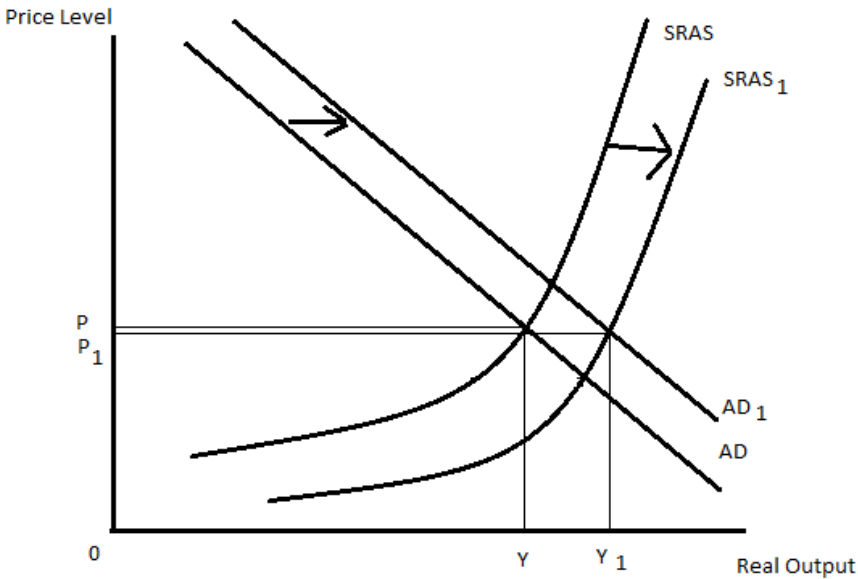


Unit 2 – Mark scheme

Question	Quantitative skills assessed	Answer	Mark
1	–	C	(1)
2	–	D	(1)
3	–	A	(1)
4	QS9: Interpret, apply and analyse information in written, graphical and tabular forms	B	(1)
5	QS4: Construct and interpret a range of standard graphical forms	B	(1)
6	QS1: Calculate, use and understand ratios and fractions	D	(1)

Question	Answer	Mark
7	Knowledge 2, Application 2 Knowledge Up to 2 marks for defining 'underemployment', e.g.: - It occurs where people are in employment (1) but want to be working more hours or in a more skilled job (1). Application Up to 2 marks for applying to the UK, e.g.: - In the UK, 34% of graduates who complete university find themselves working in lower paid non-graduate jobs (1). 3.4 million people were working part time because they could not find full-time work / wanted more hours in their contract (1). - So although people are employed, they are unable to find a job with enough hours or the correct skills (1).	(4)

Question	Answer	Mark
8	Knowledge 1, Application 3 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge 1 mark for drawing original AD and SRAS curves. Application 1 mark for shift in SRAS. 1 mark for shift in AD. 1 mark for new equilibrium.  NB Price may rise or fall depending on shift in AD and SRAS.	(4)

Question	Answer	Mark
9	Knowledge 1, Application 3 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge 1 mark for correct multiplier formula, e.g.: • Multiplier = $1/(1-MPC)$. Application Up to 3 marks for use of data in calculation, e.g.: • Multiplier = $1/0.5 = 2$ (1) • £30 billion $\times 2$ (1) = £60 billion (1).	(4)

Question	Answer	Mark
10	Knowledge 1, Application 1, Analysis 2 Knowledge Up to 1 marks for defining asset purchasing, e.g.: • Purchase of government bonds/gilts/corporate bonds by a central bank (1) Analysis Up to 2 marks for explaining the way it affects price level, e.g.: • This improves the availability of money for loans (1) which helps stimulate consumption / investment (1). • This stimulates consumption / investment (1) which boosts Aggregate Demand and inflates prices (1). Application Up to 1 mark for applying this to the context of Japan, e.g.: • Japan wanted to avoid deflation (1) / wanted to stimulate the economy increase aggregate demand (1)	(4)

Question	Answer	Mark
11	Knowledge 1, Application 1, Analysis 2 Application 1 mark for identifying that 8.2% fall is a depreciation. Knowledge 1 mark for defining depreciation, e.g.: • A depreciation is where the value of one currency falls against another currency. Analysis Up to 2 marks for the impact on the net trade balance, e.g.: • The price of Liberian goods abroad will fall, helping to boost exports / The price of importing goods from the USA will rise, which will reduce the value of imports (1). • As imports fall and exports rise, the net effect is an improving of the net trade (1).	(4)

Question	Answer	Mark
12 (a)	Knowledge 2 • 1 mark for reference to the cost of borrowing. • 1 mark for stating that it is set by a central bank.	(2)

Question	Answer	Mark
12 (b)	Knowledge 2, Application 2 QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Up to 2 marks for offering a definition of disinflation: • Disinflation is where prices are rising (1) but at a slower rate (1). • Disinflation is where the rate of inflation (1) is falling (1). Application Up to 2 marks for reference to Figure 2: • Disinflation occurred between 2010 and 2011 / 2013 and 2014 / 2014 and 2015 / 2013 to 2015 (1). • In 2010, inflation was 12% and approximately 9% in 2011 (1). • In 2013, inflation was approximately 11% and in 2014 it was just above 6% (1). • Between 2014 and 2015, inflation fell from just above 6% to just below 6% (1), • In 2013, average prices rose 11% but by 2015 they rose by just below 6% (1), showing that prices rose in each year but that the rate of growth in average prices fell (1),	(4)

Question	Answer	Mark
12 (c)	Knowledge 2, Application 2, Analysis 2 QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Up to 2 marks for a definition of economic growth: • Increase (1) in real GDP (1). • Increase in capacity within the economy (1). Application 1 mark for reference to the growth rate in Figure 1. PLUS 1 mark for reference to Extract A: • Public sector workers earning more (1). • Rising exports (1). • Higher investment (1). Analysis Up to 2 marks for explaining how the causes affect economic growth, e.g.: • Public sector workers earning more – will lead to higher levels of consumption (1), leading to an increase in AD and a rise in real output (1). • Rising exports will inject money (1) into the Indian economy, leading to an increase in AD and a rise in real output / reference to multiplier effects (1). • Higher investment will boost both aggregate demand and LRAS (1) and boost real output / reference to multiplier effects (1).	(6)

Question	Indicative content	
12(d)	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (8 marks) – indicative content - Defining rapid economic growth – fast increase in real GDP. Positive impacts include: - Continued improvements in the standard of living, helping to improve people's quality of life as they can afford better education and health care, and to buy more resources. - Rural areas are benefiting from the agricultural sector performing well, showing that rapid growth is helping workers on farms to benefit from better standards of living. - Urban areas are benefiting from growth in the manufacturing and services sectors, which helps boost incomes and standards of living. - The GDP growth is helping both the poor and rich, which means the poor and rich will have a better quality of life as they earn more. - There may be reduced poverty, as people are able to meet their basic needs. - If both rich and poor benefit there may well be less income inequality. - The budget deficit fell from 5.8% to 3.9% of GDP as tax revenues improved in 2015, helping the government to work towards a balanced budget. Negative impacts include: - Some Indian cities are struggling with pollution – these external costs have a negative impact on Indian citizens' health and quality of life. - Delhi experienced severe air pollution, which closed schools for three days and banned cars in the city. With cars banned, this could affect productivity of business if workers struggle to get to work. Closed schools could impact on the standards of education if they persist. - Imports grew by 8.1% in October 2016, contributing to the balance of trade deficit rising by 4.8%. This is a net withdrawal from the economy and may lower AD. - Demand-pull inflation might emerge as AD rises. Students may offer positive or negative impacts as knowledge, application or analysis. They may then offer the other argument as evaluation points.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.

Level	Mark	Descriptor
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (6 marks) – indicative content • Inflation has in fact fallen from approx. 11% to 6% while economic growth rose. • Rising imports are less of a problem if acquiring capital goods that will further boost growth. • Pollution may be concentrated in few areas so not impacting a significant proportion of population. • As the economy becomes richer, the economy will be able to afford clean up / new technology to reduce pollution. • There is still a budget deficit, so economic growth may not help boost tax revenues to cover the government spending. • The rate of economic growth is high – the magnitude is significant. • The long-run impact may become more significant, e.g. impact on budget, inflation and pollution.		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Indicative content	Mark
12(e)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge Up to 2 marks for knowledge of interest rates, e.g.: • Definition of base interest rates, with reference to the cost of borrowing (1). • Changes in base interest rate is part of monetary policy (1). • Monetary policy is a part of demand-side policy (1). Analysis Up to 2 marks for linked explanations showing the impact on the Indian economy, e.g.: • A fall in the interest rate will boost AD (1) to avoid reduction in real output (1). • Rising AD will cause prices to rise (1) which is demand-pull inflation (1). • It may encourage investment (1) this capital expenditure may boost productive potential shifting LRAS rightwards (1). • It may cause depreciation of currency (1) as India will be less attractive to invest in (1). Application Up to 2 marks for reference to the given sources, e.g.: • The base interest rate fell from 6.5% to 6.25% (1). • This rate cut lessens the risk of Brexit (1). • The rate cut avoids problems that may arise due to banking-sector problems in Europe (1). • The rate cut avoids problems that come from the economic slowdown in China (1). • Global growth has been slowing (1). Each of the above may be linked to how AD is likely to fall as demand for exports fall (1). Evaluation Up to 2 marks for evaluative comments, e.g.: • Inflation is under control (1) so inflation rises may not be significant. (1). • There is a delay before interest rates have an impact on the economy (1) so the effect may be felt only in the long term (1). • Indian interest rates are still relatively high (1), e.g. there are negative rates or low rates in Japan, Eurozone and UK (1). • There is only a small (0.25% point) change in interest rates (1) so the magnitude of interest rate change is small (1).	(8)

Question	Indicative content	
13	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (12 marks) – indicative content • Supply-side policies – these aim to improve the supply side of the economy. • Supply-side policies aim to increase productivity, competition and incentives. • Argentina has both low growth and relatively high inflation. Free market measures: • Deregulation of labour markets – makes it easier to recruit and lay off workers as required, which may encourage more employment and production. • Privatisation – moves ownership from a sometimes inefficient / complacent public sector to the private sector, where efficiency gains are important to achieve profitability. • Reduction in taxation – for example, lowering income tax may give a greater incentive to work, increasing the supply of labour and the ability for firms to employ more people. • Reduction in corporation tax – will leave more profit for the firm, enabling them to invest more and helping to achieve more growth. Interventionist methods: • Investment in education, training and skills – will improve human capital, helping to raise productivity and shift LRAS right. • Incentives for investment. • Infrastructure investment – such as transport links and communication links, for example broadband, will make it cheaper for businesses to do business. This will enable them to increase supply. • How each policy improves the supply side. • Diagram to show rightward shift of LRAS. • Causes price level to fall – deflationary pressure. • Causes real output to rise – economic growth	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.

Level	Mark	Descriptor
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (8 marks) – indicative content • Opportunity costs – less available for health care if money is spent on education etc. • Measurement problem – what is the right amount of intervention needed? • Magnitude – much depends on the size of investment. • Time frame – it may take time for policy to impact, e.g. education takes years to have an effect. • Government failure, e.g. excessive admin costs, may result in net welfare loss. • Investment in education, training and skills – may not be targeted in the right areas. • Incentives for investment – some of the incentives may be targeted at the wrong areas. • Infrastructure investment takes time to put in place. • Privatisation – natural monopolies may exploit customers by charging a high price or require regulation. • Reduction in taxation – may worsen the budget deficit.		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Indicative content	
14	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (12 marks) – indicative content • Credit being available means banks have money to lend consumers. This means consumers can gain credit cards, loans and other borrowings. This enables consumption to take place as they can fund larger purchases. • Disposable income may be important. As a person's income rises they have more available to put towards consumption. • Interest rates may be important. If interest rates are low this may encourage consumption as the cost of borrowing is now lower. • Consumer confidence – if consumers lack confidence they may put off expenditure. This will reduce consumption. • Level of welfare payments – if welfare payments fall, then those on benefits may earn less and have less money for consumption. • Wealth effects – as house prices rise or share prices rise, the value of assets rises, and they feel wealthier and more confident to spend more money. This will boost consumption.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Even if interest rates are low, if banks are not willing to lend then this will not boost consumption. • It depends on amount of consumption that is normally funded through borrowing. • It depends on the numbers in receipt of benefits or other welfare payments. • The availability of credit may have more impact on investment for businesses. • Magnitude – it depends on how significant the borrowing to funding investment is. • Time frame – over time, people may adjust and find different ways to fund consumption.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.