Mark Scheme (Results)
Summer 2025

Pearson Edexcel GCE AS Level
In Economics A (8EC0)
Paper 2 The Uk economy – Performance and policies

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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- 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/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked **unless** the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**The only correct answer is A** **B** is not correct as unemployment did not rise as a result of people changing jobs **C** is not correct as unemployment did not rise due to changes in seasons **D** is not correct as unemployment did not rise due to changes in technology/sectors	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for, e.g. • This increase in the rate of unemployment leads to a reduction in the number of people paying income tax **(1)** • This increase in the rate of unemployment leads to a rise in number claiming/receiving unemployment benefits **(1)** **Application:** 1 mark for, for e.g. • Between January 2020 and December 2020 the rate of unemployment in the UK increased from 3.9% / to 5.2% / by 1.3 percentage points **(1)** **Analysis:** 1 mark for linked development, e.g. • Fall in the government tax revenues and thus resulting in a budget deficit/worsening of government budget **(1)** • Increase in government expenditure and thus resulting in a budget deficit/worsening of government budget **(1)**	**(3)**

Question Number	Answer	Mark
2(a)	**The only correct answer is D** **A** is not correct because average UK house prices fell by £2 597 between February 2023 and March 2023 **B** is not correct because the average UK house price in March 2023 was 1.665% lower than in January 2023 **C** is not correct because there is no information available on the base year to calculate an index number	**(1)**

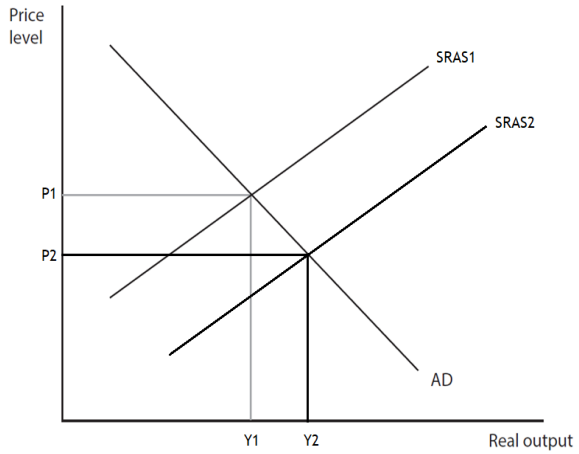
Question Number	Answer	Mark
2(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one impact, e.g. • Decrease in consumption/consumer spending/AD **(1)** **Application:** 1 mark, for e.g. • House prices fell from £286 321 in January 2023 to £281 555 in March 2023 **(1)** • House prices fell by £4 766 / 1.66% / 1.7% between January 2023 and March 2023 **(1)** **Analysis:** 1 mark for linked development, e.g. • Identification of negative wealth effects / decrease in the value of physical assets/property **(1)** • Decrease in confidence of existing homeowners **(1)** • Encourages homeowners to save more **(1)**	**(3)**

Question Number	Answer	Mark
3(a)	**The only correct answer is C** **A** is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap **B** is not correct because it shows actual GDP growth below trend GDP growth, therefore negative output gap **D** is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 2** **Knowledge/understanding:** Up to 2 marks for, e.g. • There may be inaccurate data on the labour force **(1)** for e.g. the difficulties in measuring the size of labour migration / the number of people who may have left the labour market as 'discouraged workers' / amount of under-employment in the labour market **(1)** • There may be problems in accurately measuring level of productivity/asymmetric information **(1)** particularly in the service/technology sector **(1)** • Surveys of producers about level of spare capacity may be inaccurate **(1)** for e.g. due to misreporting, human error, time lags or survey bias **(1)** • Difficulty in measuring actual GDP/potential GDP **(1)** e.g. hard to measure hidden economy **(1)**	**(2)**

Question Number	Answer	Mark
3(c)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Trade cycle shows movements/fluctuations in economic activity **(1)** • Boom, recession, trough and recovery **(1)**	**(1)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Tax on expenditure/spending on goods and services • Tax on a product/good or service **(1)**	**(1)**

Question Number	Answer	Mark
4(b)	**Application 2** **Application:** 2 marks for, • Correct rightward shift of short-run AS **(1)** • Correct new equilibrium point showing lower price level and higher real output **(1)**  **NB: Accept AD shifting to the right with higher price level and higher real output**	**(2)**

Question Number	Answer	Mark
4(c)	**The only correct answer is D** **A** is not correct because this is an example of a direct tax **C** is not correct because this is an example of a direct tax **D** is not correct because this is an example of a direct tax	**(1)**

Question Number	Answer	Mark
5(a)	**The only correct answer is C** **A** is incorrect because the data relates to the balance of trade in goods and services and not government budget **B** is incorrect because the data relates to the balance of trade in goods and services and not government budget **D** is incorrect because the value of imports is greater than the value of exports	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one likely reason, e.g. • Increasing real incomes **(1)** • Relatively low productivity **(1)** • Rising oil/commodity prices **(1)** • Appreciation of exchange rate **(1)** • Relatively high inflation rate **(1)** **Application:** 1 mark for reference to the chart, for e.g. • The UKs monthly trade balance was in a deficit of just over £4 billion in October 2023 **(1)** • There was a balance of trade in goods and services deficit throughout the given period **(1)** • Trend e.g. deficit fell from May 2023 to July 2023 **(1)** **Analysis:** 1 mark for linked development, e.g. • Imports increase as UK consumers have a high marginal propensity to import **(1)** • Low productivity increases cost per unit: makes exports relatively more expensive, reducing the demand for domestic goods **(1)** • Higher oil/commodity prices increase cost of imports as the UK is net importer of oil/commodities **(1)** • Rise in the external value of the pound makes exports relatively expensive/imports relatively cheaper **(1)**	**(3)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • It is the percentage **(1)** • increase/change in GDP/real output/total value of goods and services **(1)** **Application** 2 marks for 2 data references from Figure 1 **(1+1),** e.g. • Rate of economic growth was highest in 2021 **(1)** at around 7.5% **(1)** • Rate of economic growth was negative in 2020 **(1)** at -9.9% / due to the Global Health Crisis **(1)** • Reward for reference to two data points **(1+1)**	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for understanding of real incomes, e.g., • Subjective happiness is likely to decrease **(1)** **Application** 2 marks **(1+1),** for e.g. • Real income per household is estimated to decrease by around 0.9% in 2024 **(1)** • Reduction/decrease/fall in living standards **(1)** **Analysis** 2 marks for **(1+1),** e.g. • People spend less on purchasing goods and services / less consumption **(1)** • People have lower purchasing power / may not be able to afford larger repayments on mortgages or loans for durable goods **(1)** • People may be anxious make future payments/about their ability to repay debts / less confidence **(1)** • Lower income may result in less wealth creation, e.g. might not be able to save for future/retirement **(1)**	**(5)**

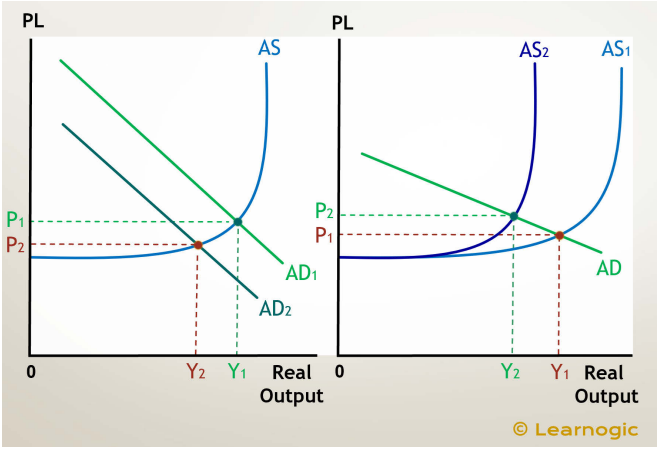
Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** Understanding of the term GDP / living standards Limitations may include: • Nominal data includes inflation which is distorted by high inflation figures • Reliability of data collected – the UK government "questioned the reliability of inflation data" • Percentage changes are misleading without any reference to total GDP • Methods of calculation may not be accurate • Presence of an informal and unpaid economy may imply that some output is unrecorded as it is not bought or sold and there is no resulting income • Differences in distribution of income as growth varies across the UK with jobs/wages distributed unevenly • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter and the hidden economy may undervalue the real output and national income may not reflect true living standards • Population changes over time inflate GDP but living standards remain unchanged • Spending on investment goods may raise future living standards at the expense of the current	**(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(c) continued	**Evaluation 4** Points may include: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective and it cannot be measured effectively and accurately • It is a combination of the limitations that a more significant impact on reliability of data • Critical judgement of the limitations discussed	**(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 factors **(1+1)** for, e.g. • Rate of economic growth/level of GDP **(1)** • Forecast rates of inflation **(1)** • Employment/unemployment **(1)** • Level of saving/consumption **(1)** • Changes in real income/living standards **(1)** **Application** 1 mark for each data reference **(1+1),** e.g. • Reference to Figure 1, e.g. slower rate of economic growth in 2024 **(1)** • Reference to Figure 2, e.g. interest rates increased in anticipation of further increases in price level **(1)** **Analysis** Linked development **(1+1)** e.g. • They consider the rate of economic growth to ensure that AD will grow in line with the UK's productive potential **(1)** • They consider the forecast rate of inflation to ensure that inflation expectations are closer to the target rate of 2% +/- 1% **(1)** • They consider employment/unemployment to ensure that there is no overheating or under consumption in the economy **(1)** • Reference to the transmission mechanism **(1)** **NB Award up to 4 marks for one reason well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 2, Application 2, Analysis 2** Understanding of government expenditure • "decreasing government expenditure on public services in the long run" • "It is estimated to decrease by a third as a proportion of GDP between 2024 and 2028" • A decrease in government expenditure will reduce injections into the UK's circular flow of income • Government spending is a component of AD • AD will decrease, resulting in a reduction in real output/economic growth: may refer to Figure 1 • Unemployment is likely to increase • Reference to negative multiplier effects • Inflation is likely to decrease: may refer to Figure 2 • Lower income equality/greater income inequality if welfare payments/direct taxes are cut • Improvement in UK's budget balance/reduction of the UK government's budget deficit • Fall in productive potential in the economy e.g. as public service are cut (Extract A final paragraph) • Diagram showing AD and/or AS shift e.g.  **NB Candidates must include an accurately drawn AD/AS diagram presenting a decrease in AD and/or AS to access Level 3** **NB Candidates may explain negative effects as KAA and positive effects as evaluation (or vice versa)**	**(9)**

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

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Impact depends on the magnitude of the fall in AD and/or AS • Impact on real output/inflation depends on where the AD lies on the Keynesian LRAS (elasticity of the LRAS curve) • Impact depends on other factors in the economy, such as consumption, investment and net trade • Impact depends on which areas of public services government expenditure has fallen • Time lags and implementation lags involved – if the UK government changes, there is a probability that spending on public services may not be cut • Critical judgement of the points discussed	**(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**
	
	• Understanding of inflation
	• Reference to Figure 2; credit use of AD/AS diagrams
	
	Possible causes include:
	• Increase in AD [demand pull] as a result of -
	  ○ higher consumption: demand for consumer goods
	  ○ higher government expenditure: childcare subsidies
	  ○ higher levels of gross/net investment
	  ○ higher net trade/increase in exports/fall in imports
	  ○ expansionary monetary policy
	  ○ expansionary fiscal policy
	• Decrease in SRAS (or AS) [cost push] as a result of -
	  ○ rise in costs of raw materials and energy: rising import prices of food, fuel and energy
	  ○ increase in indirect taxes
	  ○ decrease in the external value of the currency making imports relatively more expensive
	• Decrease in LRAS as a result of -
	  ○ weak competition policy
	  ○ decrease in productivity
	  ○ lack of technological advancements
	  ○ no improvements in education and skills
	
	Evaluation 6
	
	• It is likely to be a combination of factors
	• Magnitude of the inflation will be dependent on the size of any shifts in AD and/or SRAS/LRAS/AS
	• Significance of the most important factor is likely to change over time
	• Demand-pull inflation (an increase in AD) is not often seen as negative as the increase in AD can be more carefully controlled by monetary policy
	• Cost-push inflation (a decrease in SRAS or AS) is often seen as more of a concern as the central bank has very limited tools to control it
	• Prices of raw materials and energy are volatile and likely to decrease as global supply increases
	• If the external value of the currency increases then the relative price of imports will decrease
	• Supply-side impacts (decrease in LRAS) are likely to have a long-term effect; only causing inflation after a significant time lag
	• Critical judgement of the above points discussed
		(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 Number	Indicative content	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6** • Understanding of employment • Relevant diagram, e.g. AD/AS diagram showing rightward shift of the LRAS curve • Reduction in tax creating a larger incentive to work: government's £10.4 billion cut to national insurance contributions; an extra 94 000 full-time workers • Reduction in unemployment benefits and associated benefits to increase workers incentive to find work: introduced stricter benefit sanctions for people who can work but decline a job offered to them • Changes in the national minimum wage to incentivise employment: e.g. this can be seen as a measure to encourage more benefits claimants into work • Reduction in tax rates to encourage firms to expand/ spend on capital goods, thus increasing employment: 100% tax relief on investment in capital machinery will increase cumulative investment by 0.5% by 2028 • Relaxing migration to have greater access to skilled workers and fill job vacancies: contributing more to an increase in the UK's potential economic growth • Consideration of other employment-focused policies e.g. privatisation or deregulation **Evaluation 6** • Impact depends on the magnitude of policy change/ employment created: increase total employment by 200 000 between 2024 and 2028 – significant change • Time lags and implementation lags – changes may take a long time to feed through into the economy • Discussion of effectiveness of individual policies e.g.: o benefit reform may not be effective as most of those affected work limited hours and low pay o high interest rates make it expensive for firms to borrow – may refer to Figure 2 and Extract A • Conflicts between the government's macroeconomic policies and/or its macroeconomic objectives for e.g. environmental objectives • Impact depends on if the economy is operating at full capacity or has spare capacity – elasticity of the LRAS • The government's budget deficit makes it difficult to pay for large investments or offer grants/tax breaks • Demand-side policies may be more effective • Critical judgement of the above points discussed	**(20)**

Knowledge, application and analysis		
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