PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 2: MACROECONOMIC OBJECTIVES AND POLICIES

SCORE	PERCENTAGE
/470	%

STEMUP

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Mark Scheme

Q1.

Question Number	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. **Quantitative skills assessed** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge, application and analysis (12 marks) – indicative content** • Definition of national happiness and identification of macroeconomic objectives • Economic growth is likely to lead to increased average incomes, which raises happiness for lower income earners in particular. • Growth may lead to higher government revenues and scope to spend on education, healthcare etc. which can increase national happiness. • Growth may allow countries to invest in green technology/reduce energy intensity, leading to lower levels of pollution, raising happiness. • Achieving stable inflation rates is likely to **be** increase happiness as high inflation rates cause uncertainty, shoe leather costs etc. • Low unemployment should mean that those who want to work are able to find jobs, boosting their incomes, skill levels, social integration, and health. It may also lead to lower crime rates. • Reducing imports or increasing exports is likely to create more employment in an economy, providing jobs and higher incomes, boosting happiness. • Reference to Thailand or another country, where achieving one or more macroeconomic objective has increased national happiness.

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 • Economic growth may require workers to work more hours, reducing their leisure time, putting strain on personal relationships and/or increasing stress, reducing happiness. • Economic growth may create negative production externalities, e.g. pollution, which reduce happiness. • Economic growth is likely to lead to increased average incomes, but after a certain point, increases in income do not lead to increases in subjective happiness. • Economic growth is usually accompanied by an increase in income inequality, which decreases the subjective happiness of lower income earners. • A very low unemployment rate may mean that workers are not moving between jobs (frictional unemployment) to find roles more suited to them, which may constrain their happiness. • A reduction in the value of imports may reduce consumer choice and access to low price/high quality imports, reducing happiness. • Reductions in government expenditure/increases in taxation in order to achieve a balanced government budget are likely to reduce disposable incomes and state provision of healthcare, education etc., reducing happiness. • Reference to India or another country, where achieving one or more macroeconomic objective has decreased national happiness. **NB This answer is reversible, i.e. candidates may argue either way for KAA and the reverse for evaluation.**

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.

Q2.

Question	With reference to Extract A, analyse **two** roles of a central bank.	Mark
	Knowledge 2, Application 2, Analysis 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** Up to 2 knowledge marks for identifying two roles of a central bank: • Implementation of monetary policy **(1)** • Achieving an inflation target **(1)** • As banker to the government **(1)** • As banker to the banks – lender of last resort **(1)** • Make forecasts about the future state of the economy **(1)**	
	Analysis Up to 2 analysis marks for linked development of the two roles identified (1+1), e.g.: • A central bank sets base interest rates/makes asset purchases/sets lending criteria/ sets reserve asset requirements to influence AD **(1)** • Explanation of the transmission mechanism to achieve inflation target **(1)** • A central bank performs various banking services, such as the handling accounts of government departments/making short-term advances to the government **(1)** • If banks run into liquidity problems, they may be able to borrow directly from the central bank **(1)** • Make policy decisions to influence real output/employment **(1)** **Application** Up to 2 marks for use of the data or reference to context, e.g., • Forecast rate of inflation in 2022 is above the ECB's inflation target rate of 2% for the eurozone area **(1)** • ECB will need to increase the base rate of interest to control the rising rate of inflation **(1)** • Bundesbank estimated that Germany's real output was likely to fall in the last quarter of 2021 **(1)**	**(6)**

Q3.

Question	Evaluate the view that conflicts between macroeconomic objectives are inevitable.
	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** • Understanding of macroeconomic objectives/ identification of relevant macroeconomic objectives • Inflation and unemployment including analysis of the Phillips curve • Economic growth and the environment • Inflation and pressure on prices reducing standards of living • Economic growth and income inequality • Inflation and demand for exports- changes to current account • Current account of the balance of payments may deteriorate as incomes rise due to growth and more imports are demanded • Growth should result in a higher average standard of living, but may not deliver a more equitable distribution of income and wealth

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 • Significance of the current state of the economy and its implications for elasticity of AS curve • If it is supply-side growth (rather than demand-side) then fewer conflicts with other objectives • Initial state and stability of inflation/deflation • The rate of actual economic growth in comparison to the growth of the productive capacity • Proximity to full employment (full output) • Full employment (or low unemployment) shouldn't conflict with economic growth • Short-run unemployment from introduction of new technology • Redistributive policies of the Government • Extent of the effectiveness of environmental policies • Extent to which the growth is in tertiary sector or in primary and secondary sectors • Current account of balance of payments may improve if it is export-led growth • Current account of balance of payments may improve if growth is generated through an increase in productivity (such as through investment) resulting in a shift in AS to the right • Growth may lead to higher government revenues and scope to improve public transport as well as tax polluting old technologies • Developed economies may employ green technology

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	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.

Q4.

Question	Evaluate the potential conflicts between the objective of economic growth and **two** other macroeconomic objectives.
	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** • Understanding of economic growth – actual and/or potential growth • Implicit/explicit identification of a country's macroeconomic objectives • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or LRAS curve

	Potential conflicts include: • Environmental costs (pollution in China decreased by 10.8% as a result of the slowdown): ○ increased use of non-renewable resources, including fossil fuels climate impacts from the burning of fossil fuels ○ deforestation has made climate change worse and caused soil erosion – greater external costs • Increased inequality as the returns to economic growth are unequally distributed, with those who already own more factors of production receiving a greater increase in income / growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do • Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in supply chain cause cost and wage pressures • Could increase budget deficit if economic growth has been caused by an increase in government expenditure • Balance of trade deficits: ○ as real incomes rise, consumers are likely to respond by buying more imported goods, worsening the country's trade balance ○ increased production of goods and services may require more raw materials and components to be imported, worsening the country's trade balance **NB Maximum level 3 if conflict between economic growth and just one other macroeconomic objective is discussed**

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	0	No rewardable material.
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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 • Significance of the stage in trade cycle which the country is in, and the implications for elasticity of the LRAS • If it is supply-side growth (rather than demand-side) then fewer conflicts with other macroeconomic objectives • Impact on inflation will depend on initial state of inflation in the country • The rate of actual growth in comparison to the growth of the productive capacity of the economy • Proximity to full employment level of output • Full employment/fiscal position should not conflict with economic growth • Increase in LRAS tends to experience a time lag

	• Extent of domestic economy's capacity to meet the rising demand (i.e. if economy can supply wants) • Extent of country's international competitiveness • Balance of payments position may improve if it is export-led growth/if generated through increase in productivity (such as through investment) • Growth may lead to higher government revenues and scope to improve polluting old technologies • Some countries may already use green technology in certain industries

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.

Q5.

Question	Define the term 'base rate of interest' (Figure 1). Answer	**Mark**
	Knowledge 2 Up to 2 marks for defining base rate of interest • Cost of borrowing / Return received for saving money **(1)** that the central bank charges / pays commercial banks **(1)** • Set by the central bank **(1)** to commercial banks **(1)**	**(2)**

Q6.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this policy would cause an increase in AD* ***C*** *is not correct because the Bank of England is using monetary policy* ***D*** *is not correct because the Bank of England is using monetary policy*	**(1)**

Q7.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as monetary policy is implemented by the central bank* ***B*** *is not correct as monetary policy is implemented by the central bank* ***D*** *is not correct as this will worsen the Government's budget position*	**(1)**

Q8.

Question	With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive capacity.
	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. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Understanding of supply-side policies: designed to increase productivity, competition, and incentives in an economy – it can be shown via a shift outward of the LRAS creating both actual and potential growth • Increasing the level of welfare benefits: "increased financial support for childcare" – more people are likely to join the workforce and increase participation rates – less economic inactivity, help employment reach pre-crisis levels; this will increase potential output, shifting LRAS ○ the above policy will incentivise workers to work longer and harder, so increasing output per worker and productivity • Incentives to encourage investment: tax incentives in the form of "100% tax relief on business investment" – lower costs would encourage firms to invest in R&D/technological advancements, hence increasing productivity and LRAS • Incentives to encourage investment: subsidies to firms for investment in new technologies (in "artificial intelligence"), reduces production costs, increases investment, and hence increases productivity and LRAS • Deregulation of labour markets – "Relaxing immigration rules to attract more workers" - would make labour markets more flexible and help firms keep up with changing demand. This may prevent wage inflation and enable firms to increase productive capacity NB To achieve Level 3 the response must be policy the UK Government **has** introduced

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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 3	7–8	Demonstrates an 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

- Significant time lags and implementation lags for these supply-side policies
- Creates an opportunity cost for the UK Government: it could lead to greater productivity if "£20 billion" was spent in other sectors e.g. healthcare/training
- Effectiveness of the policies discussed:
  - No guarantee that childcare support will incentivise workers to join the labour force and take up jobs
  - Tax relief is offered for only three years, after which investment into capital/technology will fall and there will be less innovation
  - Subsidies could lead to greater x-inefficiency in firms / increase the UK's fiscal deficit and national debt
  - Immigration rules only relaxed for five sectors; other sectors will see wage increases as labour shortages will continue to exist, can cause inflationary pressures
- Other supply-side policies might be more effective:
  - Cutting the costs of bureaucracy for firms and relaxing the planning regulations required for construction – this would reduce costs and raise efficiency; more jobs and therefore output created by "power plants and energy facilities"
  - Investment in education, training and skills – "no measures to improve the skills of the workforce". This investment will increase human capital and productivity: "workers in the UK have lower skills than workers of other advanced economies"
  - Reducing corporation tax – reduces production costs, thus increasing potential output

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	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.

Q9.

Question	With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.
	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. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms

	Knowledge, Application and Analysis (8 marks) – indicative content • Identification that interest rates are a monetary policy instrument • India's central bank raised the base rate of interest from 4.4% in May 2022 to 4.9% in June 2022 – "an increase of 0.5 percentage points" • An increase in the base rate of interest may decrease AD as it will: ○ decrease consumption as it creates a disincentive to spend; consumption decreases as cost of borrowing rises and there is an incentive to save as the return on saving increases – "consumer expenditure would increase at a slower rate in the second half of 2022" ○ create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses – this will contribute to a decrease in house prices, reducing confidence and consumption ○ reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing their discretionary incomes – "small increase in consumer expenditure in the second half of 2022" ○ lower consumption could decrease imports, improving the trade balance ○ decrease the net trade balance as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper, and exports become relatively expensive – India's central bank wanted "to prevent the rupee from falling further" against the US dollar ○ decrease investment, as the cost of borrowing to finance investment rises increasing firms cost of production • AD shifts inwards leading to (may be shown diagrammatically): ○ fall in India's economic growth as real output falls: "ADB decreased its projected GDP growth rate for India to 6.7% for 2022" ○ lower demand-pull inflation as price level falls: it will help "to control the rising rate of inflation" which "reached 7.01% in June 2022" ○ rise in unemployment as lower real output means less workers employed **NB Accept negative effects as KAA and positive effects as evaluation (or vice versa)**

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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 • Significance of the size of the increase in the base rate of interest – 0.5 percentage points increase may not be enough as inflation is above 7% • Changes in the base rate of interest usually have an 18 to 24 month time lag before their full effects are filtered through the economy • Consumption and investment may not fall if both consumer and business confidence is relatively high • Commercial banks may not pass the higher rates to consumers or firms, thereby less likely to reduce consumption and investment • Impact on real output will depend on the size and value of the multiplier • Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in the economy • It is unlikely that changes in the base rate of interest by the central bank will be able to control cost-push inflation caused by rising oil prices	

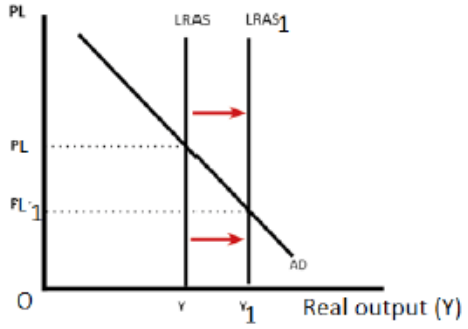
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. 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.

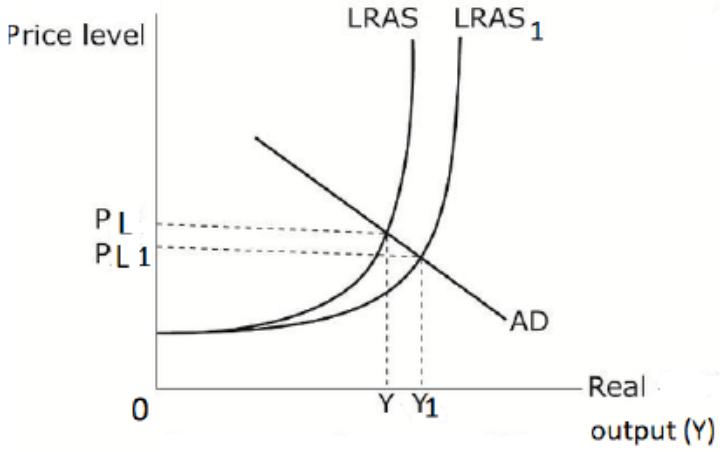
Q10.

Question Number	With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies. 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 (8 marks) – indicative content • Definition of supply-side policies- aimed at influencing AS • Definition of interventionist supply-side policies - involves government intervention to boost LRAS • Policies from the Extracts include: • investment in infrastructure- better or new roads, seaports and airports will enable business to move raw materials and finished products more easily/quickly helping them to operate at lower costs • improving the health of the labour force- through spending on healthcare will mean less absence/less time is lost to illness and disease enabling staff to be more productive • skills of the labour force- through spending on education/training the skills of the workforce will be improved enabling them to be more productive • improving the supply of housing- will ensure the population have proper shelter that helps keep them healthier as they better meet their basic needs • communications – will enable firms to communicate more effectively meaning decisions can be made more quickly enabling the business to make savings, cut costs and respond to opportunities • Additional policies from the specification include • incentives to encourage investment: tax incentive or subsidies • finance for business start-ups • regional policy

Diagram to illustrate impact of supply side policies- Classical or Keynesian





- As productive potential increases the LRAS shifts right
- Average price level falls from P to P_1- deflationary pressure
- Real output rises from Y to Y_1 – economic growth
- Rising incomes can improve the standard of living
- As output increases, there is likely to be an increase in employment/fall in unemployment
- A lower price level may boost demand for exports improving the current account on the balance of payments
- Help citizens to meet their basic needs- providing more with food, shelter and clothing
- Increased income and increased consumption may lead to more tax revenue for the government and help secure a fiscal surplus

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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 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 • Implementing supply-side policies has the effect of increasing government expenditure, which increases AD, leading to higher price level, reducing the impact of the increase in LRAS • Opportunity costs- money spent on infrastructure would be better spent elsewhere or on a different supply side need • Government may experience information failure and intervene in the wrong areas • Magnitude- the impact will depend on the amount spent by the government on the interventionist policy • Time lag- it will take time to build infrastructure/housing • Time lag- investment in education will not have an immediate impact on productivity as it takes time for students to complete their education • Need to ensure prestige products are not created • Free market policies may be better to help make it easier to do business, for example, through deregulation of product and labour markets, reduction in taxation and cutting the costs of bureaucracy for firms • Investment is already underway for rail routes, so will have impact without need for further government infrastructure investment • Poor road conditions suggest significant investment is required • More houses, roads, seaports, airports may cause more environmental damage

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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.

Q11.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because fiscal policy involves the use of taxation and government spending as policy instruments* ***B*** *is not correct because fiscal policy involves the use of taxation and government spending as policy instruments* ***C*** *is not correct because this will involve the ECB increasing it asset purchases*	**(1)**

Q12.

Question Number	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. **Quantitative skills assessed** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms.

	Knowledge, application and analysis (12 marks) – indicative content Falling oil prices are beneficial to an economy because: • For economies which are net importers of oil, this will lead to a decrease in the value of their imports, ceteris paribus. This will: ○ Reduce a trade/current account deficit, meeting one of the government's macroeconomic objectives. ○ Reduce downward pressure on/increase AD in the economy (may be shown diagrammatically), leading to an increase in real GDP and average incomes, and an increase in employment. ○ Positive multiplier effects. ○ An increase in average incomes and an increase in employment is likely to improve the government's budget balance. • Costs of production for firms will fall, leading to a rise/rightward shift in SRAS (may be shown diagrammatically). Ceteris paribus, this will: ○ Decrease cost-push inflationary pressures in the economy, helping to achieve the macroeconomic objective of a low and stable rate of inflation. ○ Increase real GDP and average incomes in the economy. ○ **An increase in average incomes and employment is likely to improve the government's budget balance**. • For economies which are net exporters of oil, this may encourage them to diversify their economies and reduce their reliance on oil, which may be beneficial in the longer term. **NB Candidates only need to develop one of these two lines of argument for a L4 KAA mark.**

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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 Falling oil prices may not be beneficial to an economy because: • For economies which are net exporters of oil, this will lead to a decrease in the value of their exports, ceteris paribus. This will: ○ Increase a trade/current account deficit, going against one of the government's macroeconomic objectives. ○ Put downward pressure on AD in the economy (may be shown diagrammatically), leading to less economic growth, downward pressure on average incomes, and a reduction in employment. ○ Negative multiplier effects. ○ A decrease in average incomes and a decrease in employment is likely to worsen the government's budget balance. • If this causes an increase in the quantity of oil used, it may be negative for the environment/a fall in the price of oil may disincentivise the creation/adoption of renewable energy production. General evaluation points: • Effects depend on how much oil prices fall by and how long they stay low. • Effects of a change in AD on real GDP depend on the level of spare capacity in the economy; the size of the multiplier ratio; and whether a Classical or Keynesian LRAS curve is used. • There is likely to be a time lag before effects are felt. • A decrease in inflation may not be beneficial if an economy's inflation rate is at or below target. • Effects on costs of production/SRAS depend on the structure of the economy/adoption of green production methods etc. • Different effects on different economies. • Economies which are more specialised in oil production will be affected more significantly. **NB This answer is reversible, i.e. candidates may argue either way for KAA and the reverse for evaluation.**

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.

Q13.

Question	Explain **one** possible effect of high rates of unemployment on the public finances of Bosnia and Herzegovina. Answer	Mark
	Knowledge 1, Application 1, Analysis 2 **Knowledge & Analysis** 1 mark for knowledge and a further 2 marks for linked analysis • Defining unemployment; the total number of individuals that are willing and able to work and actively seeking work **(1)** • Increase in unemployment leads to a higher demand for unemployment benefits **(1)** increasing government spending possibly leading to deterioration in public finance **(1)** • Increase in unemployment leads to a fall in tax revenues **(1)** and a deterioration in public finance **(1)** **Application** 1 mark for applying to Bosnia and Herzegovina, e.g.: • Bosnia and Herzegovina's unemployment level has decreased by 9 percentage points / decreased from 46% to 37% between 2013-2018 **(1)**	**(4)**

Q14.

Question	With reference to Extract A and your own knowledge, discuss the likely effects of the ECB's monetary policy on the French economy.
	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. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms

	Knowledge, Application and Analysis (8 marks) – indicative content • The ECB's monetary policy involved keeping interest rates 'very low' at -0.5% and expanding 'the size of its asset purchase scheme (quantitative easing) by €600 billion in June 2020 and €500 billion in December 2020'. • A very low base interest rate should increase AD as it will: ○ increase consumption, as it will: ▪ incentivise spending on credit as the cost of borrowing is low ▪ disincentivise saving as the return on/reward for saving is low ▪ increase spending as consumers/firms with variable rate loans /mortgages see their monthly interest repayments fall, raising their discretionary income ○ increase investment, as the cost of borrowing to finance investment is very low ○ increase the net trade balance as it will put downward pressure on the euro exchange rate, meaning French exports become relatively cheaper, and imports into France become relatively more expensive • An expansion of the ECB's asset purchase scheme should: ○ increase money supply, making banks more able and willing to lend to consumers and firms ○ reduce the return investors get on French Government bonds, causing investors to hold other assets, such as shares, property and corporate bonds ○ increase the price of shares and property, creating positive wealth effects in the economy and increasing consumption ○ reduce the return investors get on French corporate bonds, lowering borrowing costs for French firms, leading to increased investment • Shifting outwards of the AD curve should create (may be shown diagrammatically): ○ actual economic growth in France, helping the economy to recover from recession ○ increased demand-pull inflationary pressures, helping to end the period of disinflation/avoid deflation ○ reduce unemployment in France as the level of spare capacity falls, indicating that more of the labour factor of production is being used

	NB To access Level 3, candidates should focus on low interest rate or the ECB's asset purchase scheme	
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 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
	• Consumption and investment may not rise if consumer and business confidence are low, as is likely given France was in recession • The very low central bank interest rate may not to be passed on to consumers by high street banks, meaning its effects are reduced • High street bank profitability may be reduced by the very low interest rate, making banks less willing to lend to consumers and firms • If France does a significant proportion of trade with other euro area economies, the trade balance may not improve, as there is no change in the exchange rate • Changes in monetary policy may be subject to a time lag before their full effects are felt • Those who most benefit from an increase in property and share prices are high income earners who have a relatively low MPC, implying any positive wealth effects may be very small • Significance of the size of the expansion of the asset purchase scheme (€600 billion represents an 80% increase)/by December 2020 QE was €1.85 trillion • We cannot assume *ceteris paribus*, e.g. French Government implemented expansionary fiscal policy

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.

Q15.

Question	Evaluate government policies that could be used to increase the rate of employment. Refer to a country 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** • Understanding of rate of employment: the percentage share of working population with jobs (includes those employed and self-employed) • Understanding/identification of government policies as fiscal policy or supply-side policy • Relevant diagram, e.g., AD/LRAS diagram showing rightward shift in AD and/or LRAS curve

	Policies include: • Investment in education and training to provide a highly skilled and productive workforce through increases in the level of human capital • Changes in national minimum wage to incentivise employment • Reduction in unemployment benefits and associated benefits to increase workers incentive to find work • Reduction in tax rates to encourage firms to expand or set up operations, therefore increasing employment • Reduction in income tax rates creating a much larger incentive to work, increasing consumption and therefore, employment • Tax breaks to firms that set up in poor areas/giving financial assistance to unemployed workers who move to areas with high employment • Providing grants/subsidies/tax breaks to firms to hire and train workers • Relaxing immigration laws to potentially have a greater access to skilled workers and fill job vacancies • Government improving labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and social care and other related measures to increase the activity rate • Spending on infrastructure projects will increase the number employed in construction and related industries • Reflationary fiscal policy to increase AD and real output, so that firms need to employ more workers **NB: Award a maximum of Level 3 for answers with no reference to a country**

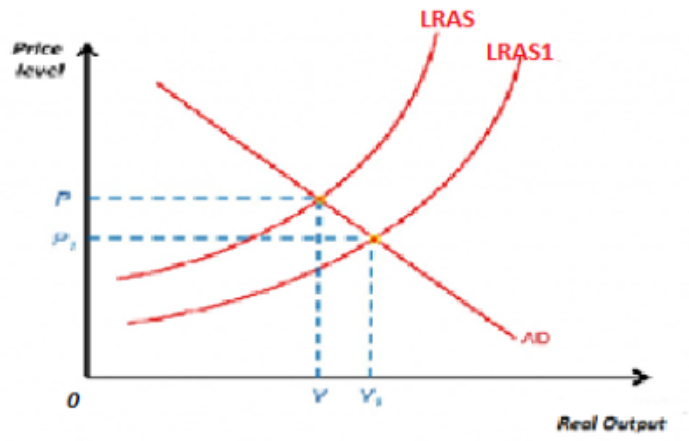
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has 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
	• Discussion of the effectiveness of individual policies • Conflicts between government economic policies • Conflicts with other macroeconomic objectives • Depends if the economy is operating at full capacity or has spare capacity – discussion on the elasticity of the LRAS • Creditworthiness of the government • Magnitude of the policy change/size of increase in employment rate • External factors beyond a government's control, e.g. slowdown in the global economy • Time lags (for e.g., education takes a long time to have impact on employment rates)/implementation lags • Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks

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.

Q16.

Question Number	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** Award maximum of Level 3 (9 marks) if candidate does include application in their answer • Interventionist supply-side policies are policies which involve increased government intervention in the economy, in order to increase LRAS/the productive potential of the economy • Increasing government spending on infrastructure may increase the productive potential of the economy • Increasing government spending on education/training/skills increases the skill level of the labour force, increasing productivity • Offering finance for business start-ups encourages more firms to enter the market, increasing competition and LRAS • Lowering corporation tax/offering subsidies increases the incentive for businesses to invest, improving productivity, and increasing LRAS • Regional policy encourages investment into all areas of the economy, encouraging more productivity and growth Reward diagrams showing an outward shift in LRAS and increase in real GDP:

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 • Businesses may only respond to changes if confidence is high, in times of recession this may be ineffective • It takes time for the economy to benefit from increased spending on education/training/infrastructure • Difference policies may be more or less effective in different countries and at different times • Growth may be harmed in the longer term if governments have to borrow to finance interventionist policies • Free market supply-side polices/demand-side policies may be more effective means of achieving economic growth

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.

Q17.

Question	Evaluate supply-side policies that a government could use to increase the rate of economic growth and to decrease the rate of inflation. Refer to a country 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** • Supply-side policies are designed to increase productivity, competition, and incentives in an economy • It can be shown via a shift outward of the LRAS creating potential growth and lower inflation; credit use of relevant AD/AS diagrams Policies include: • Increased government spending on skills through investment in education and/or training – this would increase human capital and raise productivity • Increased government spending on infrastructure investment (e.g. roads or broadband) – this would reduce industry costs or improve access to markets • Reducing the level of welfare benefits – this will incentivise the unemployed to take jobs, work harder and increase output per worker of those in work • Privatisation – this may lead to increased competition, greater innovation resulting from higher R&D spending, and therefore higher productivity • Cutting cost of bureaucracy and/or deregulation of firms – this would raise efficiency and productivity by increasing competition between firms • Reducing regulation and/or increasing competition by reducing barriers to entry in product markets • Reducing corporation tax – this incentivises firms to innovate by investing in technological advancements and therefore increasing potential output • Reducing income tax – this may motivate employees to work harder/longer **NB Award a maximum of level 3 if no reference to a specific country**

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
	• Government has to spend a significant amount of money to come out of this period of low rates of economic growth as it has been ongoing since 2022 • Significant time lags and implementation lags for supply-side policies • Creates an opportunity cost for the government: funds may not be spent in areas that would contribute to high productivity • Asymmetric information may mean that supply-side policies are targeted in the wrong areas of the economy and will not have the desired outcome • Supply-side policies are less effective when there are large amounts of spare capacity in an economy: they create potential growth but no actual growth • Consideration of the effectiveness of supply-side policies such as infrastructure and education at delivering economic growth • Depends on the quality of education, training and infrastructure projects • Privatisation may lead to private monopolies, leading to lower productivity • Cut in welfare benefits designed as an incentive to work may be ineffective if the unemployed are willing to receive lower payments and do not work • Reducing bureaucracy may create unemployment in the short-term • Reducing corporation tax rates would be ineffective if the companies are uncertain about the prospect of making profit in the future • Reducing income tax rates may result in employees taking more leisure time • Supply-side policies are more effective than demand-side policies as there is unlikely to be a trade-off between economic growth and low rates of inflation

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.

Q18.

Question	Evaluate the likely costs of a recession on an economy of your choice.
	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** • Understanding of recession: negative economic growth for two or more consecutive/successive quarters or six months Costs include: • Consumers will receive lower average incomes and they will not be able to afford more goods/services nor increase their standard of living; poverty rates could potentially rise • With lower real GDP, firms employ fewer workers creating unemployment; wages fall and create greater inequality • Firms are likely to make lower profits as consumer spending falls; less production implies lower future investment into R&D/innovation • Reduction in government tax revenues and higher government spending on unemployment and welfare benefits; leading to a deterioration of public finances • With lower GDP, fewer resources can be devoted to promoting the use of renewable resources • High social dislocation/crime/civil unrest/stress issues/high divorce rates; worsens health; lower life expectancy • Can result in depressed house prices leading to negative wealth effects **NB Award a maximum of Level 3 for answers with no reference to a country 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

Benefits include:

- Lower demand may reduce both demand-pull and cost-push inflationary pressures; the central bank may decide to lower interest rates to control the rising rate of inflation
- Lower external costs of production due to less output produced by firms; less exploitation of finite resources and less depletion of non-renewable resources of energy
- Lower spending on imports would cause an improvement in the current account position of the BOP
- Lower inequality: those with assets may witness a proportionally smaller increase in the market value of their income on their wealth
- Depressed/lower house prices may make houses more affordable to non-homeowners

Other evaluative comments:

- The size and length of the recession is important in terms of the impact, e.g. a very small contraction may have limited impact on the economy
- Recession may not occur in 2023 as these are projections by economists

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.

Q19.

Question	Evaluate the likely macroeconomic effects of a government using deflationary policies to achieve a balanced budget. Refer to a country 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** • Understanding of balanced government budget • "In February 2023 Argentina's government spending exceeded its tax revenue by approximately $1 billion" • To achieve a balanced budget, the Argentinian Government is likely to reduce government spending and increase taxation Possible effects include: • Reduction in Argentina's real output/economic growth as a result of the lower injections into, and greater withdrawals from, the country's circular flow of income • Rising unemployment/falling real wages of workers in Argentina's public sector: the government may introduce spending cuts • Fall/slow increase in real incomes and lower standard of living of the population of Argentina • Deflationary effects/lower demand-pull inflationary pressures • Increase in income inequality if Argentina's government cuts welfare payments: it receives lower taxation revenue from the unemployed • Lack of government investment is likely to impact long-term economic growth e.g. spending on infrastructure, education, healthcare, etc • Positive impact on the environment e.g. less pollution as a result of the lower consumption and production of goods and services • Greater undesirable consequences in Argentina's society e.g. crime Credit use of relevant AD/AS diagrams **NB Candidates may consider the positive effects for KAA and the negative effects for evaluation (or vice versa)**

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 • Impact on macroeconomic objectives depends on the magnitude of the reduction in government spending and the increase in taxation • Time lags for the policy to come into effect – up to 18 to 24 months • Budget deficit may increase in the long-run as a result of the reduction in government spending and increase in taxation • Impact on real output and economic growth depends on the size/value of the multiplier • Fall in wages can make Argentinian economy more competitive in LR • Impact on inflation/real output depends on where the AD lies on the Keynesian LRAS / on the level of spare capacity • Reduction in welfare payments by the government could reduce the level of frictional/voluntary unemployment • Effects depend on to what extent private sector spending/employment can replace public sector spending/employment • Potential increase in hidden economy (e.g. rise in cash in hand work) • Effects would depend on what areas of government spending and/or taxation are changed

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.

Q20.

Question	Evaluate the likely macroeconomic effects of an increase in interest rates on a country of your choice.
	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. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (12 marks) – indicative content** • Definition/understanding of interest rate • Identification that interest rates are a monetary policy instrument • Deflationary policy

	Effects include: • Decrease in consumption (C) as it creates a disincentive to spend; also consumption decreases as cost of borrowing rises and there is a greater incentive to save in South Korea as the return on saving increases • Create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses - this will contribute to a decrease in house prices, reducing confidence and consumption in South Korea • Reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing discretionary incomes • Decrease in investment (I), as the cost of borrowing to finance investment rises increasing firms' cost of production in South Korea • Decrease in the net trade balance (X-M) as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper (greater demand), and exports become relatively expensive (lower demand) • AD shifts inwards leading to (may be shown diagrammatically): ○ fall in South Korea's economic growth as real output falls ○ lower demand-pull inflationary pressure as price level falls ○ rise in unemployment as lower real output means less workers are likely to be employed in South Korea ○ negative multiplier effects: further reduction in real output **NB Award a maximum of Level 3 for answers with no reference to a country in their answer** **NB Negative effects can be discussed as KAA and positive effects can be discussed as EV (or vice versa)**

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 • Significance of the size of the increase in the base rate of interest: 2.25 pp is a relatively large increase in one year and may have the desired impact on the economy of South Korea • Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through South Korea's economy • Consumption and investment may not fall if both consumer and business confidence is relatively high in South Korea • Commercial banks in South Korea may not pass the higher rates to firms or consumers, thereby less likely to reduce consumption and investment • Impact on real output will depend on the size and value of the multiplier • Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in South Korea's economy • It is unlikely that changes in the interest rate by the central bank will be able to control cost-push inflation e.g. caused by rising energy prices • Impact may be limited if the central banks of other countries have also increased their base interest rates

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.

Q21.

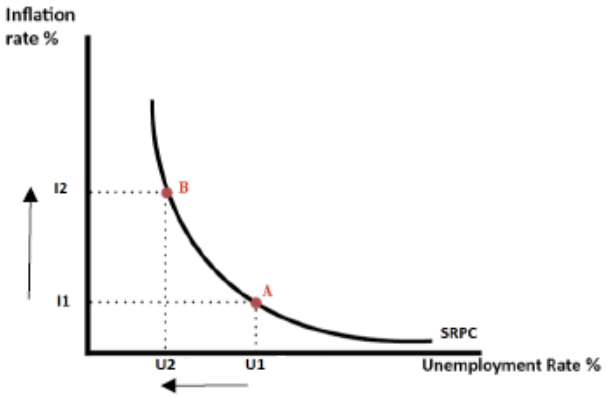
Question	Evaluate supply-side policies that a government could use to increase the country's productivity.
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points 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 are designed to increase productivity, competition, and incentives in an economy – it can be shown via a shift outward of the LRAS creating both actual and potential growth • Productivity is a measure of output per worker/output per unit of input/output per hour worked • Increased government spending on skills through investment in education and/or training – this would increase human capital and raise productivity • Increased government spending on infrastructure investment (e.g. roads or broadband) – this would reduce industry costs or improve access to markets • Reducing the level of welfare benefits – this would incentivise the unemployed to take jobs, work harder and increase output per worker of those in work • Privatisation - this may lead to increased competition, greater innovation resulting from higher R&D spending, and therefore higher productivity • Cutting cost of bureaucracy and/or deregulation of firms – this would raise efficiency and productivity by increasing competition between firms • Reducing regulation and/or increasing competition by reducing barriers to entry in product markets • Reducing corporation tax – this incentivises firms to innovate by investing in technological advancements and therefore increasing potential output • Reducing income tax rates – this might motivate employees to work harder/longer **NB Award a maximum of level 3 if no reference to specific country(s)**

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.

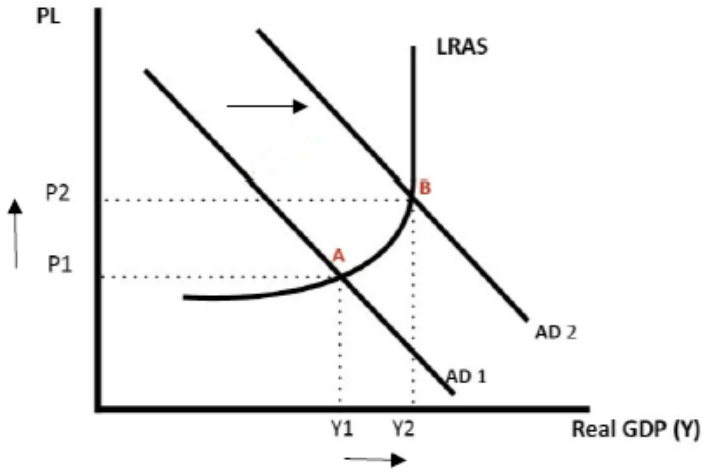
	Evaluation (8 marks) – indicative content • Government will have to spend significant amount of money to increase Japan's productivity as it is much lower than that of the USA • It is difficult to accurately measure productivity • Significant time lags and implementation lags for supply-side policies • Creates an opportunity cost for the government: funds may not be spent in areas that would contribute to high productivity (asymmetric information) • Supply-side policies are less effective when there are large amounts of spare capacity in an economy: they create potential growth but no actual growth • Consideration of the effectiveness of supply-side policies such as infrastructure and education at delivering sustainable growth • Depends on the quality of education, training and infrastructure projects • Privatisation may lead to private monopolies, leading to less productivity • Cut in welfare benefits designed as an incentive to work may be ineffective if the unemployed are willing to receive lower payments and do not work • Reducing bureaucracy may create unemployment in the short-term • Reducing corporation tax rates would be ineffective if companies boost short-term profits rather than investing in productivity-boosting technology • Reducing income tax rates may create an incentive for employees to take more leisure time

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.

Q22.

Question Number	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** Award maximum of Level 3 (9 marks) if candidate does not use application in their answer • Fiscal policies refer to changes in government spending and taxation in order to influence aggregate demand • Macroeconomic objectives are the main goals of economic policy e.g. low unemployment, stable rate of inflation, economic growth • Reducing tax rates and increasing spending would increase economic growth, but may increase the inequality of income distribution • Policies to increase employment may lead to increased inflation - the Phillips curve demonstrates a short run trade off 

	• Expansionary policies might increase employment, but cause harm to the environment • Increasing welfare payments may lead to increased consumption and economic growth, but may also increase demand for imports worsening the balance of payments on current account • Policies to increase government spending on infrastructure may increase the competitiveness of a country's exports, improving its trade balance, but may cause pollution and environmental damage

	Credit relevant AD/AS diagrammatic analysis to illustrate trade-offs, e.g.:  **Students may take the alternative perspective**

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
	• If the government reduce tax rates on the lowest income earners, or on essential goods, income inequality may not rise • Economic growth can occur without inflation if the LRAS increases • If government capital expenditure is on green technology, environmental damage may not occur • Consumers may demand more luxurious domestic products, and less inferior imports improving the balance of payments on current account as their incomes rise • Reducing economic growth might be beneficial if inflation is too high and growth is unsustainable

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	Answer	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 **Knowledge** Up to 2 marks for knowledge of base rate of interest e.g.: • Interbank lending rate **(1)** • Usually passed on by high street banks to consumers **(1)** • Interest rate is the return on saving/cost of borrowing **(1)** • Interest rate is a tool of monetary/demand-side policy **(1)** **Application and Analysis** Up to 2 marks for identification of the case for a reduction in interest rates and up to 2 marks for linked explanations e.g.: A cut in the base rate of interest is justified as: • Real wage growth fell between 2013 and 2018 **(1 Ap)** meaning wages have been rising more slowly than previously **(1 Ap)** a cut in interest rates should increase household borrowing **(1 An)** increasing consumption and AD to compensate for this **(1 An)** • China's economic growth has slowed **(1 Ap)**, reducing the demand for Australia's commodity exports **(1 Ap)** reducing interest rates reduces firms' costs **(1 An)** maintaining investment and production levels in spite of this **(1 An)** • House prices have fallen **(1 Ap)** by 2.4% in Q1 2019 **(1 Ap)** leading to a negative wealth effect **(1 An)** which would lead to a fall in confidence and consumer spending **(1 An)**	

	NB Analysis marks are only awarded for explaining <u>the case for reduction in the base rate of interest</u> <u>in the context of the Australian economy</u>. **Evaluation** Up to 2 marks for evaluative comments, e.g.: • Inflation is forecast to be within the target inflation **(1)** therefore the central bank does not need to intervene in the economy **(1)** • If interest rates fall by a small amount there may be little or no change in investment/spending **(1)** • If economic growth is low, business confidence will be low **(1)** businesses will not want to invest even if interest rate falls **(1)** • If there is a significant negative wealth effect, the reduction in consumer confidence would be high **(1)** a change in interest rates may not offset/will have limited impact in boosting consumption **(1)** • Households with significant savings will see a fall in the return on these, reducing their disposable income **(1)** so their consumption may not increase as expected **(1)**	**(8)**

Q24.

Question	Between 2015 and 2023 the European Central Bank increased its asset purchases (quantitative easing) programme by approximately €3.5 trillion. With reference to the data, explain what is meant by quantitative easing.	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 quantitative easing, e.g.: • Central bank buys government bonds/gilts/securities/ corporate bonds **(1)** • Increases money supply / digital/virtual/electronic creation of money / increases cash deposits of commercial banks / injects more liquidity in financial markets **(1)** **Application** Up to 2 marks applying this to data, e.g.: • It is a reflationary/monetary policy instrument **(1)** • The European Central Bank increased its asset purchases (quantitative easing) programme by €3.5 trillion **(1)** • Reduces interest rate/borrowing costs/reward for saving **(1)** • This would result in greater consumption/investment/AD **(1)**	**(4)**

Q25.

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

Q26.

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.

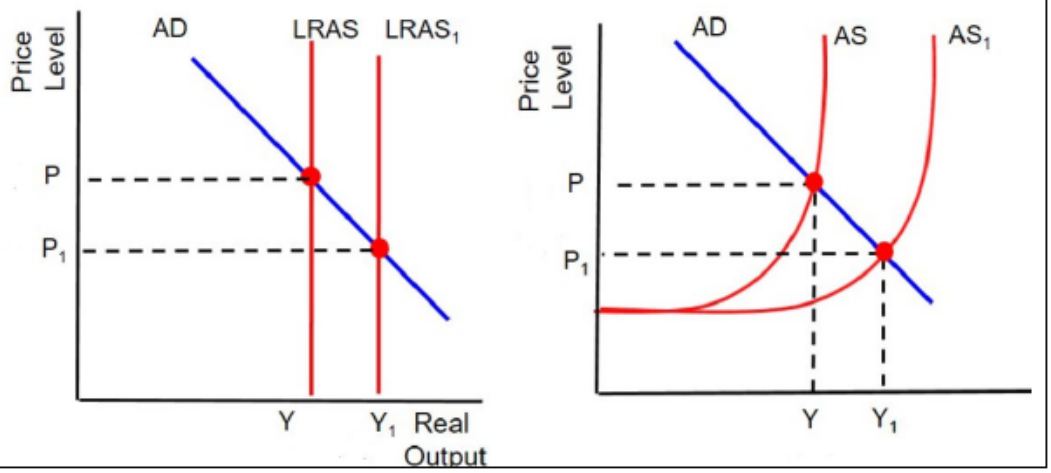
		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. 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.

Q27.

Question Number	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. **Quantitative skills assessed** **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Supply-side policies are designed to increase productivity, competition and incentives in an economy. • Shifting outwards of the LRAS curve should create both actual and potential growth in the Philippines (allow Keynesian or classical LRAS curve): 
	• Infrastructure investment will increase the productive capacity of the Philippine economy. • The Ease of Doing Business Law will cut the costs of bureaucracy for firms and increase competition in markets, forcing firms to be more efficient. • Deregulation of the rice market will increase competition, leading to higher levels of productivity, lower prices and higher quality rice. • Amendments to the law to allow foreign ownership in key sectors, including telecommunications and transportation services, will finance investment in these sectors and allow for greater technical know-how. • Greater competition in the retail trade sector should attract more overseas investment and boost productivity. • Ensuring that state-owned enterprises compete on fair terms with private sector businesses should reduce wasteful government spending, meaning that this money can be better spent on public infrastructure projects etc. At the same time, productivity in these sectors should rise.

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 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 • Government spending on infrastructure investment projects has an opportunity cost: it may lead to more growth if spent in another sector of the economy, e.g. healthcare, education etc. • Time lag: in particular, infrastructure investment projects may take a considerable amount of time to have an effect on the economy. • Foreign firms may take any profits earned in the Philippines out of the country, reducing any positive multiplier effects. • Foreign firms may out-compete domestic firms, putting them out of business, which could threaten longer term growth, or the inclusive nature of the growth. • Reducing bureaucracy and increasing efficiency may create unemployment in the short-term. This may reduce consumption in the economy, threatening growth. • Supply-side policies are less effective when there are large amounts of spare capacity in an economy: in this case they create potential growth but no actual growth.

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.

Q28.

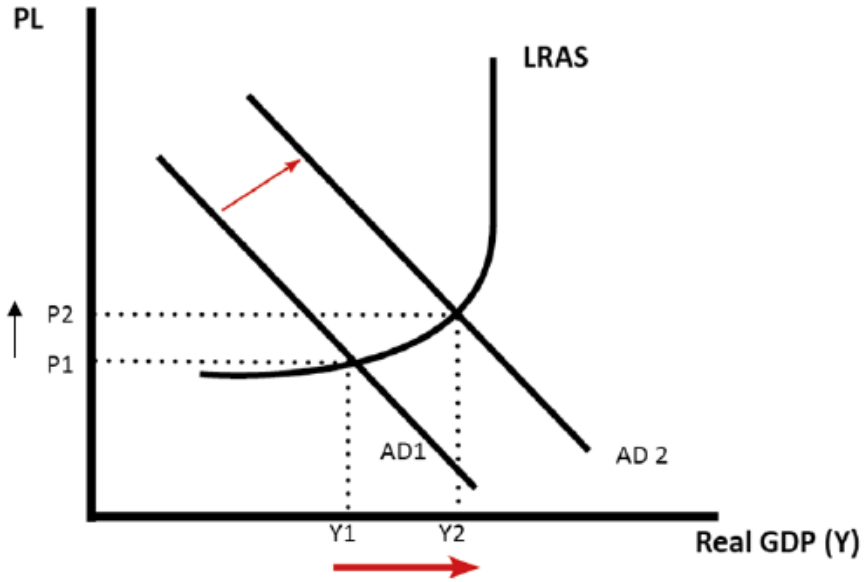
Question Number	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** **A** is not correct because the inflation rate is always positive throughout the period **B** is not correct because inflation was experience in May, June, July and August so average price levels would be higher in August **D** is not correct because the rate of inflation was lowest in July	**(1)**

Q29.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as QE will increase the availability of credit* ***B*** *is not correct as QE will increase the rate of inflation* ***C*** *is not correct as QE will reduce the rate of unemployment*	**(1)**

Q30.

Question	Evaluate the impact of reflationary demand-side policies on an economy of your choice. **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** Award maximum of Level 3 (9 marks) if candidate does not refer to a country/context in their answer • Demand side policies are the use of monetary of fiscal policy aimed at increasing aggregate demand • Reflationary policies are aimed at increasing the price level in the economy • Lowering income tax increases disposable incomes, leading to increased consumption and price levels • Fiscal policy, through the use of government spending, increases expenditure in the economy to stimulate growth and create jobs, possible multiplier increasing AD • Reflationary Demand-side policies can cause inflationary pressure; this may reduce competitiveness of the country's exports • Could lead to a deterioration in the current account because higher disposable incomes would lead to an increase in demand for imports • Increased government expenditure and investment may lead to a multiplier effect, further increasing AD and inflation • Lower interest rates reduce the cost of borrowing increasing may cause an increase consumption so increasing AD

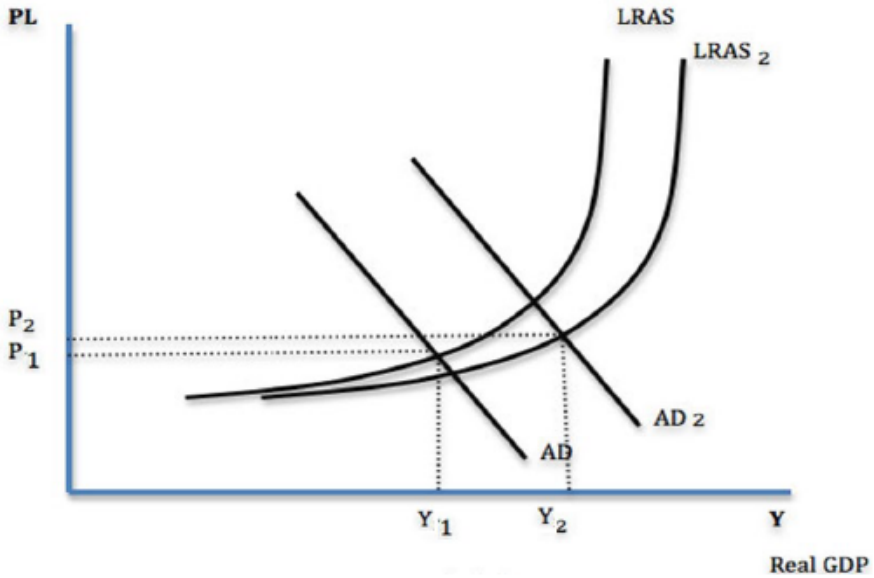
	Reward diagrams showing an outward shift in AD and increase in real GDP 

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 • Consumers may only respond to fiscal changes if confidence is high • This may not be effective in times of recession, as consumers worry about job security • Impact on GDP depends on the marginal propensity to withdraw • If future expectations are low, the impact may be limited • Government spending may crowd out private investment, having limited positive effect on overall economic growth • Trade-off between increased economic growth and excessive inflationary pressures • Inflationary pressure will be determined by the position of the AD curve on the LRAS curve/shape of LRAS • Demand-side policies may have supply-side consequences • Magnitude depends on the size of any demand-side policy • Significant time lags associated with demand side policy- before tax changes or government spending changes occur or for transmission mechanism to work • Classical view in long run is that it is inflationary only, Keynesian view is that if the economy will expand and wages will adjust

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.

Q31.

Question	Evaluate the importance of productivity for the rate of economic growth in a country. 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** • Productivity measures the efficiency of production. Usually measured as output per worker/output per hour worked • Economic growth is the increase in GDP of the economy • High productivity increases the productive potential of the economy, causing economic growth • High levels of productivity cause increased incentives for businesses to invest • An increase in productivity could lead to an increase in LRAS and to a rise in real output and to a fall in the price level A highly productive workforce may increase the demand for labour and real wages, increasing consumption and AD • Higher productivity is likely to increase company profits and increase tax revenue leading to more government spending and potential multiplier effect on GDP • High productivity may increase demand for exports improving the current account of the balance of payments **Students may take alternative perspective**
	Diagrammatic analysis may be rewarded. 

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	
	• Investment by businesses is based upon confidence not productivity • Potential growth is influence by productivity whereas actual growth occurs as a result of an increase in AD • Increased productivity may only occur in the long run • Magnitude of productivity/ depends on relative productivity • Other methods may be better in achieving economic growth • High consumption through demand-side policies • May conflict with sustainability objectives	
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.

Q32.

Question	With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.
	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. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms

	Knowledge, Application and Analysis (8 marks) – indicative content • Understanding of productivity • Understanding of interventionist supply-side policies • AD/LRAS diagram showing a change in LRAS consistent with analysis/use of PPF diagram • "Between 2010 and 2020 Australia's average annual increase in productivity was 1.7%" • "Providing finance for business start-ups": guaranteeing bank loans so that banks are more willing to lend/exemptions from certain regulations that are costly to comply with – these businesses are often innovative and disruptive, and create more competition leading to increasing productivity • "Investment in infrastructure improvements": spending on e.g., broadband (digital) or roads (physical) would reduce industry costs and /or improve access to market and more efficient factors of production – this will increase competition and drive innovation leading to greater productivity • "Investment in high-quality education and training schemes": introducing apprenticeship courses or improving access to higher education – this would improve the skills, flexibility and mobility of labour leading to an increase in human capital and therefore productivity • "Offering tax incentives and subsidies to encourage investment": this would reduce the production costs for firms facilitating them in undertaking capital expenditure and invest in R&D/technological advancements. This investment is likely to drive innovation and increase productivity **NB Award a maximum of level 2 if only policies not in Extract B are considered e.g.: regional policy, investment in healthcare and housing** **NB Award a maximum of level 2 if policies are not linked to an increase in productivity**

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 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 • Significant Government investment and support is required: Australia's "average annual growth in real GDP per capita was 0.6%. This was below the 1% growth in GDP per capita in the USA." – the Government may not have enough tax revenue/income to finance their spending and may need to borrow • Opportunity cost of this sizeable increase in government spending which could worsen the Australian Government's public finances (no balanced budget – a macroeconomic objective) • Time lag involved with supply-side policies, especially with investments in education, training and infrastructure • Consideration of effectiveness of supply-side policies such as education – e.g. depends on the quality of education and training schemes in place • Consideration of effectiveness of supply-side policies such as infrastructure – e.g. poor quality projects may imply an inefficient allocation of scarce resources/factors of production • Difficult to accurately measure productivity, especially in the service sector: service sector accounts for nearly 70% of Australia's GDP: the Government may not know how much to invest/subsidise

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.

Q33.

Question	Quantitative skills assessed	Answer	Mark
		The only correct answer is A ***B*** *is not correct as this is the role of the government* ***C*** *is not correct as this is the role of the government* ***D*** *is not correct as this is the role of the government*	**(1)**

Q34.

Question	With reference to the information provided and your own knowledge, discuss the likely effects of a reflationary monetary policy on the economy of China.
	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. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms

Knowledge, Application and Analysis (8 marks) – indicative content

- Understanding of reflationary monetary policy
- The PBoC decreased the base rate of interest from 3.7% to 3.65% in August 2022 – a decrease of 0.05 percentage points
- A decrease in the base interest rate should increase AD as it will:
    - increase consumption as it creates an incentive to spend; also consumption increases as cost of borrowing falls and there is a disincentive to save as the return on saving falls
    - create positive wealth effects: lower interest rates will reduce cost of borrowing, so individuals will be more likely to borrow to purchase houses - this will contribute to an increase in house prices, raising confidence and consumption
    - increase spending as consumers with variable rate loans/mortgages see interest repayments decrease, increasing discretionary incomes
    - increase the net trade balance as it will put a downward pressure on the exchange rate, meaning exports become relatively cheaper, and imports become relatively expensive – China's "exports rising more slowly" so the "fall in the external value of the Chinese currency, the Renminbi" will help improve the current account position
    - increase investment, as the cost of borrowing to finance investment decreases, reducing firms cost of production
- "A reduction in reserve asset (liquidity) requirements" will increase money supply: more lending by commercial banks could increase consumption and investment as there would be greater access to credit
- AD shifts outwards leading to (may be shown diagrammatically):
    - An increase in China's economic growth as the real output rises: "the country's economic growth forecast for 2022 was reduced from 5.5% to 4.3%." so reflationary policy will increase the economic growth rate
    - higher demand-pull inflationary pressure as average price level rises
    - fall in unemployment as more output means larger numbers of people are employed – could reduce youth unemployment (use of Figure 2)

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 3	7–8	Demonstrates an 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 • Significance of the size of the fall in interest rate: another 0.05 percentage points decrease may not be enough to stimulate economic growth • Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through the economy • Consumption and investment may not rise if both consumer and business confidence is relatively low • Commercial banks may not pass the lower rates to consumers or businesses, thereby less likely to increase consumption and investment • Impact on real output will depend on the size and value of the multiplier • Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in the economy • The PBoC may have to reverse its policy decision if the economy begins to experience cost-push inflation – several advanced economies implemented deflationary monetary policy • Fiscal policy/supply-side policies may be more effective in stimulating the rate of China's economic growth

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.

Q35.

Question	With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.	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 and analysis** 1 knowledge mark for understanding of a policy and 1 analysis mark for linked development of each policy, e.g.: • Increased government spending **(1K)** is likely to result in greater injections into China's circular flow of income **(1AN)** • Reduced taxes for businesses **(1K)** is likely to result in a decrease in withdrawals from China's circular flow of income **(1AN)** • Increased investment by businesses **(1K)** is likely to result in greater injections into China's circular flow of income **(1AN)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Increased spending on infrastructure by $75 billion **(1)** • Providing 100% tax breaks on research and development spending **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of infrastructure spending/tax breaks is relatively large **(1)** so the impact on injections/withdrawals is likely to be very significant **(1)** • Impact on injections/withdrawals will also depend on the other injections/withdrawals **(1)** investment and exports/savings and imports **(1)** • Time lags associated with fiscal policy **(1)** indicate that the impact on net injections may only be felt in the long-run (18-24 months) **(1)**	**(8)**

Q36.

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 is a monetary policy instrument* ***C*** *is not correct because this is a monetary policy instrument* ***D*** *is not correct because this is a monetary policy instrument*	**(1)**

Q37.

Question	With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 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, tabular and numerical forms **QS10:** Distinguish between changes in the level of a variable, and the rate of change **Knowledge and Analysis** Up to 2 marks for identifying two ways and up to 2 marks for linked explanations, e.g.: • Decrease in consumption/increase in saving **(1K)** as consumer confidence falls/the reward for saving increases **(1AN)** • Decrease in investment **(1K)** as the cost of borrowing for firms rises imply higher cost of production/more expensive to borrow money from banks **(1AN)** **Application** 1 mark for application to Extract A, e.g.: • Base interest rate increased from an all-time low of 2% in Jan 2021 to 13.25% in June 2022/significantly affected consumer spending and business investment, both of which are major contributors to economic growth **(1)** *AND* 1 mark for application to Figure 2, e.g.: • Between January 2021 and June 2022, Brazil's rate of inflation increased from 4.5% to 12% / by 7.5 percentage points / From June 2022 to January 2023 Brazil's rate of inflation fell from 12% to 5.9% / by 6.1 percentage points **(1)**	
	Evaluation Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.: • 11.25 percentage points increase in the base interest rate is very significant/magnitude is large **(1)** and thus will have a *significant impact on reducing the rate of inflation* **(1)** • Time lags: monetary policy does not have immediate effect on behaviour **(1)** for example, people with fixed mortgage rates or traders who have fixed contracts – small impact on inflation **(1)** • Commercial banks may not pass on the increase in interest rate to consumers/firms **(1)** so ineffective in reducing inflation **(1)** • Increase in interest rate is unlikely to have an impact if consumer and business confidence is high **(1)** and therefore any downward multiplier effects may be small **(1)**	**(8)**

Q38.

Question	With reference to the chart, explain the term 'quantitative easing'.	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 'quantitative easing', e.g.: • Central bank buys government bonds/corporate bonds **(1)** from commercial banks/financial institutions **(1)** • Asset purchases by the central bank **(1)** to increase money supply/liquidity **(1)** • Electronically created money **(1)** to encourage lending/ borrowing in the economy **(1)** • It is an example of a *reflationary* monetary policy **(1)** **Application** Up to 2 marks for applying to the UK, e.g.: • Quantitative easing in the UK increased **(1)** from £200 billion in November 2009 to £895 billion in November 2020 / by £695 billion / by 347.5% **(1)**	**(4)**

Q39.

Question	With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate.

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.

Quantitative Skill Assessed

QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms

Knowledge, Application and Analysis (8 marks) – indicative content

Use of Figure 1: e.g. identifying negative interest rates of -0.1% since 2016

- "To achieve the inflation target of 2% an increase in the base interest rate would be necessary / would no longer be a case for maintaining a low base interest rate, that was introduced at a time when the rate of inflation was below the inflation target"

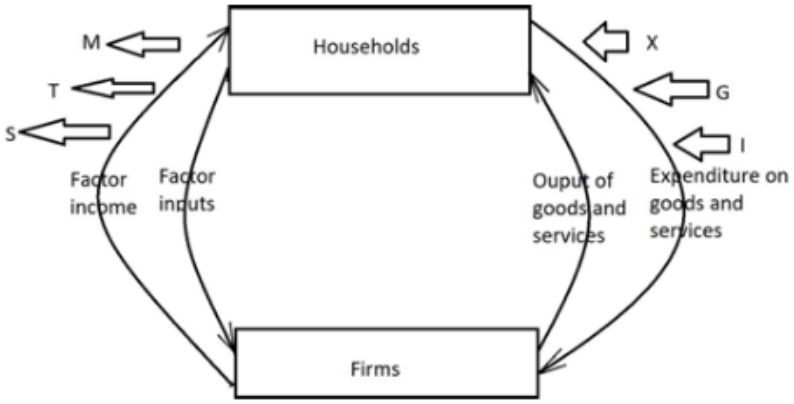
Factors that the BOJ would consider include:

- Economic growth/recession/output gap/spare capacity: "This increase in Japan's real Gross Domestic Product (GDP) was double the original forecast" – ensure that AD would grow in line with productive potential
- Forecast rates of inflation/inflationary expectations: "They stated that even the Government of Japan expected the annual rate of inflation to be 2.6% in 2023 against the BoJ's forecast of 1.8%." – determine if inflation is temporary or permanent
- Net trade balance: exports rose by 3.2% in Q2 2023 / Japan's imports decreased by 4.3%
- Consumption: "fall in domestic consumption, following the global health crisis, remained a concern" /level of savings
- Exchange rate: "country's weak exchange rate" – may encourage BoJ to raise the base rate of interest to prevent a further fall in exchange rate
- Commodity prices: "increase in the price of raw materials and energy" – cost-push inflation will need to be controlled by the BoJ
- Level of confidence in the economy: business and consumer confidence "It also created greater uncertainty that had an impact on business investment." – can indicate turning points in the business cycle
- Wage growth: "Upward pressure on prices caused workers to demand higher wages" – this could impact future inflation and influence BoJ's decision
- Performance of other countries: "probability of a global recession, seen as a significant risk to Japan's economy"

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 3	7–8	Demonstrates an 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 • Prioritisation of the relative significance of each factor • Combination of factors is likely to be considered by BoJ • Inaccuracies or inadequacies of data may mean that Japan's economic growth may not have been correctly forecasted • Reliability of data/uncertainty of forecasting: many statistics are often revised later, such as real GDP/consumption/investment • Difficulty in estimating the size of output gap/spare capacity in the economy • Lagged effects of many influences on the rate of inflation e.g. net trade • Commodity prices are very volatile: an increase in price might be temporary – therefore, problem of using the current inflation rate to guide monetary policy decisions • Potential for economic shocks changing the global economic landscape considerably, leading to higher uncertainty in the world economy • Lagged effect of monetary policy: could take 18 to 24 months • Interest rate increases might be ineffective in dealing with cost-push inflation	
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.

Q40.

Question	Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income. Illustrate your answer with a circular flow diagram.	Mark
	Knowledge 2, Application 2, Analysis 2 **Quantitative Skill Assessed** **QS4:** Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and Analysis** 1 knowledge mark and up to 2 marks for linked analysis of one likely effect, e.g.: • Exports increase **(1K)** which means the size of the injection rises **(1AN)** increasing the money flowing around the circular flow of income **(1AN)** 1 knowledge mark for diagram showing flows between households and firms OR identifying injections and withdrawals  **Application** Up to 2 marks for reference to Extract A, e.g., • The contribution of tourism to GDP is included in net trade figures / and returned to more than two-thirds of pre-global health crisis levels **(1)** • The number of tourists was expected to grow in the second half of 2023 / after China ended restrictions on group tours to a number of countries including Japan **(1)**	**(6)**