PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 4: THE ROLE OF THE STATE IN THE MACROECONOMY

SCORE	PERCENTAGE
/286	%

STEMUP

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Mark Scheme

Q1.

Question	With reference to Extract A, analyse **two** roles of the European Central Bank (ECB). **Answer**	Mark
	Knowledge 2, Application 2, Analysis 2 Quantitative skills 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/central bank sets base interest rates/makes asset purchases/sets lending criteria/ sets reserve asset requirements **(1)** • Achieving an inflation target **(1)** • Make forecasts about the future state of the economy **(1)** • Give advice/make policy recommendations to national central banks/governments **(1)** **Analysis** Up to 2 analysis marks for linked development of the two roles identified (1+1), e.g.: • To influence the level of AD/control inflation **(1)** • Explanation of the transmission mechanism **(1)** • To influence economic growth/development/employment **(1)** **Application** Up to 2 marks for application (1+1): • ECB raising the base rate of interest from 2.5% **(1)** to 3% **(1)** / 0.5 percentage points in March 2023 **(1+1)**	**(6)**

Q2.

Question	In 2020 Iran's GDP was $635.72 billion. With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings. **Answer**	Mark
	Application 2 Quantitative skills assessed: **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • 45.4% x $635.72 billion **(1)** • $288.62 billion **(1)** Award full marks for the correct answer ($289bn / $288.6bn) Award only one mark if billion not mentioned ($289 / $288.6)	**(2)**

Q3.

Question	The Bank of Zambia raised 'the base interest rate by 1.75 percentage points to 11.5% between April and November 2019' (Extract A, lines 12-13). Calculate Zambia's base interest rate in April 2019. You are advised to show your working. **Answer**	Mark
	Application 2 Quantitative skills assessed: **QS2** Calculate, use and understand percentages, percentage changes and percentage point changes. Up to 2 marks for calculations: • (11.5% - 1.75%) **(1)** • 9.75% **(1)** Award full marks for the correct answer (9.75%).	**(2)**

Q4.

Question Number	In 2018, the EU's rate of inflation was 1.6%. With reference to Figure 1, calculate the nominal GDP growth rate of the EU in 2018. You are advised to show your workings. Answer	Mark
	Application 2 Quantitative skills assessed: **QS7** Make calculations to convert from money to real terms. Up to 2 marks for calculations: • (2% + 1.6%) **(1)** • = 3.6% **(1)** NB: If correct answer (3.6%) is given, award full marks regardless of working. NB 1 mark for 3.6 without percentage sign	**(2)**

Q5.

Question	With reference to Figure 1 and Figure 2, calculate the value of Greece's national debt in 2022. You are advised to show your workings. **Answer**	**Mark**
	Application 2 Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • 171.4% x $221.3 billion **(1)** • $379.31 billion **(1)** **NB** Award 2 marks for correct answer ($379.31 billion / $379 billion) **NB** Award only 1 mark for $379.31 / 379.31%	**(2)**

Q6.

Question	With reference to Figure 1 and Figure 2, calculate Turkey's real interest rate in July 2020. You are advised to show your working. **Answer**	Mark
	Application 2 Quantitative skills assessed: **QS7:** Make calculations to convert from money to real terms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • 8.25 – 11.76 **(1)** • -3.51 **(1)** Award full marks for the correct answer (-3.51) Award one mark for 3.51 without the minus sign	**(2)**

Q7.

Question Number	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 tax on sugary drinks is a specific tax* ***C*** *is not correct because tax on income is a direct tax, whereas this tax on sugary drinks is a specific (indirect) tax* ***D*** *is not correct because tax on company profits is a direct tax, this tax on sugary drinks is a specific (indirect) tax*	**(1)**

Q8.

Question	With reference to Figure 3, analyse **two** disadvantages of an increase in Iran's national debt. **Answer**	Mark
	Knowledge 2, Application 2, Analysis 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. **Knowledge and analysis** 1 mark for definition/understanding of national debt, e.g. • Accumulation of all past fiscal deficits/borrowings **(1K)** *AND/OR* Up to 2 marks for identifying two disadvantages and 1 mark for each linked development, e.g.:	
	• Economic growth/living standards could fall in the long-run **(1K)** as government may cut spending on healthcare/education **(1AN)** • Higher debt servicing **(1K)** represents a significant opportunity cost to the future generations **(1AN)** • Higher interest rates could lead to a danger of financial crowding out **(1K)** restricting private sector investment **(1AN)** • Loss of confidence in Iran's financial markets **(1K)** resulting in a fall in foreign direct investment **(1AN)** • Increase in taxation/reduction in government spending in the future **(1K)** to balance the government budget/reduce budget deficit/move to a budget surplus **(1AN)** • Loss of confidence in the currency/*Rial* **(1K)** leading to a fall in its value and causing cost push inflationary pressure **(1AN)** • Decrease in credit rating **(1K)** leading to higher future borrowing costs/increase in interest rates **(1AN)** • Increase in foreign currency gap **(1K)** as the country may have insufficient currency to meet interest repayments if any part of the national debt is held by foreigners **(1AN)** **Application** Up to 2 marks for application to Figure 3: • Iran's national debt increased from 11.7% of GDP in 2010 **(1)** to 45.4% of GDP in 2020 **(1)** • Between 2010 and 2020, Iran's national debt as a percentage of GDP increased by 33.7 percentage points **(1)**	**(6)**

Q9.

Question	With reference to the information provided, discuss the likely economic effects of a further increase in the base interest rate. **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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (8 marks) – indicative content** • Increasing interest rate will increase the reward for saving and cost of borrowing, thereby reducing consumption and investment; AD will fall therefore not able to "support the country's economic recovery" • An increase in the base interest rate will lower net trade due to the increase in the exchange rate of the lira – value of exports fall and could reduce the country's export led growth; may also increase the "current account deficit" • Raising the base interest rate could help control inflationary pressures – Figure 2 shows that between 2018 and 2020, inflation has been above 10% • It would reverse negative real interest rates which reduces the real value of savings; interest on savings would be insufficient to meet increased cost of living causing households and firms to hoard cash – Figure 1 and Figure 2 • Raising the base interest rate would increase hot money flows; this is likely to increase the demand for the lira, increase the exchange rate and "avoid a currency crisis" • If the Central Bank did not raise the base interest rate, the exchange rate of the lira would continue to fall; firms that had foreign currency loans would be further constrained by the rising cost of servicing their debt • By raising interest rates and preventing the currency from falling further, the Central Bank will reduce any financial risks and bring stability in the economy – "Economists warned that the risk of a financial crisis in Turkey was growing"; this will help restore the confidence of foreign investors • Raising the base interest rate was the best policy instrument in increasing the exchange rate as the Central Bank could not intervene in the currency markets through foreign currency transactions – "have reduced most of the central bank's foreign currency reserves"

	• Raising the base interest rate could help control the credit-fuelled growth which could lead to market bubbles – "to slow the pace of credit growth"; has also been done in the "previous" years implying households and firms have existing levels of debt **N.B. Candidates may take either positive effects as analysis and use their reverse arguments for evaluation or vice versa**

	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 that 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 • Discussion of magnitude of increase in interest rate between July 2020 and December 2020: 8.25% to 17%, an 8.75 percentage points increase • Figure 3 highlights that the currency is still depreciating and the increase in interest rates have not made a significant difference, showing that investor confidence is perhaps still low • "Turkey's President, who controls the Central Bank of Turkey, is an opponent of high interest rates" may demand the Central Bank to reduce the interest rate to support his objectives; Central Bank is not independent of political interference and/or control • Figure 2 shows that inflation remains high and is rising again; perhaps this is cost-push inflation which the Central Bank cannot control • Figure 1 highlights that the size of the increases in interest rates since July 2020 is smaller as compared to the decreases in previous years perhaps a reason why the impacts on inflation and exchange rate have been small – some economists want the Central Bank "to raise the interest rate further" • Time lags associated with the increase in the base interest rate

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	With reference to the information provided and your own knowledge, discuss the likely economic benefits of a decrease in national debt, as a proportion of GDP, on the economy of Greece. **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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (8 marks) – indicative content** • Definition/understanding of national debt • "After the global health crisis of 2020 Greece was able to reduce its national debt as a proportion of GDP" by 19.6 percentage points (2020 to 2022) Benefits include: • An improvement in Greece's credit rating and lower future borrowing costs. This leads to confidence in markets resulting in an increase in foreign direct investment (FDI) – "Greece's credit rating fell from 'A' to 'CCC'", so it will be able to improve it in the future to "B+" • Lower national debt implies lower interest payments: there is less danger of financial crowding out. Lower interest rates may increase private sector investment due to the reduction of the crowding out effect – it eliminates the position of high risk whereby "it was unable to service its debt" • Less need to seek assistance from international organisations e.g. IMF, EU, other countries, the ECB – "In 2010 Greece's large national debt led to significant loans by the IMF." • Lower interest repayments represent a fall in costs to future generations. More money will be available for spending on social services, and they face lower opportunity cost of interest payments • Falling national debts could lead to less inflationary pressures. If the debt is low, investors may buy more government securities. Thus, the government will not experience a shortfall in its revenues, and would not have to print money and increase the money supply

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 that 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

- Impact depends on the magnitude of decrease in national debt: decreased by 19.6 percentage points in two years, implying a significant impact
- "its debt-to-GDP ratio is falling, it still remains the highest in the eurozone area" implying it will still be an issue to Greece
- As the current interest rate in the eurozone is high, financial crowding out may still be a significant issue – "ECB raised the base rate of interest from 2.5% to 3% in March 2023"
- If Greece's Government reduced its debt-to-GDP ratio by cutting spending in productive areas/key public goods and services, it will negatively impact the future generations
- Significance of national debt e.g. future generations will be highly affected as high inflationary pressures in the eurozone erode the real value of debt
- Large national debt implies that Greece may not be able to finance it internally but will have to continue relying on borrowing or future bailouts from IMF, hence remaining a cause for concern
- Greece's national debt will be a concern as it appears that its fiscal deficits are not cyclical/short-term but more structural/long-term and unsustainable
- Possibility that the value of national debt is still rising but debt-to-GDP ratio is falling due to an increase in Greece's economic growth – "in 2022 real GDP increased by nearly 5%". Over the long term, the national debt could increase as "forecast rates of economic growth for 2023 have also been reduced."

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.

Q11.

Question Number	Quantitative skills assessed	Answer	Mark
	-	**The only correct answer is D** ***A*** *is not correct because there will be an increase in money supply* ***B*** *is not correct because there will be an increase in economic growth* ***C*** *is not correct because there will be a decrease in unemployment*	**(1)**

Q12.

Question	Answer	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. **Knowledge and Analysis** Up to 2 marks for identifying two likely effects and up to 2 marks for linked explanations showing the effects of the reduction in the 'base interest rate', e.g.: • Increase in consumption **(1)** as the reward for saving and cost of borrowing falls, so consumers spend more, thereby increasing AD – leads to higher inflation/prevents deflation **(1)** • Increase in investment **(1)** as the cost of borrowing for firms fall, less interest repayments imply lower cost of production, increasing injections and AD – higher economic growth and employment **(1)** • Increase in net trade **(1)** due to less hot money flows, low demand for currency which reduces the exchange rate – an improvement in current account, as exports become relatively cheaper and imports relatively expensive **(1)**	

	Application Up to 2 marks for application to sources, e.g.: • Low inflationary pressures between 2015 and 2016 **(1)** • GDP growth rose from 3.3% in 2013 to 3.9% in 2017 **(1)** • Diagram showing an increase in Aggregate Demand **(1)** • 0.5 *percentage points* change in the base interest rate **(1)** **Evaluation** Up to 2 marks for evaluative comments, e.g.: • Inflationary pressures are due to changes in global commodity and food prices which are volatile **(1)** and once they increase, it could lead to a greater rise in inflation; Figure 2 → 0.98% to 3.67% **(1)** • Cut in interest rate is unlikely to have an impact if consumer and business confidence is low **(1)** and therefore the multiplier effects may be small **(1)** • 0.5 percentage points change in the base interest rate is small or relatively insignificant **(1)** and hence the impact on consumption/ investment/net trade may be limited causing small shift of AD **(1)** • Problem facing policymakers when applying policies **(1)** they are unable to control external shocks, i.e. due to cost push factors **(1)** • Time frame: 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 growth **(1)**	**(8)**

Q13.

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

	Knowledge, Application and Analysis (12 marks) – indicative content • Understanding/explanation of indirect taxes Effects of the introduction of an indirect tax may include: • Rise in indirect taxes will lead to fall in real incomes, therefore there will be a decline in the level of consumption which would reduce growth, increase unemployment and lower tax revenues • Tax revenues would increase if demand for goods and services affected are price inelastic. It would also help the country to reduce its fiscal deficit • Incentives to work: a higher VAT rate would cause a fall in real incomes. This could increase incentives if people wish to maintain their standard of living • Income distribution: people on low incomes affected more; it might be argued that VAT is regressive especially in relation to energy and food • Price level: could cause a decrease in price level as taxes are a leakage from the circular flow of income. Inflation would only occur if the increase in VAT results in a wage-price spiral • FDI flows: may act as a deterrent as prices of finished goods would be higher • Fall in the level of externalities / consumption of demerit goods which would improve health and the environment - so government would need to spend less money on them, improving public finances. Reference needs to be made to environmental protection as a government objective • Increase in smuggling/hidden economy activity/tax avoidance reducing tax revenue and worsening finances • Accept accurately drawn AD/AS diagram if integrated with analysis points **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing 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 • If the introduction of indirect tax is during a recession/slowdown, overall tax revenues of these countries may fall – economic growth of Saudi Arabia fell significantly between 2015 and 2017 • There may be no impact on incentives if there are no changes in income tax rates – there is no income tax in Saudi Arabia, so effects might be limited. • Research suggests that the overall effect of VAT in some countries is mildly progressive if focused on very expensive goods • Impact of inflation on individual goods and services will depend on the PED • Leakage in the form of taxes might be offset by an increase in injection – there has been a significant increase in FDI since 2015 • Living standard may not fall as other things may not be equal, e.g. wages may be rising faster than prices • FDI as a result of VAT may not fall if the goods are aimed at export markets. • Significance of the 5% introduction of indirect taxes in these countries. This is relatively small compared to other developed and developing countries • Neighbouring countries introducing VAT at the same time and same rate will reduce chance of smuggling/hidden economy

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.

Q14.

Question	Evaluate possible causes of an increase in public expenditure as a proportion of GDP in a developing 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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of public expenditure Possible causes could include: • Changes in level of GDP: during periods of economic downturn, public expenditure as a proportion of GDP would increase, even if it stayed the same or declined at a slower rate than GDP • Automatic stabilisers: when GDP falls, public expenditure is likely to rise; people become eligible for means-tested/unemployment benefits • External shocks: e.g. global health crisis; natural disasters e.g. earthquakes, floods; subsidies to households and firms resulting from rise in energy prices • Increased expectations: people may expect higher standards of education or health - these public services may be normal or luxury goods (income elastic) • Ageing population: it may require greater government spending, e.g. on state pensions, social care etc • Increase in the size of the population: puts greater pressure on public goods and services e.g. healthcare, education etc • Discretionary fiscal policy: government may decide to spend more on a specific area, e.g. housing, infrastructure etc • Increased interest payments: as the national debt increases / interest rates increase, governments have to make higher interest payments on their debt • Rise in the tax base: reducing tax evasion and avoidance, allowing greater spending as a proportion of GDP • Political priorities: based on the value judgements of government **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing 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

- Prioritisation of causes analysed – discussion of the most important cause
- Discussion of the magnitude of the increase in public expenditure e.g. 4.4pp for Azerbaijan and 3.4pp for India: relatively small increase
- Significance of the causes vary over time and between countries
- Likely to be a combination of causes that has contributed to the increase
- Changes in the level of GDP would explain short-run changes only – when the economic cycle changes country could face the reverse effect
- Ageing populations may imply that less spending is required for education and healthcare
- Interest payments depend on the interest rate as well as the amount owing
- The level of public expenditure may not be rising if GDP is falling

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.

Q15.

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

	Knowledge, Application, Analysis (12 marks) – indicative content • Understanding/explanation of national debt National debt is a cause for concern: • Rising national debts imply a fiscal deficit which has been mainly caused by deep recessions in many countries. This reflects disequilibrium between the government spending and tax revenues which may lead to structural issues in the long term. • Higher interest payments represent costs to the future generations. Less money will be available for spending on social services and they face high opportunity cost of interest payments • Higher national debt implies increased interest payments: danger of financial crowding out. Higher interest rates reduce private sector investment • Rising national debts lead to loss of confidence in the currency (euro, in case of eurozone countries) that may cause a fall in its value • Possibility of the need to seek assistance from international organisations and other countries; e.g. the IMF or the ECB in case of eurozone countries • Reduction in the country's credit rating and higher future borrowing costs. This leads to a significant loss of confidence in markets resulting in a fall in foreign direct investment (FDI) • Rising national debts could lead to inflationary pressures. If debt becomes too high, there may be insufficient investors to buy government securities. Thus, the government may have to fill the shortfall in revenue by printing money and increasing the money supply **N.B. Candidates may take either perspective as analysis and use their reverse arguments for evaluation i.e. they can argue that national debt is or is not a cause of concern** **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed 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 • National debt will be less of a concern if the fiscal deficits are cyclical and short-term rather than structural and unsustainable • Some countries like Greece and Italy faced deflation even when its debts were high/inflation will be unlikely as debts were caused by a recession following the financial crisis • Future generations will not be affected much as high inflationary pressures might erode the real value of debt. This depends on the size of national debt. • As current interest rates in most countries are low, financial crowding out may not be a significant issue • In some countries, their national debts may not be a significant issue if it is financed internally and not from borrowing • Depends on the size of national debt as a proportion of GDP; 55 percentage points increase for Portugal and 30 percentage point increase for Italy show that this will be a significant cause for concern

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

	Knowledge, application, analysis (12 marks) – indicative content Definition or understanding of public expenditure as a proportion of GDP • If public expenditure on infrastructure/education/healthcare is reduced, then the productive potential of the economy will decrease and aggregate supply may fall • Government spending is a component of aggregate demand and an injection into the circular flow of income; a reduction in public expenditure could lead to a negative multiplier effect leading to lower economic growth • Unemployment is likely to rise as there will be less demand for labour (derived demand), thus reducing average incomes • Income inequality increases as austerity measures may reduce transfer payments thereby not meeting the objective of greater income equality • Lower quality/quantity of public services implies less access to these goods and hence and standard of living is likely to fall • Less financial and resource crowding out as the government will not have to finance its spending through borrowing (lower interest rates), and there will be more factors of production available to the private sector • There is likely to be less inflationary pressures as aggregate demand decreases • Government budget balance may improve/less borrowing required/the economy may be able to begin to repay national debt • Increase in economic efficiency because of greater role for the private sector **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer** **N.B. Award positive effects as KAA and negative as 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 • Significance depends on how much public expenditure decreases by, and how great a component of aggregate demand it was to start with • The impact on real output depends on the size of the multiplier effect as the effects might be negligible if the multiplier is low • Public expenditure may still be rising, it may be that GDP is increasing at a faster rate than the rate of government spending • Effects on the real output, employment and inflation depends on the level of spare capacity in the economy • Budget position also depends on the tax revenues; if tax revenue also falls, government objective of budget balance may not improve • Less crowding out could mean aggregate demand does not fall; private investment and consumption could potentially increase • It depends on what areas of spending are cut: if spending on benefits/transfer payments is cut, individuals may have more of an incentive to work, leading to a decrease in unemployment • The size of the change in public expenditure – in the case of Spain (from 48.1% to 41.3%), it is significant

Level	Mark	Descriptor
	0	No evaluative comments.
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	Examine **two** 'problems facing central banks when applying monetary policies to reduce the rate of inflation' (Extract A, lines 11-12). **Answer**	Mark
	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two problems and up to 2 marks for linked explanations, e.g.: • Inability to control the rising rate of inflation caused by external factors/shocks **(1)**: may occur while policies are implemented or having their full impact, e.g. changes in exchange rates, prices of commodities, economic conditions in economies of main trade partners **(1)** • Difficulty in knowing whether the increase in the rate of inflation is temporary or permanent **(1)**: because inappropriate policies could be applied, e.g. significant rise in base interest rate would not be appropriate if the inflation was temporary **(1)** • Inaccurate information **(1)**: issues with estimating/sampling, time delays/time lags, inadequacy of information gathering systems and processes, shadow economy/informal sector **(1)** • Risks and uncertainties **(1)**: the effects of policies may be difficult to predict either due to a lack of information as to consumers' and/or firms' reactions **(1)**	

	Application Up to 2 marks for application from Extract A (1+1), e.g.: • Temporary issue: as a one-off increase in supply chain disruptions / one-off increase in consumer demand **(1)** • Permanent issue: as a result of rising wages **(1)** **Evaluation** Up to 2 marks for evaluative comments: • Different factors will be more important in different economies **(1)** e.g. countries with proportionally larger shadow economies, less likely to have accurate information etc. **(1)** • Other policies e.g. reflationary fiscal policy **(1)** might offset the impact of deflationary monetary policy **(1)** • Information may be becoming more accurate over time **(1)** as technology and economic understanding improves **(1)** • Historical data/information available on policy impact in the past **(1)** so not a significant issue to policymakers **(1)**	**(8)**

Q18.

Question	Explain what is meant by 'deflationary fiscal policies' (Extract A, line 10) **Answer**	Mark
	Knowledge 2, Application 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding deflationary fiscal policies, e.g.: • Government policies that involve an *increase* in taxation **(1)** and a *reduction* in government spending/public expenditure **(1)** • Deflationary fiscal policies aim to reduce AD/inflation **(1)** **Application** Up to 2 marks for application to deflationary fiscal policies, e.g.: • These policies were a condition of the loans **(1)** • Government of Greece was required to reduce its national debt **(1)** • Reduce pensions to the elderly in return for financial support **(1)** • The country's rate of economic growth fell by 25% **(1)** • Incomes of Greek citizens decreased by almost 30% **(1)** • The resulting increase in unemployment led to many young citizens leaving the country in search of work **(1)**	**(4)**

Q19.

Question	Explain what is meant by 'interest rates' (Extract A, line 4). **Answer**	Mark
	Knowledge 2, Application 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding interest rates, e.g.: • Cost of borrowing **(1)** • Reward for saving **(1)** • Monetary policy instrument **(1)** • Used to control inflation/AD **(1)** **Application** Up to 2 marks for application to interest rates, e.g.: • Rising base interest rates could lead to stagflation **(1)** • Many central banks have raised base interest rates in response to this inflationary pressure **(1)** • ECB increased its base interest rate from 0% to 1.25% **(1)** • This is an example of deflationary monetary policy **(1)**	**(4)**

Q20.

Question	Explain what is meant by 'monetary policy instruments' (Extract A, line 9). **Answer**	Mark
	Knowledge 2, Application 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding of monetary policy instruments, e.g.: • These include: ○ interest rates **(1)** ○ asset purchases / money supply / quantitative easing **(1)** ○ changes in lending criteria **(1)** ○ reserve asset (liquidity) requirements **(1)** **Application** Up to 2 marks for application to monetary policy instruments, e.g.: • Can be adjusted to meet the inflation target, e.g. of 2% **(1)** • Less effective in tackling inflation created by lack of supply **(1)** • Allow reference to example from central bank/specific country **(1)**	**(4)**

Q21.

Question	Answer	Mark
	Knowledge 2, Application 2 Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding of reduction in fiscal deficit, e.g.: • When the increase in tax revenues is greater **(1)** than the increase in public expenditure **(1)** • Public expenditure is decreasing **(1)** and government tax revenue is increasing **(1)** • Lower public sector borrowing **(1)** to finance public expenditure **(1)** **OR** 1 mark for definition of fiscal deficit – e.g. when government spending is greater than tax revenues **Application** 1 mark for application to Mauritius' public expenditure and 1 mark for application to Mauritius' tax revenue, e.g.: • Public expenditure increased from 25.1% of GDP in 2016 to 25.4% of GDP in 2017 **(1)** and total tax revenues increased from 21.7% of GDP to 22.5% of GDP **(1)** • As a proportion of GDP, public expenditure increased by 0.3 percentage points **(1)** and tax revenues increased by 0.8 percentage points **(1)** • Current and capital expenditures **(1)** increased at a slower rate than the rise in tax revenues from direct and indirect taxes **(1)** • Higher tax revenue was received from income tax, corporation tax and indirect taxes **(1)**	**(4)**

Q22.

Question Number	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 there is a fiscal deficit in 2021* ***C*** *is not correct because there is a fiscal deficit throughout the given period* ***D*** *is not correct because there is a fiscal deficit throughout the given period*	**(1)**

Q23.

Question	Between 2008 and 2018, income inequality, as measured by the Gini coefficient, increased from 0.43 to 0.51 in Angola and from 0.34 to 0.41 in Bulgaria. Evaluate government policies that could be used to reduce income inequality in a developing country 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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of income inequality • May be shown by a Lorenz curve diagram • Increase in progressiveness of tax system, for e.g. by introducing more tax bands/increasing tax free allowance; increase in taxes on unearned incomes e.g. rental and dividend income – increases government revenues that can be used as welfare payments to support the low-income households • Increasing means-tested benefits (not universal benefits), e.g. food stamps, unemployment benefit and housing benefit – provides income support to only those households that need it the most • Introduction of/increasing the National Minimum Wage: higher incomes; wage differentials between the unskilled and skilled workers will decrease • Improvements in education and training for those without qualifications: increases human capital, productivity and therefore incomes • Measures to reduce unemployment - for e.g., governments could implement reflationary fiscal policy or supply side policies to create jobs • Place restrictions on immigration of unskilled workers as this will reduce downward pressure on wages of those on low incomes • Reduction in taxes on expenditure and/or other regressive taxes: will take lower percentage of disposable income of the low-income households

	• Improvements in government provision of public services such as healthcare, education, social housing; provision of pension schemes • Measures that increase the power of trade unions: more workers are likely to be employed permanently/full-time rather than part-time or on zero-hour contracts – stable incomes; help to reduce monopsony power of employers • Reduction in incentives to have large families e.g. reduction in child benefits • Price caps/subsidies on essential goods and services e.g. energy, food • Measures to reduce discrimination e.g. age and gender **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing 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

- Progressive tax increases may cause increase in number of tax exiles or increase in tax evasion and avoidance; fall in tax revenues (using Laffer curve analysis); does not address the underlying cause of income inequality
- Administrative costs associated with means-testing may be high; inflation may mean that the benefits might not increase in real terms; can also act as a disincentive to work
- Introduction/increase in the NMW might result in higher unemployment and an increase in inequality; wages/unearned incomes of those in the highest income brackets might increase at a faster rate; this has no impact on the unemployed, students, pensioners, etc.
- Depends on quality and relevance of improvements in education and training – what courses have been promoted; time lags before reduction in inequality
- Even after reducing unemployment, wages may still be below benefits hence not creating an incentive to work; could have inflationary consequences
- Could result in a decline in the working population and therefore productive potential could decrease in the long run
- Might lead to a reduction in government revenues and hence less spending on measures which could reduce inequality
- Increasing the trade union power will lead to inflexible and inefficient labour markets; unlikely to attract FDI and hence less jobs may be created
- Different factors more or less important for different countries; prioritisation
- One policy on its own is unlikely to be effective but a combination of policies needs to be implemented to reduce the rising income inequality

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q24.

Question 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 Hungary has a proportional tax system* ***B*** *is not correct because Hungary has a proportional tax system* ***D*** *is not correct because Hungary has a proportional tax system*	**(1)**

Q25.

Question Number	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 because this would lead to an increase in the rate of inflation* ***B*** *is not correct because this would lead to an increase in debt servicing costs* ***D*** *is not correct because tax revenues are likely to be decreasing*	**(1)**

Q26.

Question Number	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 because there is no impact on comparative advantage* ***B*** *is not correct because there will be an increase in interest rates* ***D*** *is not correct because there is likely to be a decrease in the external value of the currency*	**(1)**

Q27.

Question Number	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 it will increase income inequality* ***C*** *is not correct because it will increase income inequality* ***D*** *is not correct because it will increase income inequality*	**(1)**

Q28.

Question	With reference to Figure 1 and Extract A, explain what is meant by an 'inflation target' (Extract A, line 5). **Answer**	Mark
	Knowledge 2, Application 2 Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding of an 'inflation target', e.g.: • Central bank objective of meeting a desired inflation rate / an inflation rate that the central bank wants to achieve **(1)** • Meeting the objective of low stable inflation **(1)** • Adjusting monetary policy to achieve that rate **(1)** **Application** 1 mark for application to Figure 1: • Japan's rate of inflation rose to 0.8% in December 2021 / • Bank of Japan has not met its inflation target in any month **(1)** 1 mark for application to Extract A: • Japan's rate of inflation started to increase in October 2021 / • Japan's inflation rate was below the BoJ's inflation target of 2% / • It was also lower than the rates of inflation experienced in several other advanced economies **(1)** Or 2 marks for reference to both Figure 1 and Extract A e.g.: • In December 2021, Japan's rate of inflation was 1.2 percentage points **(1)** below the BoJ's inflation target of 2% **(1)**	**(4)**

Q29.

Question	With reference to Extract C, discuss policies that the Japanese Government could implement to increase the country's long-term rate of economic growth. **Indicative content**
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (8 marks) – indicative content** • Understanding of potential economic growth • "Investment in the labour force" – greater levels of, or more targeted, spending on education and training will increase skills/reduce skills gap and raise human capital; hence increased productivity levels, which will increase long-term economic growth • "Investment in healthcare" – more spending on healthcare will create a healthier and more productive workforce. This will lead to an increase in potential GDP and allow for significant improvements in quality of output • "Investment in infrastructure" – developments to infrastructure through improved transport links and communications will encourage more trade and lead to increased efficiency; increases long-term economic growth **NB Award maximum of Level 2 for policies not mentioned in the extract**

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 that 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 • Impact on economic growth will depend on the size of direct cash payments and/or the magnitude of investment in Japan's labour force, healthcare and infrastructure • Significant time lags and implementation lags involved with these policies • Interventionist policies could increase public expenditure that may have an opportunity cost/have an adverse effect on public finances – "there remain concerns over additional spending due to Japan's large national debt" • Government spending can also increase resource/financial crowding out • Effectiveness of policies in achieving long-term economic growth ○ investment in labour force: depends on the quality of the education and training programmes; workers may not take up jobs that they have been educated and trained in ○ investment in healthcare: depends which areas of healthcare the state has increased its funding, e.g. geriatric care ○ investment in infrastructure: depends on the quality of infrastructure projects undertaken by the government • Discussion of the conflicts between the macroeconomic objectives/policies, e.g. economic growth and protection of the environment

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.

Q30.

Question Number	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 because it is likely to decrease money supply* ***B*** *is not correct because it is likely to decrease real output* ***D*** *is not correct because it is likely to increase the rate of unemployment*	**(1)**

Q31.

Question	In 2020 the Government of Chile increased the top rate of income tax from 35% to 40%. Evaluate the likely macroeconomic effects of an increase in the top rate of income tax on a country 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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application, Analysis (12 marks) – indicative content • Understanding of income tax • Impact on incentives to work: could act as disincentive for Chile's citizens to take higher paid jobs; less overtime hours worked and/or less promotion opportunities sought by high income earners • Tax revenues: these might be expected to increase (reference to Laffer curve analysis); help reduce the country's fiscal deficit and improve Chile's public finances • Could cause an increase in tax evasion (illegal) and tax avoidance (legal); could also lead to an increase in the number of tax exiles • Increased income equality: the tax system is more progressive; if taxes collected are used to redistribute incomes to the low-income households, then income distribution will become more equal • Impact on AD and economic growth, unemployment, and inflation: can be represented by an AD/AS diagram; reference to the multiplier • Improvement of trade balance: increase in top rate of income tax would cause a fall in disposable income for top earners and this reduces their consumption and imports • Fall in FDI flows: entrepreneurs and senior managers from TNCs would see a decrease in their disposable income, assuming they would be based in the country for which the FDI was destined **NB Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice in their answer** **NB Allow negative effects as the KAA and positive effects as evaluation (and 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

- Depends on the extent of the disincentive effects of the income tax; high income earners in Chile might continue to work hard to maintain their standard of living
- Tax revenues may fall if the tax rate is increased beyond the optimal rate; reference to the Laffer curve analysis; also depends on the overall impact on AD and on economic growth
- Depends on powers of Chile's tax authorities to collect taxes; extent of tax evasion and tax avoidance; income tax is not the only factor influencing a person's decision on where to live
- Depends on how tax revenues are used by Chile's Government and whether other fiscal changes offset the impact of this income tax
- Depends on the elasticity of the LRAS/level of spare capacity; impact could depend on the changes in other components of AD; if savings are reduced to pay for the higher income tax, then the effects will be minimal
- Depends on taxpayer's marginal propensity to consume/marginal propensity to import; depends on the PED of imports
- Other factors also affect FDI flows and are not just dependent on changes in income tax, e.g. business confidence, rate of economic growth, interest rate
- Overall impact would depend on how many people in Chile are affected by the top rate of income tax
- Magnitude of the increase in the top rate of income tax – 5 percentage points

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 Figure 2 and the third paragraph of Extract A, explain what is meant by the 'rate of inflation'. **Answer**	Mark
	Knowledge 2, Application 2 Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **QS10**: Distinguish between changes in the level of a variable, and the rate of change. **Knowledge** Up to 2 marks for understanding rate of inflation, e.g.: • Percentage **(1)** • increase/change in the *price level* of the economy / increase/change in the *average* prices of goods and services **(1)** **Application** 1 mark for application to Figure 2, e.g.: • Between Jan 2022 and Jan 2023, rate of inflation rose from around 14% to 54% / by around 40 percentage points **(1)** *AND* 1 mark for application to Extract A, e.g.: • increasing rates of inflation as a result of rising global food and energy prices (commodity prices) / depreciation of Ghana's currency, the cedi, against the US dollar **(1)**	**(4)**

Q33.

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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (8 marks) – indicative content** Measures include: • Increasing training programmes to increase labour productivity through development of skills and human capital. This will "reduce the economy's skills mismatch", increasing the private sectors access to "scientists and engineers". It will allow firms to raise competitiveness in global markets • Subsidies/tax incentives may encourage firms to invest in innovation which would not otherwise be started due to the high risk and cost involved. This allows firms to gain technical economies of scale and dynamic efficiency. It helps reduce problem of "lack of finance to fund research and development" • Decreasing administrative/regulatory burdens on large companies and SMEs. Reducing "bureaucracy" simplifies the processes of buying land and gaining environmental clearances. This would otherwise hinder entrepreneurship in the private sector • Improving infrastructure helps to address the bottlenecks in "power sources, water supply, transport, and telecommunications". It ensures the stability of electricity, no water shortages, good transport and telecommunication links. This helps raise total factor productivity through fall in costs for the private sector, thereby allowing more efficient use of productive inputs

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 that 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 needs to significantly spend on improving the private sector, especially the SMEs as they "contributed to 40% of the country's GDP and employed 55% of the country's workforce" • Spending on training and infrastructure requires large public expenditure – "Financing of these infrastructure developments remains a key issue because the country has relatively high levels of public sector debt". • Investment in training carries time lags. There may be no guarantee of work after training as the skills may become obsolete. Therefore the "shortage of highly qualified labour" is likely to remain • Risk of funding inefficient firms could lead to a misallocation of resources. It is likely to encourage inefficiency in large companies and SMEs in the private sector • Bureaucracy is not the main factor that is restricting growth of the private sector. Mauritius is the "most business-friendly countries in the region." It has already made progress in "starting a business, dealing with construction permits and registering property" which have simplified regulatory burdens • Planning infrastructure projects takes time, so it is not clear how quickly growth from this investment would become evident for the private sector. The benefits to the private sector depend on the quality of infrastructure

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.

Q34.

Question Number	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 this is not a government policy to control TNCs* ***B*** *is not correct because this is not a government policy to control TNCs* ***C*** *is not correct because this is not a government policy to control TNCs*	**(1)**

Q35.

Question Number	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 in Spain public expenditure as a percentage of GDP must have been lower than in France* ***C*** *is not correct because this relates to the trade deficit of France* ***D*** *is not correct because there is likely to be greater crowding out in Spain than in the UK*	**(1)**

Q36.

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, tabular and numerical forms. **Knowledge, application and analysis (8 marks) – indicative content** Policies include: • Increasing means-tested benefits (not universal benefits), e.g. income support, housing benefit – helps those families in greatest need • Ending residential segregation – segregation by income, particularly isolation of low-income households correlates with reduced levels of upward mobility • Improvements in education and training for those without qualifications help increase skills and human capital, raises productivity and employability • Improvements in state provision of public services such as healthcare and social housing will assist lower income households • Reducing discrimination will allow for equal opportunities in employment and lead to higher wages/living standards for those underrepresented groups • Increasing minimum wages – higher wages for the lowest-paid workers has the potential to help people out of poverty and increase real incomes • Increase in progressiveness of tax system, e.g. by introducing more tax bands; increasing tax free allowance – this will provide more economic support for the working poor: 'a reconsideration of how economic gains are shared.'

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 that 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
	• Increased complexity and cost of running welfare, risk of poverty trap from withdrawal of income-related benefits; this does not address main causes of inequality such as low pay or skills gaps • Depends on the quality of education and training programmes in place; workers may not take up jobs in which they are educated and trained and productivity is likely to remain low • State provision might have a relatively insignificant effect in the advanced economies, as this provision is already extensive • Increase in the NMW might result in higher unemployment and increase in inequality; wages and unearned incomes of those in highest income bracket might increase at faster rate; has no impact on the unemployed or students • Progressive tax increases may cause increase in number of tax exiles and/or increase in tax evasion and avoidance: fall in tax revenue (using Laffer curve analysis). It could also reduce incentive to work • Some of the gender/age gap may reflect cultural norms • Time lag and implementation lag issues

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 Number	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 there will be an increase in unemployment* ***C*** *is not correct because there will be a decrease in injections* ***D*** *is not correct because there will be a decrease in inflationary pressures*	**(1)**

Q38.

Question Number	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 transfer payments relate to payments made by government to individuals in the form of benefits* ***B*** *is not correct because automatic stabilisers are not a discretionary fiscal policy* ***C*** *is not correct because the government's current expenditure is an example of its day-to-day spending*	**(1)**

Q39.

Question	In 2021, the Government of Pakistan made a debt servicing payment of $32.27 billion. With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working. **Answer**	Mark
	Application 2 Quantitative skills assessed: **QS1**: Calculate, use and understand ratios and fractions. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • ($32.27 billion / $145.25 billion) x 100 **(1)** • 22.22% **(1)** **NB** Award 2 marks for correct answer (22.22% / 22.2% / 22%) **NB** Award only 1 mark for 22.22 billion / 22.2 billion / 22 billion / 22	**(2)**

Q40.

Question	In 2021 it was estimated that a large proportion of the fiscal deficits in both Brazil and Suriname was structural. To what extent is a structural fiscal deficit more serious than a cyclical fiscal deficit? Refer to a developing country of your choice in your answer. **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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application and Analysis (12 marks) – indicative content • Understanding of fiscal deficit • Meaning of structural fiscal deficit: estimate of how large the deficit would be if the economy were to operate at a normal, sustainable level of employment and activity/long-run trend rate of output • Meaning of cyclical fiscal deficit: usually caused by a deficiency in aggregate demand, e.g. when the economy is in a period of recession • Structural deficit could be permanent if no measures are taken to reduce or eliminate it, and this would imply continuous fiscal deficits and an increasing national debt • Structural deficits may require tax rises and/or cuts in public expenditure • Analysis of problems of a rising national debt include: ○ reduction in the credit rating ○ cost for the future generations ○ crowding out (resource and financial) ○ cost implications of servicing the debt ○ danger of increased inflationary pressures • Cyclical deficit is likely to be temporary • Cyclical deficit may be necessary to generate economic growth during a period of economic decline **N.B. Accept why structural fiscal deficit is more serious as KAA and why it is not 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: in some developing countries, structural deficit is a little smaller than the overall deficit - the remaining 'cyclical' part of the deficit would disappear automatically as the economy returns to its trend rate of growth
- Asymmetric information – it is hard to know precisely what the sustainable level would be, so these estimates are always uncertain/unreliable
- Depends how large either type of deficit is (both in money terms and as a percentage of GDP) and how long they last for
- Depends on what the fiscal deficit funds e.g. infrastructure spending will result in higher future economic growth and reducing the future fiscal deficit
- Cyclical deficit might also have a long-term effect on the national debt
- Might not be easy to determine whether deficit/debt is structural or cyclical
- Depends on the size of the fiscal deficit as a percentage/proportion of GDP

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.