PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 2: AGGREGATE DEMAND (AD)

SCORE	PERCENTAGE
/187	%

STEMUP

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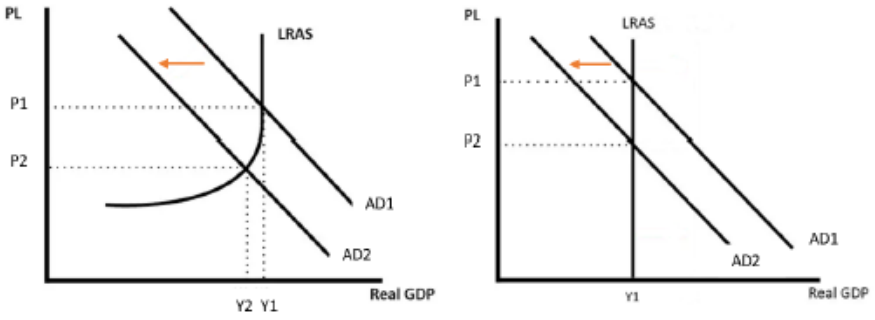
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Mark Scheme

Q1.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	**(1)**

Q2.

Question	In 2021 average house prices in the Philippines fell by over 10%. This had a significant impact on existing homeowners. Based on this information, draw an AD and LRAS diagram to show the likely impact of this fall in house prices on the price level **and** real output in the Philippines. **Answer**	**Mark**
	Knowledge 1, Application 3 **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn diagram with correctly labelled AD/LRAS curves showing the original equilibrium price level and real output **(1)**	

	Application Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the left **(1)** • Showing correct lower price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct lower real GDP/income/output **(1)** (not rewarded if 'quantity' is used on the axis) **NB: Award a maximum of 2 marks if LRAS shifted along with AD**	**(4)**

Q3.

Question	With reference to Figure 2 and Extract A, analyse **two** factors that influence business investment.	Mark
	Knowledge 2, Application 2, Analysis 2 **Quantitative Skill Assessed** **QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and analysis** 1 knowledge mark for identifying each factor and 1 analysis mark for linked development of each factor (2+2) e.g.: • Less economic activity **(1K)** there will be lower investment as firms expect future demand to decrease/increase more slowly **(1AN)** • Business confidence/expectations **(1K)** as firms have less confidence about the state of the UK economy, they are likely to invest less due to greater uncertainty about the future **(1AN)** • High costs of bureaucracy and strict planning regulations **(1K)** deter firms from investing as a result of the higher cost of production **(1AN)** • Lower profits **(1K)** result in less funds being available to pay for investment **(1AN)** **NB Knowledge and analysis can focus on increased investment** **NB Analysis mark can only be awarded when the Knowledge mark is in context**	

	Application 1 mark for use of Figure 2, e.g., • Between 2010 and 2016, the index of business investment increased from nearly 71 to 102 / Between 2016 and 2020, business investment decreased by nearly 22% / In 2020 business investment decreased significantly **(1)** *AND* 1 mark for use of Extract A, e.g., • The UK's rate of economic growth has been low since 2020 / The UK's real GDP at the end of 2022 was smaller than it was at the start of 2020 / The UK's decision to leave the European Union in 2016 / Construction of infrastructure projects, such as building power plants and energy facilities / Global health crisis of 2020 / Rising cost of energy in 2022 **(1)**	**(6)**

Q4.

Question	With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone.	Mark
	Knowledge 2, Application 2, Analysis 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and Analysis** 1 knowledge mark for defining investment, e.g.: • Increase in the capital stock of the economy **(1K)** *AND/OR* Up to 2 knowledge marks for identifying two influences on the level of investment in the eurozone and up to 2 marks for linked explanations of the two influences identified: • Rate of economic growth **(1K)** fall in GDP will mean firms do not invest in capital goods as there will be lower demand **(1AN)** • Business confidence **(1K)** firms will only invest if there is less uncertainty about future costs and revenues, and sales **(1AN)** • Availability of credit **(1K)** as investment will only take place if banks are willing to lend and have not applied strict conditions to loans / limited availability of credit may increase interest rate and therefore increase cost of borrowing **(1AN)** **Application** 2 marks for use of Figure 1, e.g. • Real GDP growth rate fell by 14.7% in Q2 2020 **(1AP)** and 4.3% in Q3 2020 **(1AP)**	**(6)**

Q5.

Question	With reference to Extract A, analyse **two** reasons for the improvement in living standards in Ireland between 2015 and 2022.	Mark
	Knowledge 2, Application 2, Analysis 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and analysis** Up to 1 knowledge for identifying a reason and 1 analysis mark for linked development of the reason, e.g.: • Increase in employment **(1K)** as there will be greater demand for domestic workers when international companies set up their operations in Ireland: higher incomes for workers **(1AN)** • Increased government tax revenues **(1K)** as workers will pay taxes on their earnings and firms will pay taxes on their profits: more spending on public goods and services **(1AN)** • Increase in real incomes **(1K)** since there is positive economic growth/an increase in real GDP **(1AN)** • Increase in FDI by TNCs **(1K)** resulting in an increase in the productive capacity of the economy **(1AN)** • Consumers may have access to high quality/innovative goods **(1K)** due to greater innovation by TNCs **(1AN)** **Application** Up to 2 marks for use of Extract A, e.g., • Employment: 2.06 million to 2.55 million **(1)** • Corporation tax receipts: €22.6 billion **(1)** • Attracted over 1500 international companies / Apple Inc., the world's largest technology company, moved its European base to Ireland in 2015 **(1)** • The activities of international companies had a positive impact on living standards in Ireland **(1)**	**(6)**

Q6.

Question	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct as consumer confidence is likely to decrease* ***C*** *is not correct as average house prices fell by 1.65% between November 2022 and December 2022* ***D*** *is not correct as there will be less incentive for construction companies to build new houses*	**(1)**

Q7.

Question Number	Answer	Mark
	Knowledge 1, Application 3 Quantitative skills assessed: **QS5:** calculate and interpret index numbers **Knowledge** An index is a statistical measure of change in a group of individual data points. Indices are calculated relative to a chosen fixed point which is normalised to a value of 100. (1) or 1 mark for understanding of 'base year, in this case 2018. **(1)** **Application** Up to 3 marks for calculations 29 381 **(2)** x 100 = 74.9 **(1)** 39 251 **NB If correct answer is given (74.854), award full marks regardless of working.** **NB 74.854 rounds to 74.85 (2dp), to 74.9 (1dp) and 75 (whole number). Accept answers from 74.85 to 75.**	**(4)**

Q8.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras* ***C*** *is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras* ***D*** *is not correct because this will lead to a reduction in the deficit on the balance of trade for Honduras*	**(1)**

Q9.

Question	Explain one possible impact of increased business confidence on the economy of the UAE. Answer	Mark
	Knowledge 1, Application 1, Analysis 2 **Knowledge & Analysis** 1 mark for identification of one possible **impact** of increased business confidence on the United Arab Emirates and Up to 2 marks for development of identified factor e.g. increase in aggregate supply • Increased business confidence increases incentives to invest **(1)** this increases AD and real output, reducing the output gap **(1)** • Businesses will increase investment **(1)** which will have multiplier effects **(1)** leading to a more than proportionate increase in GDP **(1)** Reward an accurate outward shift in LRAS/AD if shown on a diagram **(1)** **Application** 1 mark for applying to UAE e.g.: • The increase in business confidence is due to high rates of economic growth **(1)** • Sustained growth since 2012 **(1)** **(4)**	

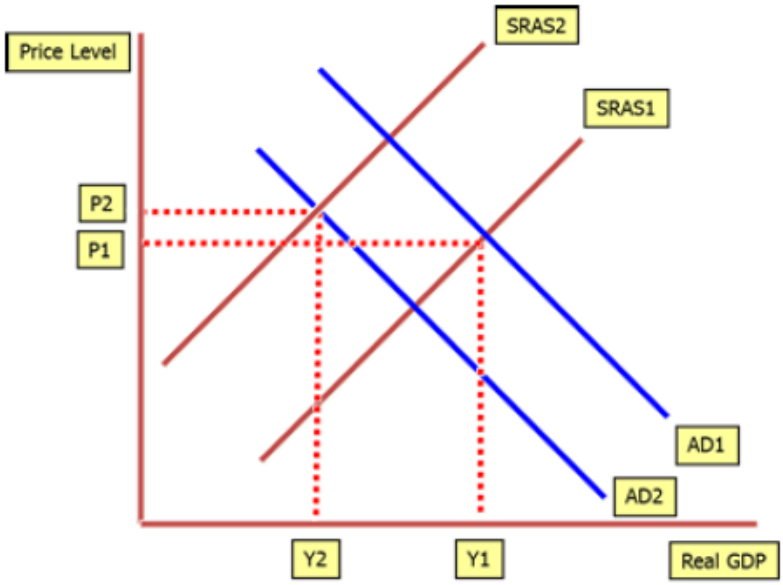
Q10.

Question	Calculate the *change* in Thailand's balance of trade between 2020 and 2021. Show your workings.	Mark
	Knowledge 1, Application 3 **Quantitative Skill assessed** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for correct formula/implicit understanding, e.g.: • Net trade balance = (X-M) / • Value of exports – value of imports **(1)** **Application** Up to 3 marks for use of data in calculation from the following, e.g.: • 2020 → $208bn - $187bn = $21bn **(1)** • 2021 → $257bn - $230bn = $27bn **(1)** • Change → $27bn – $21bn = $6bn **(1)** **NB: if correct answer ($6 billion/percentage change of 28.6%) is given, award full marks regardless of working.** **NB: award only 3 marks if billion or % is not included in the final answer or if answer is written as - $6 billion**	**(4)**

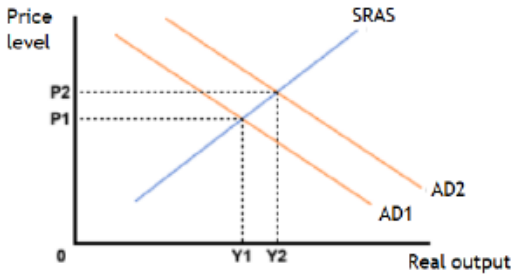
Q11.

Question	Calculate the change in Canada's balance of trade between 2019 and 2020. Show your workings. **Answer**	Mark
	Knowledge 1, Application 3 **Quantitative Skill assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for correct formula/implicit understanding, e.g.: • Net trade balance = (X-M) / • Value of exports – value of imports **(1)** **Application** Up to 3 marks for use of data in calculation from the following, e.g.: • 2019 → $555.8bn - $583.6bn = -$27.8bn **(1)** • 2020 → $477.1bn - $510.8bn = -$33.7bn **(1)** • Change → -$33.7bn – -$27.8bn = -$5.9bn **(1)** **NB: if correct answer (-$5.9 billion/$5.9 billion/21.2%) is given, award full marks regardless of working.** **NB: award 3 marks if billion is not included in the final answer**	**(4)**

Q12.

Question	Draw a short-run AS and AD diagram to show the effect of the increase in the price of oil on the price level and real output for France.	Mark
	Knowledge 1, Application 3 **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms.  **Knowledge** 1 mark for drawing original AD and SRAS curves with correctly labelled axis **Application** 1 mark for shift in SRAS. 1 mark for shift in AD. 1 mark for new equilibrium with lower real GDP/output • **NB Price level may rise or fall depending on shift in AD and SRAS.**	**(4)**

Q13.

Question	Draw an AD and SRAS diagram to show the likely impact of this change in the savings ratio on the economy of the USA.	Mark
	Knowledge 1, Application 3 **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn diagram with correctly labelled AD/SRAS curves showing the original equilibrium price level and real output **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the right **(1)** • Showing correct higher price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct higher real output **(1)** (not rewarded if 'quantity' is used on the axis)	**(4)**

Q14.

Question	Quantitative skills assessed	Answer	Mark
	QS5: Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as this will be a result of a fall in consumer confidence* ***B*** *is not correct as the price level will rise* ***C*** *is not correct as real output will rise*	**(1)**

Q15.

Question	Between quarter 2 2022 and quarter 2 2023 average house prices in Canada decreased by 8.5%. With reference to the information above, explain **one** likely macroeconomic impact of this decrease in house prices on existing homeowners.	Mark
	Knowledge 1, Analysis 2, Application 1 **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for: • Decrease in consumption/ Decrease in consumer spending/ Decrease in AD **(1)** **Analysis** Up to 2 analysis marks for linked development, e.g.: • Identification of negative wealth effects **(1)** • Decrease in confidence of existing homeowners **(1)** • Decrease in real output and/or price level (this may be shown with an accurately labelled AD/AS diagram showing a leftward shift of AD) **(1)** **Application** 1 mark for appropriate reference to Canada house prices, e.g.: • Between quarter 2 2022 and quarter 2 2023 average house prices in Canada decreased by 8.5% **(1)**	**(4)**

Q16.

Question	Quantitative skills assessed	Answer	Mark
	–	A	**(1)**

Q17.

Question	Define the term 'Consumption' (Extract A, line 9). **Answer**	Mark
	Knowledge 2 Up to 2 marks for offering a definition of consumption e.g.: • Consumption is the total spending on goods and services **(1)** by households/at a given price level/in a given time period **(1)** • Consumption is a component of AD **(1)** • The part of income that is not saved **(1)** • Consumption rose in Canada during 2017 **(1)**	**(2)**

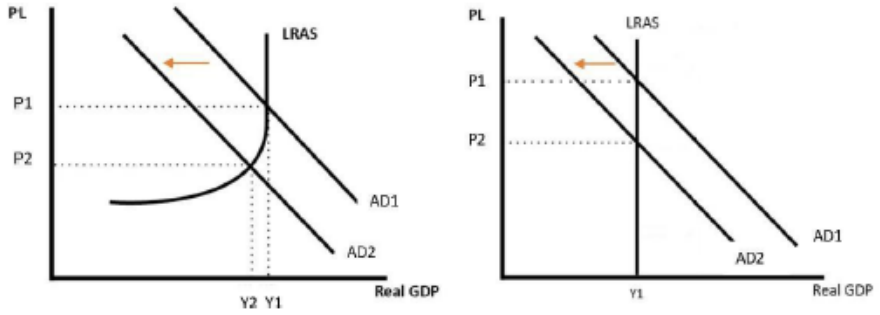
Q18.

Question	Define the term 'corporation tax' (Extract A, lines 4 and 5).	Mark
	Knowledge 2 1 mark for, e.g. • tax charged by the government / a direct tax / tax on a firm/business/company **(1)** 1 mark for, • profits **(1)**	**(2)**

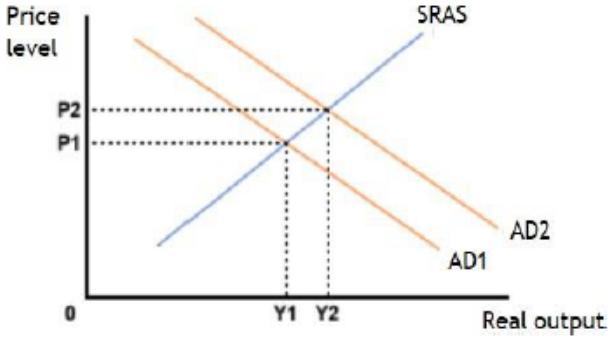
Q19.

Question Number	Quantitative skills assessed	Answer	Mark
	–	**The only correct answer is D** ***A*** *is not correct because an increase in non-price competitiveness is likely to cause an increase in exports and a fall in imports* ***B*** *is not correct because a fall in real incomes is likely to reduce the demand for imports* ***C*** *is not correct because an decrease in the non-price competitiveness of a major trading partner's products is likely to cause the developed county's exports to increase its imports to fall*	**(1)**

Q20.

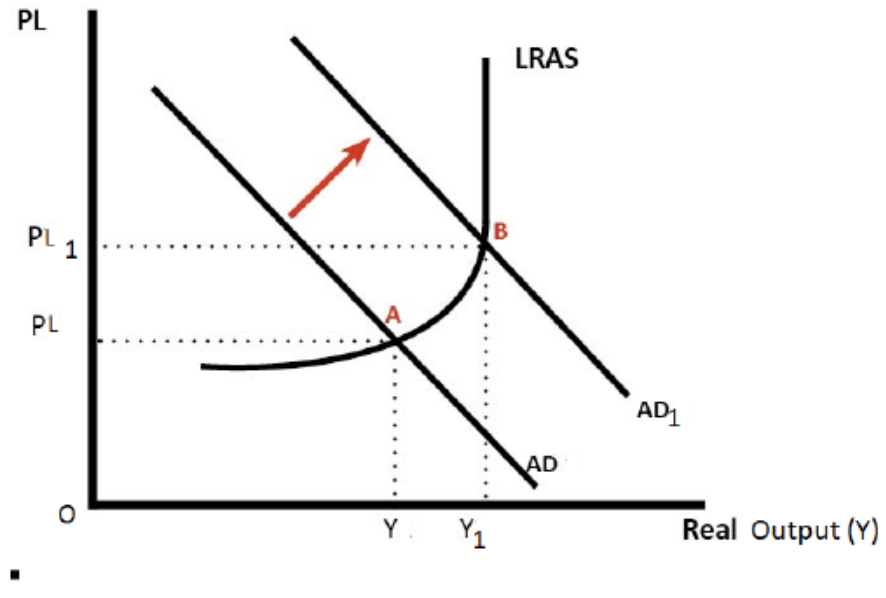
Question	Between May 2022 and April 2023 the central bank of Nigeria increased the country's base rate of interest by six percentage points. Draw an AD and LRAS diagram to show the effect of this increase in the base rate of interest on *consumption*, the price level and real output.	Mark
	Knowledge 1, Application 3 **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn diagram with correctly labelled AD/LRAS curves showing the original equilibrium price level and real output **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the left **(1)** • Showing correct lower price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct real output **(1)** (not rewarded if 'quantity' is used on the axis)	**(4)**

Q21.

Question	Between October 2022 and February 2023 consumer confidence increased in the eurozone. Draw an AD and SRAS diagram to show the likely impact of this increase in consumer confidence in the eurozone.	Mark
	Knowledge 1, Application 3 **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn diagram with correctly labelled AD/SRAS curves showing the original equilibrium price level and real output **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the right **(1)** • Showing correct higher price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct higher real output **(1)** (not rewarded if 'quantity' is used on the axis) **NB Award maximum of 1 mark where an LRAS curve has been drawn.**	**(4)**

Q22.

Question Number	In 2019 the new President of the European Central Bank asked governments of eurozone countries to cut taxation and increase government expenditure to stimulate the rate of economic growth. Evaluate fiscal policy instruments as a means of increasing the rate of economic growth. Indicative content
	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. • Economic growth- increase in real GDP • Fiscal policy- use of taxation and government expenditure • Demand side policy- aimed at influencing AD • Expansionary policy- aims to increase AD • Would involve increase in government expenditure and/or decrease taxation • Increased government expenditure would lead to increased AD – as G is a component of AD • Decreased income tax would lead to more disposable income and increased consumption and increased AD • Decreased corporation tax would see firms keep more profit and encourage investment and increased AD

	Diagram 

	• As can be seen the increase in AD leads to an increase in real output from Y to Y_1 • With higher real output employment would increases/unemployment decrease • If private sector investment is encouraged then further increases in economic growth could occur due to the multiplier effect (may be shown diagrammatically with further rightwards shift of AD and a shift in LRAS) **NB: Award a maximum of Level 3 (9 marks) if only one fiscal policy instrument is considered**

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 • Fiscal policy may lead to an increase in average price level increasing from P to P_1-inflationary pressure • May create a fiscal deficit- adding to repayments in future • Many adjustments to tax and government expenditure may have effects on the supply-side • Supply-side policy may be more effective as does not come with the trade-off with inflationary pressure • Monetary policy may be more effective – and is the primary responsibility of ECB, rather than advising national governments in areas which are not its responsibility • The shape of the LRAS curve is important- if it is classical in shape the increase in AD will just cause inflationary pressure with no economic growth in the long run • Depends on the position of AD on a Keynesian AS curve- on the horizontal section economic growth will be higher and on the vertical section will cause more inflationary pressure • People may substitute from work to leisure as their disposable income increases • Government spending generates an opportunity cost- money might be better spent elsewhere • Coordination issues across the member states • Magnitude- depends on the size of reduction in taxation/ increase in government spending • Time lag- may take time for tax cuts to take effect and for consumers to realise their disposable income is now higher • Time lag – government expenditure can be slow due to delays in setting contracts etc • If there is an increase in government expenditure on investment then there will be an increase in LRAS as well as in AD • Impacts on potential growth as fiscal policy may boost LRAS dependent on what government spends money on or where they reduce taxation

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.

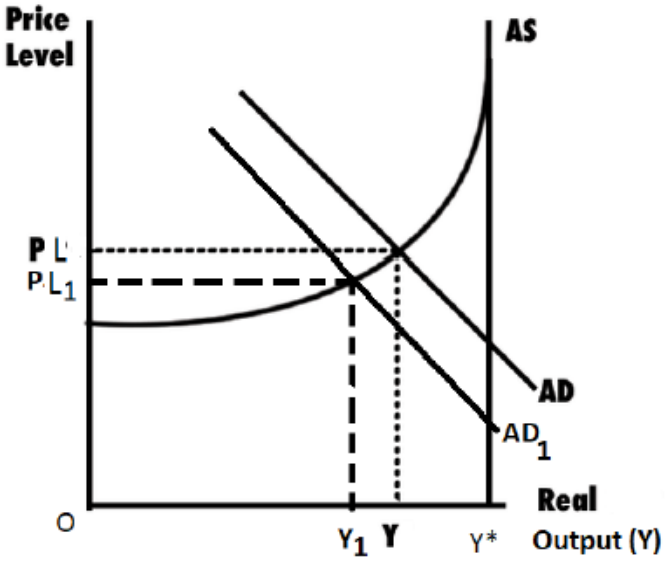
Q23.

Question Number	In quarter 1 2019 the unemployment rate in South Africa was 27.6%. In quarter 2 it increased to 29%. An additional 455 000 workers became unemployed. Evaluate the likely impact of an increase in the unemployment rate on workers, public finances and resource utilisation. Indicative content
	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.

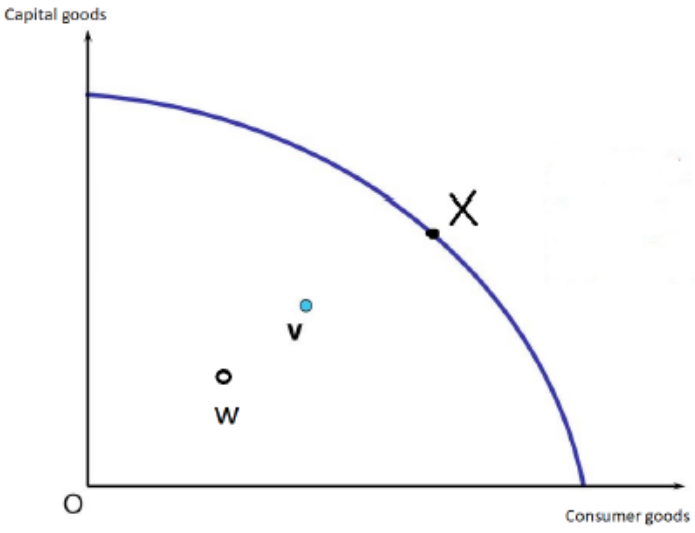
	Knowledge, Application and Analysis (12 marks) – indicative content • Unemployment- those willing and able to work but unable to find suitable employment • Unemployment has increased from 27.6% to 29%/increase of 1.4% Workers • Workers may fear losing their job and may increase savings, thus reducing consumption, aggregate demand and subsequently leading to a fall in real output and a fall in the price level • Workers may take jobs that are below their skill levels leading to underemployment • Workers who lose their jobs may spend a long time unemployed and become deskilled – they will be less employable and less attractive to employers • Workers who lose their job will see a reduction in earnings/living standards/ability to meet their basic needs • Social effects of unemployment – divorce, crime rate, health impacts • Long term effects of intergenerational unemployment Public finances • As more become unemployed they may qualify for unemployment benefits, this will cause an increase in government spending • As people move from employment to unemployment, they may move from being income taxpayers to non-income taxpayers reducing income tax revenue • Higher unemployment suggests lower output, thus lower profits for private firms and lower corporation tax revenue for government • With lower tax revenue and higher government expenditure the fiscal position will worsen. • Government may need to provide training to workers, or support to private firms - once again increasing spending and worsening fiscal position

Resource utilisation

- Resource utilisation is worse as scarce resources of labour are being wasted
- With higher unemployment the economy is going to be below full employment level of output



- The rise in unemployment will cause real output to move further away from the full employment level of real output, at Y*. Output moves from Y to Y1
- The output gap was Y*-Y and increases to Y*-Y_1
- The economy will operate further from the PPF- an original inefficient allocation of resources at point V on diagram below is exacerbated by rising unemployment and moves to point W



NB: Award a maximum of Level 3 (9 marks) if one of the three areas is not discussed – impact on workers, public finances and resource utilisation

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 • Unemployment may fall again in short/medium-term, reducing the effects on workers, finances and resource utilisation • Some of those unemployed may be employed in the informal sector meaning their incomes may not reduce, although impact on public finances may continue • A generous social welfare system may reduce the impact on standards of living, and may reduce other social costs • Some increase in unemployment may be due to more capital-intensive output replacing workers, so overall output may not fall, helping maintain level of AD • Government revenue from corporation tax may not fall as much as a result • May be possible to postpone or delay some government expenditure, so that fiscal deficit may be lessened • This is an additional 455 000 workers now unemployed- showing a large increase in the waste of scarce resources • Utilisation of resources may improve over time through retraining or other employment initiatives

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.

Q24.

Question	Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).	**Mark**
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of real output, e.g.: • Output adjusted for inflation **(1)** *AND* 1 knowledge mark for identifying the impact: • Fall in India's real output **(1)** **Analysis** Up to 2 marks for analysing the impact (1+1), e.g.: • Net trade is likely to decrease **(1)** and as net trade is a component of AD (C+I+G+(X-M)), AD is likely to fall (this can be shown on an accurately drawn AD/AS diagram) **(1)** • May result in SRAS shifting to the left (this can be shown on an accurately drawn AD/AS diagram) **(1)** as oil is a key commodity used in the production process **(1)** • Increases withdrawals from the circular flow of income **(1)**	

	Application Up to 2 marks for reference to Extract A, e.g.: • Oil accounts for 30% of India's imports by value **(1)** • This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of oil imports is relatively large at 30% **(1)** so impact on real output is likely to be very significant **(1)** • Real output may not fall/may increase if exports of services **(1)** are rising at a faster rate than imports of goods **(1)** • Impact on real output depends on elasticity of LRAS **(1)**; real output will decrease if AD lies on elastic segment of LRAS **(1)** • Real output may not fall in long-run **(1)** as other components of AD rise, e.g. consumption **(1)** **NB Accept negative impact on real output as KAA and positive impact as evaluation (or vice versa)**	**(8)**

Q25.

Question	With reference to Figure 1 and Extract A, examine the likely impact of a fall in business confidence on Germany's real output.	**Mark**
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 **Quantitative Skill Assessed** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of business confidence, e.g. • Indicator of expectations of firms/animal spirits/expected profits/investment decisions *OR* 1 knowledge mark for understanding of real output, e.g.: • Output/GDP adjusted for inflation **(1)** *AND* 1 knowledge mark for identifying the impact: • Fall in Germany's real output **(1)** (May be shown on an AD/AS diagram)	

	Analysis Up to 2 marks for analysing the impact (1+1), e.g.: • Investment is likely to decrease **(1)** and as investment is a component of AD (C+I+G+(X-M)), AD is likely to fall / AS is likely to fall (can be shown on an accurately drawn AD/AS diagram) **(1)** • Greater uncertainty in markets **(1)** can reduce injections into the circular flow of income **(1)** • Increase in business savings/retained profit/repayment of loans/overdrafts **(1)** leading to fall in investment and lower productivity **(1)** **Application** 1 mark for reference to Figure 1, e.g.: • Between January 2015 and November 2021, level of business confidence in Germany fell by 3.4%/ • Between June 2021 and November 2021, business confidence fell from 101.7 to 96.6 **(1)** *AND*	

	1 mark for reference to Extract A, e.g.: • A decline in business confidence in the manufacturing and services sectors/ • The Bundesbank, estimated that Germany's real output was likely to fall in the last quarter of 2021/ • Many economists predicted that the German economy could enter a recession in 2022 **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of the fall in business confidence is relatively small **(1)** compared to the fall experienced in April 2020, so impact on real output may not be as large **(1)** • Fall in business confidence is likely to be short-term **(1)** as vehicle manufacturing in Germany had started to increase in Q3 2021 which could increase net exports **(1)** • Impact on real output depends on elasticity of the LRAS **(1)**; real output will only decrease if AD lies on the elastic segment of the LRAS **(1)** • Real output may not decrease in the long-run **(1)** as the other components of AD rise, e.g. the Bundesbank predicted "this will strongly boost consumption" once consumer confidence increased **(1)** **NB: do not credit causes of a fall in business confidence in KAA or policies to increase confidence for Evaluation**	**(8)**

Q26.

Question	With reference to the third paragraph of Extract A, explain the term 'exchange rate'.	Mark
	Knowledge 2, Application 2 **Quantitative Skill Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining exchange rate: • The *value/price* of one country's currency **(1)** in terms of another currency **(1)** • The rate at which one currency will be exchanged **(1)** for another currency **(1)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Fall in domestic consumption / was mainly the result of Japan's weak exchange rate **(1)** • Japan's imports decreased by 4.3% **(1)**	**(4)**

Q27.

Question Number	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A** is not correct because the Canadian dollar depreciated making exports more competitive in the USA* ***B** is not correct because the Canadian dollar depreciated making Canadian import from the USA less competitive* ***C** is not correct because the Canadian dollar depreciated*	**(1)**

Q28.

Question	With reference to the chart, explain **one** likely cause for the deficit in Austria's balance of trade in goods and services.	Mark
	Knowledge 1, Analysis 2, Application 1 **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 mark for identification of a reason, e.g. • Relatively low productivity/ • Relatively high rate of inflation/ • Appreciation of the exchange rate/ • Increasing real incomes/increase in economic growth/ • Deterioration in quality of Austrian goods/services **(1)** **Analysis** Up to 2 marks for linked expansion of one reason, e.g. • Low productivity increases cost per unit **(1)** makes exports relatively expensive/reducing the demand for Austrian goods and services **(1)** • High rate of inflation makes export prices relatively more expensive **(1)** and reduces the value of exports **(1)** • Increase in the external value of Austria's currency will make exports relatively more expensive **(1)** and its imports relatively cheaper **(1)** • Demand for imports increases **(1)** as the marginal propensity to import indicates that changes in imports are dependent on changes in income **(1)** • Lower quality of Austrian goods or services will reduce demand for its exports **(1)** and increase demand for imports **(1)** **Application** 1 mark for appropriate use of the chart, e.g.: • In Sep 2021, there is a trade deficit of around €5 billion **(1)** • Trade deficit in every month, from Oct 2020 - Sep 2021 **(1)** • Deficit was highest in June 2021/was lowest in Nov 2020 **(1)**	**(4)**

Q29.

Question	With reference to this information, explain **one** likely macroeconomic impact of an increase in house prices on existing homeowners.	Mark
	Knowledge 1, Analysis 2, Application 1 **Quantitative Skill assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 knowledge mark for: • Increase in consumption/consumer spending **(1)** **Analysis** Up to 2 analysis marks for expansion, e.g.: • Identification of wealth effects/increase in the value of physical assets **(1)** • An increase in confidence of existing homeowners **(1)** • Encourages homeowners to save less **(1)** • Increase in AD/ shift rightwards **(1)** Reward relevant AD/AS diagram • Increases economic growth/real output/inflationary pressure **(1)** **Application** 1 mark for appropriate reference to UK house prices, e.g.: • By Sept 2021 average house price had risen by 11.5%/ • In Sept 2021 average house price in the UK was £287 843 **(1)**	**(4)**

Q30.

Question Number	In the first quarter of 2019 average house prices decreased by 15% in real terms in Sydney, Australia. Explain **one** possible impact of this change in house prices on the level of consumption. Answer	Mark
	Knowledge 1, Analysis 2, Application 1 **Knowledge and Analysis** 1 mark for one impact of the link between house prices and consumption and up to 2 marks for linked expansion: • As the value of a consumers assets fall **(1AN)** they feel less wealthy and start to become less confident **(1AN)** so they start to reduce their consumption of goods and services **(1K)** • As the value of a consumer's assets fall they feel less wealthy **(1AN)** and reduce their consumption of goods and services **(1AN)** leading to a fall in AD/fall in real output and price level **(1K)** **Application** One mark for applying to Sydney, Australia • House prices have decreased 15% **(1)**	**(4)**

Q31.

Question	With reference to the trend shown in the chart, explain what is meant by the 'savings ratio'.	Mark
	Knowledge 2, Application 2 **Quantitative Skills Assessed** **QS1:** Calculate, use and understand ratios and fractions **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining savings ratio, e.g.: • The savings ratio is the proportion or % of total disposable income **(1)** that is saved/not spent **(1)** • Total savings/Total disposable income **(1)** x 100 **(1)** • Savings represent that part of income which is not spent **(1)** **Application** 1 mark for explicit reference to the data and 1 mark for identifying the direction of the overall trend, e.g.: • Savings ratio in Latvia rose **(1)** from 5.78% in 2017 to 8.89% in 2020 **(1)** • Savings ration in Latvia decreased (1) from 5.78% to 5.61% (1) • Between 2016 and 2021 there was in increase in savings ratio **(1)** by 12.41 *percentage points* **(1)** • Savings ratio was highest at 17% in 2021 **(1)** Savings ratio was lowest at 4.59% in 2016 **(1)**	**(4)**

Q32.

Question	In 2022 average house prices increased by 6% in India. For example: • in the city of Bengaluru, average house prices increased by 9% • in the city of Ahmedabad, average house prices increased by 3% With reference to the data, explain what is meant by the 'wealth effect'.	Mark
	Knowledge 2, Application 2 **Quantitative skills Assessed:** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for defining the wealth effect, e.g.: • When an increase in asset prices e.g. house prices **(1)** **results in** an increase in consumer confidence / an increase in consumption and/or AD **(1)** **Application** Up to 2 marks applying this to the context of India, e.g.: • Average house prices increased by 6% in India **(1)** • In Bengaluru average house prices increased by 9% **(1)** • In Ahmedabad average house prices increased by 3% **(1)**	**(4)**

Q33.

Question	With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments. Answer	Mark
	Knowledge 2, Application 2, Analysis 2 **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge & Analysis** Up to 2 marks for knowledge and up to 2 marks for analysis • The exchange rate is the external value of a currency **(1K)** the current account measures the total value of exports minus the total value imports **(1K)** • The current account records the payments for goods and services, plus investment income and transfers, between an economy and the rest of the world **(1K)** • Reward identification/definition of depreciation: a fall in the value of one currency against another currency **(1K)** • The fall in the value of the peso make imports more expensive **(1K)** this may lead to fall in consumption of imports **(1An)** improving the current account balance **(1An)** • The fall in the value of the peso causes a decrease in the price of commodity exports **(1K)** this may lead to an increase in the consumption of exports **(1An)** improving the current account balance **(1An)** • Argentinian exports become more price competitive **(1K)** increasing demand for Argentinian exports **(1An)** leading to an improvement in the current account **(1An)** • Demand for certain exports is inelastic **(1An)** causing a decrease in the current account **(1An)**	
	Application Up to 2 marks for reference to the data. • The current account balance has fallen into deficit **(1)** • Importing goods from America is very expensive **(1)** • The peso fell by 12 percentage (points) against the dollar **(1)** • Decrease in the value of commodity exports from Argentina **(1)** **Reward the use of relevant diagram**	**(6)**

Q34.

Question	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as this is the difference in expenditure between 2021 and 2022* ***C*** *is not correct as this uses the incorrect formula [(new-old/new)x100] to calculate the percentage change* ***D*** *is not correct as this uses the incorrect formula [(new/old)x100] to calculate the percentage change*	**(1)**

Q35.

Question	In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy, and telecommunication infrastructure projects. Evaluate the likely benefits of an increase in government expenditure on infrastructure. Refer to an economy of your choice in your answer.

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

- Infrastructure spending includes spending on transport, power supplies and telecommunications
- Infrastructure projects will increase government spending/investment which will boost AD as government spending/investment is a component of AD (may be shown diagrammatically)
- The injection into the circular flow of income will result in further rounds of spending via the multiplier effect (may be shown diagrammatically)
- This may increase real output
- Improved infrastructure will make doing business easier and cheaper; it lowers production costs for firms
- Reliable energy/power supplies mean production can happen undisrupted
- Better transport systems mean that raw materials can be moved quicker wasting less time, increasing efficiency
- Workers will waste less time traveling as there is less congestion
- Better telecommunications e.g. broadband speeds will enable workers to work more quickly, not waiting for information to download or upload
- The LRAS shifts rightwards: this may cause deflationary pressure and an increase in potential output (may be shown diagrammatically)
- Employment increases as people work on projects directly and indirectly

NB Award a maximum of Level 3 for answers with no reference to an economy in their answer

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

- Increased AD may cause greater inflationary pressures
- Infrastructure projects may have a negative effect on the environment
- The rise in government expenditure may mean that the government cannot meet the objective of achieving a balanced budget
- Significant time lag for infrastructure projects to be completed
- Infrastructure projects can result in delays during construction
- No guarantee that infrastructure projects will have a positive impact on productivity if the value of the projects is lower than the cost of building
- Consideration of effectiveness of infrastructure projects at delivering economic growth that does not negatively impact third parties
- Overall impact on real output depends on size of the multiplier
- Impact on real output/inflation depends on the level of spare capacity in the economy/elasticity of the LRAS
- Magnitude- this is substantial spending which should see a larger benefit in terms of increase in GDP
- The increase in government spending/investment could be offset by a decrease in the other components of AD e.g. consumption or net trade

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.

Q36.

Question	Quantitative skills assessed	Answer	Mark
		The only correct answer is B ***A*** *is not correct as this would reduce investment* ***C*** *is not correct as this would reduce investment* ***D*** *is not correct as banks would have less money available for investment*	**(1)**

Q37.

Question	With reference to the table, explain what is meant by 'gross investment'. **Answer**	Mark
	Knowledge 2, Application 2 **Quantitative Skills Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining gross investment, e.g.: • Gross investment = net investment + depreciation **(2)** • Gross investment includes replacement of worn-out capital stock / Gross investment data includes an estimate for the value of capital depreciation **(1)** • Investment refers to the increase in the capital stock / Investment is an injection into the CFI **(1)** **Application** Up to 2 marks for explicit reference to the data, e.g.: • Gross investment in Tanzania increased **(1)** from \$15.5bn in 2015 to \$25.6bn in 2020 **(1)** • Gross investment in Tanzania increased **(1)** by 65.16% / 65.2% / \$10.1 billion **(1)**	**(4)**

Q38.

Question Number	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because Portugal's exports are dependent on consumption and the savings ratios of its trading partners* ***C*** *is not correct because the fall in the savings ratio is likely to cause higher consumption and more demand for goods and services leading to more demand for workers* ***D*** *is not correct because a lower savings ratio implies a reduction in withdrawals*	**(1)**

Q39.

Question Number	Quantitative skills assessed	Answer	Mark
		The only correct answer is D **A** is not correct because decreased rate of economic growth will most likely result in reduced levels of investment **B** is not correct because an increase in indirect taxation adds to the costs of business and will result in reduced investment **C** is not correct because an increase in the tax on company profits means less profits can be used to fund investment reducing the investment in the economy	**(1)**

Q40.

Question Number	Answer	Mark
	Knowledge 1, Analysis 2, Application 1 **Knowledge** 1 mark for definition of investment **OR** availability of credit, e.g.: • Increase in capital stock **(1) OR** Increase in willingness for banks to lend **(1)** **Analysis** Up to 2 marks for explaining the impact of the increase in the availability of credit, e.g.: • If available credit rises there are more funds available for loans **(1)** • Ceteris paribus, banks will be able to lend more money to businesses, increasing the level of investment in the economy **(1)** • If available credit rises investment should rise **(1)** • Firms are more willing to borrow as business confidence rises **(1)** **Application** 1 mark for applying to the data, e.g.: • The money supply increased by 8.4%, increasing available funds **(1)**	**(4)**