • Correct leftward shift of AD **(1)** • Correct new equilibrium point showing lower price level and lower real output **(1)** **OR** • Correct leftward shift of AS **(1)** • Correct new equilibrium point showing higher price level and lower real output **(1)**  **NB Award marks for accurately labelled and correct inward shift of both AD and AS**	**(2)**

Question Number	Answer	Mark
5(a)	**The only correct answer is D** **A** is incorrect because real GDP increased at a slower rate in Q4 2020 **B** is incorrect because the data is on GDP growth rate and not on the rate of inflation **C** is incorrect because there was an economic decline between Q3 2019 and Q1 2020	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one benefit, e.g. • Firms make greater profits / • Increased revenue for firms **(1)** **Application:** 1 mark, for e.g. • UK GDP growth rate has increased in Q2 2021 and Q3 2021 **(1)** **Analysis:** 1 mark for linked development, e.g. • Consumer will have greater incomes and will increase their demand for firms' goods/services **(1)** • Firms' sales are likely to increase as a result of higher consumer demand **(1)**	**(3)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • Value of imports of goods and services **(1)** equals the value of exports of goods and services **(1)** • Net trade/(X-M) **(1)** **Application** 2 marks for 2 data references from Figure 1 **(1+1),** e.g. • Trend has worsened since May 2021 **(1)** • UK had a trade deficit **(1)** since June 2021 **(1)** • UK had a trade surplus **(1)** of £8bn in May 2020 **(1)**	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for understanding of weights, e.g., • Weights are assigned in proportion to the amount of money spent on each item **(1)** **NB: No marks for definition of inflation/inflation rate** **Application** 2 marks **(1+1),** for e.g. • Inflation rate in the UK has been increasing **(1)** from 0.4% in February 2021 to 4.2% in October 2021 **(1)** • There has been disinflation between January 2020 **(1)** and May 2020 **(1)** **Analysis** 2 marks for **(1+1),** e.g. • It uses a basket of goods and services **(1)** • Monthly price surveys are undertaken **(1)** • An annual survey of household spending is used to set the weights/the contents of the basket **(1)** • Within each year, consumer price indices represent the changing cost of a basket of goods and services of fixed composition, quantity and quality **(1)** • In the base year the index number is set at 100 **(1)**	**(5)**

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** • Understanding/definition of exports • "exports to non-EU countries were £0.8 billion lower than exports to EU countries" • "increase in the export of financial services" • Exports represent and injection into the circular flow of income, therefore net injections increase • An increase in exports will increase net exports and this would increase AD, resulting in rising average prices and real output (can be shown via diagram) • This will lead to positive multiplier effect upon AD, further increasing real output • Rising real output could reduce unemployment, causing lower government spending on welfare • Could lead to rise in nominal wages (and also real wages depending upon inflation rate) • Increases living standards which could increase domestic demand and therefore consumption • Could lead to improvement in the current account if value of imports is lower than the value of exports • May have a positive long-term impact on the level of investment	**(6)**

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

Question Number	Indicative content	Mark
6(d) continued	**Evaluation 4** • Impact on AD and real output depends on the size of the increase in exports • The data only includes information on exports of services; overall impact depends how high export of goods are relative to export of services • Increase in AD could lead to higher inflation, creates uncertainty for firms, reducing investment – Figure 2 • Consideration of time period, short-run vs long-run: in the long-run, higher inflation may reduce value of goods and services, reducing demand in the long-run • Impact on real output depends on spare capacity/ elasticity of the LRAS curve • Impact will depend upon the size/value of multiplier • Increase in exports of goods may be offset by an increase in imports, leading to trade deficit: "UK's trade deficit to nearly £7 billion"	**(4)**

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

Question Number	Answer	Mark

6(d)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two reasons **(1+1)** for, e.g. • Cost-push inflation **(1)** • Demand-pull inflation **(1)** **Application** 1 mark for each data reference **(1+1),** e.g. • Transport costs were the biggest contributor to rising inflation with, petrol prices increasing by over 5% **(1)** • severe supply chain bottlenecks constrained access to raw materials **(1)** • easing of the restrictions associated with the global health crisis **(1)** **Analysis** Linked development **(1+1)** e.g. • Higher petrol prices/rising cost of raw materials will increase cost of production of firms, shifting SRAS to the left **(1)** • Increasing domestic demand for goods and services will raise the level of consumption, thereby increasing AD **(1)** **NB Analysis marks may be awarded diagrammatically** **NB Award up to 4 marks for one reason well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Indicative content	Mark

6(e)	**Knowledge 3, Application 3, Analysis 3** • Understanding of the term high inflation • Use of Figure 2 and Extract B to show high rate of inflation Consumers, for e.g.: • Reduction in purchasing power and real incomes of UK consumers as price level increases • There will be a fall in living standards and therefore loss of consumer confidence • Real value of savings fall as rate of inflation is higher than the rate of interest – e.g. inflation rate is above the 0.1% interest rate throughout the given period Workers, for e.g.: • Unemployment in the UK may rise through increased levels of inefficiency and stagflation • The self-reinforcing effect on inflation through higher expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes – but it may not happen as UK workforce has low bargaining power **NB Negative effects can be used as KAA and positive effects as Evaluation or vice versa** **NB Award a maximum of level 2 if no reference made to both consumers and workers**	**(9)**

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

Question	Indicative content	Mark

Number		
6(e) continued	**Evaluation 6** • Depends on the cause of inflation – rising petrol prices indicate cost push inflation that cannot be directly controlled • Depends on the magnitude of inflation – between January and November 2021, the inflation rate increased by 4.4 percentage points: therefore, the impact is going to be quite significant • Depends on the duration of inflation – inflation has been rising since February 2021 (Figure 2) • Consumers: those with high level of personal debt will benefit as the real value of debt falls, e.g., the value of a mortgage loan relative to income is likely to decease • Workers: if there is high wage inflation, it is easier to find work as firms are raising wages only because they cannot choose other workers at lower 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. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark

6(f)	**Knowledge 4, Application 4, Analysis 6** KAA: • exchange rate: e.g. if the external value of the UK's currency rises, the value of imports rises and the value of exports falls - UK's trade balance worsens • In Q3 2021 UK's trade deficit was nearly £7 billion • real income: e.g. increase in real income will causes consumer spending to rise part of which will be spent on imports; there is a high marginal propensity to import in the UK - UK's trade balance worsens • state of the world economy: e.g. if UK's main trading partners enter a recession, then they will buy less goods and services from the UK, hence exports fall - UK's trade balance worsens • degree of protectionism: e.g. if UK's trading partners impose a trade barrier on UK goods and services, the value of exports/net exports will fall - UK's trade balance worsens • non-price factors: e.g. if UK exports are of relatively lower quality, the value of their goods and services will fall - UK's trade balance worsens • inflation rate: e.g. if the rate of inflation is higher in the UK than in its trading partners, value of exports will fall - UK's trade balance worsens **Evaluation 6** • It depends on the size of the change in the value of the currency, and how long it is maintained for • The exchange rate is likely to be more significant in the long-run than the short-run due to pre-agreed contracts for imports and exports • It depends on how sensitive consumers are to price changes for imports and exports, which depends on a range of factors, such as non-price issues, the degree of competition in the market • It depends on firms' responses to the change in the exchange rate, e.g. domestic firms may respond to an increase in the value of their currency by lowering the price of their goods in their own currency to keep the price constant in the importer's currency etc. • Impact of real incomes depends on how sensitive consumers are to changes in income; depends on many factors, e.g. if goods are inferior or essential • Combination of influences has a larger impact on the net trade balance • Short-run vs long-run consideration	**(20)**
Knowledge, application and analysis		

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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

Question	Indicative content	Mark

Number		
6(g)	**Knowledge 4, Application 4, Analysis 6** KAA: • Interest rate is used by MPC of the Bank of England • MPC increased the base interest rate from 0.1% to only 0.5% in February 2022 • AD/AS diagram showing a change in AD and/or AS consistent with analysis • Identification of low and stable inflation as a government objective / inflation target of 2% • Use of Figure 2 to support arguments for using a contractionary monetary policy (rates rising 2021) • High interest rate discourage borrowing by both households and firms as it increases the cost of borrowing, thus reducing inflationary pressures • Increasing rate of saving (the opportunity cost of spending has risen), which will slow the economy • Rise in mortgage interest repayments will reduce homeowners' real "effective" disposable income. Increase in mortgage costs would reduce market demand in housing market, reducing inflation • Business investment may also fall, as the cost of borrowing funds will surge. Planned investment projects will now become unprofitable and, as a result, AD will fall, reducing inflationary pressures • Higher interest rate increases the value of pound due to hot money flows; (X-M) component of AD falls, reducing inflationary pressures **Evaluation 6** • Impact depends on the magnitude of the change in the interest rate: only increased by 0.4 percentage points, so impact may not be as large • Time lags and implementation lags – changes may take a long time to feed through into inflation • Higher rates may mean lower investment which reduce LRAS, increasing inflationary pressures • Many mortgages and loans are on a fixed rate; the change in base rate may have little impact • Commercial banks may not change their rates • Impact from change in AD will depend on the position on the LRAS curve/the level of spare capacity • External factors are beyond Bank of England's control – Extract B suggests the higher rate of inflation has been caused by rising petrol prices • Conflicts with macroeconomic objectives/policies • Depends on consumer and business confidence, for e.g., animal spirits, size of the multiplier	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
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Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

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