PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 2: MEASURES OF ECONOMIC PERFORMANCE

SCORE	PERCENTAGE
/175	%

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.**

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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.

Q2.

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

Q3.

Question	Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).	Mark
	Knowledge 2, Application 2, Analysis 2 **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of an increase in the rate of inflation, e.g.: • The annual percentage increase in the general price level of/ average prices of goods and services in the economy **(1)** *AND* 1 knowledge mark for identifying the impact: • Could increase India's balance of trade deficit / worsen trade balance **(1)** **Analysis** Up to 2 analysis marks for linked development (1+1), e.g.: • An increase in the rate of inflation will increase the price of Indian exports **(1)** and this may reduce demand for/value of Indian exports **(1)** • If inflation rises faster than India's main trading partners, it will make Indian exports less price competitive **(1)** and this could reduce demand for/value of Indian exports **(1)** • An increase in the rate of inflation may make import prices relatively cheaper **(1)** and this may increase the demand for/value of Indian imports **(1)** **Application** Up to 2 marks for use of Extract A, e.g., • In July 2022 India reported a record balance of trade deficit of $30 billion **(1)** • This deficit was one of the largest of all the Asian economies **(1)** • The rate of inflation was 7.01% in June 2022 compared with June 2021 **(1)** • This was the second highest rate of inflation of the larger Asian economies **(1)**	**(6)**

Q4.

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

Q5.

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 a fall in wholesale prices is likely to cause consumer prices to fall and real incomes to rise* ***B*** *is not correct because a fall in wholesale prices implies a fall in costs* ***D*** *is not correct because there are deflationary pressures which would make it more likely that the central bank would reduce interest rates*	**(1)**

Q6.

Question	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms	C	**(1)**

Q7.

Question	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because we do not know about the primary and secondary income balances* ***B*** *is not correct as there is a balance of trade deficit not surplus* ***D*** *is not correct as the value of exports is likely to have risen*	**(1)**

Q8.

Question	With reference to the chart, explain the difference between a current account deficit and a current account surplus.	Mark
	Knowledge 2, Application 2 **Quantitative skills Assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** 1 mark for defining current account deficit: • Balance of the sum of trade in goods, trade in services, primary income and secondary income is negative **(1)** • Allow value of imports is greater than the value of exports / Allow (M>X) / imports>exports / net exports is negative **(1)** 1 mark for defining current account surplus: • Balance of the sum of trade in goods, trade in services, primary income and secondary income is positive **(1)** • Allow value of imports is less than the value of exports / Allow (M<X) / imports<exports / net exports is negative **(1)** **Application** 1 mark for correctly identifying a period when Spain was experiencing current account deficit, e.g.: • In April 2022, current account deficit was €0.48 billion/ There was a deficit between Dec 2021 and Feb 2022 **(1)** 1 mark for correctly identifying a period when Spain was experiencing current account surplus, e.g.: • In May 2022, current account surplus was €2.85 billion/ There was a surplus between July 2021 and Nov 2021 **(1)**	**(4)**

Q9.

Question	With reference to the chart, explain **one** likely cause of the deficit in Colombia's balance of trade in goods and services.	Mark
	Knowledge 1, Analysis 2, Application 1 **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 mark for identification of a reason, e.g. • Relatively low productivity/ • Relatively high rate of inflation/ • Appreciation of the exchange rate/ • Increasing real incomes/increase in economic growth/ • Deterioration in quality of Colombia's goods/services **(1)** **Analysis** Up to 2 marks for linked expansion of one reason, e.g. • Low productivity increases cost per unit **(1)** makes exports relatively expensive/reducing the demand for Colombian goods and services **(1)** • High rate of inflation makes export prices relatively more expensive **(1)** and reduces the value of exports/demand for exports **(1)** • Increase in the external value of Colombia's currency will make exports relatively more expensive/reduce demand for its exports **(1)** and its imports relatively cheaper/increase demand for its imports **(1)** • Demand for imports increases **(1)** as the marginal propensity to import indicates that changes in imports are dependent on changes in income **(1)** • Lower quality of Colombia's goods or services will reduce the demand for its exports **(1)** and increase the demand for its imports **(1)** **Application** 1 mark for appropriate use of the chart, e.g.: • In 2014 there was a trade deficit of around $20 billion **(1)** • Trade deficit was lowest in 2010 / was highest in 2022 **(1)** • There was a trade deficit every year from 2010 to 2022 **(1)**	**(4)**

Q10.

Question	Evaluate the likely effects of a recession. 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 recession: negative economic growth for two or more consecutive/successive quarters or six months Negative effects include: • Consumers will receive lower average incomes and they will not be able to afford more goods and services nor increase their standard of living; consumers may find it more difficult to meet basic needs; a decrease in subjective happiness • With lower real GDP, firms employ significantly fewer workers creating unemployment; wages fall and create greater inequality • Firms are likely to make lower profits as consumer spending falls; less profit implies lower future investment into R&D/innovation; firms delay spending on capital or technological advancements • Reduction in government tax revenues and higher government spending on unemployment/welfare benefits; 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 • May result in a fall in house prices leading to negative wealth effects **NB Candidates may use negative effects as KAA and positive effects as evaluation (or vice versa)** **NB Award a maximum of Level 3 for answers with no reference to a country in their answer**

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	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 Positive effects include: • The lower aggregate demand may reduce both demand-pull and cost-push inflationary pressures • Lower external costs of production due to less output produced by firms; less exploitation of finite resources and less depletion of non-renewable resources • Lower spending on imports would cause an improvement in the current account position of the BOP • Reduction in inequality: those with assets may have a proportionally smaller increase in the market value of their income on their wealth • Lower house prices may make houses more affordable *Other evaluative comments:* • The size and length of the recession is important in terms of the effect, e.g. As Germany had a relatively small contraction, it may have limited impact on the economy

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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.

Q11.

Question Number	*Ceteris paribus*, calculate the aggregate demand for the USA in 2018. Answer	Mark
	Knowledge 1, Application 3 **Quantitative skill assessed** QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 mark for correct definition or formula for AD: C+I+G+(X-M) **(1)** **Application** up to 3 marks for correct application $13.95tn + $3.65tn + $3.52tn **(1)** + ($2.50tn - $3.10tn) **(1)** =$20.52 trillion **(1)** **NB: If correct answer ($20.52 trillion) is given, award full marks regardless of working** **An answer of "$20.52" or "20.52trillion" or "20.52" will gain 3 marks.**	**(4)**

Q12.

Question	Based on this information, calculate *the change* in Argentina's GDP per capita between 2018 and 2019. Show your workings.	Mark
	Knowledge 1, Application 3 **Quantitative Skill assessed** **QS1:** Calculate, use and understand ratios and fractions **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for correct definition/formula/implicit understanding, e.g.: • GDP divided by population / • GDP per capita is a measure of a country's economic output that accounts for its number of people **(1)** **Application** Up to 3 marks for use of data in calculation from the following, e.g.: • 2018 → $517 627 million / 44.5 million = $11 632.07 **(1)** • 2019 → $445 445 million / 44.9 million = $9 920.82 **(1)** • Change is → $9 920.82 - $11 632.07 = -$1 711.25 **(1)** **NB: if correct answer (between -$1 711 and -$1 712) is given, award full marks regardless of working** **NB: award up to 3 marks if minus sign not included in the final answer**	**(4)**

Q13.

Question	Based on this information, calculate the *change* in Bulgaria's GDP between 2015 and 2020. Show your workings.	Mark
	Knowledge 1, Application 3 **Quantitative Skill assessed** **QS1:** Calculate, use and understand ratios and fractions **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for correct formula/implicit understanding, e.g.: • GDP = GDP per capita x population **(1)** **NB:** Accept GDP per capita formula **(1)** **Application** Up to 3 marks for use of data in calculation from the following, e.g.: • 2015 → $7075 x 7.18m = $50.80 billion **(1)** • 2020 → $10079 x 6.93m = $69.85 billion **(1)** • Change → $69.85 billion – $50.80 billion = $19.05 billion **(1)** **NB: if correct answer ($19.05 billion/$19 billion/$19 048.97 million / $19 948 970 000 / 37.5%) is given, award full marks regardless of working** **NB: only 3 marks if billion / million / % sign is not included in the final answer** **NB: only 3 marks if billion or million is used incorrectly**	**(4)**

Q14.

Question	Based on this information, calculate the *change* in Angola's population between 2019 and 2020. Show your workings.	Mark
	Knowledge 1, Application 3 **Quantitative Skill assessed** **QS1:** Calculate, use and understand ratios and fractions **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for correct formula/implicit understanding, e.g.: • Population = GDP/GDP per capita **(1)** **NB:** Accept GDP per capita formula **(1)** **Application** Up to 3 marks for use of data in calculation from the following, e.g.: • 2019 → \$89.42 billion / \$2 810 = 31.82 million **(1)** • 2020 → \$62.31 billion / \$1 896 = 32.86 million **(1)** • Change → 32.86 million - 31.82 million = 1.04 million **(1)** **NB: if correct answer (1.04 million/1 million / 1 041 860) is given, award full marks regardless of working.** **NB: award 3 marks if minus sign is included in the final answer**	**(4)**

Q15.

Question	With reference to Figure 2, explain how the CPI inflation rate is calculated.	Mark
	Knowledge 2, Application 2 **Quantitative Skill Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for explaining how the CPI inflation rate is calculated, e.g.: • It uses a weighted basket of goods and service **(1)** • The weights are in proportion to the amount of money spent on each item **(1)** • Monthly price surveys are undertaken **(1)** • An annual survey of household spending is used to set the weights/the contents of the basket **(1)** • In the base year the index number is set at 100 **(1)** **NB:** No marks for definition of inflation/inflation rate/inflation target **Application** Up to 2 marks for relevant references to Figure 2, e.g.: • Services have the highest weighting of the item groups shown at 48.9% **(1)** meaning they account for 48.9% of average household expenditure in France **(1)** • Tobacco has the lowest weighting of 2% **(1)** so the 13.9% increase in the price of tobacco will have a relatively small effect on the CPI **(1)** • Food has a weight of 16.1% / the percentage price change of food is 2.3% **(1)**	**(4)**

Q16.

Question	Quantitative skills assessed	Answer	Mark
	-	**The only correct answer is A** ***B*** *is not correct as this is not measured by PPP, but by the World Happiness Index* ***C*** *is not correct as this does not consider the price differences of goods in other countries* ***D*** *is not correct as PPP does not compare CPI or RPI in different countries as these are measures of inflation*	**(1)**

Q17.

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

Q18.

Question	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as there is no data on real wage rates* ***C*** *is not correct because the changes in the table show a short-term increase in unemployment and structural unemployment is a long-term issue* ***D*** *is not correct because the increase is linked to the fall in real GDP*	**(1)**

Q19.

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 as demand deficiency is associated with a recession* ***C*** *is not correct as seasonal unemployment is associated with jobs at different times of the year* ***D*** *is not correct as structural unemployment is associated with a change in the sectoral structure of the economy*	**(1)**

Q20.

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 the value of exports is smaller than the value of imports* ***B*** *is not correct as this represents a budget deficit when government spending>taxation* ***C*** *is not correct as balance of trade is always in deficit as indicated by the negative values*	**(1)**

Q21.

Question	With reference to the data, explain the difference between disinflation and deflation.	Mark
	Knowledge 2, Application 2 **Quantitative Skills Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **QS10:** Distinguish between changes in the level of a variable, and the rate of change. **Knowledge** Up to 2 marks for defining disinflation and deflation, e.g.: - Disinflation occurs when the average price level rises more slowly than previously/the rate of inflation falls but is still positive **(1)** - Deflation occurs when the average price level falls/the rate of inflation is negative **(1)** **Application** 1 mark for correctly identifying a period when Canada was experiencing disinflation, e.g.: - In August 2019, the inflation rate fell from 2.0% to 1.9% **(1)** - In February 2020, the inflation rate fell from 2.4% to 2.2% **(1)** - In March 2020, the inflation rate fell from 2.2% to 0.9% **(1)** 1 mark for correctly identifying a period when Canada was experiencing deflation, e.g.: - In April 2020, the inflation rate was -0.2% **(1)** - In May 2020, the inflation rate was -0.4% **(1)**	**(4)**

Q22.

Question	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because the price level was increasing at a faster rate between January 2016 to July 2016* ***B*** *is not correct as there was disinflation from January 2017 to July 2017* ***C*** *is not correct as the average price level was higher in July 2019 than in January 2019*	**(1)**

Q23.

Question	Define the term 'recession' (Extract A, line 7).	Mark
	Knowledge 2 A period of two or more consecutive quarters **(1)** of negative economic growth/falling real GDP **(1)**	**(2)**

Q24.

Question	Evaluate the costs of a high 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** • Understanding of inflation/inflation rate

	Costs include: • Fall in purchasing power and real incomes, reducing living standards • Loss of both business and consumer confidence as a result of greater uncertainty; this reduces/postpones investment/spending and hence may have implications for economic growth • Increased inequality e.g. effect on those who have fixed incomes (are not protected by inflation like students, dependents, pensioners) who are often the poorest • Reduction in price competitiveness of the country's which worsens the current account of the balance of payments deficit and reduces international competitiveness • Unemployment may rise through increased levels of inefficiency and stagflation • Higher inflation associated with increasing AD may have detrimental impact on environment • The self-reinforcing effect on inflation through expectations: higher inflation - as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes • If the inflation rate is higher than interest rates on savings, then those individuals that depend on interest from their savings as their income will be poorer; this is as a result of a negative real interest rate **NB Award a maximum of Level 3 for answers with no reference to a country**

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	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.
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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 may include:
  - Fall in real value of debts for firms, households and governments reducing the burden of repayments
  - Firms are likely to benefit if prices of their goods and services rise faster than costs, thereby increasing their profit margins
- Significance of the increase in inflation, e.g. USA has seen a sharp increase in inflation (by 4.8 percentage points)
- Depends on duration of inflation, e.g. temporary or permanent; SR vs LR considerations – this may be discussed in recent context of a country using an AD/AS diagram
- Depends on the cause of inflation, e.g. cost-push or demand-pull
- Inflation might not translate through to higher wages and unemployment if the workforce has limited negotiating power
- Inflation may be associated with a lower rate of unemployment – reference to Phillips curve
- If economic growth is low, slightly higher inflation is worth the risk to avoid deflation or depression
- Impact depends on the relative inflation rates, especially of the USA's main trading partners such as UK
- Other factors may have a larger effect: exchange rates or other macroeconomic objectives (ceteris paribus)

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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.

Q25.

Question Number	Quantitative skills assessed	Answer	Mark
	QS5: Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B** is not correct because the rate of inflation was 3%* ***C** is not correct because additional factors affect the standard of living* ***D** is not correct because the CPI does not measure the price of exports alone*	**(1)**

Q26.

Question	With reference to the chart, explain the difference between a current account deficit and a current account surplus. Answer	Mark
	Knowledge 2, Application 2 **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** Up to 2 marks for defining a current account surplus and current account deficit e.g. • Current account surplus is when the value of exports of goods services, transfers and investment income is greater than the value of imports of goods services, transfers and investment income **(1)** • Current account deficit is when the value of imports of goods services, transfers and investment income is greater than the value of exports of goods services, transfers and investment income **(1)** **Application** Up to 2 marks for use of the data, e.g.: • There was a current account surplus between 2010 and 2011/ 2014 to 2017 **(1)** • There was a current account deficit in 2012 and 2013 **(1)** • The current account surplus was at its highest at 11.7% of GDP in 2016 **(1)** • The current account surplus rose in value from 2014 to 2017 **(1)**	**(4)**

Q27.

Question	Define the term 'GDP growth rate' (Extract A, line 23).	Mark
	Knowledge 2 • The annual percentage change/increase/decrease **(1)** in the total amount of/value of goods and services produced in an economy **(1)**	**(2)**

Q28.

Question	Define the term 'GDP per capita' (Figure 1).	Mark
	Knowledge 2 • Total income/output/expenditure **(1)** per head/per person **(1)** • GDP/ population **(1)**	**(2)**

Q29.

Question Number	Define the term 'monetary policy'. (Extract A, line 8) Answer	Mark
	Knowledge 2 1 mark for the definition of monetary policy: • The use of interest rates/the base rate/quantitative easing to control the money supply **(1)** 1 mark for further development e.g. • A demand-side policy/targeted to shift AD **(1)** • Conducted by monetary authority/central bank **(1)** • Often used to help achieve an inflation target **(1)** • Deflationary monetary policy helped reduce inflation in East Africa **(1)**	**(2)**

Q30.

Question Number	Answer	Mark
	Knowledge 2 • PPP adjusts for the cost of living in a country **(1)** • Using the price of a given basket of goods and services **(1)** • PPPs measure the total amount of goods and services that a single unit of a country's currency can buy in another country **(2)** • PPPs convert the cost of a basket of goods and services into a common currency **(1)** • PPPs eliminate price level differences across countries **(1)** • PPPs equalise the purchasing power of currencies **(1)** • When PPP is high a country's currency can buy more, often indicating a higher standard of living **(1)** • Used to make a more accurate comparison of GDP/GNI between countries **(1)**	**(2)**

Q31.

Question	Define the term 'recession' (Extract A, line 2).	**Mark**
	Knowledge 2 Negative economic growth / fall in real GDP **(1)** for two *consecutive/successive* quarters / six months **(1)**	**(2)**

Q32.

Question	Define the term 'seasonally adjusted' (Figure 1).	Mark
	Knowledge 2 **QS12:** Understand the meaning of seasonally adjusted figures • Time series data **(1)** that has seasonal variations/changes removed **(1)** • Economic data **(1)** that has been adjusted to remove the effect of seasonality/seasonal factors **(1)** • Data/values/figures/statistics **(1)** that are updated by seasons/at different times of the year **(1)**	**(2)**

Q33.

Question	Define the term 'real GDP' (Figure 1).	Mark
	Knowledge 2 The total value of goods and services produced in an economy/total output/total income **(1)** adjusted for inflation **(1)**	**(2)**

Q34.

Question Number	Answer	Mark
	Knowledge 2, Application 2 **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for definition of deflation, e.g.: • Deflation is the sustained fall in the general price level/a negative rate of inflation **(1)** 1 mark for definition of disinflation, e.g.: • Disinflation is fall in the rate of inflation/average price level increasing at a slower rate **(1)** **Application** 1 mark for relevant application to deflation, e.g.: • Deflation occurred in January and March 2018 **(1)** 1 mark for relevant application to disinflation e.g.: • There was disinflation between October and December 2018 **(1)**	**(4)**

Q35.

Question	With reference to the information provided, discuss the likely macroeconomic effects of a high rate of inflation on the German 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 • Understanding of a high rate of inflation • "The Bundesbank also warned of inflation risks. It raised its forecast for Germany's annual rate of inflation to 3.6% for 2022" • "This is above the European Central Bank's (ECB) inflation target rate of 2% for the eurozone area" • Reduction in purchasing power and real incomes of German consumers; there will be a loss of consumer confidence • Equality, e.g., effect on those who have fixed incomes (are not protected by inflation) who are often the poorest • Reduction in competitiveness of German goods which worsens their current account position of the balance of payments and could reduce the country's international competitiveness • Unemployment in Germany may rise through increased levels of inefficiency and stagflation • May reduce Germany's economic growth owing to costs of high inflation • Higher inflation associated with an increase in AD could have detrimental impact on the environment • The self-reinforcing effect on inflation through expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect purchasing power of incomes • High rates of inflation mean that consumers spend time searching for the best deal in the hope that some producers have not increased their prices • Firms face higher costs as inflation is high and may need to reprint menus and change prices frequently **NB: KAA can be awarded for negative impacts and evaluation as the positive impacts 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. 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 • Depends on the cause of inflation – "supply chain constraints are increasing inflationary pressures" and/or "Germany's producer (wholesale) price index increased by 19.2% ... as a result of rising prices for energy, metal and wood products" – indicating cost-push inflation that cannot be directly controlled (may be shown using an accurately drawn and labelled AD/SRAS diagram) • Depends on the magnitude of inflation – between January and November 2021, the inflation rate increased by 4.2 percentage points: therefore, the impact is going to be quite significant • Depends on the duration of inflation – inflation has been rising since January 2021 (Figure 2) and "Bundesbank predicted that the supply chain constraints would not be resolved until the end of 2022" • If economic growth is low, higher inflation is worth the risk to avoid periods of deflation (last six months of 2020) or economy going into a depression • Impact on Germany's competitiveness depends on relative inflation rates • Possible beneficial effect on the environment as economic growth slows • Inflation might not translate through to higher wages and unemployment if the German workforce has little power • May reduce the real value of consumer, business and government debts making it cheaper to pay back loans • A high rate of inflation may be associated with a low rate of unemployment/ reference to the Philips curve • Consumers search time for better prices may be reduced by online selling • Costs of changing prices may be largely reduced if physical menus are not reprinted and only published online

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.

Q36.

Question	With reference to Figure 2, Extract A and your own knowledge, discuss the limitations of using GDP to compare living standards between countries.
	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** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms

	Knowledge, Application and Analysis (8 marks) – indicative content
	Reference to Figure 2: In 2022 Ireland's rate of economic growth was approximately 12.2% and approximately 2% for Germany and USA Limitations include: • Percentage changes are misleading without any reference to total GDP • Differences in the composition of GDP: most of Ireland's GDP is made up of investment by international companies, where their output produced can be volatile – "Some of these companies are so large that the country's GDP figures may be overstated" • Fails to indicate whether the nation's rate of growth is sustainable or not – "Apple Inc., the world's largest technology company, moved its European base to Ireland in 2015" • Differences in distribution of income as growth varies between countries – "mislead analysis of matters related to income inequality" • Quality of life issues, such as pollution from manufacturing: impact is hard to measure – "mislead analysis of matters related to the environment" • Methods of calculation and reliability of data may differ between countries – "large fluctuations in Ireland's industrial production data. It rose or fell by more than 10% from one month to the next" • Currency values do not effectively calculate accurate purchasing power parity/exchange rates might not accurately reflect these differences in purchasing power of currencies • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income • Does not consider differences in the size of population/population growth • Subsistence, barter and the hidden economy will undervalue the real output and national income will not reflect true living standards between countries • Differences in quality of housing/education/healthcare between countries • The size of the public sector spending, especially in developed countries such as Ireland, which may or may not improve living standards • Standard of living is subjective and therefore cannot be measured accurately

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

- Benefits of using GDP for comparison – e.g., it is a standard measure used by all countries and is well understood by policymakers
- GDP is an accurate indicator of the size of an economy and the GDP growth rate is probably the best indicator of economic growth
- GDP is internationally recognised as it is the most reliable method of comparing living standards between countries
- Simpler to measure GDP than any other composite indicators
- Ease of using GDP data for comparison over time between countries
- Other measures may be better, e.g., GNI/GDP per capita gives an indication of average incomes, which is a key determinant of living standards
- GDP is dynamic and enables policymakers/central banks to determine whether their economy is contracting or expanding and promptly take necessary action to ensure living standards are maintained
- GDP allows policymakers, economists, and businesses to analyse the impact of changes in monetary and fiscal policy, economic shocks, etc.
- SR v LR considerations: The global health crisis of 2020 may have affected GDP of countries

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.

Q37.

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 as data does not refer to inactive people but to underemployment* ***C*** *is not correct as data does not refer to unemployment but to underemployment* ***D*** *is not correct as the data does not relate to the price level*	**(1)**

Q38.

Question	Quantitative skills assessed	Answer	Mark
	QS5: Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as this is the base year* ***B*** *is not correct as this is the index number for 2020 using 2019 as the base year* ***C*** *is not correct as this is the index number for 2021 using 2020 as the base year*	**(1)**

Q39.

Question	With reference to Guinea, explain **one** likely impact of higher real incomes on subjective happiness.	Mark
	Knowledge 1, Analysis 2, Application 1 **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge and Analysis** 1 knowledge mark for identification of the impact and up to 2 analysis marks for linked development, e.g.: - The greater the GDP per capita PPP, the higher the World Happiness Score **(1K)** as the purchasing power increases **(1AN)** and people can afford to purchase more goods and services/have income to satisfy their wants or needs **(1AN)** - The greater the real incomes, the higher the subjective happiness **(1K)** as people can now take out loans and mortgages **(1AN)** as they are less worried or anxious about making payments/have greater job security **(1AN)** **Application** 1 mark for appropriate reference to the data, e.g.: - World Happiness Score increased from 3.667 in 2012-14 to 5.072 in 2020-22 / - Guinea's real GDP per capita increased from $4 127 to $5 434 between 2013 and 2021 **(1)**	**(4)**

Q40.

Question	Define the term 'real GDP' (Figure 1).	Mark
	Knowledge 2 • Total value/output of goods and services produced in an economy in a given year **(1)** adjusted for inflation **(1)**	**(2)**