

OCR A-LEVEL ECONOMICS • H460

ECONOMICS



EXAM QUESTION PACK

ECONOMIC POLICY OBJECTIVES

SCORE

/612

PERCENTAGE

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STEMUP

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- 1(a) In 2014 a new term 'lowflation' was invented by Simon Kennedy of Bloomberg News. He defined it as a situation where prices are rising but not fast enough to provide the benefits delivered by higher inflation. A number of economists and economic institutions now use the term. The International Monetary Fund, for instance, employs the term to describe disinflation with a risk of deflation.
- 5

Lowflation may mean that inflation is below any target set by the government or central bank of a country. Table 1 shows the target rate for inflation, the inflation rate and the nominal interest rate of five countries in 2015.

Table 1 – Inflation target, inflation rate and interest rate for selected countries, 2015

Country	Inflation target (%)	Inflation rate (%)	Interest rate (%)
Mexico	3 +/- 1	2.6	6.1
Russia	4.5	15.3	10.2
South Africa	3 – 6	4.7	9.6
Turkey	5 +/- 2	7.6	11.1
UK	2 +/- 1	0.1	1.8

- The main policy tool used by central banks to keep inflation within target is the rate of interest.
- 10 In some circumstances, central banks use quantitative easing to inject money directly into the economy and to help firms find it easier and cheaper to borrow from a range of financial institutions. A possible effect of quantitative easing is to increase the amount of money in commercial banks and so banks' ability to lend. The Bank of England has also used forward guidance to influence expectations about future levels of interest rates.
- 15 As Table 1 shows the rate of inflation experienced varied between countries in 2015. A number of countries, including Japan, the UK and the USA experienced lowflation. There was concern in these countries that they might experience a deflationary spiral such as that shown in Fig. 1.

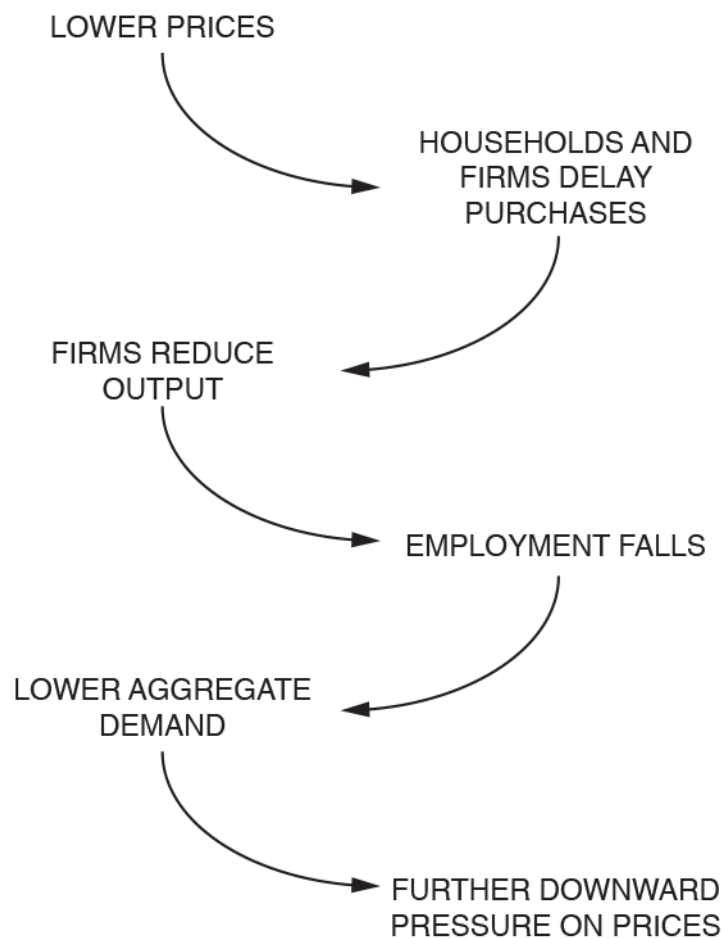


Fig. 1 – The deflationary spiral

20 Other countries experienced high inflation in 2015. A number of these were commodity exporters which were affected by the fall in the price of commodities which tend to have price inelastic demand. For instance, several oil exporting countries saw their price level rise as a result of the fall in the price of oil and the resulting impact this had on their exchange rates.

Inflation can have a number of effects on an economy. One of these is that it can redistribute income. Fig. 2 shows the Lorenz curves for three countries in 2014.

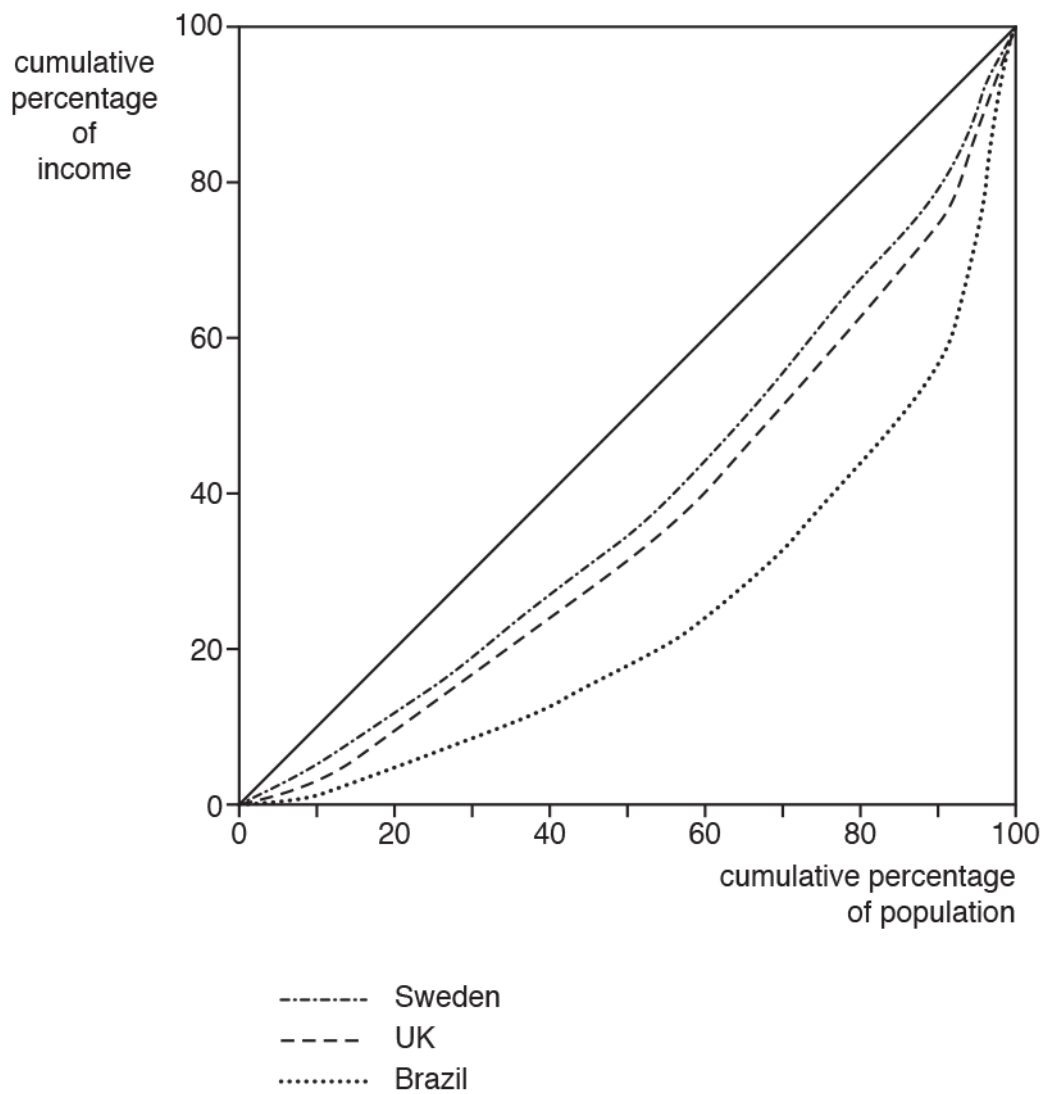


Fig. 2 – Lorenz curves for Brazil, Sweden and the UK, 2014

Please read the extract above or refer to insert H460-02 June 2017, **Lowflation**, which can be downloaded separately.

Distinguish between disinflation and deflation.

[2]

(b)

(i) Using Table 1, calculate which country had the highest real interest rate in 2015.

Country -----

[1]

(ii) Using Table 1, explain which central bank would have been most likely to have engaged in quantitative easing.

[3]

(c)

(i) Using Fig. 2, explain which country had the most even distribution of income.

Country

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[2]

(ii) Using Fig. 2, calculate what percentage of income the second lowest 20% of income earners received in the UK. Show your workings.

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[2]

(d) Evaluate to what extent a fall in the price of oil would cause inflation in oil exporting countries.

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2 * At the start of 2016, Singapore had an unemployment rate of only 3.4%. This compared with an unemployment rate of 10.7% for the Eurozone.

Evaluate, with the use of an appropriate diagram(s), whether achieving full employment will always benefit an economy.

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3 * Vietnam, a low-income country, is one of the fastest growing economies with a falling rate of poverty.

Evaluate whether economic growth will reduce poverty.

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[25]

4 * Recorded remittances to developing economies reached \$440 billion in 2015.

Evaluate whether the receipt of remittances benefits developing economies.

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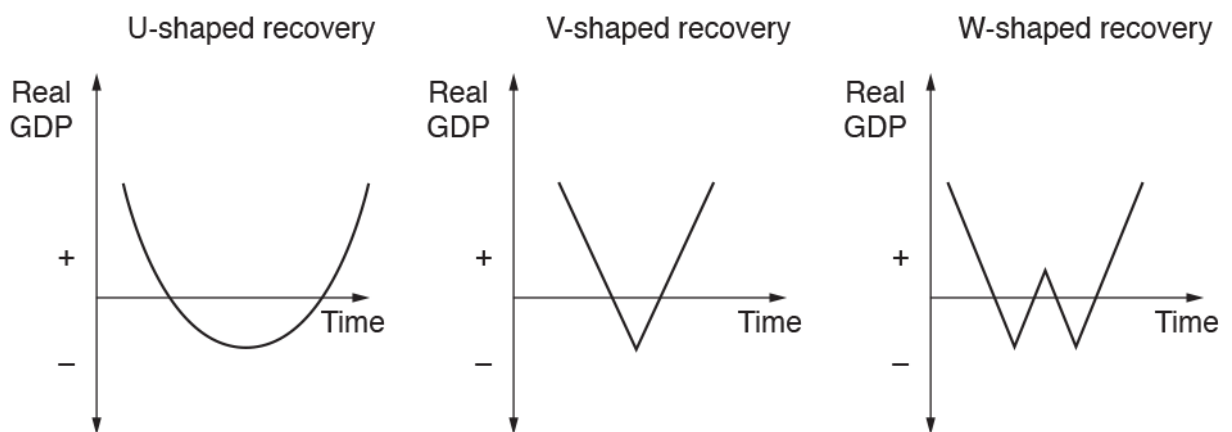
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In the last two decades the Icelandic economy has experienced some significant changes in economic activity. One influencing factor has been changes in the standard rate of income tax. The rate was cut in a number of stages from 46% to 36% in 2006. Despite the lower income tax rate, government income tax revenue rose, allowing the government to spend more on the country's infrastructure. In 2009 and 2010 the income tax rate was increased.

In the period 2008 to 2011, the economy experienced a serious recession. The country's three largest banks were allowed to fail. It was the third largest bankruptcy in history and, according to the size of the economy, the biggest banking failure in history. The value of the country's stock market fell by 95%, the currency declined in value by 60%, unemployment increased by 8% and inflation rose to 12%.

From 2011 the economy has made a remarkable recovery. In 2014 its real GDP was US\$14.85bn and it grew by 4% in 2015, one of the fastest rates in Europe. Economists have developed an 'alphabet' of recoveries with the three most common types shown in Fig. 1.

Fig. 1 Different types of economic recovery



In 2015 the Icelandic government was paying back its loans to the International Monetary Fund early. It had removed capital controls and had reformed the country's financial sector. A number of the country's industries were expanding, most noticeably its tourist industry. Income from tourism can fluctuate significantly. In 2015 the total contribution of Iceland's tourist industry to the country's GDP was 23%. The impressive growth of Iceland's tourist industry was contributing to a fall in unemployment due to a rise in hotel construction, and an increase in infrastructure, although this was also putting pressure on house prices as people were buying them to rent out to tourists. In 2015 the unemployment rate was 5.3%, which was lower than in many European countries, but it was predicted to rise in 2016.

For a small country with a population of only 0.33 million in 2014, Iceland has a relatively high HDI value. Fig. 2 shows some details of the HDI values of six countries.

Fig. 2 The Human Development Index of six selected countries

Country	HDI ranking 2014	HDI value 2014	GNI per capita (US\$) 2014
Norway	1	0.944	64,992
Australia	2	0.935	42,261
Germany	6	0.916	43,918
USA	8	0.915	52,947
UK	14	0.907	39,267
Iceland	16	0.898	35,182

- 25 As Iceland's economy has grown, so has the country's aid for developing countries. In 2013, for instance, its foreign aid budget increased by 27.8%.

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Using information from the stimulus material, including Fig. 2, calculate the difference between Iceland's real GDP per head and its GNI per capita in 2014.

----- [2]

(b) Using Fig. 2, explain why Australia had a higher HDI value than the USA in 2014.

----- [2]

* Japan's macroeconomic performance in recent years has been influenced by its experience of deflation.

Evaluate, with the use of an appropriate diagram(s), whether deflation always harms a country's macroeconomic performance.

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7 Which school of macroeconomic thought became dominant as a result of the Great Depression?

- A Austrian
- B Classical
- C Keynesian
- D Monetarist

Your answer

[1]

8 Which of the following is the most likely impact of a government decision to increase the top rate of income tax and make means tested benefit more generous?

	Lorenz Curve	Gini coefficient
A	Shifts left	Decreases
B	Shifts left	Increases
C	Shifts right	Decreases
D	Shifts right	Increases

Your answer

[1]

9 Which of the following pairs of macroeconomic objectives does the Phillips Curve illustrate a trade-off between?

- A Growth and the balance of payments
- B Growth and unemployment
- C Inflation and the balance of payments
- D Unemployment and inflation

Your answer

[1]

10 What is the balance on the current account based on the information given about the country below?

Component	Balance (USD, millions)
Foreign direct investment	–4,015
Foreign purchases of domestic assets	–985
Secondary income (net international transfers)	158
Primary income (net investment income)	2,055
Trade in goods	3,974
Trade in services	–1,201

- A –\$32 million
- B \$2,773 million
- C \$4,001 million
- D \$4,986 million

Your answer

[1]

11 In February 2016 global bank HSBC announced its intentions to keep its headquarters in the UK, having considered moving them to Hong Kong. Two months later it announced a new loan scheme for small and medium sized firms including small textile firms. In which sectors of the economy do HSBC and textile firms operate?

	HSBC	Textile firms
A	Primary	Tertiary
B	Secondary	Primary
C	Secondary	Tertiary
D	Tertiary	Secondary

Your answer

[1]

12 In the UK the price level increased by 1.5% in 2014 and 0% in 2015. Which of the following terms describes what was happening between 2014 and 2015?

- A Deflation
- B Disinflation
- C Inflation
- D Hyperinflation

Your answer

[1]

13 Please refer to insert **H460-03 June 2017, Housing**, which can be downloaded separately and is also included with Question 31.

Economic theory would suggest there is a positive correlation between economic growth and the quality of housing. Explain whether the data in Fig. 3.1 supports this view.

[2]

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15 Which of the following is a component of the Human Development Index?

- A Air quality
- B Cost of crime
- C Income inequality
- D Life expectancy at birth

Your answer

[1]

16 Which of the following identifies the stages of the economic cycle experienced by the UK economy between 1998 and 2016?

	1998–2007	2008–2009	2010–2014	2015–2016
A	Boom	Recession	Recovery	Slowdown
B	Recession	Recovery	Boom	Slowdown
C	Recovery	Recession	Boom	Slowdown
D	Slowdown	Recession	Recovery	Boom

Your answer

[1]

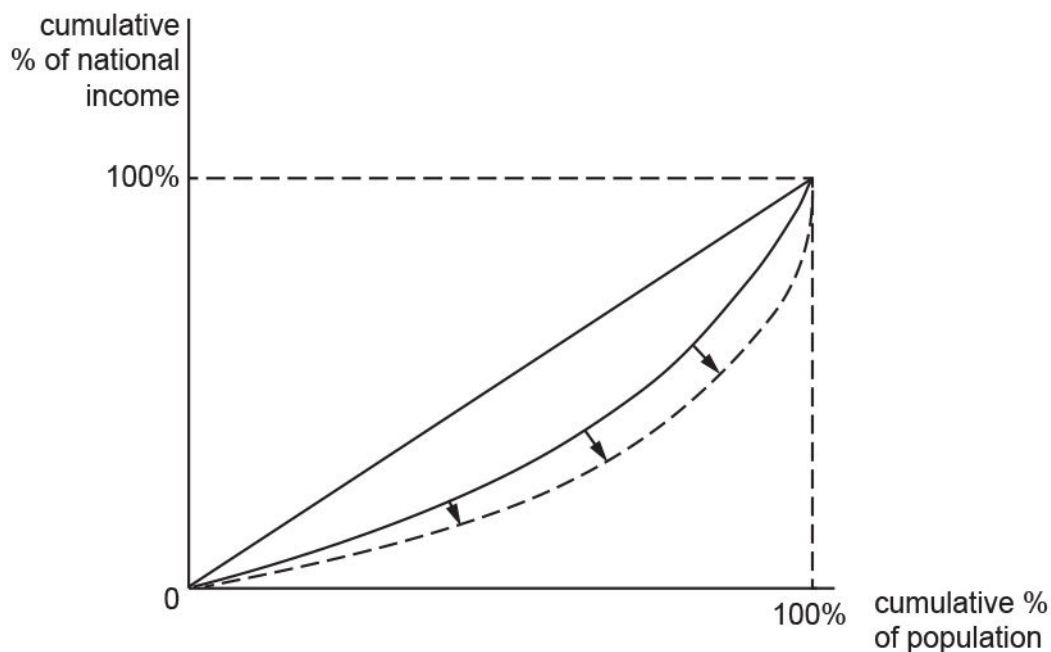
17 In which of the following cases will the natural rate of unemployment increase?

- A Regional house price differentials increase
- B The demand for labour falls
- C The school leaving age increases
- D Unemployment benefits decrease

Your answer

[1]

- 18 The initial distribution of income in a country is shown by the continuous line in the diagram. It then changes and the new distribution is shown by the dotted line. Which one of the following statements describes this change?



- A Absolute poverty has increased
- B Income inequality has increased
- C Relative poverty has decreased
- D The Gini coefficient has decreased

Your answer

☐

[1]

- 19 What does the environmental Kuznets curve illustrate?

- A Environmental degradation is negatively correlated with economic growth
- B Environmental degradation is positively correlated with economic growth
- C The correlation between environmental degradation and economic growth changes from negative to positive as a country develops
- D The correlation between environmental degradation and economic growth changes from positive to negative as a country develops

Your answer

☐

[1]

20 A country’s nominal GDP in 2013 was £800bn. The nominal growth rate in 2014 was 5%. Using the price index below, what is real GDP in 2014 at 2010 prices?

Year	2010	2011	2012	2013	2014	2015
Price index	100	105	112	116	120	127

- A £700bn
- B £720bn
- C £812bn
- D £840bn

Your answer

[1]

21 Please refer to insert **H460-03 June 2018, Olympic Games**, which can be downloaded separately and is also included with Question 31.

Evaluate, using the information in Extract 1, whether expenditure on the Olympic Games represents sustainable investment.

[8]

- Using Fig. 3.1, describe what happened to bicycle prices in the period 2007–2015.

Using Fig. 3.1, describe what happened to bicycle prices in the period 2007–2015.

[2]

Economists describe rivers as common access resources. This means that they have special characteristics. They are rival and non-excludable.

The Danube River is the second largest river basin in Europe. It is also the world's most international river basin as it flows through 11 countries, these include seven European Union (EU) member states; the two EU candidate countries, of Serbia and Montenegro plus Moldova and the Ukraine. The river basin has a large impact on all of these countries. It has been estimated that 20 million people depend directly on the Danube River for drinking water. The industrial and mining sectors, which account for over 25% of the employment and over 30% of the GDP for the 11 countries, use over 5 billion cubic metres of water every year, much of which is drawn from the river and often returned to it.

The chemical, food, and paper industries are amongst the main industrial polluters in the Danube River Basin. Discharges from these industries significantly raise the levels of pollutants in the river network. The degree of industrial development and the pollution caused by the industrial sector varies amongst the countries. The immediate environmental impacts of the inadequate treatment and storage of industrial and mining waste include water pollution and soil contamination. Other longer-term impacts may include the depletion of natural resources, landscape degradation, reductions in biodiversity and health risks.

The environmental problems associated with industrial activities and mining are mainly caused by:

- the use of outdated production technologies
- the use of harmful substances that could be substituted
- discharges of waste water into the sewerage systems without pre-treatment
- inadequate treatment facilities.

Romania, an EU member state since 2007, is one of the countries using the Danube River. The amount of water pollution it has produced over recent years is shown in Fig. 1. Biological oxygen demand (BOD) is a measurement of pollution in a sample of water – the higher the BOD, the higher the amount of pollution.

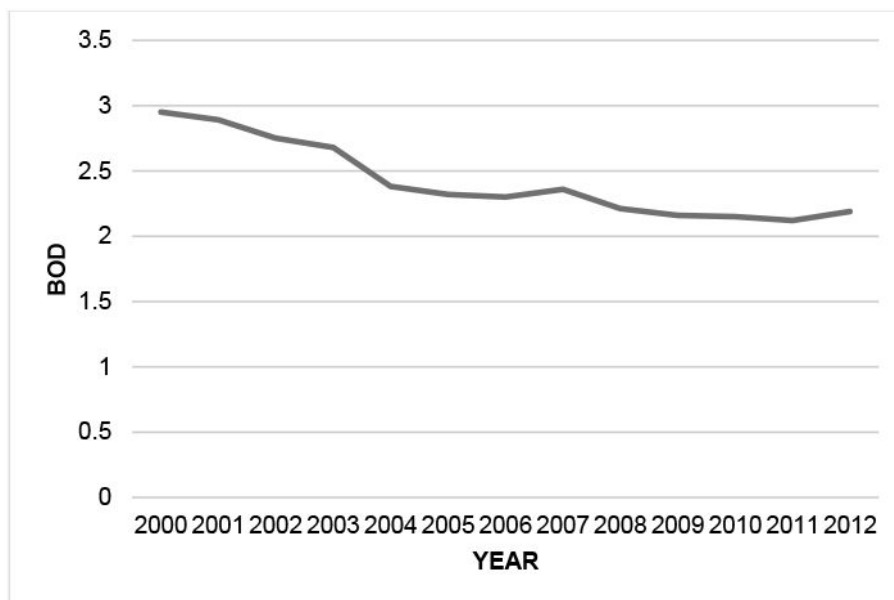


Fig.1 Water pollution in Romania 2000 to 2012.

The International Commission for the Protection of the Danube River (ICPDR) is responsible for the implementation of all aspects of the EU Water Framework Directive (WFD). The ICPDR has recommended policies to tackle the environmental problems. They believe that pollution from industry and mining can be significantly reduced through suitable investment in pollution reduction facilities. The ICPDR estimates that the necessary investments amount to 200 million Euros. The funding for such projects is provided by member states, an example of which is given in Fig.2.

Country	GDP per capita. 2013. \$	Contribution to ICPDR. 2013. Euros.
Romania	6,067	98,000
Montenegro	4,690	28,488
Moldova	1,138	11,395
Contribution from other 8 countries	N/A	1,001,651
Total		1,139,534

Fig.2 Financial contribution to ICPDR and GDP per head by selected country.

As well as this investment the ICPDR suggests that each country should introduce and enforce an appropriate legal framework including regulation and environmental standards. It is expected that this would ensure adequate management, the closure of any unacceptable sites and the construction of new environmentally friendly landfills.

*Please refer to Insert H460-01 Practice 1, which can be downloaded separately and is also included above.

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[12]

24 * Despite decades of positive economic growth in the UK, a more equal distribution of income remains a major economic objective of the UK government.

Evaluate the effectiveness of changes in the tax and benefit system in reducing the level of income inequality in the UK.

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[25]

The UK labour market has experienced both a large increase and significant changes in the past 20 years. Data published in the UK's Labour Force Survey in October 2017 shows employment continuing to rise and unemployment falling, as seen in Fig. 1.

Fig. 1 – UK labour market statistics for June to August 2017

	Number ('000)	Change on previous quarter ('000)	Change on previous year ('000)
Employed	30923	109	363
Unemployed	1418	–63	–224
Economically Inactive (Aged 16–64)	8812	–17	–13

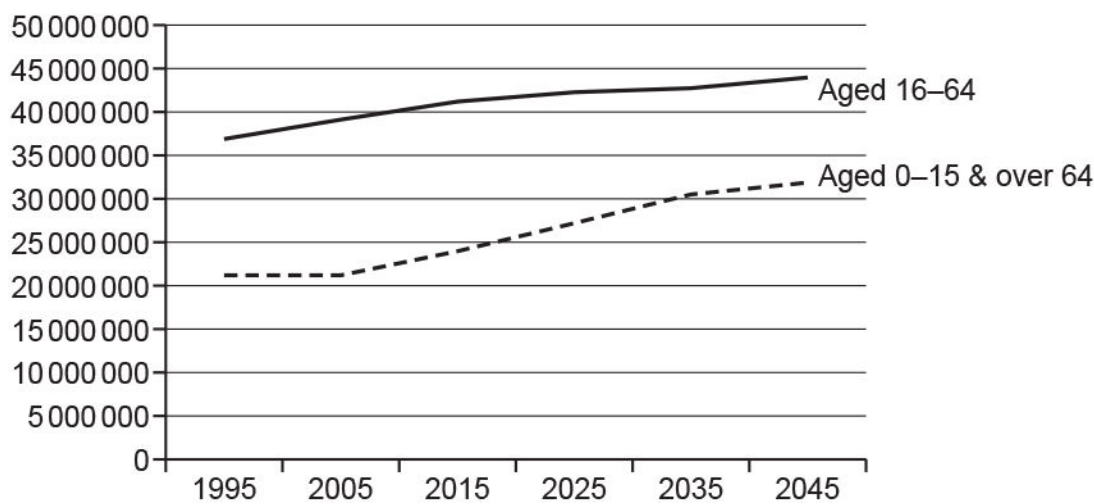
Source: ONS

The unemployment rate was at a 42-year low, although there was still some slack in the labour market. Other evidence in the October 2017 data included:

- average weekly earnings for employees increased by 2.2% in nominal terms, compared with a year earlier.
- average weekly earnings for employees decreased by 0.3% in real terms, compared with a year earlier.
- employment growth was strongest for those aged 25–34 years and 50–64 years.
- employment fell among young people aged 16–24 years.
- growth in employment over the year was greater for women (up by 246 000) than for men (up by 71 000).
- employment growth was not equal across the country, with the biggest increases in the West Midlands, London, Scotland and the South East but large falls in the South West, East Midlands and Wales.
- the proportion of workers in temporary jobs because a permanent one was not available was 27.6%.
- the proportion of people working part-time because they could not find a full-time job was 12.3%.

The UK economy has created nearly 6 million new jobs in the last 20 years which was necessary given the increase in the UK population over this period (see Fig. 2). Many of these extra jobs were primarily due to an increase in self-employment and employees in part-time work.

Fig. 2 – UK population estimates 1995–2045



Source: ONS

The 'gig economy'

Each day, just before lunch, couriers dressed in the distinctive green and black uniform of Deliveroo, the online food delivery company, arrive at the end of the street, park their bikes next to a bench and wait. Holding their smartphones, they wait for someone, somewhere in the city, to place an order with one of the nearby restaurants and cafés. When an order comes through, one of the couriers will pick it up and deliver it in exchange for a small fee. They will then return to the bench to wait for another call.

Welcome to the 'gig economy' which can be defined as, "a labour market characterised by the large number of short-term contracts or freelance work, as opposed to permanent jobs".

Plenty of people in early 21st-century Britain can identify with the experience of working for a company like Deliveroo. But even more people are employed on zero-hour contracts in a wide variety of jobs, from stacking shelves to waiting tables to caring for the elderly. According to the Office for National Statistics, around 900 000 workers rely on a job with a zero-hour contract. These people start every week not knowing how much work they will get or how much money they will earn. Informal or casual employment of this kind helps explain why the UK's unemployment rate has not grown out of control since the financial crash of 2008. This increased labour market flexibility has made it easier and less risky to employ workers, especially for monopolistically competitive firms who will expect to see a fall in their average costs.

However, opponents of the growth in casual employment, including the trade unions, claim that there are underlying problems associated with this labour model. Millions of people are "just about managing" and many are faring much worse. In the 12 months up to March 2017, the UK's largest food bank charity gave out more than one million emergency food parcels to people in desperate need. At the same time, household debt has grown to 150% of income. This debt has been fuelled by low wage growth and low interest rates which has made credit easily available. But the main issue for the estimated 8.3 million people living with unmanageable debt is needing to borrow money to survive.

It is no more than a coincidence that these concerns are happening in a year which recognises the 75th anniversary of the founding of the UK welfare state which was set up to focus on, among other issues, a problem that had grown since the early 1800s: that many workers struggled to earn regular and reliable wages throughout the entire year. However, some have come to regard the welfare state simply as a cost to be kept down rather than part of an economic and social strategy that aims to deliver security for all. Successive governments have cut benefits and altered the tax system to move the burden away from more progressive direct taxation towards more regressive indirect taxation.

Fig. 3 shows the effect on different groups of households by comparing their original income earned from employment with their final disposable income after benefits and taxation have been taken into account.

Fig. 3 – Average incomes, taxes and benefits of households by decile group, 2015/16

	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	All households
Original income	6 286	13 988	17 410	25 754	31 424	39 293	47 963	59 622	68 968	117 960	42 867
+ Total cash benefits	6 387	7 748	8 313	6 319	4 494	3 729	2 368	2 283	2 004	1 544	4 519
Gross income	12 673	21 736	25 723	32 074	35 918	43 022	50 331	61 905	70 972	119 504	47 386
– Direct taxes	1 528	2 299	3 046	4 794	5 940	7 931	10 091	13 199	15 534	29 991	9 435
Disposable income	11 145	19 437	22 677	27 280	29 978	35 091	40 239	48 706	55 438	89 513	37 951

Source: ONS

Please refer to insert H460-01 June 2019, which can be downloaded separately and is included above. Evaluate whether income inequality in the UK is a cause for concern.

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26 * Despite decades of positive economic growth in the U.K., a more equal distribution of income remains a major economic objective of the U.K. government.

Evaluate the effectiveness of changes in the tax and benefit system in reducing the level of income inequality in the U.K.

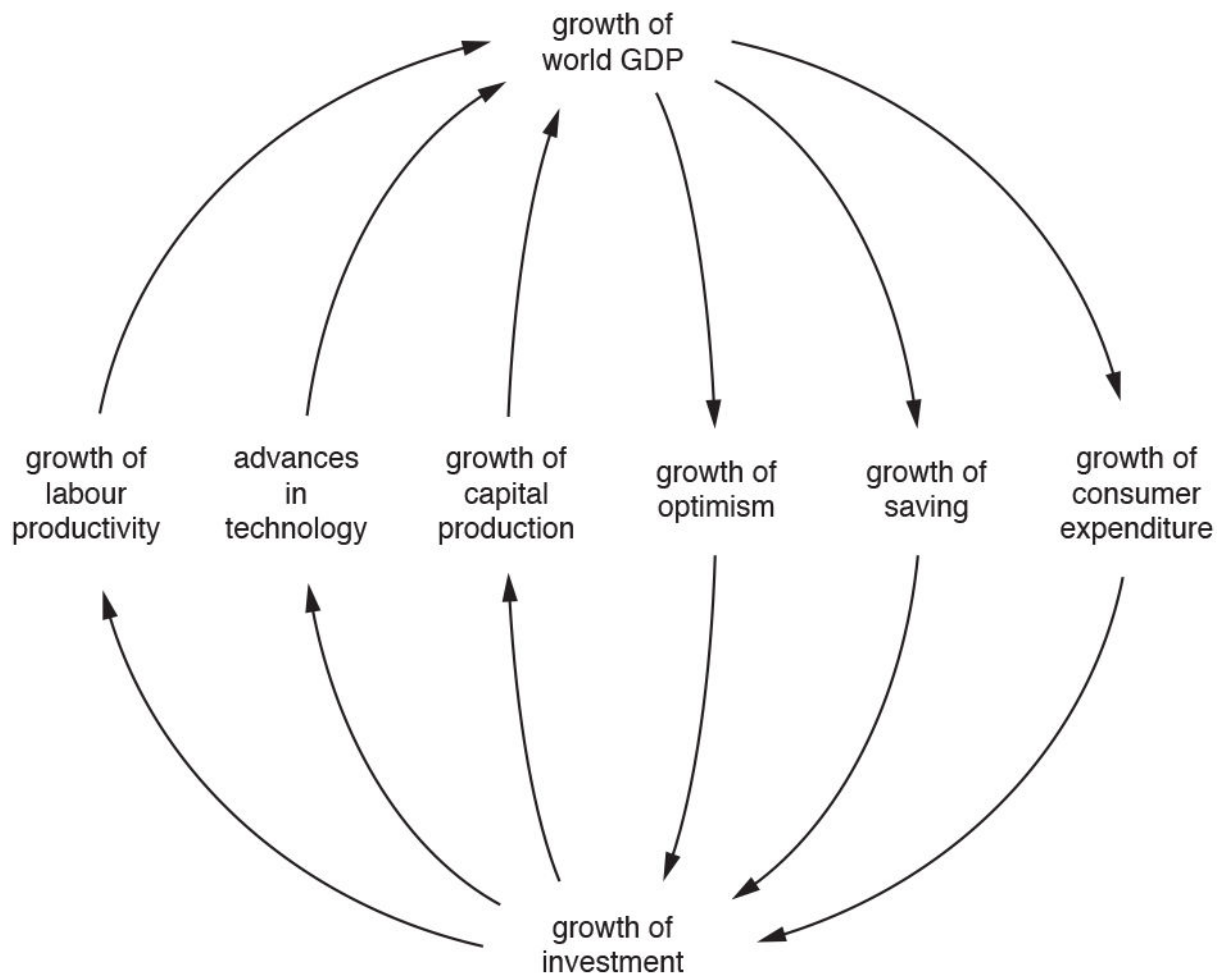
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Trade wars were threatening the process of globalisation in 2018 and were restricting the ability of countries to exploit their comparative advantage and their absolute advantage. In the years before, advances in production and communication technology had lowered production and transport costs, had increased the ability of firms to move production around the world and increased the size of firms' markets.

World trade increased by 3.2% in 2017. This contributed to a growth in world GDP. Higher GDP can result in a virtuous circle as shown in Fig. 1.

Figure 1 A virtuous circle



While the benefits of globalisation are widespread, the costs are often concentrated in particular areas and among those unskilled workers who are geographically and occupationally immobile.

- 10 One of the reasons why the US government imposed tariffs on steel imported from China was to protect the jobs of US steel workers.

Some economists are also concerned that globalisation can result in governments engaging in tax competition to keep firms and skilled workers in the country and to attract foreign MNCs and

foreign skilled workers into the country. Table 1 shows government tax revenue and expenditure
15 for selected countries in 2017.

Table 1 Government tax revenue and government expenditure 2017

Country	Government tax revenue (US\$ billion)	Government tax revenue as a % of GDP	Government expenditure (US\$ billion)
China	2672	22.4	3146
Germany	1598	43.8	1573
India	249	10.2	330
Ireland	85	26.2	87
Russia	254	17.3	288
UK	984	38.4	1076
USA	3336	22.0	3991

International competition may, on the other hand, encourage governments to spend more on education, training and health care to increase productivity and so attract foreign direct investment. Table 2 shows the corporate tax rates and the foreign direct investment attracted by the same selected countries.

Table 2 Corporate tax rates and foreign direct investment 2017

Country	Average corporate tax rate (%)	Foreign direct investment per head (US\$)
China	25.0	1098
Germany	29.8	17 963
India	34.6	287
Ireland	12.5	295 400
Russia	20.0	3378
UK	19.0	30 852
USA	40.0	12 489

- 20 The UK economy is more affected by changes in the global economy than the USA. This is because it is a more open economy. The UK has a relatively high marginal propensity to import. Between 2016 and 2017, average UK household income rose from £26 300 to £27 400 while average household spending on imports rose from £4950 to £5280.

The growth of the emerging economies, including China and India, is having an impact on the UK.

- 25 For instance, Chinese steel firms have captured some of the UK's steel industry's market at home

and abroad. Indian MNCs produced more than £26 billion of goods and services in the UK in 2016 and employed more than 100 000 workers in the UK.

Please refer to insert H460-02 June 2019 which can be downloaded separately and is also included above.

- (i) Using Table 1, explain which country's government made a negative contribution to the country's aggregate demand.

----- [2]

- (ii) Using Table 1, calculate Russia's GDP in 2017.

----- [2]

28 * Cuts to welfare benefits of £2.5bn affected eleven million families in the UK in 2018.

Evaluate, with the use of an appropriate diagram(s), whether a cut in government spending on welfare benefits will increase income inequality.

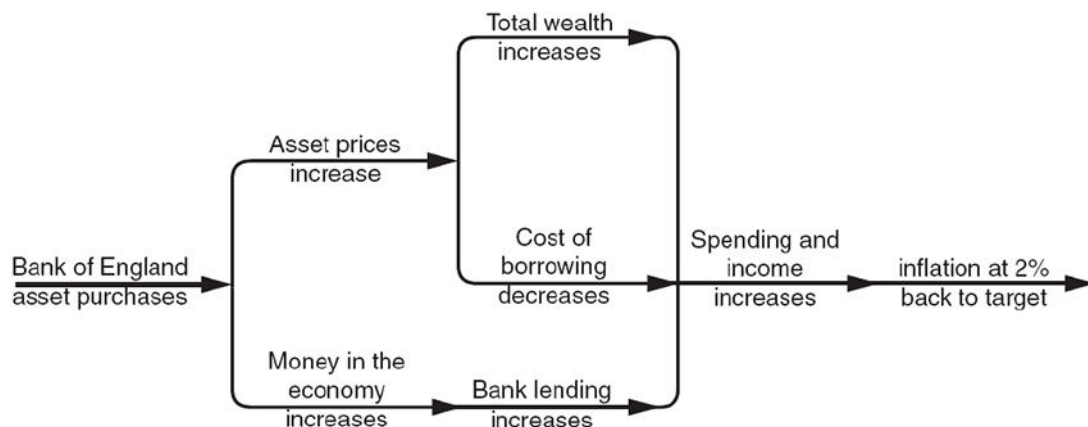
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The Fragile Five was a name invented in August 2013 by a banking analyst, James Lord, to describe Brazil, India, Indonesia, South Africa and Turkey. These emerging economies accounted for 12% of global GDP and 20% of global economic growth between 2009 and 2013. They had, however, a heavy reliance on external finance and were seen as the most susceptible to sudden changes in the direction of hot money flows. In early 2014 they had large current account deficits, slowing economic growth, inflation rates between 6% and 11% and were generally experiencing falling exchange rates.

One influence on the direction and volume of hot money flows to and from the Fragile Five is changes in the monetary policy measures of the US and UK. The US Federal Reserve Bank and the Bank of England had been using quantitative easing to increase the money supply (see Fig. 1). This monetary policy measure had been adopted because it was considered that nominal interest rates were already close to zero and that these very low interest rates were having little effect on aggregate demand. The Bank of England's monetary policy is influenced by its need to meet the government's inflation rate target.

Fig. 1 – The anticipated transmission mechanism of quantitative easing



Towards the end of 2013 and at the start of 2014 US and UK monetary policy changed. There was a reduction in the growth of the money supply in the two countries and the prospect of a rise in interest rates in the US. This led to a significant withdrawal of short term funds from the Fragile Five. In January 2014 all of the Fragile Five economies raised their interest rates to prevent an outflow of foreign funds and further falls in their currencies.

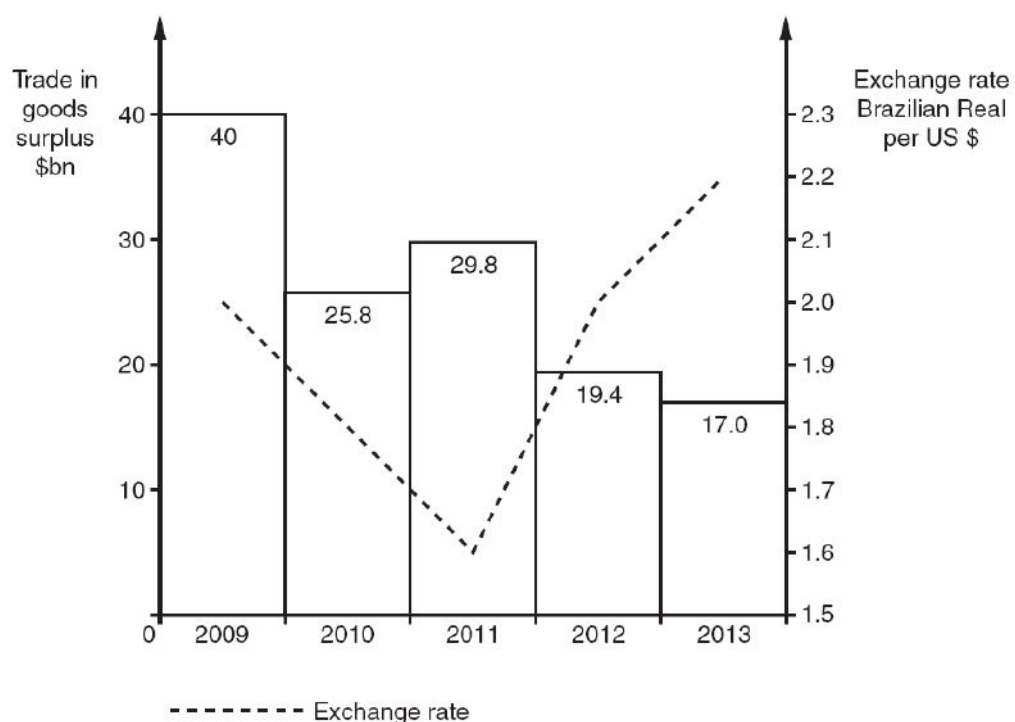
At an emergency midnight meeting the Turkish central bank raised the country's interest rate from 7.75% to 12%. Hot money flows finance more than 80% of Turkey's current account deficit. Turkey's currency, the Turkish lira, fell by 13% against the US dollar in January 2014. Table 1 provides details of changes in Turkey's export and import prices and volumes and current account position in recent years. Among these changes were that Turkey's terms of trade altered from 101 in 2011 to 98 in 2012 and 97 in 2013.

Brazil's trade balance and the value of its currency, which is called the real, also fluctuated over the period. Fig. 2 shows the change in Brazil's exchange rate against the US dollar and its trade balance between 2009 and 2013.

Table 1 – Turkey's export prices, import prices, export volumes, import volumes and current account position, 2009–13

Year	Index of export prices	Index of import prices	Index of export volumes	Index of import volumes	Balance on the current account of the balance of payments as % of GDP
2009	96	95	103	105	–2.5
2010	102	98	120	110	–8.0
2011	108	107	116	120	–10.0
2012	109	111	129	126	–7.0
2013	110	113	130	138	–5.7

Fig. 2 – Brazil's exchange rate and trade balance, 2009–13



The governments of Brazil, Turkey and the other three Fragile Five economies urged the US and the UK to continue with quantitative easing and not to raise interest rates. Janet Yellan, the Chairman of the Federal Reserve Bank, however, stated that US monetary policy will be influenced only by the US economy. This led to criticism by the governors of the central banks

of the Fragile Five economies. Raguram Rajan, India's central bank governor, argued for greater policy cooperation between developed and emerging economies. He said that, 'We
40 would like to live in a world where countries take into account the effect of their policies on other countries and do what is right broadly, rather than what is right given the circumstances of that country.'

Please refer to insert H460-02 Specimen which can be downloaded separately and is included above.

Using Fig. 2:

- (i) Explain what happened to Brazil's exchange rate between 2011 and 2013.

----- [2]

- (ii) Explain what effect the change in Brazil's trade in goods surplus between 2009 and 2010 would have been expected to have had on the country's exchange rate.

----- [2]

Evaluate whether globalisation always increases income inequality in a developed economy.

STEMUP.CO.UK

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[25]

- 31 If a country's nominal GDP increased from \$305bn to \$321bn in a year when the inflation rate was 7.2%, what was the country's real economic growth rate?
- A -4.98%
 - B -1.82%
 - C 0.73%
 - D 5.25%

Your answer [1]

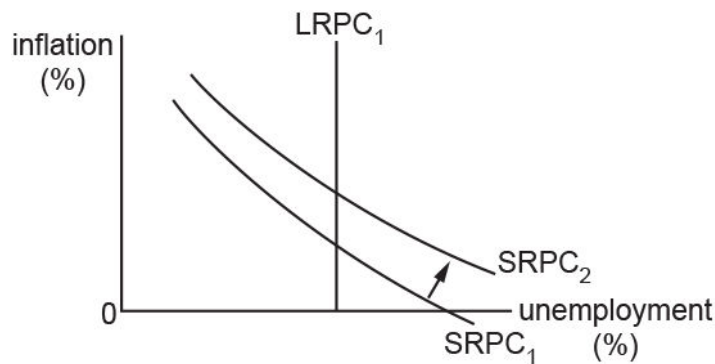
- 32 Which of the following identifies a difference between the Labour Force Survey and claimant count measures of unemployment?
- A An individual on a government back to work training scheme is only classed as being unemployed on the Labour Force Survey measure
 - B An individual who has left their job voluntarily is only classed as being unemployed on the claimant count measure
 - C The claimant count is more likely to be subject to sampling errors than the Labour Force Survey
 - D The Labour Force Survey measure of unemployment tends to be higher than the claimant count measure of unemployment

Your answer

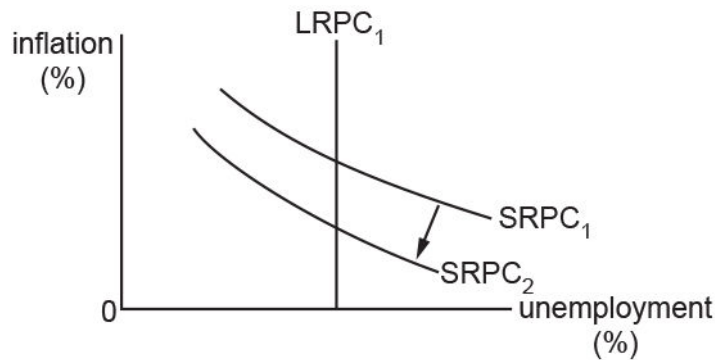
[1]

- 33 Which of the diagrams below illustrates the impact of a period of low and stable inflation causing inflationary expectations to fall?

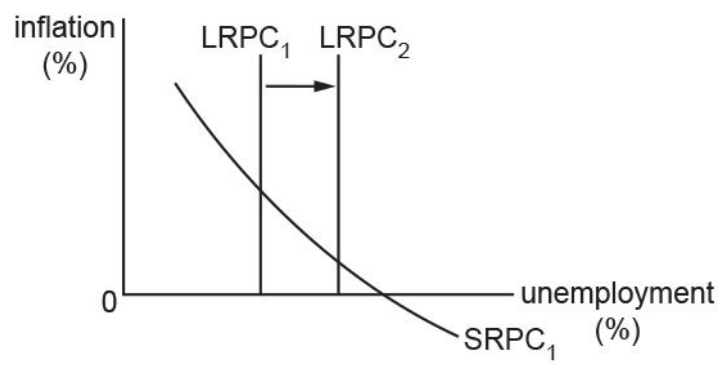
A



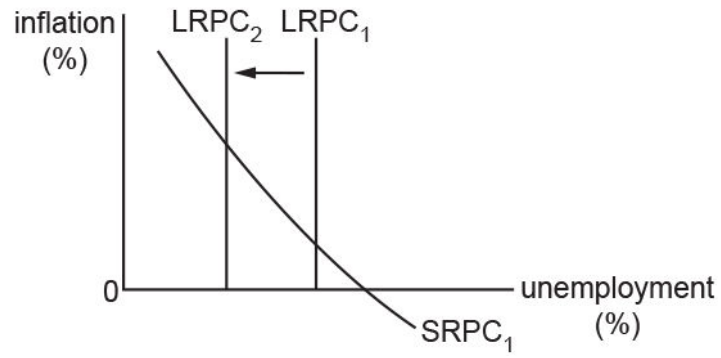
B



C



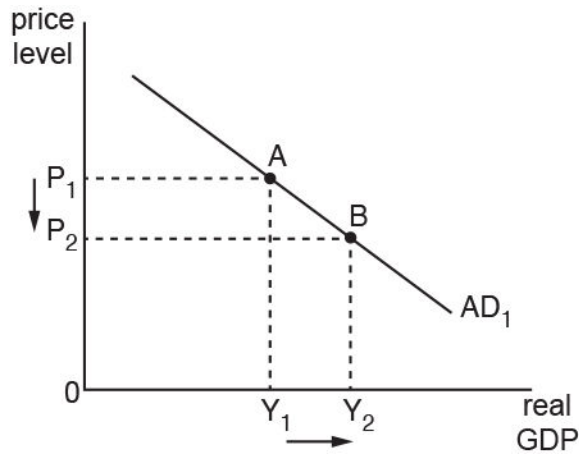
D



Your answer

[1]

34 What would explain the increase in real GDP illustrated in the diagram below?



- A Domestic products becoming less internationally price competitive
- B Government spending increasing
- C Households' real wealth increasing
- D Interest rates rising

Your answer

[1]

35 The data below shows an index of prices in a country between 2012 and 2016. What was the annual rate of inflation in 2016?

Year	2012	2013	2014	2015	2016
Price Index	97.2	100	105.8	110.1	115.7

- A 1.3%
- B 5.1%
- C 5.6%
- D 15.7%

Your answer

[1]

36 Which of the following is a neo-classical view of the macroeconomy?

- A An equilibrium could be reached below full employment
- B Fiscal policy can be effective in stimulating an economy
- C Output gaps can exist in the long run
- D The economy will always return to equilibrium

Your answer

☐

[1]

37 Please refer to insert H460-03 Practice 2 which can be downloaded separately and is included above with Question 27.

'Economists would generally expect there to be a positive correlation between public healthcare expenditure and GDP per capita.'

Explain why this is the case and whether the data in Fig. 2.1 supports this statement.

[4]

38 Please refer to insert H460-03 Practice 2 which can be downloaded separately and is included above with Question 27.

Evaluate, using the information in Extract 2, whether the Human Development Index is a useful measure of economic development in countries such as India.

[15]

40 The following table provides data on the Brazilian economy in 2015.

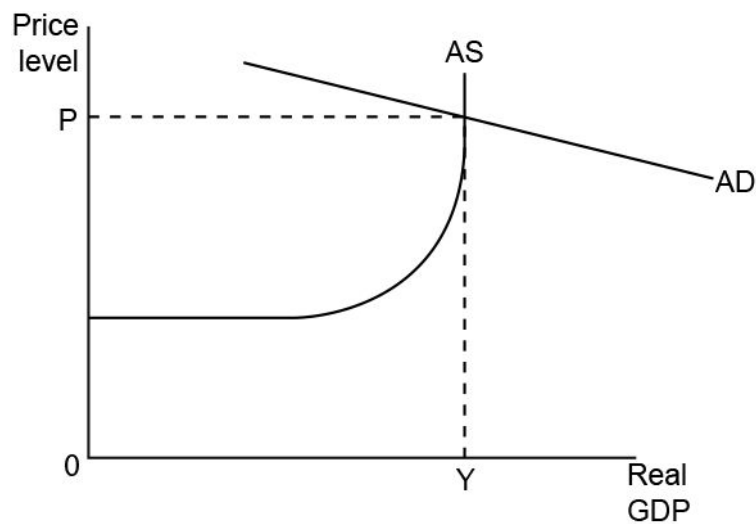
GDP	\$2346 billion (USD)
Labour Force	107.3 million
Population	203.6 million
Unemployment	8.6 million
Working Age Population	126.1 million

What is GDP per capita?

- A \$11,523
- B \$18,604
- C \$21,864
- D \$23,769

Your answer

[1]



If the macro economy is operating at output Y in the diagram, which of the following policies is likely to be the most effective method of achieving economic growth?

- A Increasing direct taxes
- B Increasing indirect taxes
- C Increasing state pensions
- D Increasing subsidies for research and development

Your answer

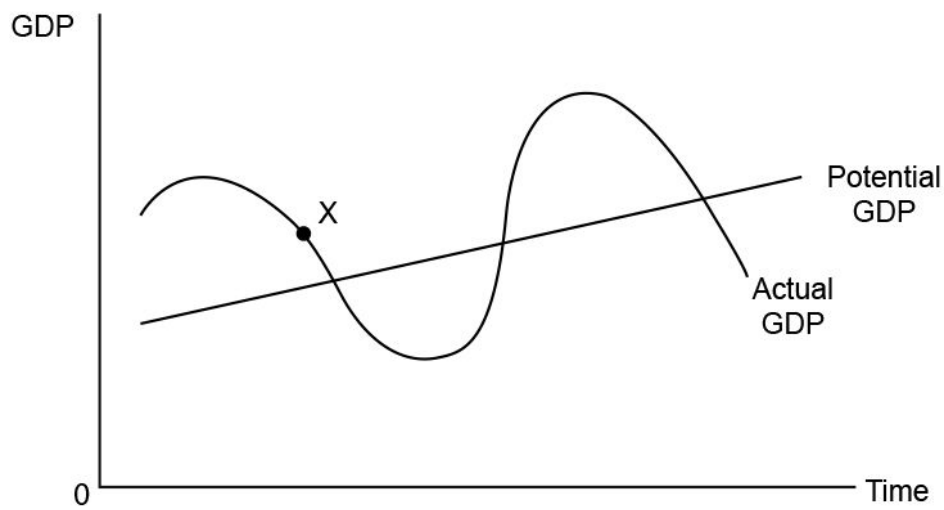
[1]

42 Which of the following describes the situation facing an individual living in relative poverty?

- A Living on less than 60% of median household income
- B Long term unemployed
- C Receiving less than \$1.25 a day
- D Unable to afford food, water, shelter and clothing

Your answer

[1]



Which of the following options identifies what is happening at point X?

	Output Gap	Stage of Economic Cycle
A	Negative	Recession
B	Negative	Slowdown
C	Positive	Recession
D	Positive	Slowdown

Your answer

[1]

44 The Consumer Price Index of a country in the years 2011-2015 is detailed below.

Year	2011	2012	2013	2014	2015
Price Index	93	98	100	107	109

The country’s gross domestic product was £4,500 million in 2014 and increased by 4% in 2015. What is the country’s real GDP in 2015 valued in 2014 prices?

- A £4,294 million
- B £4,590 million
- C £4,594 million
- D £4,680 million

Your answer

[1]

- 45 If a country's nominal GDP increased from \$305bn to \$321bn in a year when the inflation rate was 7.2%, what was the country's real economic growth rate?
- A -4.98%
 - B -1.82%
 - C 0.73%
 - D 5.25%

Your answer

[1]

- 46 Please refer to insert H460-03 Practice 1 which can be downloaded separately and is included above with Question 31.

Using the data from Fig. 1.1, compare what has happened to output and employment in the steel industry between 1993 and 2013.

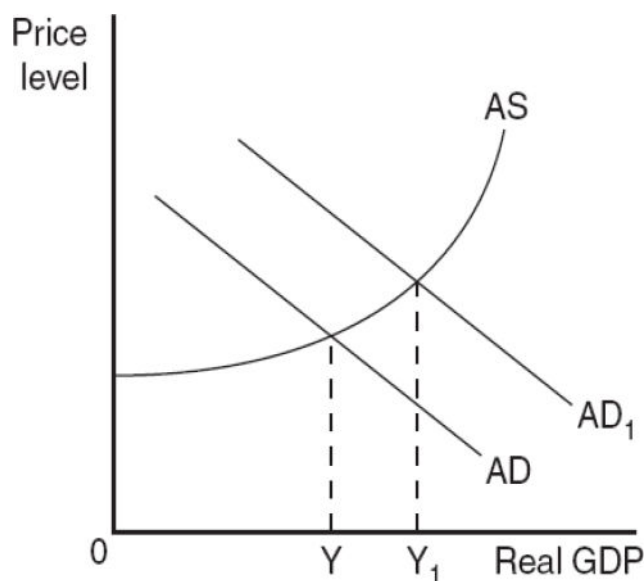
[2]

47 Please refer to insert H460-03 Practice 1 which can be downloaded separately and is included above with Question 31.

Identify and explain evidence from Fig. 3.2 of the type of unemployment that is most likely to arise from the changes that have taken place in the labour market between 1990 and 2015.

[2]

48 In the diagram below, which of the following would have caused the rise in real GDP from Y to Y_1 ?



- A A decrease in the average propensity to consume
B A decrease in the marginal propensity to save
C An increase in the marginal propensity to import
D An increase in the marginal rate of tax

Your answer

--	--

[1]

49 A country is faced with a surplus in the current account of its balance of payments and unemployment.

Which of the following would reduce both of these problems?

- A A decrease in its government spending on education
- B A decrease in its interest rates
- C An increase in its rate of corporation tax
- D An increase in the value of its currency

Your answer

[1]

50 Which of the following is a reason why economists criticise the traditional Phillips Curve as a tool for explaining the relationship between macroeconomic variables?

- A Individuals adapt their expectations of inflation as the price level changes.
- B Individuals suffer from money illusion so believe prices are stable when they are not.
- C It assumes that real wages rather than money wages are an indicator of inflation.
- D There is a trade-off between inflation and unemployment in the short run.

Your answer

[1]

51 The information in the table below shows the price index in the years 2008 and 2014 in four countries.

In which country was the inflation rate highest between 2008 and 2014?

Country	2008 price index (2005=100)	2014 price index (2005=100)
A	104	153
B	112	230
C	105	210
D	140	260

Your answer

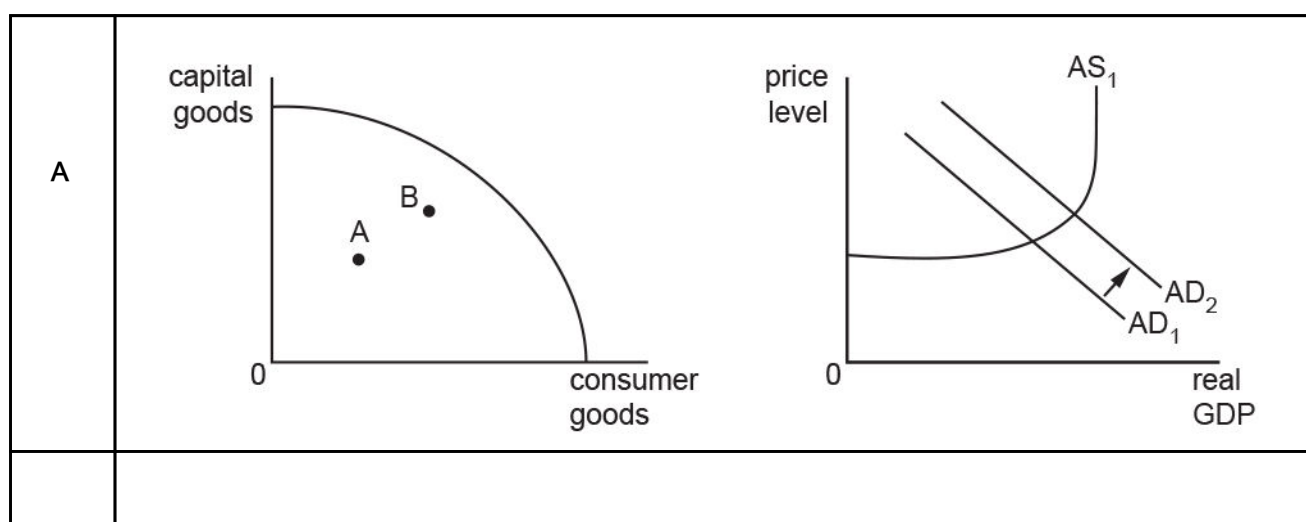
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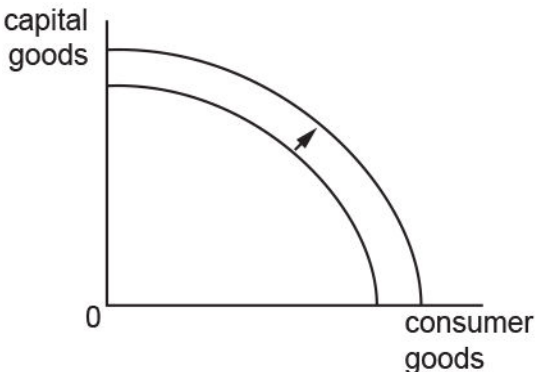
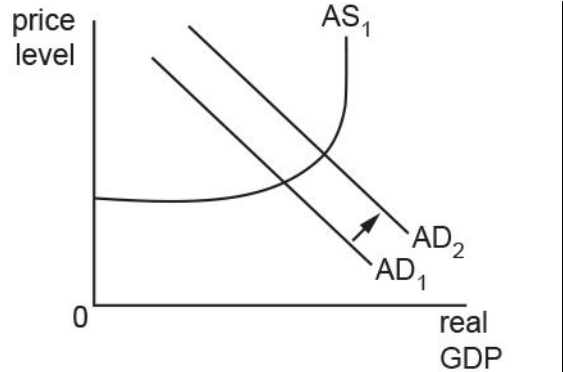
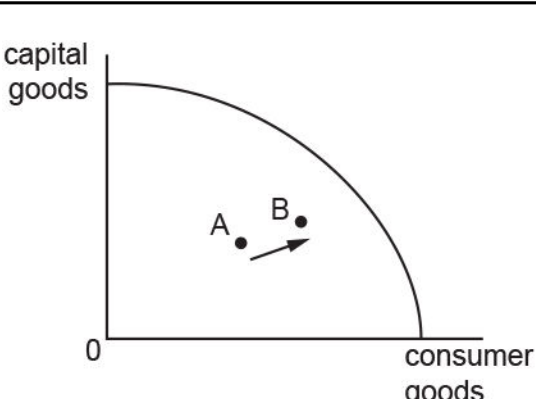
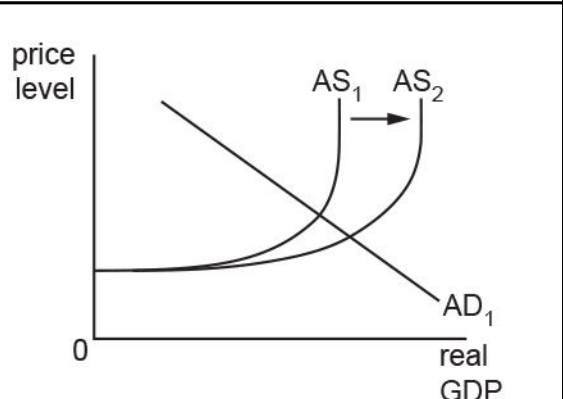
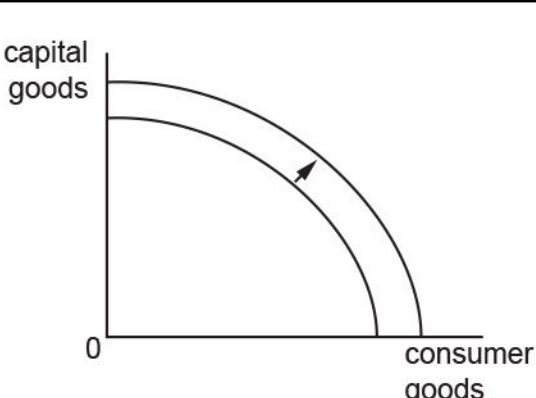
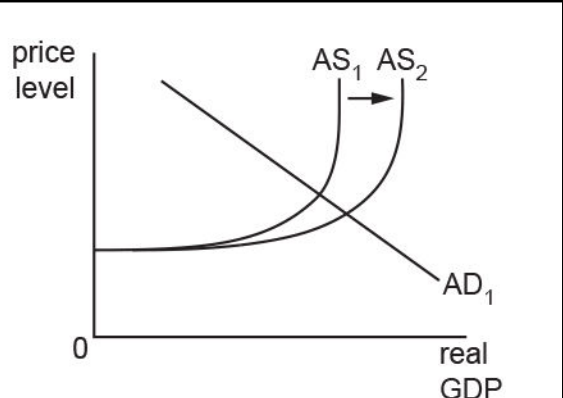
52 * Please refer to insert H460-03 Specimen which can be downloaded separately and is included above with Question 29.

Evaluate the extent to which changes in the structure of an economy will influence its ability to achieve sustainable development.

[15]

53 Which pair of diagrams below illustrates long run economic growth?



B	 capital goods 0 consumer goods	 price level 0 real GDP AS_1 AD_2 AD_1
C	 capital goods 0 consumer goods A B	 price level 0 real GDP AS_1 AS_2 AD_1
D	 capital goods 0 consumer goods	 price level 0 real GDP AS_1 AS_2 AD_1

Your answer

☐

[1]

54 Which of the following is a harm caused by a high rate of inflation?

- A Imports become relatively more expensive
- B Investment decreases
- C Real wage flexibility occurs
- D The real value of debt increases

Your answer

☐

[1]

55 Which component of the balance of payments accounts for dividends from foreign stocks and shares?

- A Capital account
- B Credit account
- C Current account
- D Financial account

Your answer

[1]

56 In 2016 Argentina experienced negative economic growth, with output falling by 2.3% to \$571.3bn. Population growth was 1% over the same period. Calculate the change in GDP per capita in Argentina between 2015 and 2016 if in 2015 Argentina had a population of 43.42 million people.

- A -\$444
- B -\$440
- C -\$178
- D \$172

Your answer

[1]

57 The data below shows key macroeconomic performance indicators for four countries.

	2016 Inflation Rate (CPI)	2016 Unemployment Rate (ILO)	2015 GDP Growth Rate	2016 GDP Growth Rate
Ireland	0%	8.1%	26.3%	5.2%
Malta	0.6%	5.3%	7.4%	5%
Ukraine	13.9%	8.9%	−9.8%	2.3%
United Kingdom	0.6%	4.8%	2.2%	1.8%

If an economist was judging the performance of these economies from the perspective of the UK government macroeconomic policy objectives, which would they decide performed best?

- A Ireland
- B Malta
- C Ukraine
- D United Kingdom

Your answer

[1]

58 Why might the ILO (International Labour Organisation) unemployment rate overestimate the level of unemployment there is in an economy?

- A Sampling errors may exist in the data
- B Some individuals may be claiming benefits but are not actually willing to work
- C The economically inactive are included
- D There may be underemployment where part-time workers cannot find full-time jobs

Your answer

[1]

59 In the 2017 UK General Election, the Conservative Party proposed a reform to social care that would involve individuals whose combined savings and property are valued at more than £100 000 paying for the cost of care they incur in their old age. The likely impact of this would be to reduce the amount of inheritance passed on to future generations. Which of the following would be affected by this in the long run?

- A Both income and wealth inequality
- B Income inequality only
- C Neither income or wealth inequality
- D Wealth inequality only

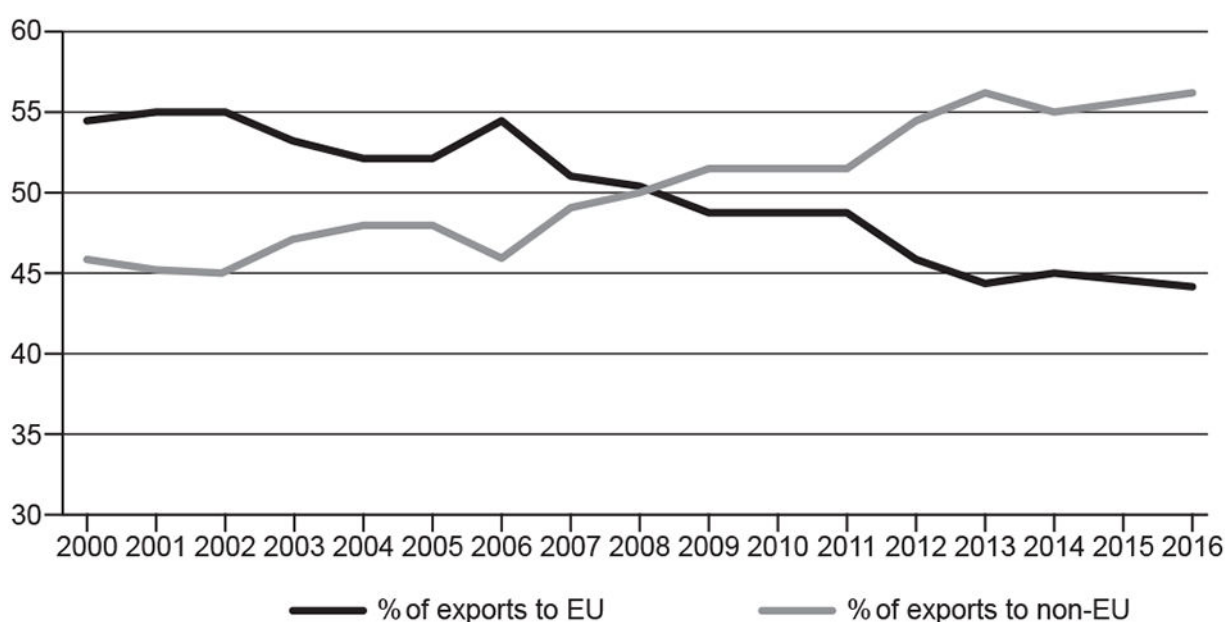
Your answer

[1]

On 23rd June 2016, 51.9% of voters in the United Kingdom voted in favour of leaving the European Union. The build up to the referendum was characterised by fierce arguments on both sides about the economic impact of European Union membership, with the debate continuing after the vote as the UK government sought to reach an agreed position on how to negotiate the country's withdrawal from the multilateral organisation it joined in 1973.

One of the biggest areas of disagreement was over the impact Brexit would have on the UK's balance of payments. Membership of the EU gives access to the Single Market, the world's biggest free trade area that enables UK firms to export goods tariff free to other EU member states. Trade with countries outside of the EU is determined by a system of common external tariffs, where non-EU firms have to pay a tariff in order to sell into the Single Market with EU firms usually charged a reciprocal tariff to sell to countries outside of the EU. The destination of the UK's exports is outlined in Fig. 1.1.

Fig. 1.1 – Destination of UK Exports



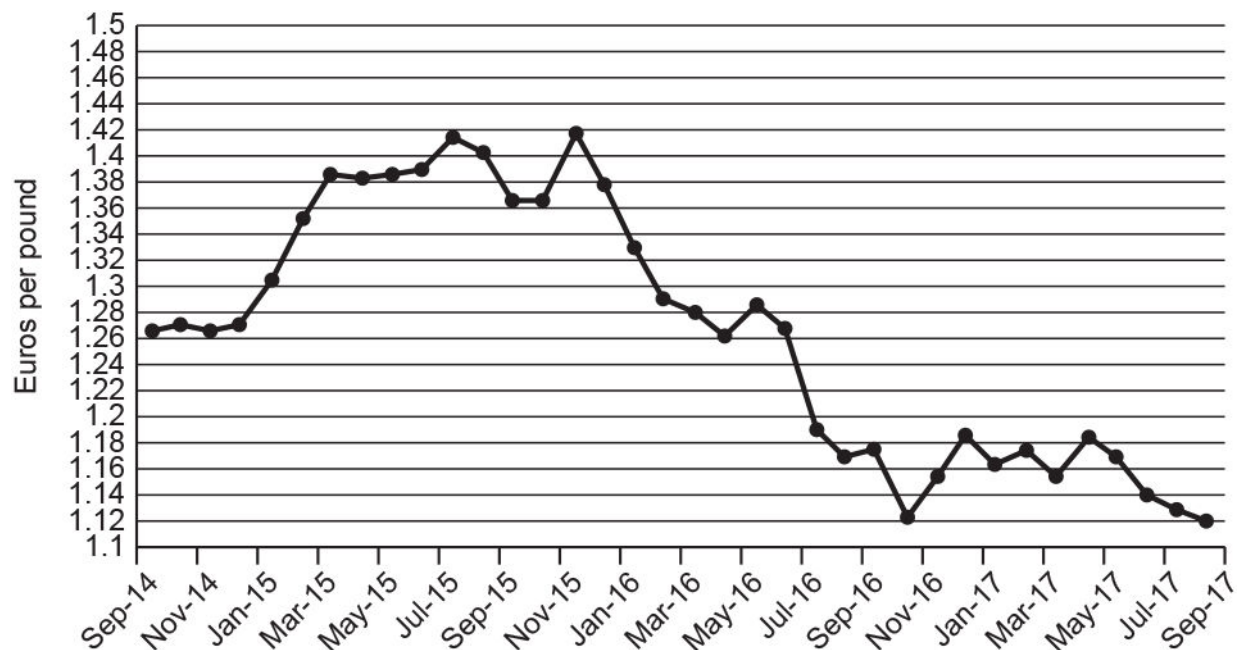
Many economists in favour of remaining in the EU argued that Brexit would fundamentally damage the competitiveness of UK firms, as leaving the Single Market would result in a range of tariff and non-tariff barriers being imposed on UK firms exporting to EU countries. Those in favour of leaving the EU said that this would be outweighed by the gains that would come from negotiating free trade deals with non- EU countries, which would be easier to do once the UK left the trading bloc.

In July 2017, the US government indicated it would be interested in reaching a free trade agreement with the UK. This could have a significant impact on the market for beef. In 2016, approximately two thirds of UK beef imports came from Ireland with no beef imported from the US, despite US beef being priced significantly lower on world markets (approximately £2000 a tonne compared to £3400 for Irish beef). Those in favour of Brexit argue this is a harmful example of trade diversion, with Irish beef being artificially competitive as a result of tariffs exceeding

50% being imposed by the EU on US beef imports. A free trade deal with the US could result in a large proportion of beef imports coming from the US at the expense of Irish producers.

The value of the pound is a crucial determinant of the international competitiveness of UK firms. Fig. 1.2 illustrates the impact the vote to leave the EU had on the exchange rate.

Fig. 1.2 – Sterling-Euro Exchange Rate 2014–2017

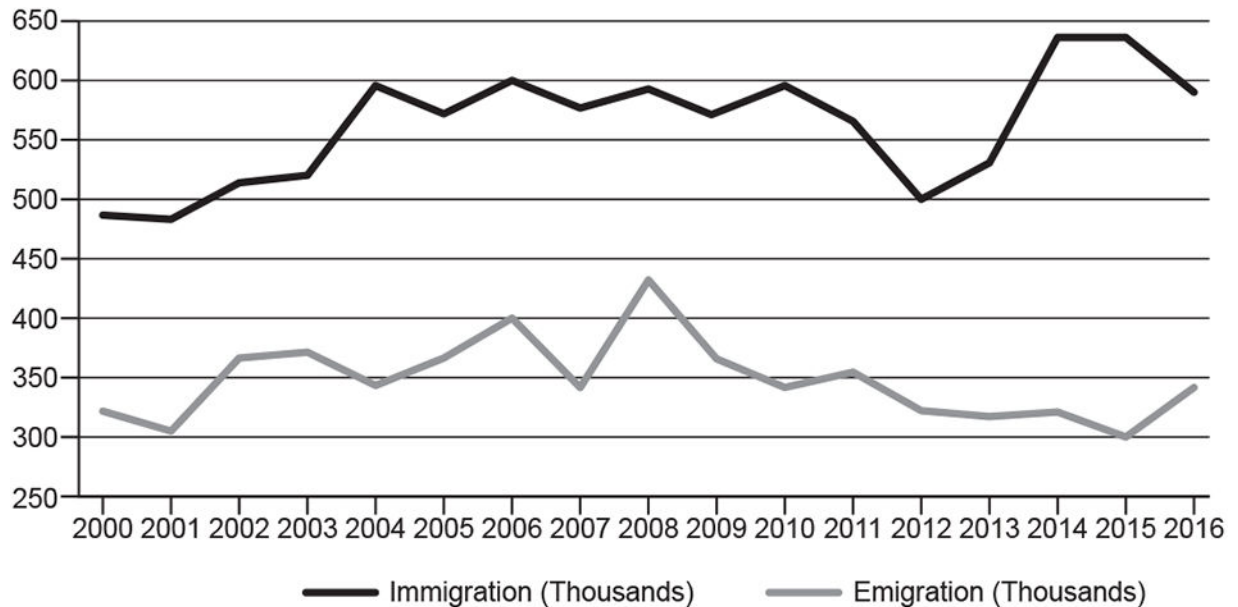


Extract 2 – European Union membership & migration

The 'four freedoms' of the European Union – the freedom of movement of goods, people, services and capital across borders – are a core element of EU membership. In the UK, it was disagreement over the relative merits of the most contentious of these – the free movement of people – that arguably led to the country voting to leave the EU.

The freedom of movement came under sharper focus in 2004, when the EU experienced its largest ever expansion that saw ten new member states join and the population increase by more than 100 million citizens. This resulted in a large influx of immigrants into the UK from individuals attracted by the relatively high wages on offer, with nearly a million workers coming from Poland alone in their first ten years of EU membership. The further expansion of the EU in 2007 to include the low wage countries Bulgaria and Romania fuelled concerns that immigration would spiral in the UK, with much debate over the potential impact of this. Fig. 2.1 illustrates how migration in the UK changed during this period.

Fig. 2.1 – UK Migration 2000–2016



One of the main benefits Leave campaigners argued would result from leaving the European Union was the ability this would give the UK government to take control of its borders. They argued that rising immigration had put increasing pressure on public services, pushed house prices up and depressed the wages and employment opportunities for low skilled workers.

However, many economists argued the end of free movement presented many risks to the prosperity of the UK economy. Empirical evidence suggests that EU immigrants tend to be younger than the native population and more likely to work and pay taxes than claim benefits, in doing so addressing the problems an ageing population could cause the economy. Moreover, a number of industries such as healthcare and construction are reliant on immigrants to fill skills shortages, with immigration allowing the UK to benefit from greater labour market flexibility.

Extract 3 – The Paris Climate Accord

Although enacting the process of leaving the European Union, the UK remained committed to participating in multilateral action of a different kind – combating climate change. It is estimated that, left untackled, climate change would cause around 60 000 deaths globally by 2030 and 260 000 deaths by 2100.

In April 2016, the most ambitious global climate change agreement was reached in Paris, with 195 countries committing to take action to hold the average global temperature to well below 2 degrees centigrade above pre-industrial levels by the end of the century. Each country made their own voluntary pledges to reduce emissions to a specific level by 2020, after which each nation's targets will be re-evaluated.

Nicaragua, one of only two countries that did not sign up to the accord, boycotted it in protest about its unambitious goals. The accord experienced its biggest setback in June 2017, when the US indicated it would be withdrawing from the agreement. Supporters, however, argued that this was a step towards a unified front

against climate change, providing a loose-fitting framework that got the backing of some of the world's biggest polluters whilst leaving each country to develop their own climate change strategies.

One such strategy adopted in parts of the world is a carbon trading scheme. The biggest of these is the European Union's emissions trading scheme (ETS), whilst some countries outside of the EU have adopted more localised schemes. Fig. 3.1 outlines the participation of the world's biggest polluters in the Paris Accord and tradable pollution permit schemes.

Fig. 3.1 – Global carbon emissions & climate change policy participation

Rank	Country	% of global carbon emissions	Paris Accord?	Carbon Trading Scheme?
1	China	29.51	Yes	Limited
2	United States	14.34	No	Limited
3	India	6.81	Yes	No
4	Russia	4.88	Yes	No
5	Japan	3.47	Yes	Limited
6	Germany	2.16	Yes	Yes
7	Iran	1.76	Yes	No
8	South Korea	1.71	Yes	Yes
9	Canada	1.54	Yes	No
10	Saudi Arabia	1.40	Yes	No
<i>European Union</i>		<i>9.62</i>	<i>Yes</i>	<i>Yes</i>

In July 2017, the UK government announced a plan to outlaw all new diesel and petrol cars by 2040, in doing so eliminating one of the biggest causes of carbon emissions. This is an ambitious target given the electric car market accounted for just 1% of UK market share in 2016. There is though inspiration to be found from Norway, where more than a third of new car sales in 2016 were electric as a result of heavy government subsidies. The UK government has earmarked £900 million to support the electric car industry, with BMW announcing in July 2017 their intention to build the new e-Mini at a UK car plant. The hope is that such subsidies will go a long way in making electric cars price competitive enough to quicken the move away from traditional diesel and petrol cars.

Please refer to insert H460-03 June 2019 which can be downloaded separately and is included above.

Using Fig. 1.1 and the information in Extract 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market.

[2]

In the first decade of the twenty-first century China saw a significant increase in both income and wealth. In the current decade, however, its economic growth rate has slowed. At the start of 2016, China's president, Xi Jinping, said that the government would concentrate on supply-side reform. He mentioned that the government would no longer try to promote economic growth by just relying on fiscal and monetary policy measures. It would be placing more emphasis on long-term structural change rates rather than short-term stimulus.

In the past China has used short-term demand management to increase consumer expenditure and investment. This has led to an increase in government spending which has had implications for the country's budget position. Table 1 compares the gross domestic product (GDP), government revenue and government expenditure of the six largest economies in 2014.

Country	GDP	Government revenue	Government expenditure
China	10.4	2.3	2.4
France	2.8	1.5	1.6
Germany	3.9	1.7	1.7
Japan	4.6	1.5	1.8
UK	3.0	0.9	1.1
USA	17.4	3.0	3.5

Table 1 - GDP, government revenue and government expenditure in US\$ trillion of the six largest economies in 2014

The Chinese government is hoping that supply-side policy measures will increase the country's productivity. The UK economy has introduced a number of supply-side policy measures including deregulation, privatisation and tax cuts Fig.1 compares the UK's productivity growth with that of the six other G7 members. It shows after 2007 the gap between the actual growth in productivity and the predicted growth in productivity.

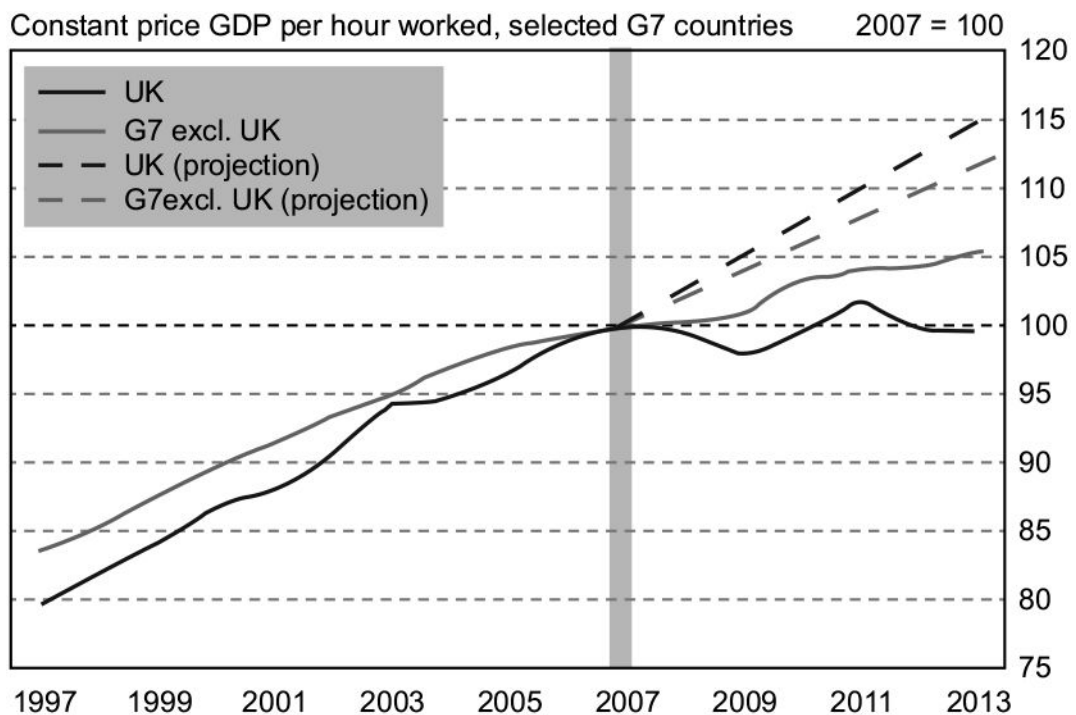


Fig. 1. A comparison of productivity growth in the UK and G7 1997 – 2013

Productivity is influenced by a number of factors including investment. In turn, there are a number of influences on investment including the level of savings. The amount of income saved varies from country to country. Some countries, including China have a relatively high average propensity to save. Others, including Denmark in recent years, have had a negative average propensity to save. Table 2 shows the average propensity to save of the G7 countries in 2014.

Country	Average propensity to save
Canada	0.05
France	0.15
Germany	0.09
Italy	0.05
Japan	0.02
UK	0.06
USA	0.05

Table 2 - The average propensity to save in the G7 countries in 2014

Distinguish between income and wealth.

----- [2]

62 * The Venezuelan Government's attempts to promote economic growth are thought to have contributed to the country's inflation rate, which was predicted to reach 480% in 2016.

Evaluate, with the use of an appropriate diagram(s), whether macroeconomic policy measures can only promote economic growth at the cost of higher inflation.

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Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development.

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[25]

- 64 * In 2015 the State Bank of Pakistan did not achieve the 5.5% target the government had set it for the growth of the Pakistani economy.

Evaluate whether the UK government should set the Bank of England an economic growth rate target.

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[25]

For some years now the UK has had a deficit on both its budget balance and on the balance of the current account of its balance of payments. In 2015 the budget deficit fell to 4.1% of GDP. This was the lowest deficit, in percentage terms, since 2007 but it was noticeably higher than the historical average of 2.5% of GDP. In October 2016 the Chancellor of the Exchequer announced that he was abandoning the objective of achieving a budget surplus by 2020. He also said he was prepared to borrow for public sector investment in infrastructure.

Changes in the budget position can influence activity in the labour market. Fig. 1 shows the stocks of employment, unemployment, economic inactivity and migration and the flows between them. For instance, the stock of unemployment (the number of people unemployed at any particular time) is affected by flows into and out of unemployment (some people becoming unemployed while others stop being unemployed).

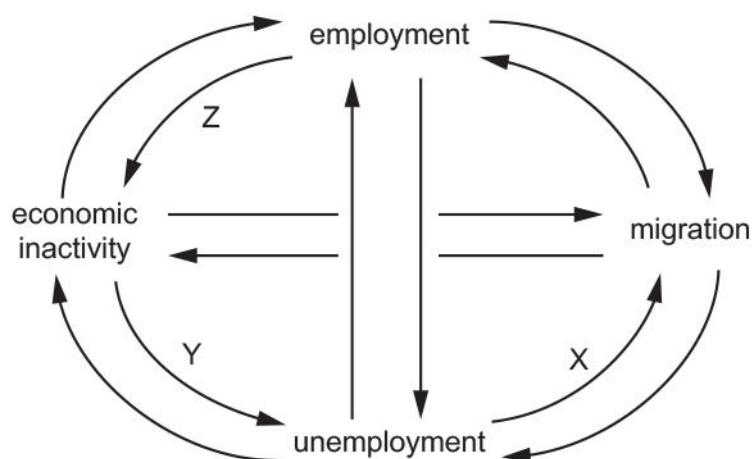


Fig. 1 Stocks and flows in the labour market

The budget position, in turn, is influenced by a range of factors including the level of economic activity, the rate of interest and any tax reforms undertaken. A number of European countries have recently introduced flat rate tax systems. Fig. 2 shows when a flat tax was introduced in a number of European countries and how the rate of income tax changed due to the introduction and the rate in 2016.

Country	Tax rate(s) before introduction (%)	Year introduced	Initial tax rate after introduction (%)	Tax rate in 2016 (%)
Estonia	16–35	1994	26	21
Lithuania	18–33	1994	33	15
Latvia	25–10	1995	25	25
Russia	12–30	2001	13	13
Georgia	12–20	2005	12	20
Macedonia	15–24	2007	12	10
Czech Republic	12–32	2008	10	10

Fig. 2 Flat rate taxes on personal income (%) in selected countries

Changes in economic activity at home and abroad, the rate of interest and the exchange rate can also influence the current account position of the balance of payments. In 2015 the UK's current account deficit was £96.2 billion. This was the largest deficit as a percentage of GDP (5.2%) since annual records began in 1948 and the largest of the G7 countries. Fig. 3 shows some details of the UK's balance of payments position in 2014.

Current account balance	−£92.9 bn
Trade in goods	−£123.7 bn
Trade in services	£89.1 bn
Secondary income	−£25.2 bn
Capital account	−£0.8 bn

Fig. 3 Selected details of the UK's balance of payments 2014

The current account deficit has increased every year since 2011. One significant cause of this has been the rise in the deficit on primary income. Throughout the nineteenth century and the first half of the twentieth century the UK invested heavily abroad which resulted in a high yield of profits, interest and dividends. In more recent decades the UK has seen a net inflow of foreign investment. Multinational companies from a range of countries, including the USA, Germany, India and China have entered in a number of UK industries.

Explain **one** of the flows, X, Y or Z shown in Fig. 1.

[2]

(b)

(i) Using Fig. 3, calculate the deficit on primary income in the UK in 2014.

[2]

(ii) Using Fig. 3, explain whether the financial account would have been in deficit or surplus in the UK in 2014.

[2]

(c) Using information from the stimulus material, evaluate whether the UK government should be concerned about the growing deficit on the current account of its balance of payments.

[8]

66 * The Venezuelan Government’s attempts to promote economic growth are thought to have contributed to the country’s inflation rate, which was predicted to reach 480% in 2016.

Evaluate, with the use of an appropriate diagram(s), whether macroeconomic policy measures can only promote economic growth at the cost of higher inflation.

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Handwriting practice lines consisting of 20 horizontal dashed lines.

[25]

Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development.

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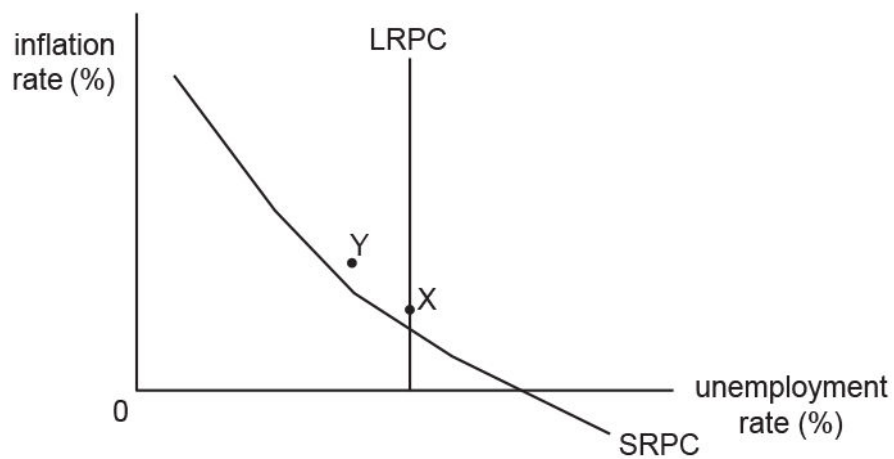
68 * In 2015 the State Bank of Pakistan did not achieve the 5.5% target the government had set it for the growth of the Pakistani economy.

Evaluate whether the UK government should set the Bank of England an economic growth rate target.

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[25]

69 What is the most likely explanation of the movement from X to Y in the diagram below?



- A A decrease in the natural rate of unemployment
- B An adjustment in inflationary expectations
- C Contractionary fiscal policy
- D Money illusion

Your answer

[1]

70 What is most likely to cause a decrease in wealth inequality?

- A A decrease in capital gains tax
- B A decrease in income inequality
- C An increase in house prices
- D An increase in the tax-free inheritance allowance

Your answer

[1]

71 What is a component of the Human Development Index?

- A Air quality
- B GDP per capita
- C Life expectancy
- D Proportion of population with tertiary education

Your answer

[1]

72 Please refer to insert H460-03 October 2020 which can be downloaded separately and is included with Q31. Evaluate, with the use of an appropriate diagram(s), whether ending austerity is likely to result in the government achieving higher levels of economic growth.

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The global economy is changing. It is becoming more integrated and China is moving towards becoming the world's largest economy. Lower costs of transport continue to increase the volume of international trade. Producing in different countries and buying products from anywhere in the world are being made easier by advances in communications.

- 5 World trade grew by 4.4% in 2017 and is predicted to grow by 4.7% in 2018. China is accounting for a higher proportion of this global trade and a higher proportion of global output. The country has experienced a significant rise in its GDP per head in recent years. This has had an impact on its citizens' life expectancy. Fig. 1 shows the average income and life expectancy in a number of countries.

Country	GDP per head (\$)	Life expectancy (years)
Bangladesh	4200	73.7
China	16700	75.8
Egypt	12700	73.2
Germany	50800	80.9
Guinea	2200	62.1
Japan	42900	85.5
UK	44300	80.9
USA	59800	80.1

Fig. 1 GDP per head and life expectancy in selected countries 2017

- 10 Developments in the Chinese economy can be illustrated by both movements in the country's production possibility points and in the position of the production possibility curve as shown in Fig. 2.

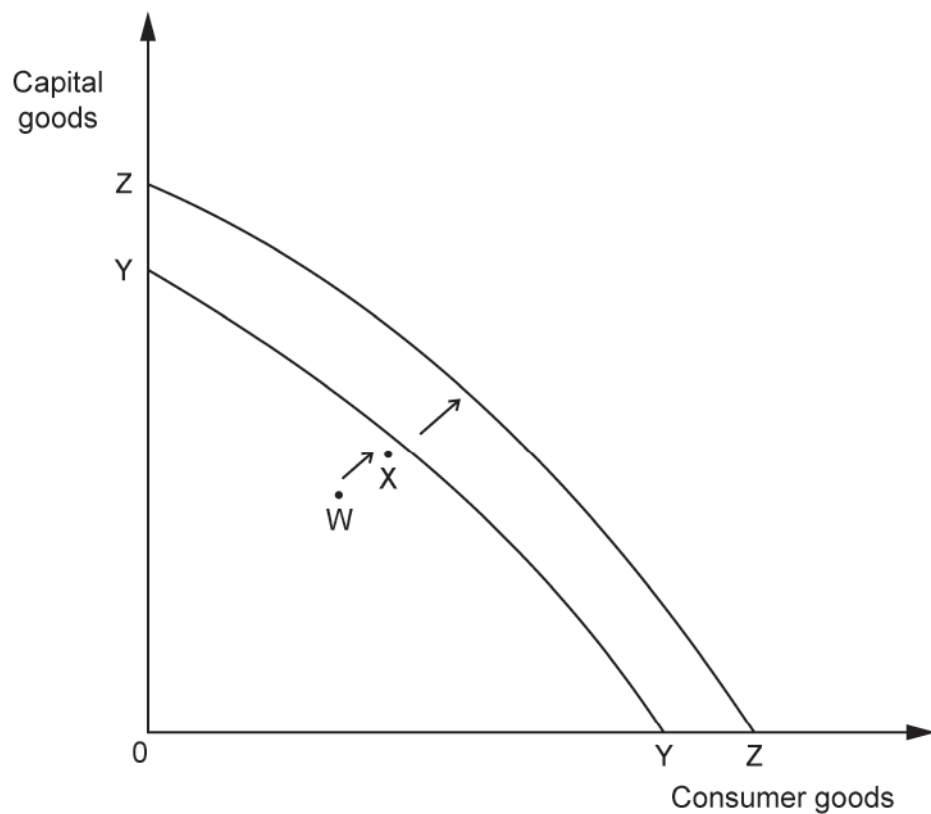


Fig. 2 A country's production possibility curve and points

The Bangladeshi economy has also grown in recent years, but its growth has been more erratic. In 2017, the country's main export destinations were the USA, Germany, UK and France. Its main sources of imports were China, India, Singapore and Japan. In 2017, the value of its exports to the UK was £2251 m while the value of its imports from the UK were £190 m. Bangladesh is also a recipient of UK overseas aid. In 2016, the UK government spent £13.4bn on overseas aid, in line with its target of 0.7% of GDP. Bangladesh was the 11th largest recipient, receiving £170 m. Fig. 3 provides some more information on the Bangladeshi economy.

	\$ billion
Consumer expenditure	191
Exports	50
Government spending	13
Investment	76
Imports	68
Tax revenue	25

Fig. 3 Details on the Bangladeshi economy 2017

Bangladesh's finance minister suggested in 2017 that he would cut the country's corporate tax

rates as they are much higher than most other countries. He argued that such a move would increase the country's rate of economic growth.

Some economists suggest that low-income countries are likely to grow more rapidly than high-income countries. Fig. 4 shows GDP per head and economic growth rates of a number of countries.

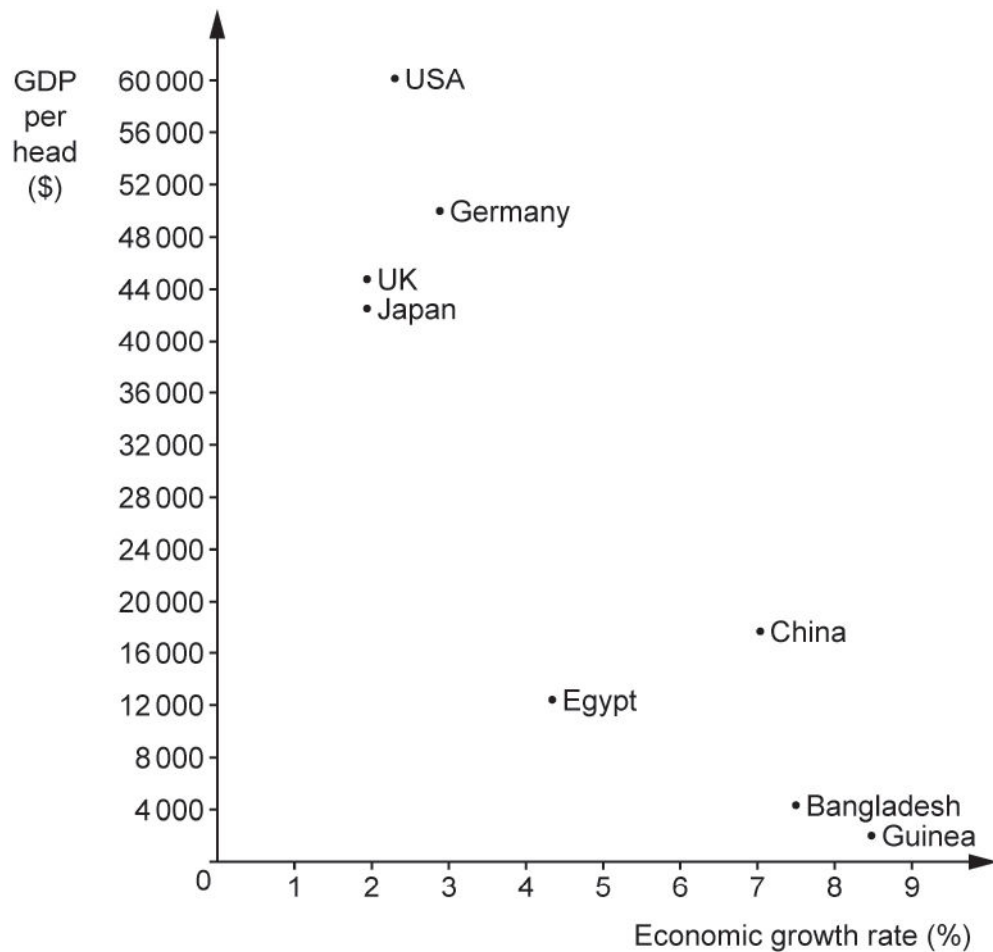


Fig. 4 GDP per head and economic growth rate of selected countries 2017

- 25 People in low-income countries may have a greater incentive to work hard to improve their living standards. Perhaps more significantly, the countries may be able to take advantage of technology transfer from high-income countries and their relatively low wages may attract foreign direct investment. The countries may also have greater potential to reallocate resources from low to high value activities.
- 30 To date, Asian countries have been more successful in narrowing the income gap than African countries. A number of African countries have poor infrastructure, low labour productivity, rapidly growing populations and a lack of economic and political stability.

Please refer to insert H460-02 October 2020 which can be downloaded separately and is included above.

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(b) Using Fig. 2, explain the difference between short run and long run economic growth.

[2]

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(c) Using information from the stimulus material, evaluate whether the gap in GDP per head between low-income and high-income countries will narrow in the future.

[12]

74 In 2018 both Australia and Ireland had a high Human Development Index (HDI), 0.939 and 0.938. They did, however, have different rates of poverty.

Evaluate whether a country with a high HDI is likely to have a low rate of poverty. [25]

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75 * The UK's deficit on the current account of its balance of payments in the first quarter of 2018 was £17.7bn (3.4% of GDP). This was a reduction on the deficit of £19.5bn (3.8% of GDP) in the last quarter of 2017.

[25]

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END OF QUESTION PAPER

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
1	a		Distinguish between disinflation and deflation. Disinflation is a fall in the rate at which the price level is rising or a fall in the rate of inflation (1) whereas deflation is a fall in the price level/negative inflation/lower prices/inflation rate below zero (1).	2 (AO1 x 2)	Accept relevant numerical examples – e.g. the inflation rate falling for disinflation and a negative inflation rate for deflation Examiner's Comments Most candidates were able to distinguish accurately between disinflation and deflation. A small proportion of candidates confused the two or wrote that disinflation is a fall in the rate at which inflation, rather than the price level, is increasing.
	b	i	Using Table 1, calculate which country had the highest real interest rate in 2015. South Africa (4.9%)	1 (AO2 x 1)	Candidates do not have to give the figure – South Africa is sufficient. Examiner's Comments This was a well answered question with most candidates recognising that the real rate of interest is adjusted for inflation.
		ii	Using Table 1, explain which central bank would have been the most likely to have engaged in quantitative easing. 1 mark for identifying a country – UK/Russia 1 mark for explanation linked to inflation rate – in the case of the UK, inflation rate was below target/very low. In the case of Russia, the high inflation rate might have been the consequence of quantitative easing. 1 mark for explanation linked to interest rates – in the case of the UK, a cut in such a low rate of interest might not have had much impact. In the case of Russia, the country had the lowest rate of real interest/the highest nominal rate of interest might have been the consequence of trying to control inflation.	3 (AO1 x 1) (AO2 x 2)	Examiner's Comments There were some good answers based on which country is most likely to have engaged in quantitative easing post- and pre-2015. A number of candidates recognised that the UK's inflation rate was low and below target and that the UK's interest rate was low. Others explained that Russia's high inflation rate might have been the result of quantitative easing in the past.
	c	i	Using Fig.2, explain which country had the most even distribution of income. Sweden (1) as the Lorenz comes closest to the line of equality/least bowed out (1)	2 (AO1 x 1) (AO2 x 1)	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
		ii	Using Fig.2, calculate what percentage of income the second lowest 20% of income earners received in the UK. Show your workings. 13% (1) The difference between share of income of 40% minus the share of the income of the lowest 20% i.e. 23% – 10% (1). Allow a margin: 25% to 21% – 12% to 8% = 9% –17%.	2 (AO2 *2)	For workings only need 23% – 10% or equivalent. Examiner's Comments The majority of candidates recognised that Fig.2 showed that Sweden had the most even distribution of income. Most of these were able to explain why. A number, however, mentioned the distribution of income at only point and a few incorrectly identified Brazil as the country with the most even distribution.

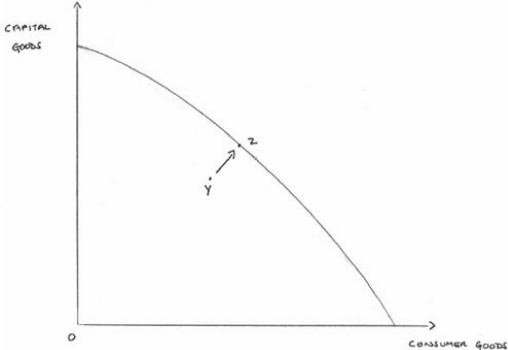
Mark Scheme

Question		Answer/Indicative content	Marks	Guidance
	d	Evaluate to what extent a fall in the price of oil would cause inflation in oil exporting countries. Level 2 (5–8 marks) Good knowledge and understanding of how a fall in the price of oil might affect inflation. Good – strong analysis of how a fall in the price of oil might affect inflation. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of how a fall in the price of oil might affect inflation, considering both why and why it might not cause inflation, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of how a fall in the price of oil might affect inflation. Limited – reasonable analysis of how a fall in the price of oil might affect inflation. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will have correct analysis largely in the form of single links.	8 (AO1 x 1) (AO2 x 1) (AO3 x 3) (AO4 x 3)	Indicative content A fall in the price of oil may reduce export revenue. This may cause a fall in demand for the countries' currencies. Lower demand for currencies may reduce their exchange rates. Lower exchange rates may push up the price of imports. An increase in the price of imports may cause inflation as the higher price of imported raw materials would increase costs of production, causing cost-push inflation. Domestic firms may be tempted to raise prices as imports will now be less price competitive. The lower export prices and higher import prices would also increase aggregate demand. This could result in demand-pull inflation. If, however, demand for oil is elastic, a fall in price will increase export revenue. This would cause the exchange rate to rise, import prices to decrease and inflation to fall. Demand for oil is influenced not just by price. For instance, if other countries are experiencing economic booms, they may be demanding significantly more oil. Export revenue may fall but if the countries are operating fixed exchange rates, the decrease in export revenue will not affect the exchange rate and may just result in a fall in aggregate demand. The lower oil price may also reduce the price of petrol and the costs of production within oil exporting countries. The rate of inflation in countries is also influenced by other factors such as changes in wage rates. Whether a fall in the price of oil will cause inflation will depend on the price elasticity of demand for oil, other factors influencing demand for oil, the type of exchange rate and other factors influencing inflation. It is likely that a fall in the price of oil will increase inflation in the oil exporting countries. This is because the demand for oil is relatively inelastic. Oil exporting countries do not tend to have a very diversified industrial structure so a lower price of oil may not have a significant impact on costs of production within the

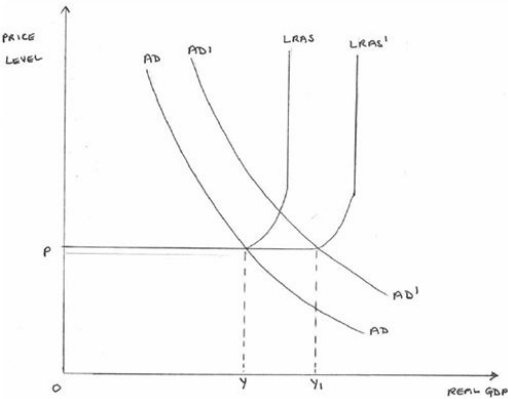
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Limited evaluation of how a fall in the price of oil might affect inflation. in the form of an unsupported statement or no evaluation. 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		countries but this may change over time Examiner's Comments Not many candidates linked the likely effect of a fall in the price of oil on the export revenue and the exchange rate of oil producing countries and so on cost-push inflation in the countries. Most candidates approached the question by considering a possible impact on aggregate demand so demand-pull inflation. A number of candidates did not establish a link between a fall in the price of oil and the general price level. Others showed some confusion over the meaning of inelastic demand, including some candidates interpreting it as perfectly inelastic demand. Most candidates provided some relevant evaluation particularly in terms of the level of capacity in the economy. There were, however, some vague statements made which did not establish evaluation. For instance, a number of candidates wrote that a small fall in the price of oil would have a smaller effect than a large fall. This is self-evident and is not enlightening.
Descriptor	Award mark														
Consistently meets the criteria for this level	At top of level														
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)														
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)														
On the borderline of this level and the one below	At bottom of level														
			Total	18											

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
2	Evaluate, with the use of an appropriate diagram(s), whether achieving full employment will always benefit an economy. Level 5 (21–25 marks) Good – Strong knowledge and understanding of the consequences of full employment. Strong analysis of how achieving full employment may affect an economy. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether achieving full employment will always benefit an economy, weighing up both why it might and why it might not and reaching a supported judgment. There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated. Level 4 (16–20 marks) Good knowledge and understanding of the consequences of full employment. Strong analysis of how achieving full employment may affect an economy. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	Indicative content Achieving full employment can bring a range of benefits. Making fuller use of resources increases output, income and efficiency. The diagram below shows how a decrease in unemployment will move the production point from Y, inside the curve, to Z, on the curve. Such a move achieves productive efficiency.  With higher income and more goods and services available, people can enjoy higher living standards and reduce poverty. One major cause of poverty is a lack of employment. Actual economic growth may occur and there is the possibility that potential economic growth will occur. An increase in aggregate demand may move an economy closer to full employment and increase real GDP. A shortage of workers may make firms try to get the most out of their employees by increasing the training they provide. This can increase labour productivity. The high level of employment and resulting high wages may also encourage more people to enter the labour force. An increase in labour productivity and in the labour force would shift the long run aggregate supply curve to the right and increase productive capacity. The diagram below shows economic growth occurring as a result of an increase in both aggregate demand and aggregate supply.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Good evaluation of whether achieving full employment will always benefit an economy, weighing up both why it might and why it might not and will weigh up both sides but without reaching a supported judgment. There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated. Level 3 (11–15 marks) Good knowledge and understanding of the consequences of full employment. Good analysis of how achieving full employment may affect an economy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether achieving full employment will always benefit an economy, considering both why it might and why it might not. There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence. Level 2 (6–10 marks) Good knowledge and understanding of the consequences of full employment. Reasonable analysis of how achieving full employment may affect an economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether achieving full employment will always benefit an economy, considering both why		 The higher incomes and increased spending which are likely to result from achieving full employment will raise tax revenue and reduce government spending on unemployment benefits. Some of the extra tax revenue and some of the tax revenue that had previously been spent on benefits could be used, for instance, on providing more and/or better education and health care. This spending could raise living standards. Achieving full employment, however, may bring a number of disadvantages to an economy. The high level of demand created and the shortage of workers may result in inflationary pressures. Consumer spending is likely to be higher not only because of high incomes but also because of the confidence full employment is likely to create. With increased difficulty of attracting new workers, firms will be likely to offer higher wages. Unions will also be in a strong position to press for higher wages. If productivity does not rise, the higher wages will increase costs of production resulting in a cost-push inflation. The Phillips curve suggests that there is a conflict between the objectives of full employment and low and stable inflation. The diagram shows that as full employment falls from 6% to 3%, the inflation rate rises from 2% to 5%.

Mark Scheme

Question		Answer/Indicative content	Marks	Guidance								
		it might and why it might not. The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear. Level 1 (1–5 marks) Reasonable knowledge and understanding of the consequences of full employment. Limited or no analysis of how achieving full employment may affect an economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether achieving full employment will always benefit an economy in the form of an unsupported statement or no evaluation. Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence. 0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks		When full capacity is reached, any further increase in aggregate demand will have no effect on real GDP and will be purely inflationary. A movement to full employment may also conflict with the aim of reducing a deficit on the current account of the balance of payments. Some of the resulting rise in spending may go on imports. The high level of demand may also encourage some firms to divert their products from the export to the home market. If full employment does result in inflation, domestic products may become uncompetitive in an international market. Full employment does not guarantee that the jobs are well paid nor of a high quality. Some workers wanting full time employment may be in part-time employment and workers may be in low-paid and low-skilled jobs. Whether full employment is beneficial or not will depend, in part, on whether it can be achieved without causing inflation, without worsening a current account deficit and with the creation of well-paid and high-skilled jobs. Increased education and training may enable an economy to achieve full employment without inflation by increasing productivity and encouraging innovation and advances in technology. Examiner's Comments The diagrams drawn included aggregate demand and aggregate supply diagrams, production possibility curves and Phillips curve diagrams. These were generally good although not all were labelled
Descriptor	Award mark											
Consistently meets the criteria for this level	At top of level											
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)											
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Mark Scheme

Question			Answer/Indicative content		Marks	Guidance
				available)		accurately.
			On the borderline of this level and the one below	At bottom of level		Some answers were rather narrow, just focusing on increased incomes and the risk of higher inflation. Some candidates revealed confused thinking. For instance, for some reason, a number wrote that full employment would reduce competition for labour and would lower wages.
			Total		25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
3	Evaluate whether economic growth will reduce poverty. Level 5 (21–25 marks) Good – Strong knowledge and understanding of economic growth and poverty. Strong analysis of how economic growth may affect poverty. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether economic growth will reduce poverty weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of economic growth and poverty. Strong analysis of how economic growth may affect poverty. It will have consistently well developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether economic growth will reduce poverty, weighing up both why it might and why it might not, weighing up both sides but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The</i>	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> Actual (short run) economic growth has the potential to reduce absolute poverty. If more goods and services are produced, employment and wages are likely to increase. Most people who are unemployed have to rely on state benefits. These are likely to be lower than wages. As a result, when people gain employment they are likely to experience a rise in income. Low paid workers may also receive wage rises if economic growth results in increased competition for workers. Higher incomes enable people to purchase basic necessities and some may be able to afford basic necessities. Economic growth is likely to increase the government's ability to spend on education and health care. This is because both direct and indirect tax revenue is likely to increase. Government spending on state benefits is likely to fall. As well as expenditure on unemployment benefit, spending on some other benefits may fall. For instance, spending on tax benefits may decline. Spending more on education may reduce poverty in the long run. More educated children are likely to become more skilled workers with a greater choice of occupations and a higher earning potential. Better quality health care provides a basic necessity and again may increase earning potential. Economic growth is likely to reduce absolute poverty but the outcome is not guaranteed. Economic growth may create more jobs but a poverty trap may exist for some of the unemployed where they may lose income if the wages paid in the jobs they could do pay less than unemployment benefit. Potential (long run) economic growth may not reduce poverty if the potential is not utilised. There may be, for instance, a rise in the size of the labour force but if employment does not increase, absolute poverty will not fall. While economic growth may reduce absolute poverty it may not reduce relative

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	<i>information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of economic growth and poverty. Good analysis of how economic growth may affect poverty. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether economic growth will reduce poverty, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of economic growth and poverty. Reasonable analysis of how economic growth may affect poverty. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether economic growth will reduce poverty, considering both why it might and why it might not. The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear. Level 1 (1–5 marks) Reasonable knowledge and understanding		poverty. Indeed, economic growth may be accompanied by a rise in income inequality. A growing economy is likely to require people to adapt to changes in the pattern of demand and supply. Some people may thrive, benefiting from increased business opportunities and increased profits. Others who find it difficult to develop the new skills required and to switch jobs may experience a fall in their relative income. As an economy gets richer, the provision of public services such as public libraries and subsidised public transport tend to increase but then when an economy reaches a high level of GDP per head these services may be cut back if less people are reliant on them. This may make those who are still dependent on them relatively poorer. The reduced need to spend on benefits and the potential increase in tax revenue may encourage a government to cut tax rates rather than increase spending on education and health care. If the top rates of tax are cut, the gap between the rich and the poor may increase. Economic growth may also have been stimulated by supply-side policy measures which may increase relative poverty. For instance, privatisation may increase efficiency and output but may raise the prices paid by the poor more than the wages they receive. Trade union reform may increase labour market flexibility but may reduce the relative pay of low-skilled workers. Government spending on benefits may be reduced. Cuts in child benefit and state pensions would have more of an impact on the poor. Economic growth tends to be accompanied by a widening gap between the urban and rural populations. Employment and incomes tend to increase in urban areas and fall in rural areas. As an economy grows the secondary and tertiary sectors usually increase whilst the primary sector declines. Those working in the primary sector are likely to experience a relative fall in income. As people move out of the rural

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			of economic growth and poverty. Limited or no analysis of how economic growth may affect poverty. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether economic growth will reduce poverty in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		areas, some of those left behind may experience a fall in demand for their services and all may experience a reduction in the social capital in the area. Economic growth which is accompanied by an increase in employment is likely to reduce absolute poverty. Whether it will result in a fall in relative poverty is more uncertain. The outcome will be influenced by how the economic growth is achieved, workers respond to the changes that result and how the benefits are shared out. In recent years, economic growth in a number of countries has been accompanied by increased income inequality. Examiner's Comments The strongest answers kept a focus on reducing poverty. There was some good use made of economic theory, including aggregate demand and aggregate supply analysis and the trickle-down effect. There was some good evaluation, some of which discussed who is most likely to benefit from economic growth and distinguished between the effects of economic growth on absolute and relative poverty. A number of answers, however, tended to devote some of the answer to a different question, that is whether economic growth increases living standards. Some candidates, for example, wrote that increased government spending that economic growth may make possible would not be beneficial if it is on the military. Such an approach often did not consider what impact such spending might have on poverty via, for instance, employment.
Descriptor	Award mark														
Consistently meets the criteria for this level	At top of level														
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)														
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)														
On the borderline of this level and the one below	At bottom of level														
			Total	25											

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
4	Evaluate whether the receipt of remittances benefits developing economies. Level 5 (21–25 marks) Good – Strong knowledge and understanding of remittances and developing economies. Strong analysis of how the receipt of remittances may affect developing economies. It will have consistently well developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of how the receipt of remittances may affect developing economies, weighing up both why they may and why they may not benefit developing economies and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of remittances and developing economies. Strong analysis of how the receipt of remittances may affect developing economies. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> Remittances is a term used to cover money sent back by migrant workers to their families in their country of origin. For some developing economies, such as Bangladesh, Kenya and the Philippines, remittances account for a relatively large proportion of the country's GDP. Remittances have formed a more stable flow of financial resources than portfolio investment and foreign aid. Remittances also do not require the payment of interest and do not have conditions attached to them. Remittances can increase developing economies' credit rating. This may reduce the economies' borrowing costs and can help them repay external debt. It should also make it easier for the economies to obtain loans in the future. Remittances act as an injection into the circular flow of income. The families who receive the remittances can increase their spending. An increase in consumer expenditure may increase output and so contribute towards economic growth and employment. Receiving financial remittances from relatives may mean that families become less dependent on government assistance. This may enable the government to spend more on other areas that could promote development in the long run. Government spending on unemployment benefits may decline if some of those who find jobs abroad could not find them at home. This may again enable the government to spend more on, for instance, education and health care. Remittances may encourage young people to study and develop skills in the knowledge that they may be able to use these abroad to gain relatively high wages. In addition, they may enable the families to spend money on educating their children which can increase their future career prospects and earning potential. Some families may also use the money received to set up their own businesses which may grow and create

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Good evaluation of how the receipt of remittances may affect developing economies, weighing up both why and why they may not benefit developing economies but without reaching a supported judgment. There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated. Level 3 (11–15 marks) Good knowledge and understanding of remittances and developing economies. Good analysis of how the receipt of remittances may affect developing economies. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of how the receipt of remittances may affect developing economies considering both why and why they might not benefit developing economies. There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence. Level 2 (6–10 marks) Good knowledge and understanding of remittances and developing economies. Reasonable analysis of how the receipt of remittances may affect developing economies. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.		jobs for others. The receipt of remittances, however, may also have disadvantages. They involve more money coming into the economies but if aggregate supply does not rise in line with the increase in aggregate demand, demand-pull inflation is likely to occur. When workers from the economies go abroad, they reduce the size of the economies' labour forces and so reduce long run aggregate supply. It may be the most skilled and productive workers who find jobs in other countries. The receipt of remittances from abroad may increase demand for the economies' currencies as the workers convert, for instance, euros and dirhams, into the domestic currencies for their relatives to receive. The higher demand for the currencies will increase the value of floating exchange rates and put upward pressure on fixed exchange rates. Higher exchange rates will enable the economies to purchase more imports for the same amount of the currencies and will reduce the burden of debt repayments in foreign currencies. It will, however, make the economies, exports more expensive which may reduce export revenue, increase current account deficits on the balance of payments and reduce aggregate demand. Remittances, whilst as previously mentioned being more stable than other financial flows, are still influenced by changes in global economic activity/ A global recession will reduce the jobs available for migrant workers and may significantly reduce the flow of remittances. If the economies, most skilled and enterprising workers go abroad, it may discourage some foreign multinational companies setting up in the economies. This could result in a loss of potential output, income and employment. Whether remittances will benefit developing economies will depend on what they are used for and how the economies respond to them. Remittances are more likely to benefit

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			Reasonable evaluation of how the receipt of remittances may affect developing economies considering both why and why they might not benefit developing economies. The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear. Level 1 (1–5 marks) Reasonable knowledge and understanding of remittances and developing economies. Limited or no analysis of how the receipt of remittances may affect developing economies. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of how the receipt of remittances may affect developing economies in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of		developing economies if they are steady and used for education and to set up small businesses. They will also be more beneficial if the extra demand they create can be matched by higher aggregate supply and if they do not reduce the international competitiveness of the country's products by pushing up the economies' exchange rates. Even if these conditions are met, it is more likely that remittances will be more beneficial in the short run than in the long run. They can provide a source of income at a time when economies may not be able to make full use of their skilled workers. However, in the long run these workers would probably contribute more income to their economies by working at home. Keeping skilled workers will increase the economies' productive potential, make them more internationally competitive and encourage investment. Examiner's Comments There were some very well thought out, lucid and perceptive answers to this question. These included good use of economics particularly in terms of the assessment of how the remittances might be used, including reducing a savings gap, the impact of a brain drain and the effect remittances may have on the balance of payments and the exchange rate. Some answers, however, were rather descriptive and lacking in economic content. A number of candidates asserted but did not establish the points they made. For instance, some candidates wrote that remittances can increase government spending without establishing any links between the two.
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of										

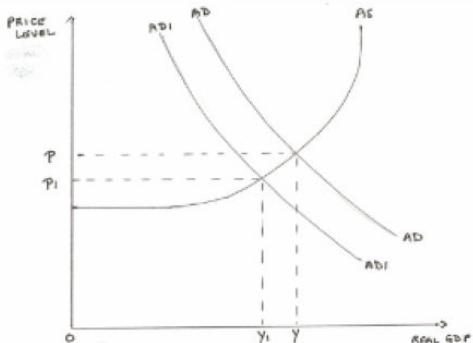
Mark Scheme

Question			Answer/Indicative content		Marks	Guidance
				level (depending on number of marks available)		
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below	At bottom of level		
			Total		25	

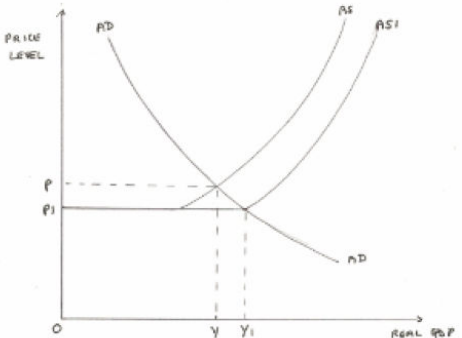
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
5	a		Using information from the stimulus material, including Fig. 2, calculate the difference between Iceland's real GDP per head and its GNI per head in 2014. \$9,818 (2). Correct working or correct approach with error on size of GDP per head figure. (1).	2 (AO2 x 2)	Correct working: GDP per head = $\\$14.85\text{bn}/0.33\text{m} = \\$45,000$. \$45,000 - \$35,182. Correct approach with error on size of GDP per head: \$4,500. Allow full marks for correct figure without \$ sign. <u>Examiner's Comments</u> A relatively small proportion of candidates did not attempt this question. Some who did answer it had the correct working but got confused about the size of the figures. Candidates need to be aware of the difference between billions and millions and the likely relationship between GNI per head and GDP per head. In this case, they should have realised that, given Iceland's GNI per head, its GDP per head would not have been \$4,500 or \$450,000.
	b		Using Fig. 2, explain why Australia had a higher HDI value than the USA in 2014. Longer life expectancy/better healthcare (1) better education provision (1).	2 (AO1 x 2)	For better education provision accept better literacy. <u>Examiner's Comments</u> This was generally well answered. Some candidates, however, did not make use of Fig.2. These candidates often wrote about the composition of the HDI but did not explain why Australia's HDI was higher than that of the USA in 2014. Only a small proportion of candidates revealed a confusion about the components of the HDI, mentioning, for example, income distribution and working hours.
			Total	4	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
6	Evaluate, with the use of an appropriate diagram(s), whether deflation always harms a country's macroeconomic performance. Level 5 (21–25 marks) Good -Strong knowledge and understanding of how deflation may affect a country's macroeconomic performance. Strong analysis of how a decrease in AD and an increase in AS may affect a country's macroeconomic performance. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether deflation will always harm a country's macroeconomic performance, weighing up both why it might and why it might not and reaching a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of how deflation may affect a country's macroeconomic performance. Strong analysis of how a decrease in AD and an increase in AS may affect a country's macroeconomic performance. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> The effect of a fall in the price level on a country's macroeconomic performance will depend on its cause, how economic agents respond and what is happening in other countries. The diagram below shows deflation arising from a decrease in aggregate demand. The price level falls from P to P₁ and output declines from Y to Y₁.  If AD falls, firms may reduce output and the number of workers they employ. The economic growth rate may decline and the economy may experience a recession. Unemployment may increase. A period of falling prices resulting from lower AD, may result in downward spiral developing. Consumers may delay their purchases and firms may postpone their investment in expectation that prices will be lower in the future. This reduction in AD may lower prices further and result in output declining even more. Such deflation can reduce consumer and business confidence which can reduce the effectiveness of any government policy measures designed to increase economic activity. Deflation also causes an increase in the burden of debt on households, firms and

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Good evaluation of whether deflation will always harm a country's macroeconomic performance, weighing up both why it might and why it might not without reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of how deflation may affect a country's macroeconomic performance. Good analysis of how a decrease in AD and an increase in AS may affect a country's macroeconomic performance. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether deflation will always harm a country's macroeconomic performance, considering both sides. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of how deflation may affect a country's macroeconomic performance. Reasonable analysis of how a decrease in AD and/or an increase in AS may affect a country's macroeconomic performance. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be impatiently labelled or not linked to the		governments. The amount that has to repaid rises in real terms and this can further reduce consumers' expenditure, investment and government spending. Deflation arising from a fall in aggregate demand is sometimes referred to as 'bad' deflation. This is in contrast with 'good deflation' which arises from an increase in aggregate supply as shown in the diagram below. The price level falls from P to P1 and output rises from Y to Y1.  A fall in the price level that results from, for example, advances in technology can increase the price and quality competitiveness of domestic products. Such a rise in competitiveness can increase demand for the country's products. As a result, the current account position may improve, output may rise and unemployment may fall. Cheaper products arising from lower costs of production, accompanied by higher output and employment is likely to encourage consumers to buy more and firms to undertake more investment. Over time economic growth usually occurs as a result of increases in both AD and AS. Most central banks set a positive target for inflation as its thought that a low rate of demand-pull inflation can stimulate firms to produce more. Recent years have witnessed a number of central banks seeking to avoid or reverse deflation arising from a fall in AD. Some, most

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			analysis. Reasonable evaluation of whether deflation will always harm a country's macroeconomic performance, considering both sides. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of how deflation may affect a country's macroeconomic performance. Limited or no analysis of how a decrease in AD and/or an increase in AS may affect a country's macroeconomic performance. There is little evidence of reasoning that addresses the question asked. There is a lack of clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether deflation will always harm a country's macroeconomic performance in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks)		noticeably, Japan's central bank, have found this difficult as 'bad' deflation changes people's expectations and behaviour. Examiner's Comments There were again some excellent answers to this question. A relatively high proportion of these answers distinguished between 'good' and 'bad' deflation. These answers made good use of AD/AS analysis and explored the possible effects on employment, economic growth and the current account balance. Other responses included unsupported statements including 'Deflation may not harm a country's macroeconomic performance as policies have been found to prevent this happening.' As in the other questions, some candidates sought to evaluate by writing that the effects of depend on the size of the change with a small change having a smaller effect than a big change. On its own, such a statement is just tautology.
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks)										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			available)		
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	
			On the borderline of this level and the one below	At bottom of level	
			Total	25	
7			C	1 (AO1)	Rationale A This liberal school of thought has grown in popularity following the 2008 global financial crisis. B Classical economics lost popularity as a result of the Great Depression. C Correct: The Great Depression resulted in a new economic paradigm of the need for greater demand side management of the economy. D The monetarist approach became popular in response to the stagflation caused by Keynesianism in the late 1970s.
			Total	1	
8			A	1 (AO3)	Rationale A Correct: This will reduce income inequality, shifting the Lorenz Curve closer to the line of equality and causing the Gini coefficient to get closer to zero. B The greater the Gini coefficient the greater the degree of income inequality. C The Lorenz curve would only shift right if income inequality worsened. D Raising the income of those at the bottom of the distribution and reducing the income of those at the top of the distribution will reduce income inequality.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
9			D	1 (AO1)	Rationale A This trade-off occurs when increases in growth result in the demand for imports rising. B Economic growth is likely to increase the derived demand for labour, reducing unemployment. C An improved balance of payments is likely to increase demand for domestic goods and services, which could cause inflation. D Correct: The Phillips Curve illustrates that a lower rate of unemployment is likely to result in a higher rate of inflation.
			Total	1	
10			D	1 (AO2)	Rationale A Foreign direct investment (financial account) and foreign purchase of domestic assets (capital account) are not part of the current account. B The current account is not comprised solely of the trade in goods and services, but includes primary income (net investment income) and secondary income (international transfers). C The foreign purchase of domestic assets is not part of the current account. D Correct: \$158m + \$2,055m + \$3,974 - \$1,201m
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
11			D	1 (AO1)	Rationale A HSBC provides a service and does not extract raw materials. Textile firms produce goods rather than providing a service. B HSBC is not a manufacturing firm and textile firms process rather than extract raw materials. C HSBC is not a manufacturing firm and textile firms are not in the tertiary sector. D Correct: HSBC operates in the tertiary/service sector of the economy and textile firms in the secondary/manufacturing sector.
			Total	1	
12			B	1 (AO1)	Rationale A This would occur if the price level was falling. B Correct: The rate of inflation has fallen from 1.5% to 0%. C There is no inflation in 2015 as the price level is unchanged. D Hyperinflation occurs when the price level is increasing at a rapid rate.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
13			Economic theory would suggest there is a positive correlation between economic growth and the quality of housing. Explain whether the data in Figure 3.1 supports this hypothesis. <i>Award 1 mark for recognition that the data shows no clear relationship between the two variables.</i> <i>Award 1 mark for providing an example from the data to support this:</i> - Peru has a high economic growth rate but poor housing. (vii) - Costa Rica has one of the lowest economic growth rates but a relatively low proportion of individuals living in substandard accommodation.	2 (AO1 x 1) (AO2 x 1)	Do not award marks to answers which attempt to support the statement in the question – Chile is an anomaly in the data rather than evidence of a pattern. Full marks can be awarded to a candidate who reaches the right overall conclusion but recognises Chile does provide some evidence of a positive correlation. <u>Examiner's Comments</u> This was a straightforward question that was well handled by most candidates. It is important that a definitive answer is given. Many candidates said that the table both supported and contradicted the theory within the space of a sentence, despite the data clearly indicating that there was no correlation.
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
14	Using the information in Extract 3, evaluate the relationship between economic growth and economic development. Level 3 (11–15 marks) Good knowledge and understanding of the concepts of economic growth and economic development. Good – strong analysis of the relationship between economic growth and economic development. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the strength of the relationship between economic growth and economic development, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of the concepts of economic growth and/or economic development. Reasonable analysis of the relationship between economic growth and economic development.. There is correct analysis largely in the form of single links. These	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	Analysis and evaluation should only be awarded up to 'Reasonable' unless the extract is used to support at least one analysis or evaluation point. <i>Analysis:</i> Economic growth will decrease unemployment and increase real disposable income. Increases in real GDP per capita will improve a country's HDI as this is a component of the HDI. This will improve individuals' material standard of living as they can now afford to buy more goods and services. Increased consumption will increase firms' revenue and profits. This will enable them to increase spending on research and development, improving the quality of products and/or improve the environmental quality of the production process. Economic growth is likely to increase the government's tax take. This will give it more revenue to spend on providing public services such as healthcare (increasing life expectancy) and education (increasing literacy rates). Rising incomes can also enable individuals to afford better quality housing, which could deal with the problems explained in Extract 3. When the government generates more tax revenue it will also have more funds to invest in public housing projects, which can help to make housing more affordable. Economic growth can therefore lead to development in this way. Chile, for example, may have been able to achieve relatively low rates of homelessness as a result of a high rate of economic growth in recent years. <i>Evaluation:</i> Examples such as Peru in Figure 3.1 demonstrates that economic growth will not always lead to economic development –

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the strength of the relationship between economic growth and economic development considering both sides/comparing alternatives <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of the concept of economic growth or economic development. Limited analysis of the relationship between economic growth and economic development.. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the strength of the relationship between economic growth and economic development in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit.		whilst the growth rate is high, the vast majority of the population lives in substandard housing. If economic growth was achieved through rapid urbanisation without the supporting infrastructure, it could be argued growth harms the quality of life in the short term as more individuals are forced into slum accommodation. Economic growth does not take into account the distribution of income – if the distribution of income worsens but GDP increases there may be no improvements in development. Indices such as the Genuine Progress Indicator demonstrate there could be an inverse relationship between growth and development. This depends upon whether the growth is sustainable; if it is achieved by using up non-renewable resources then it is likely to damage development in the long term. Whilst economic growth can provide the funds needed for economic development, this is providing governments spend their tax revenue wisely. In many developing nations inefficiency means growth is not always translated into development. If economic growth is inflationary this may decrease purchasing power, worsening material standards of living. <i>Give credit to candidates who analyse/evaluate the relationship in the other direction – ie. whether development causes economic growth.</i> <u>Examiner's Comments</u> Understanding of the relationship between economic growth and development was on the whole impressive. The best answers were able to apply this to the material covered in Extract 3, such as drawing a Lorenz curve to demonstrate why countries like Peru may have experienced

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					substantial economic growth and yet struggled to develop. Candidates should be reminded that simply quoting the extract or demonstrating their own knowledge without application will limit the mark they can be awarded. Weaker answers gave a thorough explanation of how countries might achieve economic development but did not relate this to economic growth. Such analysis could not be credited as it was not answering the question. The same can be said of answers that explained the various ways a country can achieve economic growth without explaining or evaluating the impact this can have on economic development.
			Total	15	
15			D	1 (AO1)	Rationale A This is a component of the Genuine Progress Indicator. B This is a component of the Genuine Progress Indicator. C This is a component of the Genuine Progress Indicator. D Correct: this is a proxy for health, which is one of three components of the HDI.
			Total	1	
16			A	1 (AO1)	Rationale A Correct: the UK economy recovered in 2010-2014 but growth started to slow down in 2015-2016. B 2008-2009 was a period of recession. C Growth in 1998-2007 was much stronger than the growth seen in 2010-14. D Growth in 2015-2016 was slower than in 2010-14.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
17			A	1 (AO1)	Rationale A Correct: this will reduce the geographical mobility of labour, increasing structural unemployment and therefore increasing the gap between the aggregate supply of labour and the labour force. B The natural rate of unemployment is concerned with problems on the supply side rather than the demand side. C This should reduce the natural rate as individuals will become more occupationally mobile, reducing structural unemployment. D This should reduce the natural rate as frictional unemployment will fall, as the opportunity cost of being unemployed increases.
			Total	1	
18			B	1 (AO3)	Rationale A Whilst the distribution of income has worsened it is impossible to know what has happened to absolute poverty – in a growing economy those at the bottom of the income distribution may be receiving a smaller proportion of national income but not be in absolute poverty as a result. B Correct: Those at the bottom of the income distribution now receive a smaller proportion of national income. C Relative poverty is likely to have increased. D The Gini coefficient has increased as the Lorenz curve has moved further away from the line of equality.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
19			D	1 (AO1)	Rationale A This is only true in the later stages of economic development. B This is only true in the early stages of economic development. C More advanced economies tend to have the technology to be more environmentally friendly, which is why degradation falls as countries become fully developed. D Correct: as industrial output expands the environment initially suffers, but this changes as deindustrialisation and technological progress occurs.
			Total	1	
20			A	1 (AO2)	Rationale A Correct: Nominal GDP in 2014 = £800bn x 1.05 = £840bn. Real GDP = £840bn x 100/120 B £840bn - £120bn. Price index in 2014 = 120. C £812bn. This is 2014 real GDP in 2013 prices (£840bn x 116/120). D This is nominal GDP in 2014 (£800bn x 1.05).
			Total	1	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
21	Evaluate, using the information in Extract 1, whether expenditure on the Olympic Games represents sustainable investment. Level 2 (5–8 marks) Good knowledge and understanding of the concept of sustainability applied to the Olympic Games. Good – strong analysis of how expenditure on the Olympic Games may represent sustainable investment. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether expenditure on the Olympic Games represents sustainable investment, considering both sides/comparing alternatives. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgement. Strong evaluation should include a supported judgement. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of the concept of sustainability applied to the Olympic Games. Limited – reasonable analysis of how expenditure on the Olympics represents sustainable investment. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a	8 (AO1 x 1) (AO2 x 1) (AO3 x 2) (AO4 x 4)	Guidance: • Whilst most candidates will start their answers explaining how hosting the Olympics represents sustainable development, the reverse approach is equally valid – reasons why Olympics expenditure does not represent sustainable investment can be credited as Analysis if presented first. • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for an understanding of sustainability and reference to the material in Extract 1. Application to the case study is required for Knowledge & Understanding to be Reasonable: ◦ Fig 1.1 shows hosts make losses ◦ Losses made by previous hosts suggest evidence of wasteful expenditure ◦ Significant proportion of Olympics revenue goes to the IOC ◦ Benefits will be felt for generations to come ◦ Improves in transport infrastructure can enhance productivity ◦ Regenerates areas such as East London

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			lack of a clear structure. Reasonable analysis will have correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Limited evaluation of whether expenditure on the Olympics represents sustainable investment in the form of an unsupported statement or no evaluation. 0 marks no response or no response worthy of credit.		◦ Long run benefits lower than those that would come from alternative projects ◦ Severe overcapacity once the event is over – e.g. weed infested cycling racetrack <i>Analysis and Evaluation requires candidates to go beyond what is given in the case study.</i> Analysis may include: • Increasing the capital stock will increase productive capacity, shifting LRAS out, enabling future generations to enjoy non-inflationary economic growth. • Improved transport infrastructure can increase labour mobility, increasing the productive capacity of the economy. • Improved transport reduces commuting times, increasing productivity and contributing to long run growth, which could be further enhanced by increased investment resulting from lower costs of production. • Facilities can be used by future generations, meaning expenditure today still benefits future citizens. For example, the Olympic village may be used for housing in the future. • If facilities are used in the future, they can continue to generate revenue for the government that could be spent on supply side improvements. Evaluation may include: • Opportunity cost of Olympics expenditure – money spent on Olympics could be better spent on other supply side policies that have a greater impact on productive capacity.

Mark Scheme

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					• Olympics expenditure may only generate short run growth if facilities are not used in the future and if it doesn't create a long run increase in tourism. • If the government has to borrow money to pay for the Olympics, this reduces money available to spend in the future. • Government borrowing could crowd out private sector investment, harming productive capacity in the future. • It depends upon whether there is a plan in place to make use of facilities post-Olympics. • Expenditure may be more beneficial to a developing nation that doesn't have much infrastructure to start with, or conversely less beneficial to a developing nation because there are more important spending priorities such as health and education. <u>Examiner's Comments</u> Performance on this question was limited by the relatively weak understanding of sustainability shown by most candidates. The majority were able to identify the relevant material from the case study but were not able to do anything meaningful with it, resulting in a mark of 2/8 for Knowledge & Understanding. Better answers were well focused on the long run and the impact of hosting the Olympic Games on future generations from both a micro and macroeconomic perspective, such as weighing up the increase in productive capacity against the debt burden and the higher tax rates this is likely to result in.
			Total	8	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
22			Using Fig. 3.1, explain what happened to bicycle prices in the period 2007–2015. • (Nominal) Bicycle prices increased over the period (1) • Generally the real price of bicycles was falling (because the rate of inflation was higher than nominal bicycle price growth in five out of eight years) (1)	2 (AO1 x 1) (AO2 x 1)	Do not credit answers that simply describe the data year by year. <i>Award the second mark for an alternative explanation that the real price has stayed roughly constant (ie. in 2015 the real price was similar to the real price in 2007, because of the large increase in real prices in 2009).</i> <u>Examiner's Comments</u> The majority of answers only offered a year by year description of the data rather than recognising the overall trends. Few candidates considered the distinction between real and nominal prices. Candidates would clearly benefit from more practice interpreting data.
			Total	2	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
23			Using evidence from the stimulus material evaluate whether economic growth always limits sustainable development. Level 3 (9–12 marks) Good knowledge and understanding of economic growth and sustainable development. Good – strong analysis of how economic growth does or does not limit sustainable development Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of whether economic growth always limits sustainable development, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (5–8 marks) Good knowledge and understanding of economic growth and sustainable development. Reasonable analysis of how economic growth does or does not limit sustainable development. There is correct analysis largely in the form of single links. These	12 (AO1 x 1) (AO2 x 1) (AO3 x 5) (AO4 x 5)	For a mark at the top of the level evidence must be provided of both the use of the stimulus material and the candidate's additional knowledge. Economic growth involves increases in GDP which are associated with increased domestic output from a range of industries. Sustainable development involves GDP growth which is not at the expense of severe resource depletion and/or imposing social costs in the form of negative externalities on the economy. Economic growth can limit sustainable growth if expanding industry is relying on inefficient technology. Firms operating in a free market are not forced to internalise the negative externalities produced. Consumers base their decisions on private costs and so consumer activity may add to pollution e.g. car ownership Economic growth implies greater output and therefore greater resource depletion. Industrial production depletes common access resources due to their rival but non excludable nature. Economic growth may be more sustainable if the profits generated by economic growth are reinvested in the industries in order to create more environmentally friendly production techniques. If firms are growing and making profits they may not engage in cost saving activities such as inadequate water treatment and reduced use of cheap but harmful substances. Economic growth is able to create more government revenue allowing the state to improve monitoring of regulation and standard and to subsidise investment in a range of areas which are associated with environmental problems.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis Reasonable evaluation of whether economic growth always limits sustainable development considering both sides/comparing alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of economic growth and sustainable development. Limited analysis of how economic growth does or does not limit sustainable development. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of whether economic growth always limits sustainable development in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		The Kuznets curve, relating pollution to per capita income, suggests that after a certain level of per capita income pollution will begin to fall.

Mark Scheme

Question			Answer/Indicative content		Marks	Guidance
			Descriptor	Award mark		
			Consistently meets the criteria for this level	At top of level		
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below	At bottom of level		
			Total		12	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
24	Evaluate the effectiveness of changes in the tax and benefit system in reducing the level of income inequality in the U.K. Level 5 (21–25 marks) Good - Strong knowledge and understanding of the tax and benefit system in reducing income inequality. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the effectiveness of the tax and benefit system in reducing income inequality, weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of the tax and benefit system in reducing income inequality. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	The UK tax most associated with reducing income inequality is income tax. This is a progressive tax because of the tax free allowance and marginal tax rates greater than average tax rates. As a result, the percentage of income paid in tax increases as income increases. The benefit system is made up of a wide range of benefits. Some are universal and some are means tested. Both are payments by the UK government either in a direct fashion e.g. job seekers allowance or by the direct state provision of goods and services e.g. NHS. Tax and benefits can be argued to be effective. In the case of the tax system it is the progressive nature that is very important. The existence of no tax on the first tranche of a person's income prevents those on low income having the pay income tax. Tax rates at different bands help to reinforce the progressive nature. The tax system in the UK is comprehensive and means that the majority of income earned is subject to the relevant taxation. The benefit system has the advantage of being able to be directed to those in most need. This is particularly the case when benefits are directed and means tested (Low income groups such as single parents, the unemployed and pensioners can have their income guaranteed or supplemented by the state system of benefits). There is a wide range of state benefits and each particular benefit may have its advantages and drawbacks. On the other hand, it can be argued that universal benefits are an inefficient method of redistributing income. Some of the recipients may not be in need of state transfers e.g. some pensioners in receipt of

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	<i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of the tax and benefit system in reducing income inequality. Good analysis of the effectiveness of the tax and benefit system in reducing income inequality. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of the effectiveness of the tax and benefit system in reducing income inequality, considering both sides/comparing alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of the tax and benefit system in reducing income inequality. Reasonable analysis of the effectiveness of the tax and benefit system in reducing income inequality. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the effectiveness of the tax and benefit system in reducing income inequality, considering both		the universal state pension and similarly the receipt of child benefit. The system of tax and benefit may be subject to inefficiency, fraud, avoidance and evasion. The existence of these factors reduced the ability of the system to redistribute income. The progressive nature of the income tax system can lead to poverty and unemployment traps. Marginal tax rates can act as a disincentive to join/start employment. Similarly, the lack of integration between the tax and benefit system can act as a disincentive. As a result, some low income groups may suffer from marginal tax rates of 100%. Income inequality may be caused by a variety of factors. The best solution for redistributing income may depend on the cause of inequality. For instance, if inequality of income is caused by inequality of wealth or opportunity then a different set of policies may be more relevant. There are alternatives to the tax and benefit system which can be argued to be more effective. Policies such as the introduction of the National Living Wage, promoting economic growth to generate employment and regional policies such as recent focus on the Northern Powerhouse. Focus could also be directed to inefficiencies in the working of labour markets. For example, policies designed to improve factor mobility both geographically and occupationally.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			sides/comparing alternatives. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the tax and benefit system in reducing income inequality. Limited or no analysis of the effectiveness of the tax and benefit system in reducing income inequality. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of the effectiveness of the tax and benefit system in reducing income inequality, in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			Just enough achievement on balance for this level Above bottom and either below middle or at middle of level (depending on number of marks available) On the borderline of this level and the one below At bottom of level		
			Total	25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
25	Evaluate whether income inequality in the UK is a cause for concern. Level 2 (5–8 marks) Good knowledge and understanding of the concept of income inequality and of the significance of income inequality in the UK. Good – Strong analysis of the impacts of income inequality in the UK. • Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. • Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – Strong evaluation of the significance of income inequality in the UK considering both sides and underpinned by appropriate theoretical analysis. • Good evaluation will weigh up both sides but without reaching a supported judgement. • Strong evaluation should include a supported judgement. Level 1 (1–4 marks) Limited – Reasonable knowledge and understanding of the concept of income inequality in the UK. Limited – Reasonable analysis of the impacts of income inequality in the UK. • Limited analysis will have little evidence of reasoning that addresses	8 (AO1 x 1) (AO2 x 1) (AO3 x 3) (AO4 x 3)	Income inequality can be seen as an example of labour market failure and occurs when there is a wide gap between rich and poor households. Increasing inequality in the UK is a cause for concern because: • it depresses demand since those on lower incomes tend to spend a greater proportion of their income than those on high incomes; • those on low incomes have less access to basic goods and services; • in the face of stagnating wages, households rely increasingly on debt to maintain their lifestyles, as seen by the evidence of 8.3m people with unmanageable debt mentioned in the stimulus material and household debt standing at 150% of income; • the increasing number of people said to be 'just about managing' has led to greater demand on charities, such as food banks, and the welfare state; • it leads to social problems with certain groups in society, such as racial minorities, women and single parents more likely to be affected. This may affect social cohesion; • it impacts on outcomes for physical and mental health, education, life expectancy, geographical mobility of labour – which reduces MRP of labour; • it may reduce enterprise in the economy as those on low incomes are unable to access finance to start new businesses Increasing inequality in the UK may not be a cause for concern because: • the tax and benefit system reduces the degree of income inequality; • Fig. 3 shows that the tax & benefit system has reduced the ratio of income for the top decile to the bottom decile from a factor of 19 to only 8;

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			the question asked. There is a lack of a clear structure. • Reasonable analysis will have correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Limited evaluation of the impacts of income inequality in the UK in the form of an unsupported statement or no evaluation. 0 marks No response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		• it may also be less of a problem because there is universal access to education and health care regardless of income; • the living wage and the welfare state provide safety nets for those in relative or absolute poverty; • where there are changes to education and training schemes, living wage rates and the welfare state; • high incomes of the richest in society can lead to a 'trickle down' effect for the less well-off and that the higher taxes paid by those in the top decile can pay for improvements in the welfare state; • it can be argued that a degree of income inequality is necessary to create incentives to work; • reducing income inequality by raising benefits for those on the lowest incomes risks creating poverty and unemployment traps. The extent to which income inequality is a cause for concern depends on the degree of inequality - Fig. 3 suggests that the problem is severe (along with evidence in the UK which shows the richest 10% earning about 30% of gross income). It is more of a cause for concern because the rise in income inequality is in part a consequence of government policies which have reduced the benefits available under the welfare state. <u>Examiner's Comments</u> There were some detailed answers on why income inequality may or may not be a cause for concern. Better responses made effective use of the data and / or their own knowledge to put their response clearly in the context of the UK. Such responses were able to reach the highest level of the mark scheme.
Descriptor	Award mark														
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Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)														
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On the borderline of this level and the one below	At bottom of level														

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					Exemplar 1 Income inequality is the difference between levels of income (the highest relative to lowest) in an area. In this case the UK. Figure 3 shows how original income has measure inequality across the UK population with the worst off 10% receiving £6786 compared to £117960 income of the top 10%. This is concerning because such a huge difference can lead to extreme relative poverty. This is living on less than 60% of the median income. Low income can cause people to not be able to afford necessities such as food and shelter. This is an issue because it can lead to poor health and even homelessness for those on low incomes. There is the possibility of social problems arising from those on low incomes getting sick or it worsens unfair the difference in standards of living. However, the worst possible consequences of income inequality are likely to be avoided in the UK because of the significant impact of the welfare state. The welfare state has reduced the risk of income inequality by giving a much greater amount to those on lower incomes, being generous. Total cash benefits to the bottom 10% actually exceeds original income compared to a much lower amount of benefit given to top decile of incomes. Direct taxes are also much greater for households with a higher income - £2964 compared to £1978. These measures and help system to lower households on low income help to reduce relative income inequality and as a result mitigate the worst of the possible effects of significant income inequality. This response shows an answer which makes effective use of the data to provide UK specific context about income inequality. There is good knowledge, strong analysis and good evaluation and a mark at the top end of Level 2 was awarded. The inclusion of a judgement would have allowed this candidate to access full marks. The responses were awarded a mark of 7 out of 8.
			Total	8	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
26	Evaluate the effectiveness of changes in the tax and benefit system in reducing the level of income inequality in the U.K. Level 5 (21–25 marks) Good - Strong knowledge and understanding of the tax and benefit system in reducing income inequality. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the effectiveness of the tax and benefit system in reducing income inequality weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of the tax and benefit system in reducing income inequality. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	The UK tax most associated with reducing income inequality is income tax. This is a progressive tax because of the tax free allowance and marginal tax rates greater than average tax rates. As a result, the percentage of income paid in tax increases as income increases. The benefit system is made up of a wide range of benefits. Some are universal and some are means tested. Both are payments by the UK government either in a direct fashion e.g. job seekers allowance or by the direct state provision of goods and services e.g. NHS. Tax and benefits can be argued to be effective. In the case of the tax system it is the progressive nature that is very important. The existence of no tax on the first tranche of a person's income prevents those on low income having the pay income tax. Tax rates at different bands help to reinforce the progressive nature. The tax system in the UK is comprehensive and means that the majority of income earned is subject to the relevant taxation. The benefit system has the advantage of being able to be directed to those in most need. This is particularly the case when benefits are directed and means tested (Low income groups such as single parents, the unemployed and pensioners can have their income guaranteed or supplemented by the state system of benefits). There is a wide range of state benefits and each particular benefit may have its advantages and drawbacks. On the other hand, it can be argued that universal benefits are an inefficient method of redistributing income. Some of the recipients may not be in need of state transfers e.g. some pensioners in receipt of

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Question	Answer/Indicative content	Marks	Guidance
	<i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of the tax and benefit system in reducing income inequality. Good analysis of the effectiveness of the tax and benefit system in reducing income inequality. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of the effectiveness of the tax and benefit system in reducing income inequality, considering both sides/comparing alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of the tax and benefit system in reducing income inequality. Reasonable analysis of the effectiveness of the tax and benefit system in reducing income inequality. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the effectiveness of the tax and benefit system in reducing income inequality, considering both		the universal state pension and similarly the receipt of child benefit. The system of tax and benefit may be subject to inefficiency, fraud, avoidance and evasion. The existence of these factors reduced the ability of the system to redistribute income. The progressive nature of the income tax system can lead to poverty and unemployment traps. Marginal tax rates can act as a disincentive to join/start employment. Similarly, the lack of integration between the tax and benefit system can act as a disincentive. As a result, some low income groups may suffer from marginal tax rates of 100%. Income inequality may be caused by a variety of factors. The best solution for redistributing income may depend on the cause of inequality. For instance, if inequality of income is caused by inequality of wealth or opportunity then a different set of policies may be more relevant. There are alternatives to the tax and benefit system which can be argued to be more effective. Policies such as the introduction of the National Living Wage, promoting economic growth to generate employment and regional policies such as recent focus on the Northern Powerhouse. Focus could also be directed to inefficiencies in the working of labour markets. For example, policies designed to improve factor mobility both geographically and occupationally.

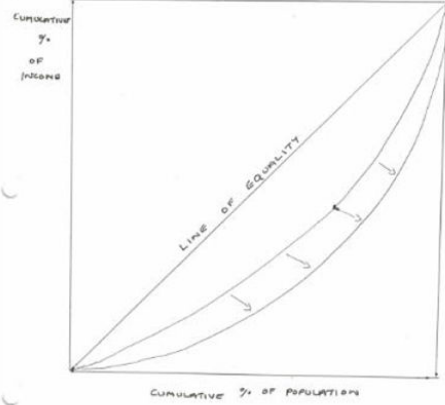
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			sides/comparing alternatives. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the tax and benefit system in reducing income inequality. Limited or no analysis of the effectiveness of the tax and benefit system in reducing income inequality. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of the effectiveness of the tax and benefit system in reducing income inequality in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		
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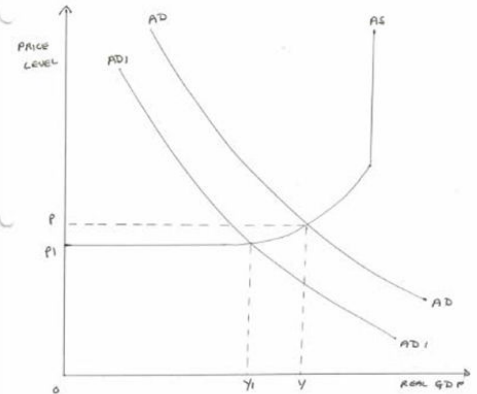
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			Just enough achievement on balance for this level Above bottom and either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below At bottom of level		
			Total	25	
27		i	Using Table 1, explain which country's government made a negative contribution to the country's aggregate demand. Germany (1) government tax revenue exceeded government expenditure (1).	2 (AO1 x 1) (AO2 x 1)	Germany (1) government tax revenue US\$1598bn exceeds government expenditure of US\$1573bn. (1) Or Government tax revenue was higher than Government expenditure by US\$25bn (1). Examiner's Comments A very straight forward question, which was answered correctly by the vast majority of candidates.
		ii	Using Table 1, calculate Russia's GDP in 2017. \$1 468.21bn (2). Correct working i.e. \$254bn/17.3 x 100 (1)	2 (AO1 x 1) (AO2 x 1)	Accept: \$1468bn/\$1468.2bn/\$1468.208bn. If just \$1468 or 1468bn (1) Examiner's Comments Candidates generally answered this correctly. It's worth pointing out here though, that workings should always be included, and the correct units used. In this case \$ and Billion
			Total	4	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
28	Evaluate, with the use of an appropriate diagram(s), whether a cut in government spending on welfare benefits will increase income inequality. Level 5 (21–25 marks) Good-Strong knowledge and understanding of welfare benefits and income inequality. Strong analysis of how a cut in government spending on welfare benefits may affect income inequality. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a cut in government spending on welfare benefits may affect income inequality, weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of welfare benefits and income inequality. Strong analysis of how a cut in government spending on welfare benefits may affect income inequality. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> Reasons why it will increase income inequality. A cut in government spending on welfare benefits may reduce the income of various categories of the poor. These include the unemployed, the sick and the old. If this occurs, both absolute and relative poverty will increase. Income will become more unevenly distributed. This increase in income inequality can be illustrated on a Lorenz curve diagram. The curve will move further away from the line of income equality.  Lower government spending may reduce aggregate demand by a multiple amount. If the income of the poor falls, consumer expenditure may also fall. Lower aggregate demand may reduce output and employment.

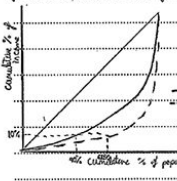
Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Good evaluation of whether a cut in government spending on welfare benefits may affect income inequality, weighing up both why it might and why it might not without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of welfare benefits and income inequality Good analysis of how a cut in government spending on welfare benefits may affect income inequality. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether a cut in government spending on welfare benefits may affect income inequality, considering both sides. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of welfare benefits and income inequality. Reasonable analysis of how a cut in government spending on welfare benefits may affect income inequality. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether a cut in government spending on welfare benefits		 A rise in unemployment may also increase income inequality. There may also be a longer term effect on income inequality. The poor may experience worse health which will reduce their earning potential. Their children may spend less time in education and may have lower aspirations. Reasons why it may not reduce income inequality. It is possible, however, that lower welfare benefits may have an incentive effect. They may encourage the unemployed to make more effort to find work. If this occurs, income inequality may be reduced. If a reduction in pensions encourages people to work past retirement age, the size of the labour force will increase. A higher labour force will increase the country's productive potential. If this potential is used, tax revenue will rise and so of this may be spent on, for instance, education and job creation schemes, which may reduce poverty and income inequality. A cut in government spending on welfare benefits may also enable tax rates to be cut or government borrowing to be reduced. The effect of lower tax rates on income inequality will be influenced by which tax rates are cut. A rise in the threshold at which income tax is paid, for

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Question			Answer/Indicative content	Marks	Guidance								
			may affect income inequality, considering both sides. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of welfare benefits and income inequality. Limited or no analysis of how a cut in government spending on welfare benefits may affect income inequality. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether a cut in government spending on welfare benefits may affect income inequality, in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks No response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks)		instance, may reduce income inequality. Lower government borrowing may result in crowding in. If private sector investment increases, more jobs may be created which, again, may reduce income inequality. Possible judgement. How welfare cuts will affect income inequality will depend on a number of factors. One how the replacement rate is affected. If the proportion of out of work benefits received compared to take home pay is still close, it may not have much effect. Another factor is the number of jobs available. The unemployed may be more incentivised to seek employment but if there are few job vacancies, they will not be successful. In addition, the outcome will be influenced by who receives the welfare benefits. Some go to people who live in rich households. Examiner's Comments This question was answered by about half of the candidates. The better answers showed their ability to relate a cut in welfare benefits to income equality, many making good use of an AD/AS diagrams reflecting a fall in government expenditure and the impact that and cuts in welfare benefits would have on inequality. Evaluation of the incentive to work impact was also clearly explained and most frequently used. The Lorenz diagram was also used, but often it could have been labelled and explained appropriately. The weaker answers were often when the use of the diagram could have been better. Candidates should avoid drawing a diagram and then simply stating 'as shown in the diagram'. Diagrams need to be integrated into the answer to show strong analysis. Several candidates lost sight of the question and started to analyse and evaluate the cut in government spending
Descriptor	Award mark												
Consistently meets the criteria for this level	At top of level												
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)												
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks)												

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Question			Answer/Indicative content	Marks	Guidance
			available) On the borderline of this level and the one below At bottom of level		on other macroeconomic objectives. Exemplar 5 benefit as they no longer fulfil criteria. This could lead to absolute poverty for some people if they do not receive any form of income and are unable to get a job. Along with this relative poverty could increase as people will receive less than 60% of average household income which may prevent some people participating in society. Overall this can create large scale unhappiness that could lead to civilised depression which is not the rise which the majority of people from being unable to get jobs. In turn this will worsen inequality.  This Lorenz curve indicates the effect of worsening inequality due to the reduction in welfare benefits. The lowest 40% of the population own only 10% of the wealth before whereas after this figure changes to the lowest 60% of the population only receiving 10%. The government may fail to see some people on benefits suffer from hysteresis as their skills no longer are useful in the current day. In this response the candidate makes good use of the diagram and clearly explains the relevance to the question and overall even though it is not a perfect explanation there is enough for strong analysis. In questions where candidates are required to use a diagram it is crucial that they do so correctly.
			Total	25	
29		i	Up to two marks: One mark for recognising nature of the change. One mark for supporting evidence.	2 (AO1 x 1) (AO2 x 1)	It fell/depreciated/devalued. A higher value of real had to be sold to buy a US\$.
		ii	Up to two marks: One mark for expected change. One mark for reason.	2 (AO1 x 1) (AO2 x 1)	Fall in trade surplus would have been expected to have reduced the exchange rate. Demand for the currency would have fallen/supply of the currency risen.
			Total	4	

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Question	Answer/Indicative content	Marks	Guidance
30	Level 5 (21-25 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy. Strong analysis of the link between globalisation and income inequality in a developed economy. Strong evaluation including a supported judgement on whether globalisation will always increase income inequality in a developed economy. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16-20 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy. Strong analysis of the link between globalisation and income inequality in a developed economy. Good evaluation as to whether globalisation will increase income inequality but without considering whether this will always be the case. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy. Good analysis of the link between globalisation and income inequality in a developed economy. Reasonable evaluation as to whether	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> • a more integrated global economy with greater mobility of products, capital and labour has the potential to increase global output and so real incomes • income inequality will increase if the benefits of globalisation are not equally distributed. Reasons why this may occur: • entrepreneurs may gain higher incomes as a result of multinational companies being able to locate in lowest cost countries and because of the increase in the size of markets that firms can sell to • skilled workers may enjoy higher incomes as their skills will be in demand throughout the world and because they are likely to be occupationally and geographically mobile • workers who are mobile are likely to be able to adapt to changes in an economy's comparative advantage and move from declining to expanding industries • unskilled workers may experience a reduction in their wages or may lose their wages due to unemployment • with increased competition from developing economies in a range of manufacturing industries, there may be pressure on firms to cut their labour costs • some domestic firms may set up branches abroad or may outsource some of their lower skilled operations to developing economies • generally production of skill-intensive products for exports has increased while production of labour-intensive products has been replaced by imports. Demand for unskilled workers has fallen relative to demand for skilled workers. Structural unemployment has occurred with those lacking mobility

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Question	Answer/Indicative content	Marks	Guidance
	globalisation will increase income inequality but without considering whether this will always be the case. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of globalisation and/or income inequality. Reasonable analysis of the link between globalisation and income inequality in a developed economy. Reasonable evaluation of whether globalisation will increase income inequality but without considering whether this will always be the case. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of globalisation and/or income inequality. Limited analysis of the link between globalisation and income inequality. Limited or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		remaining unemployed - the increased mobility of firms and skilled workers which is associated with globalisation may put pressure on the governments of both developed and developing economies to lower their corporate and income tax rates. Tax competition can result in lower tax revenue. MNCs may also try to reduce the tax they pay by moving profits to low tax countries. Due to a reduction in tax revenue there may be less spending on social welfare which could reduce the incomes of the unemployed, sick and elderly. There may also be less spending on state education which in the long run may reduce the skills and earning potential of some workers. Reasons why globalisation may not increase income inequality: - it may encourage the government of a developed economy to increase its spending on education and training in order to retain domestic firms and attract foreign domestic investment. Such spending by increasing labour skills may reduce unemployment and so reduce income inequality - globalisation may result in increased economic growth both within a developed economy and other economies. Trade liberalisation and reduced transport costs can permit economies to concentrate on those products in which they have the greatest comparative advantage. This can increase output and create employment opportunities - if developed economies buy more imports from developing economies and set up branches in developing economies, the incomes of developing economies may rise. With higher incomes, the developing economies may buy more products from the developed economy - rises in wages in developing

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Question			Answer/Indicative content	Marks	Guidance
					economies may put less downward pressure on wages in the developed economy - increased economic growth may generate increased tax revenue. Some of this may be spent raising the incomes and opportunities of vulnerable groups by, for example, raising state pensions and unemployment benefits. Credit, where appropriate, knowledge/analysis of other, relevant factors. Possible routes into evaluation: - the impact of globalisation on a developed economy will be influenced by how flexible its labour and product markets are and how its government responds - how governments respond to globalisation can influence income inequality, e.g. the type of supply side policy measures used - the impact will depend on the extent to which the developed economy is integrated into the global economy - income inequality may also be generated by wealth inequality within a developed country - it may also be affected by the government's welfare policy and its impact/effectiveness.
			Total	25	

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Question			Answer/Indicative content	Marks	Guidance
31			B	1 (AO3)	Rationale A This incorrectly calculates the nominal growth rate as $305-321/325 \times 100$ B Correct: Real GDP = $\$321\text{bn} \times 100/107.2 = \$299.44\text{bn}$. Real growth rate = $(\$299.44\text{bn} - \$321\text{bn}) / \$321\text{bn} \times 100 = -1.82\%$ C This divides the nominal growth rate by the inflation rate. D This is the nominal growth rate.
			Total	1	
32			D	1 (AO1)	Rationale A Such individuals are not classed as unemployment on the LFS measure because they are not available to start work in the short run. B Such individuals are not classed as being unemployed on the claimant count measure because you are not eligible for unemployment benefits if you are voluntarily unemployed. C The Labour Force Survey is based on a sample so is more likely to have such statistical errors. D Correct: the Labour Force Survey on the whole includes many groups that are excluded from the claimant count measure, meaning it tends to give a higher estimate of unemployment.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
33			B	1 (AO2)	Rationale A The short run Phillips Curve shifting to the right occurs when individuals expect the higher inflation. B Correct: Low and stable inflation causes economic agents to readjust their inflation expectations downwards, causing the short run Phillips Curve to shift left. C Changing inflation expectations will not affect the natural rate of unemployment. D Changing inflation expectations will not affect the natural rate of unemployment.
			Total	1	
34			C	1 (AO1)	Rationale A A fall in the price level causes domestic products to become more internationally price competitive. B An increase in government spending would cause a shift of the AD curve rather than a movement along it. C Correct: This is the wealth effect. D Interest rates are likely to fall when the price level falls as the demand for loanable funds decreases.
			Total	1	
35			B	1 (AO3)	Rationale A $(115.7 - 110.1) - (110.1 - 105.8) = 5.6 - 4.3 = 1.3\%$ B Correct: $(115.7 - 110.1) / 110.1 \times 100 = 5.1\%$ C $115.7 - 110.1 = 5.6\%$ D $(115.7 - 100) / 100 \times 100 = 15.7\%$
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
36			D	1 (AO1)	Rationale A Neo-classical economists argue the economy will always return to a position of full employment without intervention. B Neo-classical economists argue there is no role to play for fiscal policy. C Neo-classical economists argue output gaps will not exist as the economy will equilibrate at full employment. D Correct: neo-classical economists argue no government intervention is required to enable the economy to reach equilibrium – there is rapid adjustment to full employment as prices are fully flexible.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
37			<i>‘Economists would generally expect there to be a positive correlation between public healthcare expenditure and GDP per capita.’</i> Explain why this is the case and whether the data in Fig 2.1 supports this statement. <i>Award 1 mark for explaining why the positive correlation should exist:</i> Greater healthcare expenditure should mean workers are healthier and therefore take less time off sick, increasing productivity and therefore GDP per capita Higher GDP per capita means the government receives more tax revenue, enabling it to spend a higher proportion of this on healthcare <i>Award up to 3 marks for testing this relationship with the data:</i> • The countries that spend the most on healthcare as a proportion of GDP – US and Japan – have amongst the highest GDP per capita (1) • The countries that spend the least on healthcare as a proportion of GDP – India & Nigeria – also have the lowest GDP per capita (1) • The correlation is not perfect because countries such as Singapore spend relatively little on healthcare and yet have a high GDP per capita (1) which could be because although government expenditure on healthcare is low, private expenditure is high (1)	4 (AO1 x 1) (AO2 x 2) (AO3 x 1)	People are healthier and therefore output increases is not enough for the first mark – there must be a link to productivity. For full marks candidates need to recognise that the correlation is imperfect.
			Total	4	

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Question	Answer/Indicative content	Marks	Guidance
38	Evaluate, using the information in Extract 2, whether the Human Development Index is a useful measure of economic development in countries such as India. Level 2 (5–8 marks) Good knowledge and understanding of the Human Development Index. Good – strong analysis of why the HDI is/is not a useful measure of economic development. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether the HDI is a good measure of economic development, considering both sides/comparing alternatives. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment. Strong evaluation should include a supported judgment. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of the Human Development Index. Limited – reasonable analysis of why the HDI is/is not a useful measure of economic development. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will	8 (AO1 x 1) (AO2 x 1) (AO3 x 2) (AO4 x 4)	HDI is a much broader measure of economic welfare than GDP per capita alone as alongside this it includes health (measured by life expectancy) and education, each of which are weighted equally. It is a good measure because it gives a clear indication of how effectively governments are providing the key merit goods of health and education to its citizens. This explains why India ranks lower on the HDI than it does on GDP per capita – because of the poor quality of healthcare. HDI is relatively easy to measure, allowing for meaningful comparisons of economic development to be made between countries. It remains a relatively narrow measure, as there are many other determinants of welfare that aren't included. For example the extract refers to countries like Egypt, where political instability means welfare is likely to be worse than in India despite its higher HDI ranking. HDI ignores distribution effects – whilst healthcare in India has improved in recent years, there is still little access to healthcare in rural areas. Inequality is ignored by the HDI and yet is an important aspect of economic development. Countries can divert expenditure towards healthcare and education to improve their HDI ranking at the cost of other expenditure that would improve economic welfare – HDI can therefore have a distorting impact on government spending. Broader measures such as the Genuine Progress Indicator may be better as they take into account a much wider range of factors.

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Question			Answer/Indicative content	Marks	Guidance
			have correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Limited evaluation of whether the HDI is a good measure of economic development in the form of an unsupported statement or no evaluation. 0 marks no response or no response worthy of credit		
			Total	8	

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Question	Answer/Indicative content	Marks	Guidance
39	Evaluate the effectiveness of the World Bank in promoting economic growth and development. Level 3 (11–15 marks) Good knowledge and understanding of the role of the World Bank in promoting economic growth and development. Good – strong analysis of the role of the World Bank in promoting economic growth and development. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good – strong evaluation of the role of the World Bank in promoting economic growth and development, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of the role of the World Bank in promoting economic growth and development. Reasonable analysis of the role of the World Bank in promoting economic growth and development. There is correct analysis largely in the form of single links. These	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	World Bank has provided loans at commercial rates to developing nations to fund development projects. In doing so this has helped deal with the fact that many developing nations missed out on the benefits of expanding global financial markets because commercial entities saw it as too risky to lend to developing nations. This funding has helped contribute towards significant infrastructure developments in a number of developing nations – in particular, World Bank finance is seen to have helped the development of India. The World Bank can therefore be seen to have been partially successful in achieving its main goal of reducing poverty through promoting economic growth and development. World Bank loans caused a debt burden in many developing nations, hindering their development because high debt repayments put such a strain on their finances. Rescheduling of debt and debt forgiveness has helped to address this. Loans and debt forgiveness have had strict conditions attached to them, centred around the Washington Consensus, which does not take into account the realities of the situation in developing economies. Many infrastructure projects financed by the World Bank have social and environmental implications which can be seen to have harmed development. For example the funding of hydroelectric dams in various countries have resulted in the displacement of the population of the areas they are located in. The World Bank system of regulation failed to prevent the global financial crisis. Moreover, despite being aware of the exploitative nature of commercial institutions on remittance charges nothing has been done to stop this.

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Question			Answer/Indicative content	Marks	Guidance
			address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the role of the World Bank in promoting economic growth and development. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of the role of the World Bank in promoting economic growth and development. Limited analysis of the role of the World Bank in promoting economic growth and development. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the role of the World Bank in promoting economic growth and development in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit.		Microfinance projects operated independently of the World Bank have been more effective in promoting development as the funds are less vulnerable to being wasted due to corruption.
			Total	15	

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Question			Answer/Indicative content	Marks	Guidance
40			A	1 (AO2)	Rationale A Correct: GDP / Population B GDP / Working Age Population C GDP / Labour Force D GDP / Employed
			Total	1	
41			D	1 (AO3)	Rationale A This would reduce economic growth by decreasing AD. B This would reduce economic growth by decreasing AD. C Demand side policies are ineffective when the economy is at full capacity. D Correct: this would increase the productive capacity of the economy by shifting AS to the right.
			Total	1	
42			A	1 (AO1)	Rationale A Correct: this means individuals are not able to reach the minimum acceptable standard of living in the country they are living in. B An individual may be unemployed but not living in poverty if there are other earners in the household or there is a generous welfare system. C This is a definition of absolute poverty. D This is a definition of absolute poverty.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
43			C	1 (AO2)	Rationale A There is a positive output gap as actual GDP exceeds potential GDP. B There is a positive output gap as actual GDP exceeds potential GDP. C Correct: Actual GDP exceeds potential GDP (positive output gap) and actual GDP is falling (recession). D A slowdown implies GDP is growing at a slower rate. Here GDP is falling.
			Total	1	
44			C	1 (AO3)	Rationale A Calculates GDP at the base year (2013) prices. B Assumes inflation in 2015 is 2% ($109 - 107 = 2$) and so increases 2014 GDP by 2% ($4\% - 2\%$). C Correct: Calculates GDP at 2015 prices and adjusts to 2014 prices = $\text{£}4,680 / 109 \times 107$ D GDP at 2015 prices = $1.04 \times \text{£}4,500\text{m}$
			Total	1	
45			B	1 (AO3)	Rationale A This incorrectly calculates the nominal growth rate as $305 - 321 / 325 \times 100$ B Correct: Real GDP = $\$321\text{bn} \times 100 / 107.2 = \$299.44\text{bn}$. Real growth rate = $(\$299.44\text{bn} - \$321\text{bn}) / \$321\text{bn} \times 100 = -1.82\%$ C This divides the nominal growth rate by the inflation rate. D This is the nominal growth rate.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
46			Using the data from Fig. 1, compare what has happened to output and employment in the steel industry between 1993 and 2013. <i>Award one mark for identifying the general trend:</i> - Both output and employment in the steel industry have fallen. <i>Award one mark for making a relevant comparison over a specific period:</i> - Employment stayed relatively constant between 2002 and 2008 despite production rising. - Employment fell at a faster rate than production between 1993 and 2000 (employment fell by nearly 40% whilst production fell by less than 10%), suggesting increased mechanisation.	2 (AO2 x 2)	Do not award any marks for a year by year description of the data. For the second mark candidates must make specific reference to years/values.
			Total	2	
47			Identify and explain evidence from Fig. 3.2 of the type of unemployment that is most likely to arise from the changes that have taken place in the labour market between 1990 and 2015. <i>One mark for correctly identifying the type of unemployment:</i> - Structural unemployment <i>One mark for linking this unemployment to the information in Figure 3.2:</i> - The significant decline in the proportion of workers employed in the primary and secondary sectors (falling by 14% over the period) means workers do not have the skills to meet the demand of tertiary sector firms.	2 (AO1 x 1) (AO2 x 1)	There must be direct reference to the data in Figure 3.2 in order for the second mark to be awarded.
			Total	2	

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Question			Answer/Indicative content	Marks	Guidance
48			B	1 (AO3)	Rationale A A decrease in the average propensity to consume will cause aggregate demand to fall and real GDP levels to fall. B <i>Correct:</i> A decrease in the marginal propensity to save suggest that consumption levels will begin to rise and this will cause aggregate demand to increase and real GDP levels to rise. C An increase in the marginal propensity to import will cause aggregate demand to fall and real GDP levels to fall. D An increase in the marginal rate of tax will cause aggregate demand to fall and real GDP levels to fall.
			Total	1	
49			B	1 (AO3)	Rationale A This may reduce current account surplus but it would increase unemployment as the skills of workers would be reduced making them less employable. B <i>Correct:</i> a decrease in interest rates would be expected to stimulate demand. Higher demand would reduce cyclical unemployment and would be likely to lead to higher imports which would reduce the current account surplus. C This may reduce current account surplus but it would be likely to increase unemployment as firms are likely to reduce their output. D This may reduce current account surplus but it would be likely to increase unemployment as exports are likely to fall and imports rise so domestic firms will reduce output.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
50			A	1 (AO1)	Rationale A <i>Correct:</i> As individuals do adapt their expectations of inflation as the price level changes. B This is an assumption required for the Phillips Curve relationship to hold. The opposite of the correct answer A. C The Phillips Curve shows money wages. D This explains the traditional Phillips Curve relationship.
			Total	1	
51			B	1 (AO2)	Rationale A $49 / 104 \times 100 = 47\%$ B <i>Correct:</i> $118 / 112 \times 100 = \underline{105\%}$ C $105 / 105 \times 100 = 100\%$ D $120 / 140 \times 100 = 86\%$
			Total	1	

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Question	Answer/Indicative content	Marks	Guidance
52	Level 3 (11–15 marks) Good knowledge and understanding of the structure of an economy in the context of sustainable development. Strong analysis of how changes in the structure of an economy can influence its ability to achieve sustainable development. Strong evaluation including a supported judgement on the extent to which the structure of an economy can influence its ability to achieve sustainable development. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of the structure of an economy in the context of sustainable development. Good analysis of how changes in the structure of an economy can influence its ability to achieve sustainable development. Reasonable evaluation of how the structure of an economy can influence its ability to achieve sustainable development but without considering the extent. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the structure of an economy and/or sustainable development. Reasonable analysis of how changes in the structure of an economy can influence its ability to achieve sustainable development. Limited or no evaluation.	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	<i>Indicative content</i> NB Candidates may draw on the material incorporated within the stimulus material, but this is not required in order to access the full mark range. • The structure of an economy is the balance between the primary, secondary and tertiary sectors. • Sustainable development involves meeting the needs of the current generation without compromising the ability of future generations to meet their needs. Reasons why it may compromise: • an increase in the secondary sector may increase demand for water and create negative spill-over effects in the form of chemical discharges into water systems, increase in waste and other pollutants • an increase in the primary and/or secondary sector may result in natural resources being over-exploited • an increase in the primary sector may result in greater extraction in raw materials causing harm to natural environment • changes in the structure of an economy may lead to faster economic growth which will result in rising GDP per capita resulting in changing diets and greater demand for meat which puts greater pressure on land and the need for water • also increase in demand for income elastic products such as cars leading to greater congestion and rise in carbon emissions • increased rural to urban migration leading to higher urbanisation • going from primary to secondary is likely to increase total water demand • if there is a movement from the primary/secondary sectors to the tertiary sector, industrial production

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Question			Answer/Indicative content	Marks	Guidance
			<i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit.		may experience a relative decline and less use of natural resources and less pollution • an increase in the tertiary sector resulting from an increase in tourism may lead to greater protection of natural habitats and cultural heritage • an increase in firms' profits which can be invested into greener technologies and alternative ways of generating energy or extracting resources • an increase in the secondary sector resulting from an expansion of green production can reduce pollution • as the structure of an economy changes, it has an impact on income which can reduce pollution (an environmental Kuznets curve can be used to show this) • an increase in the tertiary sector resulting from more education may lead to a reduction in information failure and people will be more aware of how to modify their behaviour to reduce environmental damage • an increase in the tertiary sector resulting from more healthcare being provided and improved diets will lead to a more productive labour force and may cause less environmental damage. Credit, where appropriate, knowledge/analysis of other, relevant factors. Possible routes into evaluation: • depends on what is being produced in the various sectors, e.g. oil production may cause pollution but might generate more income and tax revenue than agriculture • the rate of change from one sector to another will influence an economy's ability to develop in a sustainable way • it will depend on the government policy measures put in to place to make any change more sustainable. • direction of change

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					• extent to which sustainability maybe compromised as a result of globalisation.
			Total	15	
53			D	1 (AO1)	Rationale A These diagrams illustrate short run economic growth – output is rising but the productive capacity isn't B The diagram on the right illustrates short run growth C The diagram on the left illustrates short run growth D Correct: in both cases the productive capacity of the economy is increasing, meaning long run economic growth has occurred
			Total	1	
54			B	1 (AO1)	Rationale A Imports are likely to become relatively cheaper, as when inflation is high the price of domestic goods is likely to be rising at a faster rate than the price of imports B Correct: Inflation creates uncertainty, which deters investment and could harm economic growth C This is a benefit of inflation, as it enables firms to decrease real wages despite nominal wages being sticky downwards D High inflation erodes the value of money, decreasing the real value of debt
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
55			C	1 (AO2)	Rationale A This comprises changes in ownership of assets, the most significant of which occurs as a result of migration B This is not a component of the balance of payments C Correct: This is part of the income item of the current account D This is concerned with international borrowing/lending
			Total	1	
56			B	1 (AO3)	Rationale A This incorrectly specifies population as 43.42 million in 2016, therefore calculating population in 2015 to be 42.99 million: $\$13,158 - \$13,602 = -\$444$ B Correct: 2016 GDP per capita = $\$571.3\text{bn} / 43.42\text{m} \times 1.01 = \$571.3 / 43.8542 \times 1000 = \$13,027$. 2015 GDP per capita = $\$571.3\text{bn} / 0.977 / 43.42\text{m} = \$584.75 / 43.42 \times 1000 = \$13,467$. Change in GDP = $\$13,027 - \$13,467 = -\$440$ C Decreases rather than increases 2015 population by 1% so calculates 2016 population to be 42.99 million: $\$13,289 - \$13,467 = -\$178$ D Decreases rather than increases 2016 GDP by 2.3% so calculates 2015 GDP to be $\$558.16\text{bn}$: $\$13,027 - \$12,855 = \$172$
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
57			B	1 (AO3)	Rationale A Whilst the economic growth rate was highest in Ireland in 2016 this followed a period of exceptionally high growth in 2015, suggesting there is a question mark over the sustainability of growth. There is a risk of deflation and the unemployment rate is high. B Correct: Malta has significantly higher growth than the UK, whilst the unemployment rate is relatively similar and inflation is the same. C Inflation is well above target with very high unemployment. D The growth rate is less than half of that seen in Malta, which has similar inflation and only slightly lower unemployment.
			Total	1	
58			A	1 (AO1)	Rationale A Correct – The ILO measure is calculated from the Labour Force Survey, which only surveys a sample of the population and uses extrapolated data to estimate the rate of unemployment B This would be a reason why the claimant count might overestimate the level of unemployment C An individual who is economically inactive would not be classed as being unemployed using the ILO measure because they would not declare themselves as actively seeking work D Some economists would argue underemployment is a reason why unemployment statistics underestimate the level of unemployment
			Total	1	

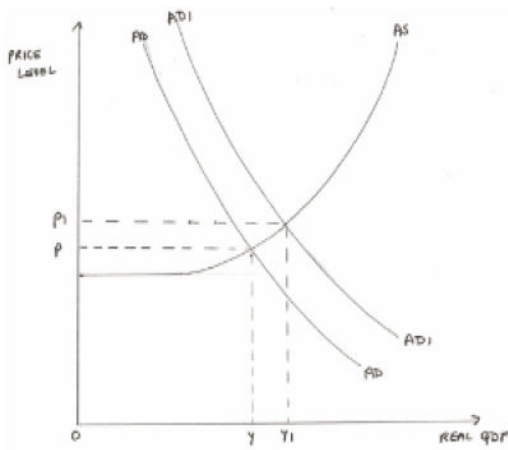
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
59			A	1 (AO1)	Rationale A Correct – reducing the size of inheritance payments will reduce the amount of wealth passed between generations, reducing wealth inequality. As income can be earned from wealth, reduced wealth inequality will also reduce income inequality in the long run B Wealth inequality reflects the stock of assets – the distribution of this will be more equal if large stocks are not passed onto future generations C Both are impacted by a reduction in inheritance payments D Whilst income inequality is unlikely to be impacted in the short run there will be a long run impact, as wealth can generate income
			Total	1	

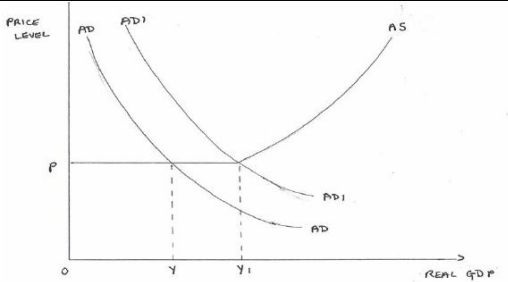
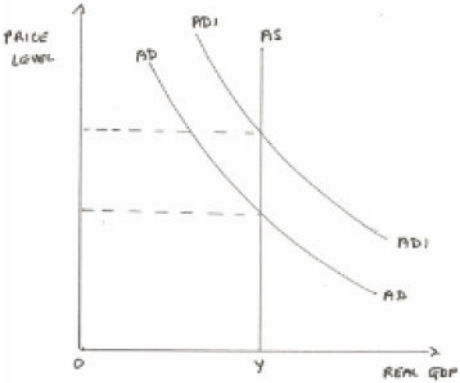
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
60			Using Fig. 1.1 and the information in Extract 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market. • EU is a crucial trading partner (1) • Tariffs imposed on UK exports to EU mean exports will fall (1) • Large proportion of UK exports go to non-EU countries (1) • Importance of EU as a trading partner is declining over time/increasingly more trade is taking place with non-EU countries (1) • Free trade deals with non-EU countries could increase exports (1) • Imports from EU may fall (1)	2 (AO2 x 2)	Simply saying that 44% of UK exports go to the EU should not be credited – there needs to be some recognition that this is a significant volume. Examiner's Comments The majority of candidates were given a mark for recognising that non-EU countries are becoming increasingly important trading partners or, inversely, that the EU is becoming a less significant trading partner. Few went on to make the point that even though trade with EU countries is falling it still accounts for a significant proportion of UK exports. The best answers were able to separate the impact of Brexit on exports to the EU and non-EU countries but the majority of answers could have been improved by being more specific on this point and elaborating statements such as 'exports will decrease' about this occurring because exports to the EU will fall as a result of tariffs being imposed. Some candidates argued the UK's balance of payments would not be harmed but again this could have been explained more clearly, as illustrated in Exemplar 1 where reference to the ability of the UK to strike free trade deals with non-EU countries which would see exports to these countries increase still further would earn a second mark. Exemplar 1 Figure 1.1 shows the % of UK's exports going to non-EU countries increasing since 2008. This suggests that UK's BOP is not likely to be harmed from leaving the EU as the UK has growing trade (and a higher proportion of exports) to non-EU countries.
			Total	2	
61			Distinguish between income and wealth. Income is a flow (1) whereas wealth is a stock (1).	2 (AO1 x 2)	
			Total	2	

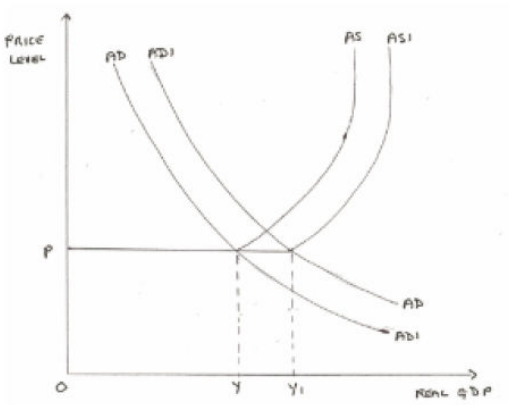
Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
62	Evaluate with the use of an appropriate diagram(s), whether macroeconomic policy measures can only promote economic growth at the cost of higher inflation. Level 5 (21–25 marks) Good-Strong knowledge and understanding of macroeconomic policy measures designed to promote economic growth. Strong analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of government policy measures designed to promote economic growth. Strong analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	Whether macroeconomic policy measures designed to promote economic growth will increase the inflation rate will depend on the level of economic activity, the type of economic growth being targeted and the type of measures adopted. A government may be seeking to increase short run (actual) economic growth to reduce a negative output gap. It may try to do this by using expansionary fiscal and/or monetary policy measures. Such measures may increase aggregate demand as shown in the diagram below. In this case the rise in AD, increases both output and the price level.  A higher inflation rate may be a price the government is prepared to pay if the inflation rate is still within the government's target range and is lower than rival countries. If the economy is operating at a low level of economic activity, output may increase without putting upward pressure on the price level. The diagram below shows AD increasing without having any effect on the price level.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, weighing up both why it might and why it might not and will weigh up both sides but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of government policy measures designed to promote economic growth. Good analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of the consequences of macroeconomic policy measures designed to promote economic growth. Reasonable analysis of how macroeconomic policy measures designed		 If there are a high number of workers unemployed, it may be possible for firms to employ more workers without having to raise the wage rate. Neoclassical economists, however, argue that the economy moves towards the full employment rate and so any increases in AD will be purely inflationary as shown below.  Some measures designed to increase short run economic growth, for example, rises in state pensions, may only shift the AD curve. A number of measures, however, designed to increase AD may also shift the aggregate supply curve. For example, the prime aim of an interest rate cut may be to encourage consumers to spend more but it may also increase investment. In such a case, the effect on inflation will depend on the relationship between the increase in AD and AS. If AD increases more than AS, the price level will rise but if the increase in AD is matched by an increase in AS, this have no effect on the inflation rate.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	to promote economic growth may affect inflation. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, considering both why it might and why it might not. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the consequences of macroeconomic policy measures designed to promote economic growth. Limited or no analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit.		Government policy measures designed to increase long run economic growth are likely to reduce the inflation rate. To raise long run economic growth, a government is likely to employ supply-side policy measures such as a cut in corporation tax or a rise in government spending on training. If successful these measures will increase aggregate supply and will, over time, permit AS to increase in line with AD.  Policy measures designed are likely to enable an economic growth to be achieved without raising the price level. Whether policy measures designed to increase AD will raise the inflation rate will be influenced by the level of economic activity and whether they also increase AS.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			<table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		
Descriptor	Award mark														
Consistently meets the criteria for this level	At top of level														
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)														
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)														
On the borderline of this level and the one below	At bottom of level														
			Total	25											

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
63	Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development. Level 5 (21–25 marks) Good-Strong knowledge and understanding of what being a member of the WTO involves. Strong analysis of how membership of the WTO may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of what being a member of the WTO involves. Strong analysis of how membership of the WTO may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not, weighing	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	Joining the World Trade Organisation (WTO) requires a country to agree to follow the rules of the WTO, to negotiate bilaterally with any current WTO member that wants a one to one agreement and to apply any tariff reductions to all other members (most favoured nation rule (MFN)) and to abide by the WTO's resolutions of trade disputes. Being approved to join the WTO can itself attract foreign direct investment (FDI). More multinational companies (MNCs) setting up in the country may increase employment and income and bring in new training methods and technology. The MNCs may contribute to the country's exports. The WTO's MFN rule will also mean that the country will have the same access to the markets of, for instance, the USA and Germany, as other member countries. The move towards free trade that the WTO encourages may enable the country's producers to take greater advantage of the country's comparative advantage. This again can increase output and income. It may also lower prices and so further increases people's purchasing power. The WTO discourages dumping. Such protection in the long run can stop domestic firms being driven out of business by unfair competition and workers losing their jobs. Increases in trade and economic growth can raise both income per head and tax revenue. These increases can, in turn, result in more spending and more resources being devoted to health care and education. Providing greater access to health care and education can raise people's life expectancy and increase choices. There is a risk, however, that having to cut tariffs may reduce a country's economic development. Although recently, under

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	up both sides but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of what being a member of the WTO involves. Good analysis of how membership of the WTO may affect economic development. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether membership of the WTO will increase a country's economic development, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of what being a member of the WTO involves. Reasonable analysis of how membership of the WTO may affect economic development. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether membership of the WTO will increase a country's economic development, considering both why it might and why it		new guidelines, lesser developed countries are permitted to retain tariffs on a small percentage of industrial goods, their other industries have to face more competition from imports. This may make it more difficult for infant industries, which may have the potential to gain a comparative advantage, to develop. As the WTO has ruled that it is illegal to ban a product because of the way it is produced, there may be less pressure for the country's government to stop any child or slave labour. If any growth in exports and FDI results in a more rapid exploitation of non-renewable resources, future economic growth and development may be jeopardised. Freer trade may result in a reallocation of resources with some industries expanding and some contracting. Such changes may result in structural unemployment and greater income inequality. There is also the possibility that increased competitiveness may drive down wages as firms seek to cut their costs to remain internationally competitive. Such an approach could lower living standards. The constant queue to join the WTO suggests that many countries think that membership of the WTO does promote economic development. Whether it will do so will be influenced by how its firms respond to the opportunities and challenges presented by freer trade and how any benefits are used and distributed.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance								
			might not. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of what being a member of the WTO involves. Limited or no analysis of how membership of the WTO may affect economic development. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether membership of the WTO will increase a country's economic development, in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough</td><td>Above bottom and</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough	Above bottom and		
Descriptor	Award mark												
Consistently meets the criteria for this level	At top of level												
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)												
Just enough	Above bottom and												

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			achievement on balance for this level either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below At bottom of level		
			Total	25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
64	Evaluate whether the UK government should set the Bank of England an economic growth rate target. Level 5 (21–25 marks) Good-Strong knowledge and understanding of the nature of an economic growth rate target. Strong analysis of how an economic growth rate target may influence monetary policy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance and reaching a supported conclusion. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of the nature of an economic growth rate target. Strong analysis of how an economic growth rate target may influence monetary policy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	The UK government sets out in the Bank of England Act that in conducting monetary policy, the objectives of the Bank of England should be to maintain price stability and subject to that, to support the government's economic policy including its objectives for growth and employment. It has given the Bank a target for the inflation rate – 2% as measured by the Consumer Prices Index with a 1% point margin either side. Although the government has given the Bank a formal inflation target and in 2013 made it clear that the Bank could move away from the inflation target for a while to reduce volatility in GDP, it has not given the Bank a specific target for economic growth. Some economists argue that giving the Bank an economic growth rate target would make it more active and more accountable in ensuring that actual economic growth matches potential economic growth. If it is thought that advances in technology, improvements in education and immigration, for example, would enable real GDP to increase by 3% over the year, the Bank could be set an economic growth rate target of 3%. If it is thought that aggregate demand is not increasing at a sufficiently high rate to ensure that the increased productive capacity will be employed the Bank could engage in expansionary monetary policy. For instance, it could cut the rate of interest to encourage a rise in consumer expenditure which, in turn, would stimulate UK firms to increase their output. There are a number of benefits that may be gained by achieving a faster rate of economic growth, most notably higher living standards. Nevertheless, some economists argue that the Bank of England's prime objective should be price stability. Indeed, a low and stable rate of inflation may provide the foundation for

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Good evaluation of how whether the government should set the Bank of England and economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of the nature of an economic growth rate target. Good analysis of how an economic growth rate target may influence monetary policy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of the nature of an economic growth rate target. Reasonable analysis of how an economic growth rate target may influence monetary policy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.		economic growth. It may also do this by boosting consumer and business confidence, attracting foreign direct investment and increasing international competitiveness. While the inflation rate target is unlikely to change much over time, any economic growth rate target may have to be altered if, for instance, firms' investment plans or predictions of net immigration alter. A reduction in the economic growth rate target may increase consumer and producer pessimism which could reduce consumer expenditure and investment and so lower economic growth. It might also be argued that monetary policy is usually more appropriately designed to influence the inflation rate and supply-side policy the economic growth rate. In recent years, there have been concerns about the lack of consumer and business confidence and the slow growth of aggregate demand. It is, however, more common for AD to grow more rapidly than AS. In the long run, measures such as improved education, are likely to be effective in increasing output than monetary policy. This may suggest that the current situation where the Bank has some flexibility in being able to depart from its inflation rate target in the short run during periods of demand and supply-side shocks.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			Reasonable evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the nature of an economic growth rate target. Limited or no analysis of how an economic growth rate target may influence monetary policy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether the government should set the Bank of England an economic growth rate target. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria</td><td>Above middle and</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria	Above middle and		
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria	Above middle and										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			but with some slight inconsistency Just enough achievement on balance for this level On the borderline of this level and the one below	either below top of level or at middle of level (depending on number of marks available) Above bottom and either below middle or at middle of level (depending on number of marks available) At bottom of level	
			Total	25	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
65	a		Explain one of the flows, X, Y or Z shown in Fig.1. X = emigration (1) going abroad in search of jobs (1). Y = e.g. leaving university (1) and not finding a job (1). Z = e.g. retiring (1) and so leaving the labour force (1).	2 (AO1 x 1) (AO2 x 1)	
	b	i	Using Fig.2, calculate the deficit on primary income in the UK in 2014. –£33.1bn (2) Correct working (1).	2 (AO1 x 1) (AO2 x 1)	Correct working: –£92.9bn = +–£123.7bn + £89.1bn +–£25.2bn +?
		ii	Using Fig.2, explain whether the financial account would have been in deficit or surplus in the UK in 2014. Surplus (1) as the sum of the current and capital account balances are equal to the balance of the financial account/the sum of the three accounts should equal zero (1).	2 (AO1 x 1) (AO2 x 1)	Enter text here.

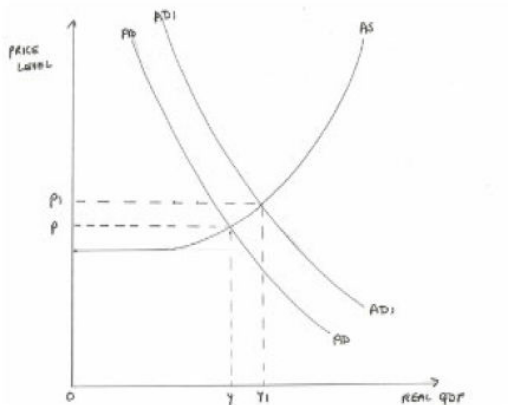
Mark Scheme

Question		Answer/Indicative content	Marks	Guidance
	c	Using information from the stimulus material, evaluate whether the UK government should be concerned about the growing deficit on the current account of its balance of payments. Level 2 (5–8 marks) Good knowledge and understanding of the consequences of a growing deficit on the current account of the balance of payments. Good – strong analysis of how a growing deficit on the current account of the UK's balance of payments may affect the UK economy. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether a growing current account deficit should be a concern for the UK economy, considering both why and why it might not be, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of the consequences of a growing deficit on the current account of the balance of payments. Limited – reasonable analysis of how a growing deficit on the current account of	8 (AO1 x 1) (AO2 x 1) (AO3 x 3) (AO4 x 3)	The UK's current account deficit was at a high level in 2015. A deficit on trade in goods and services which the UK had in 2014 makes a negative contribution to AD. An increase in net exports may increase the country's economic growth rate and employment. A large deficit can put downward pressure on the exchange rate. A lower exchange rate may help eliminate the deficit by lowering export prices and raising import prices. A current account deficit may also move into a surplus if the trade in goods deficit is caused by the import of capital goods and raw materials. In time the capital goods and imported raw materials can contribute to more exports and more substitutes to imports. The stimulus material, however, indicates that the deficit has lasted for at least several years. One of the causes of the growing deficit was the increasing deficit on primary income. The deficit might be reduced if economic activity increases in other countries. This could increase the profits UK multinational companies earn abroad, the interest UK banks are paid on foreign loans and the dividends UK citizens receive from shares they hold in foreign companies. The UK was attracting a net inflow of investment in the financial account. If the country continues to attract portfolio and direct investment, it can cover its current account deficit.

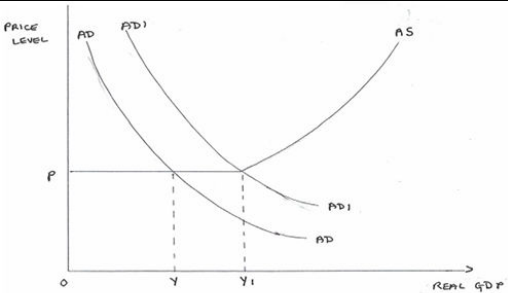
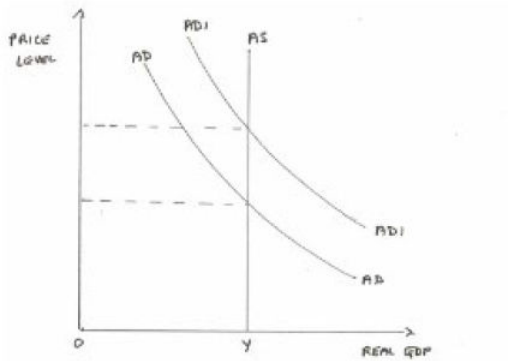
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			the UK's balance of payments may affect the UK economy. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will have correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Limited evaluation of whether a growing current account deficit should be a concern for the UK economy, in the form of an unsupported statement or no evaluation. 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		
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On the borderline of this level and the one below	At bottom of level														
			Total	14											

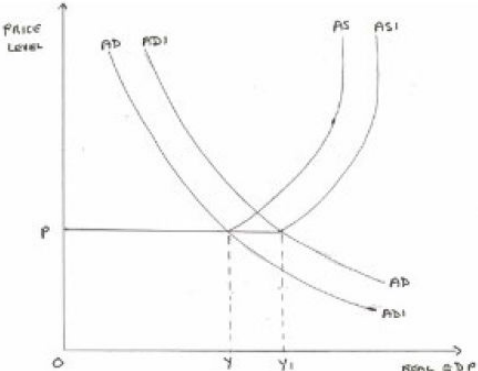
Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
66	Evaluate with the use of an appropriate diagram(s), whether macroeconomic policy measures can only promote economic growth at the cost of higher inflation. Level 5 (21–25 marks) Good-Strong knowledge and understanding of macroeconomic policy measures designed to promote economic growth. Strong analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of government policy measures designed to promote economic growth. Strong analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	Whether macroeconomic policy measures designed to promote economic growth will increase the inflation rate will depend on the level of economic activity, the type of economic growth being targeted and the type of measures adopted. A government may be seeking to increase short run (actual) economic growth to reduce a negative output gap. It may try to do this by using expansionary fiscal and/or monetary policy measures. Such measures may increase aggregate demand as shown in the diagram below. In this case the rise in AD, increases both output and the price level.  A higher inflation rate may be a price the government is prepared to pay if the inflation rate is still within the government's target range and is lower than rival countries. If the economy is operating at a low level of economic activity, output may increase without putting upward pressure on the price level. The diagram below shows AD increasing without having any effect on the price level.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, weighing up both why it might and why it might not and will weigh up both sides but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of government policy measures designed to promote economic growth. Good analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of the consequences of macroeconomic policy measures designed to promote economic growth.		 If there are a high number of workers unemployed, it may be possible for firms to employ more workers without having to raise the wage rate. Neoclassical economists, however, argue that the economy moves towards the full employment rate and so any increases in AD will be purely inflationary as shown below.  Some measures designed to increase short run economic growth, for example, rises in state pensions, may only shift the AD curve. A number of measures, however, designed to increase AD may also shift the aggregate supply curve. For example, the prime aim of an interest rate cut may be to encourage consumers to spend more but it may also increase investment. In such a case, the effect on inflation will depend on the relationship between the increase in AD and AS. If AD increases more than AS, the price level will rise but if the increase in AD is matched by an increase in AS, this has no effect on the inflation rate.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Reasonable analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, considering both why it might and why it might not. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the consequences of macroeconomic policy measures designed to promote economic growth. Limited or no analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit.		Government policy measures designed to increase long run economic growth are likely to reduce the inflation rate. To raise long run economic growth, a government is likely to employ supply-side policy measures such as a cut in corporation tax or a rise in government spending on training. If successful these measures will increase aggregate supply and will, over time, permit AS to increase in line with AD.  Policy measures designed are likely to enable an economic growth to be achieved without raising the price level. Whether policy measures designed to increase AD will raise the inflation rate will be influenced by the level of economic activity and whether they also increase AS.

Mark Scheme

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On the borderline of this level and the one below	At bottom of level														
			Total	25											

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
67	Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development. Level 5 (21–25 marks) Good-Strong knowledge and understanding of what being a member of the WTO involves. Strong analysis of how membership of the WTO may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of what being a member of the WTO involves. Strong analysis of how membership of the WTO may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not, weighing	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	Joining the World Trade Organisation (WTO) requires a country to agree to follow the rules of the WTO, to negotiate bilaterally with any current WTO member that wants a one to one agreement and to apply any tariff reductions to all other members (most favoured nation rule (MFN)) and to abide by the WTO's resolutions of trade disputes. Being approved to join the WTO can itself attract foreign direct investment (FDI). More multinational companies (MNCs) setting up in the country may increase employment and income and bring in new training methods and technology. The MNCs may contribute to the country's exports. The WTO's MFN rule will also mean that the country will have the same access to the markets of, for instance, the USA and Germany, as other member countries. The move towards free trade that the WTO encourages may enable the country's producers to take greater advantage of the country's comparative advantage. This again can increase output and income. It may also lower prices and so further increases people's purchasing power. The WTO discourages dumping. Such protection in the long run can stop domestic firms being driven out of business by unfair competition and workers losing their jobs. Increases in trade and economic growth can raise both income per head and tax revenue. These increases can, in turn, result in more spending and more resources being devoted to health care and education. Providing greater access to health care and education can raise people's life expectancy and increase choices. There is a risk, however, that having to cut tariffs may reduce a country's economic development. Although recently, under

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	up both sides but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of what being a member of the WTO involves. Good analysis of how membership of the WTO may affect economic development. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether membership of the WTO will increase a country's economic development, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of what being a member of the WTO involves, Reasonable analysis of how membership of the WTO may affect economic development. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether membership of the WTO will increase a country's economic development, considering both why it might and why it might not.		new guidelines, lesser developed countries are permitted to retain tariffs on a small percentage of industrial goods, their other industries have to face more competition from imports. This may make it more difficult for infant industries, which may have the potential to gain a comparative advantage, to develop. As the WTO has ruled that it is illegal to ban a product because of the way it is produced, there may be less pressure for the country's government to stop any child or slave labour. If any growth in exports and FDI results in a more rapid exploitation of non-renewable resources, future economic growth and development may be jeopardised. Freer trade may result in a reallocation of resources with some industries expanding and some contracting. Such changes may result in structural unemployment and greater income inequality. There is also the possibility that increased competitiveness may drive down wages as firms seek to cut their costs to remain internationally competitive. Such an approach could lower living standards. The constant queue to join the WTO suggests that many countries think that membership of the WTO does promote economic development. Whether it will do so will be influenced by how its firms respond to the opportunities and challenges presented by freer trade and how any benefits are used and distributed.

Mark Scheme

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			<i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of what being a member of the WTO involves. Limited or no analysis of how membership of the WTO may affect economic development. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether membership of the WTO will increase a country's economic development, in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		
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Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			Just enough achievement on balance for this level Above bottom and either below middle or at middle of level (depending on number of marks available) On the borderline of this level and the one below At bottom of level		
			Total	25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
68	Evaluate whether the UK government should set the Bank of England an economic growth rate target. Level 5 (21–25 marks) Good-Strong knowledge and understanding of the nature of an economic growth rate target. Strong analysis of how an economic growth rate target may influence monetary policy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance and reaching a supported conclusion. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of the nature of an economic growth rate target. Strong analysis of how an economic growth rate target may influence monetary policy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	The UK government sets out in the Bank of England Act that in conducting monetary policy, the objectives of the Bank of England should be to maintain price stability and subject to that, to support the government's economic policy including its objectives for growth and employment. It has given the Bank a target for the inflation rate – 2% as measured by the Consumer Prices Index with a 1% point margin either side. Although the government has given the Bank a formal inflation target and in 2013 made it clear that the Bank could move away from the inflation target for a while to reduce volatility in GDP, it has not given the Bank a specific target for economic growth. Some economists argue that giving the Bank an economic growth rate target would make it more active and more accountable in ensuring that actual economic growth matches potential economic growth. If it is thought that advances in technology, improvements in education and immigration, for example, would enable real GDP to increase by 3% over the year, the Bank could be set an economic growth rate target of 3%. If it is thought that aggregate demand is not increasing at a sufficiently high rate to ensure that the increased productive capacity will be employed the Bank could engage in expansionary monetary policy. For instance, it could cut the rate of interest to encourage a rise in consumer expenditure which, in turn, would stimulate UK firms to increase their output. There are a number of benefits that may be gained by achieving a faster rate of economic growth, most notably higher living standards. Nevertheless, some economists argue that the Bank of England's prime objective should be price stability. Indeed, a low and stable rate of inflation may provide the foundation for

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Good evaluation of how whether the government should set the Bank of England and economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of the nature of an economic growth rate target. Good analysis of how an economic growth rate target may influence monetary policy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of the nature of an economic growth rate target. Reasonable analysis of how an economic growth rate target may influence monetary policy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.		economic growth. It may also do this by boosting consumer and business confidence, attracting foreign direct investment and increasing international competitiveness. While the inflation rate target is unlikely to change much over time, any economic growth rate target may have to be altered if, for instance, firms' investment plans or predictions of net immigration alter. A reduction in the economic growth rate target may increase consumer and producer pessimism which could reduce consumer expenditure and investment and so lower economic growth. It might also be argued that monetary policy is usually more appropriately designed to influence the inflation rate and supply-side policy the economic growth rate. In recent years, there have been concerns about the lack of consumer and business confidence and the slow growth of aggregate demand. It is, however, more common for AD to grow more rapidly than AS. In the long run, measures such as improved education, are likely to be effective in increasing output than monetary policy. This may suggest that the current situation where the Bank has some flexibility in being able to depart from its inflation rate target in the short run during periods of demand and supply-side shocks.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			Reasonable evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the nature of an economic growth rate target. Limited or no analysis of how an economic growth rate target may influence monetary policy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether the government should set the Bank of England an economic growth rate target. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria</td><td>Above middle and</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria	Above middle and		
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria	Above middle and										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			but with some slight inconsistency Just enough achievement on balance for this level On the borderline of this level and the one below	either below top of level or at middle of level (depending on number of marks available) Above bottom and either below middle or at middle of level (depending on number of marks available) At bottom of level	
			Total	25	
69			D	1 (AO3)	Rationale A This would cause the LRPC to shift to the left. B This would cause a shift in the SRPC. C This is likely to cause an extension along the SPRC, rather than a contraction. D Correct: In the short run workers misinterpret an increase in their nominal wage as an increase in their real wage, meaning they supply more labour – they have not yet realised that inflation has increased.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
70			B	1 (AO3)	Rationale A This would increase the wealth of asset holders, increasing wealth inequality. B Correct: A decrease in income inequality will mean those at the bottom of the distribution can afford to save more to acquire wealth, whilst the ability of those at the top of the income distribution to build their wealth will be reduced. C This increases wealth inequality as home owners become wealthier whilst those without a home find it harder to get on the property ladder. D This would increase wealth inequality as more wealth will be passed between generations, benefitting wealthier individuals whose wealth previously exceeded the tax-free threshold but now falls below it.
			Total	1	
71			C	1 (AO1)	Rationale A There is no environmental component in the HDI. B The output component in the HDI is GNI per capita at PPP, not GDP per capita. C Correct: This acts as a proxy for the quality of healthcare in the country. D The education component of the HDI is mean years of schooling and expected years of schooling.
			Total	1	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
72	Evaluate, with the use of an appropriate diagram(s), whether ending austerity is likely to result in the government achieving higher levels of economic growth. Level 3 (11–15 marks) Good knowledge and understanding of expansionary fiscal policy and economic growth. Good – strong analysis of the impact of ending austerity on economic growth. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the impact of austerity on economic growth, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of expansionary fiscal policy and economic growth. Reasonable analysis of the impact of ending austerity on economic growth. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	Guidance: • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • A relevant and explained diagram is required for the Analysis or Evaluation to be awarded above Reasonable. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for impacts of ending austerity that are mentioned in the case study: ◦ Greek economy collapsed because of high debt/GDP ratio. ◦ UK debt/GDP ratio was 69% in 2010 and forecast to increase to more than 100%. ◦ Austerity is crucial in promoting future economic growth and stability. ◦ Conservatives committed to increase public expenditure and cut taxes. ◦ Labour committed to public sector pay rises, green transformation fund, compensating WASPI women and building social housing. ◦ Low cost of borrowing. ◦ UK has a relatively low debt/GDP ratio. ◦ Destroys reputation of fiscal responsibility. Analysis and Evaluation requires candidates to go beyond what is given in the case study.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the impact of austerity on economic growth. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of expansionary fiscal policy and/or economic growth. Limited analysis of the impact of ending austerity on economic growth. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the impact of ending austerity on economic growth or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit.		Analysis may include: - Increasing public expenditure will result in AD increasing (G is a component of AD). - Tax cuts will increase consumption, increasing AD. - Increases in AD will generate economic growth. - Multiplier effect will result in further increases in consumption and investment, triggering further economic growth. - Accelerator effect may result in economic growth increasing still further. - Capital expenditure will result in productive capacity of the economy increasing – outward shift in LRAS will result in non-inflationary sustainable economic growth. Evaluation may include: - Public expenditure may crowd out private sector investment, meaning AD may not increase. - Multiplier may not be significant if leakages are large. - Depends on state of the global economy – interdependence means expansionary fiscal policy in UK may be ineffective if export markets are in recession. - Consumer and business confidence may fall if fiscal policy is not seen as credible, which could result in rising saving and falling consumption and investment. - Growth may fall in the future if future governments have to increase taxes/cut spending to pay back the debt it built up when increasing spending. - Depends on whether the capital expenditure results in economy growing enough to mean debt/GDP ratio falls despite higher levels of borrowing.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					<u>Examiner's Comments</u> There were several strong responses to this question which showed an impressive understanding of the debate surrounding how fiscal policy can be used to achieve economic growth, with a good use of the AD/AS model to support their responses. Candidates must make sure they read the question carefully – a small minority wrote an essay on introducing austerity rather than ending it.  Misconception Several candidates fell into the trap of offering generic analysis that ending austerity would be problematic because it is likely to cause demand-pull inflation. It is important that candidates read the extract carefully to understand the context in which the question is set – it is highly unlikely that austerity would be implemented in an environment when the economy is operating close to full capacity, which weakens this argument.
			Total	15	

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73	a		Using Fig.1, explain the relationship between GDP per head and life expectancy. AO1: Higher GDP per head would be likely to mean better health care/better education/better housing/better nutrition (1) AO2: Largely positive/expected relationship (1). Any of the four countries identified with the highest GDP per head have the longest life expectancy (1) Any of the four countries with the lowest GDP per head have the lowest life expectancy (1). Some exceptions in order e.g. USA has the highest GDP per head but only the 4th longest life expectancy/Egypt has a higher GDP per head than Bangladesh but lower life expectancy (1).	4 (AO1 x 1 AO2 x 3)	Annotate with  Figure 1 must be used Examiner's Comments This was generally answered well, although weaker responses generalised rather than make good use of the stimulus.
	b		Using Fig.2, explain the difference between short run and long run economic growth. Short run economic growth is an increase in actual growth / higher output resulting from greater use of existing resources – w → x (1). In contrast, long run economic growth is an increase in productive capacity – YY → ZZ. (1)	2 (AO1 x 1 AO2 x 1)	Annotate with  Figure 2 must be used Examiner's Comments There was a mixed range of responses to this question. The difference between short run and long run growth was not precisely explained and often when it was the stimulus was not used and hence marks were not given.

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	c	Using information from the stimulus material, evaluate whether the gap in GDP per head between low-income and high-income countries will narrow in the future. Level 3 (9–12 marks) Good knowledge and understanding of what causes a gap between low-income and high-income countries linked to influences on economic growth. Good – strong analysis of what may affect the gap between low-income and high-income countries in the future. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good – strong evaluation of whether the gap between low-income and high-income countries will fall in the future, weighing both why it might and why it might not. Strong evaluation should include a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (5–8 marks) Good knowledge and understanding of what causes a gap between low-income and high-income countries linked to influences on economic growth. Reasonable analysis of what may affect the gap between low-income and high-	12 (AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)	For a mark at the top of each level evidence must be provided from the stimulus material and / or the candidate's own knowledge. <i>Indicative content</i> If low-income countries continue to have higher rates of economic growth than high-income countries, the gap between the two groups will narrow. Workers and entrepreneurs in low-income countries, unsatisfied with their living standards, may have a greater incentive to work hard and innovate. In contrast, some people in high-income countries may lack drive and may seek to have more hours of leisure. Low-income countries may also be able to copy advances in technology in high-income countries. They may also be able to copy production methods used by multinational companies located in their countries. More advanced technology and better methods of technology may lower costs of production and increase aggregate supply. Moving workers from primary to secondary and tertiary sectors and reducing under-utilisation of resources can also increase average incomes in low-income countries. However, high-income countries have greater economic power and may not trade on equal terms with low-income countries. If the tariffs on the exports of high-income countries are lowered more than those on low-income countries, the gap may increase. The development of greater trade links between high-income countries, including forming trade blocs, may exclude low-income countries. Low-income countries may have low wages but this does not necessarily mean that they have low average costs of production. They may have low productivity, possibly because of low spending on education. If this is the case, multinational companies will not be attracted to the countries and some of their firms may move their production to high-

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Question	Answer/Indicative content	Marks	Guidance
	income countries in the future. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether the gap between low-income and high-income countries will fall in the future, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of what causes a gap between low-income and high-income countries linked to influences on economic growth. Limited analysis of what may affect the gap between low-income and high-income countries in the future. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of whether the gap between low-income and high-income will fall in the future in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks No response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		income countries. Some low-income countries also have high average costs of production because of poor infrastructure. Poor and unreliable transport, for instance, can reduce the price and quality competitiveness of the countries' firms. A high birth rate in some African countries means that resources, that could be devoted to promoting economic growth, have to be devoted to catering to the needs of the new young people. For instance, instead of spending on research and development, a government may have to spend on new primary schools. Lack of political and economic stability may discourage investment and so lower aggregate demand and aggregate supply. Potential judgement Whether low income countries will transform into high-income countries will depend on a number of factors. These include whether the low-income countries gain fair access to international trade, whether the countries allocate their resources efficiently and whether the governments operate effective economic policies. Some emerging economies, including China, have shown it is possible to narrow the gap. <u>Examiner's Comments</u> There were some very strong responses to this question, where good use of the stimulus material was clearly used and a balanced response was given of why the gap may narrow and why it may not and then made a judgement. Weaker responses were often one sided lacking evaluation.

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On the borderline of this level and the one below	At bottom of level														
			Total	18											

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
74	In 2018 both Australia and Ireland had a high Human Development Index (HDI), 0.939 and 0.938. They did, however, have different rates of poverty. Evaluate whether a country with a high HDI is likely to have a low rate of poverty. Level 5 (21–25 marks) Good -Strong knowledge and understanding of HDI and poverty. Strong analysis of the relationship between a country's HDI and its level of poverty. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a country with a high HDI is likely to have a low rate of poverty, weighing up whether a country with a high HDI is likely to have a low rate of poverty and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of HDI and poverty. Strong analysis of the relationship between a country's HDI and its level of poverty. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether a country with	25 (AO1 × 6 AO2 × 6 AO3 × 6 AO4 × 7)	For a mark at the top of each level the response should be in context. There are three components of a country's HDI, each having an equal weighting. One is average income, measured by GNI per head. Another is education, measured in terms of mean and expected years of schooling. The third component is healthcare, measured by life expectancy at birth. Analysis of why a high HDI is likely to have a low rate of poverty might include: • If a country has a high GNI per head, it is possible that people in the country are able to afford not just luxuries but also the goods and services needed for them to participate fully in the normal activities of their society. This may mean that absolute and relative poverty are low. • High GNI per head may also mean that tax revenue is high which may enable a government to redistribute income to ensure greater equality of income and so reduce relative poverty. • A high number of years of education would contribute to a high HDI. If most of the population have access to both a high number of years of education and good quality reduction, they may be able to gain well-paid employment and enjoy a good standard of living. • People are likely to live a long life if there is good healthcare. Good quality healthcare, as well as good quality education. Should result in high labour productivity. Workers are likely to be mentally and physically fit. They are less likely to experience long periods of sickness which can be a cause of poverty. Evaluation of whether a country with a high HDI is likely to have a low rate of poverty might include:

Mark Scheme

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	a high HDI is likely to have a low rate of poverty, weighing up whether a country with a high HDI is likely to have a low rate of poverty and reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of HDI and poverty. Good analysis of the relationship between a country's HDI and its level of poverty. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether a country with a high HDI is likely to have a low rate of poverty weighing up whether a country with a high HDI is likely to have a low rate of poverty and reaching a supported judgment. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of HDI and poverty. Reasonable analysis of the relationship between a country's HDI and its level of poverty. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether a		• It is possible that some people in countries with a high HDI may experience poverty. GNI per head is an average and income may be very unevenly distributed. Some people may experience absolute poverty, struggling to afford basic necessities. There may also be relative poverty with some having income that is lower than others in society and which restricts the activities they can participate in. • The average years of schooling people receive may be high but it is possible that some people may have received significantly fewer years of education. The quality of education that children receive may also vary. In some countries there is a variation in the quality of private and state education. Those who receive less and/or low quality education stand a greater risk of being poor. It is also possible that HDI may be high while the mean and expected years of education are relatively low. This may be the case if, for instance, the country's average income is high because the country is exporting a rare commodity and income is in the hands of the few. • There may a wide spread of life expectancy with the poor having much shorter lives than the rich. If people do not have access to good quality healthcare, in some cases because only private healthcare is available, their earning potential will be lower. • A high level of life expectancy may also mean that there is a relatively high proportion of elderly people. One cause of poverty in a number of countries is old age. This is because some countries state pensions are low or non-existent. A supported judgement might include: • HDI may not be the only indicator of poverty, such as environmental issues/access to clean water • Most countries that have a high HDI do

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			country with a high HDI is likely to have a low rate of poverty, weighing up whether a country with a high HDI is likely to have a low rate of poverty and reaching a supported judgment. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of HDI and poverty. Limited or no analysis of the relationship between a country’s HDI and its level of poverty. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether a country with a high HDI is likely to have a low rate of poverty in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of		have a relatively low rate of absolute poverty. A number, however, have relatively high rates of relative poverty because of income inequality and unequal access to education and healthcare.
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			level (depending on number of marks available)		
			Just enough achievement on balance for this level		
			On the borderline of this level and the one below		
			Total	25	

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Question	Answer/Indicative content	Marks	Guidance
75	The UK's deficit on the current account of its balance of payments in the first quarter of 2018 was £17.7bn (3.4% of GDP). This was a reduction on the deficit of £19.5bn (38% of GDP) in the last quarter of 2017. Evaluate whether the UK would benefit from a reduction in the deficit on the current account of the balance of payments. Level 5 (21–25 marks) Good -Strong knowledge and understanding of a deficit on the current account of the balance of payments. Strong analysis of the effects of a reduction in the deficit on the current account of the UK balance of payments. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of a deficit on the current account of the balance of payments. Strong analysis of the effects of a reduction in the deficit on the current account of the UK balance of payments. It will have consistently well-developed links through a coherent chain of reasoning which	25 (AO1 × 6 AO2 × 6 AO3 × 6 AO4 × 7)	For a mark at the top of each level the response should be in context. A deficit on the current account means that a country (the UK) is importing more goods and services than they are exporting. Analysis of the benefit to the UK of a reduction in the deficit on the current account of the balance of payments might include: • A reduction in the deficit caused by an increase in the competitiveness of the country's products is highly likely to be beneficial. If the cost of producing the country's products falls and/or the quality rises, the country is likely to export more and import less. Output will rise probably rise which can, in turn, reduce unemployment. If costs of production have fallen, inflationary pressure may be reduced. • A reduction in the deficit resulting from the removal of trade restrictions on the country's exports by foreign governments is also likely to be beneficial. Such a change would allow the country to compete on more equal terms. • A reduction in a deficit caused by an increase in net primary income may arise from the country's firms with branches abroad earning more profits or banks earning a higher interest rate on its loans to residents abroad. • Worker's remittances appear as secondary income. An increase in UK workers' remittances may improve the living standards of their family members and will reduce the country's current account deficit. Evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy might include: • A reduction in the deficit caused by a fall in incomes at home is more likely to

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	addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, weighing up both why it might and why it might not, weighing up both sides but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of a deficit on the current account of the balance of payments. Good analysis of the effects of a reduction in the deficit on the current account of the UK balance of payments. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of a deficit on the current account of the balance of payments.		be harmful. Exports may rise because the products cannot be sold at home. This may mean that while exports may rise, output may still decline. Imports are also likely to decline not only because households would not be able to spend as much but also because firms' demand for imported raw materials and capital goods will decline. This again can be an indicator of falling output. • A deficit reduction resulting from the country's government imposing trade restrictions or its central bank encouraging a reduction in the country's exchange rate may only last a short time. This is because the measures may not tackle the real causes of the deficit such as a low level of productivity. • It is, however, also possible that income from abroad may have arisen because more UK firms have relocated abroad. It may also be the case that some foreign firms with branches based in the UK may have closed these branches and so reduced the outflow of profits. Fewer production units in the UK would reduce output and employment • If, however, the country is losing some of its skilled workers, its productive capacity will fall. In practice. Workers' remittances are not a major contributor to the UK current account balance Possible supported judgement might include: • It is possible that an initial increase in a current account deficit may later result in reduction in the deficit. If the economy is expanding, more may be spent on raw materials and capital goods. These may be used to produce products, some of which may be exported and some of which may be bought to replace imported products. • A reduction in the UK's current account deficit will be more beneficial if it is the

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	Reasonable analysis of the effects of a reduction in the deficit on the current account of the UK balance of payments. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, considering both why it might and why it might not. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of a deficit on the current account of the balance of payments. Limited or no analysis of the effects of a reduction in the deficit on the current account of the UK balance of payments. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it		result of a rise in the UK's international price and quality competitiveness. Whether the UK will benefit from a reduction in the deficit on the current account of its balance of payments will depend principally on the cause of the reduction

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