

OCR A-LEVEL ECONOMICS • H460

ECONOMICS



EXAM QUESTION PACK

THE FINANCIAL SECTOR

SCORE

/170

PERCENTAGE

%

STEMUP

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- 1 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
- 5 deflation.

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.

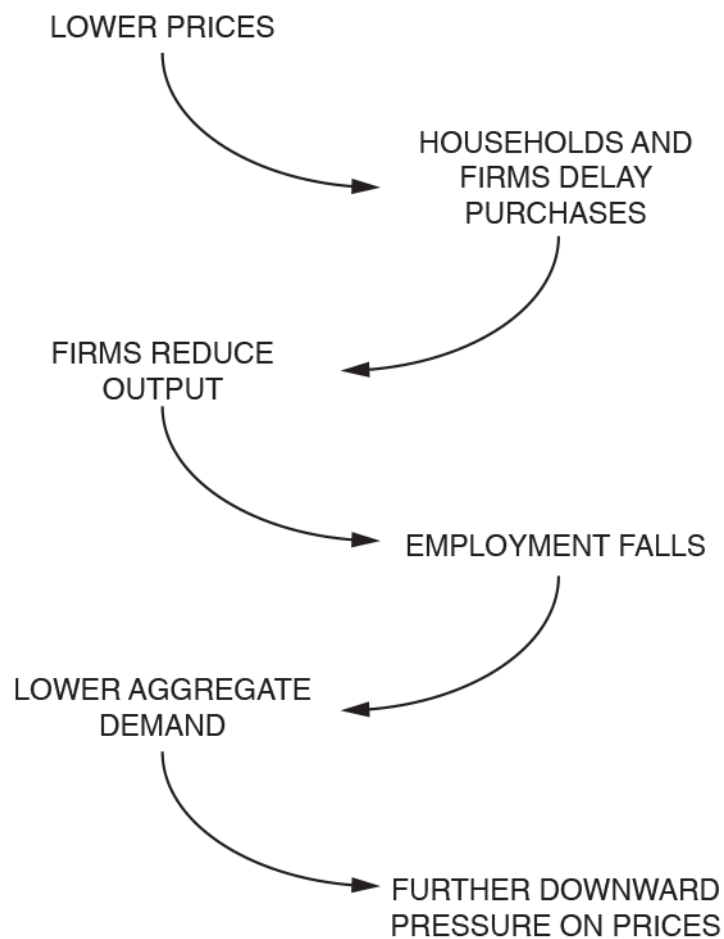


Fig. 1 – The deflationary spiral

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.

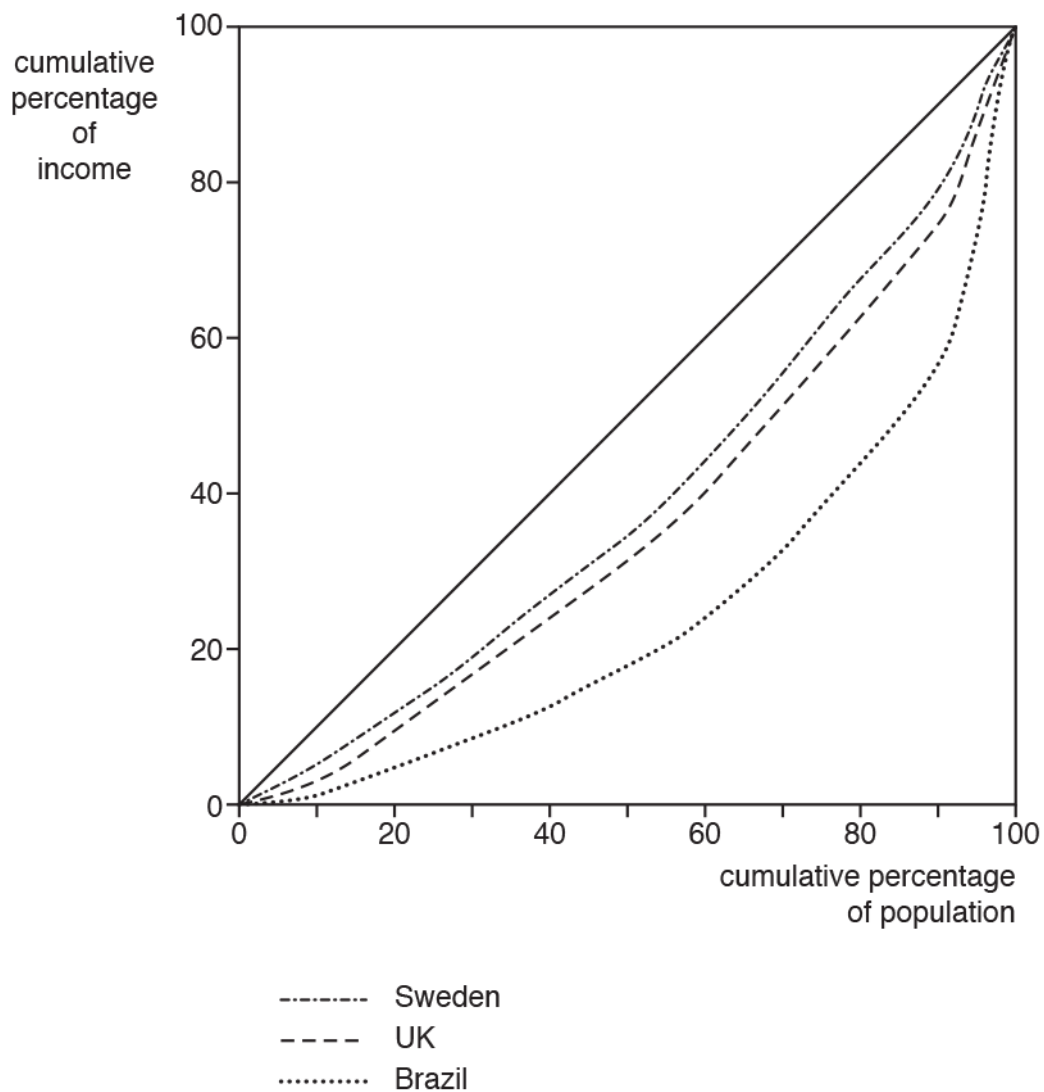


Fig. 2 – Lorenz curves for Brazil, Sweden and the UK, 2014

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

* Using Fig. 1, evaluate whether increasing the funds banks have available to lend will reverse a deflationary spiral.

Handwriting practice lines consisting of 20 horizontal dashed lines.

[12]

A To encourage the removal of trade barriers

B To promote economic development

C To provide short term finance to help countries overcome balance of payments problems

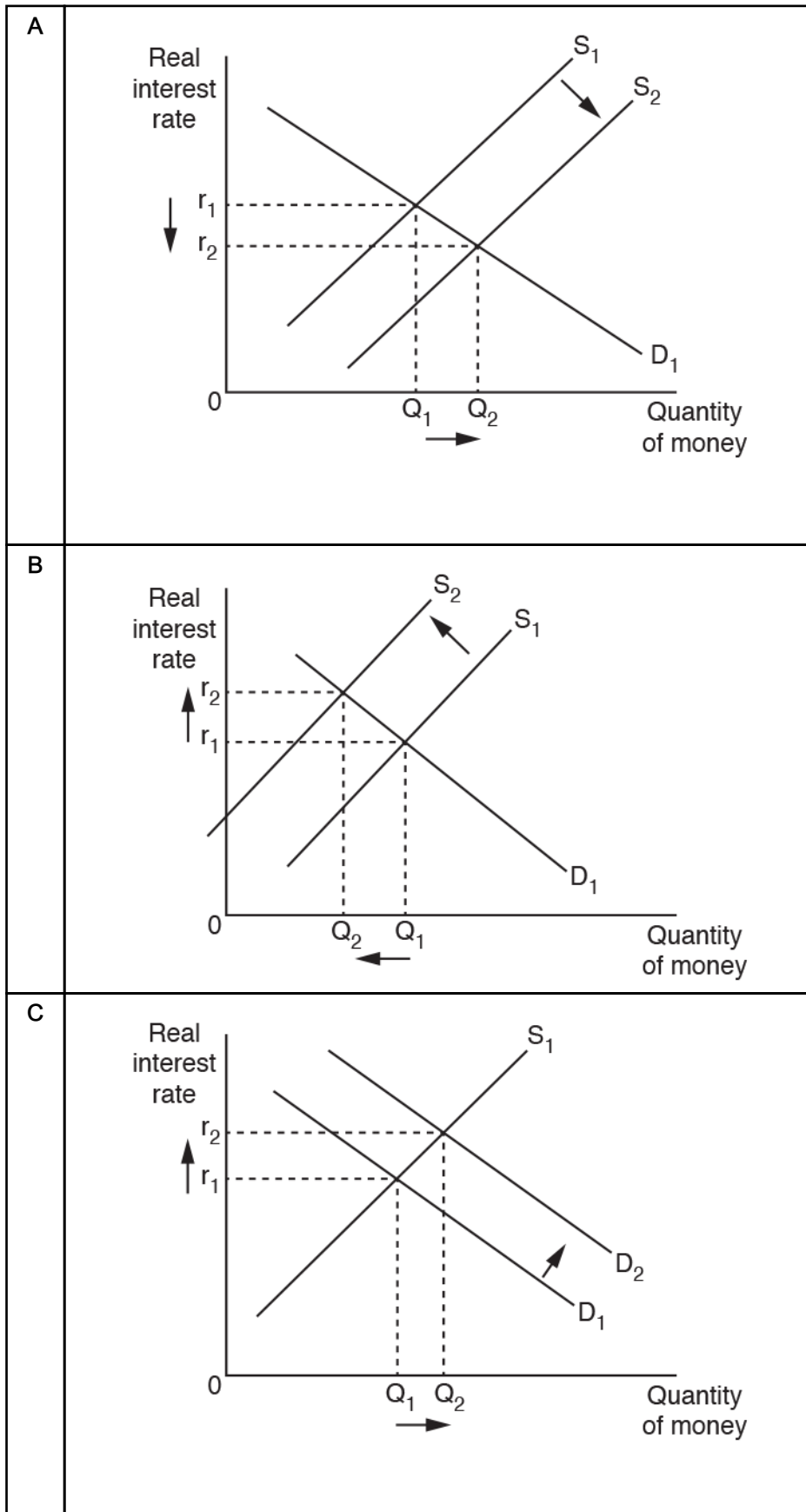
D To stabilise exchange rates

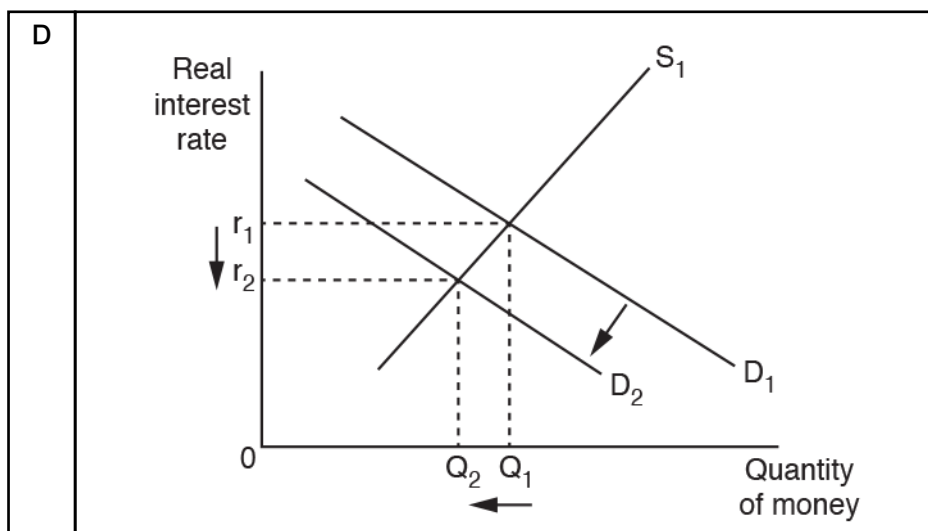
[1]

A Debt relief
B Microfinance
C Overseas Development Assistance
D Remittances

[1]

- 4 The rate of corporation tax in the economy is set to increase. Which diagram shows the most likely impact on the market for loanable funds of this anticipated change?





Your answer

[1]

- 5 Using the Fisher equation of exchange, what is the money supply in an economy where real GDP is £400bn, the price level is 3 and the velocity of circulation of money is 4?

- A £300bn
- B £400bn
- C £533bn
- D £1200bn

Your answer

[1]

- 6 In which of the following cases is the interest rate charged on borrowing likely to be lowest?

- A High risk and high security
- B High risk and low security
- C Low risk and high security
- D Low risk and low security

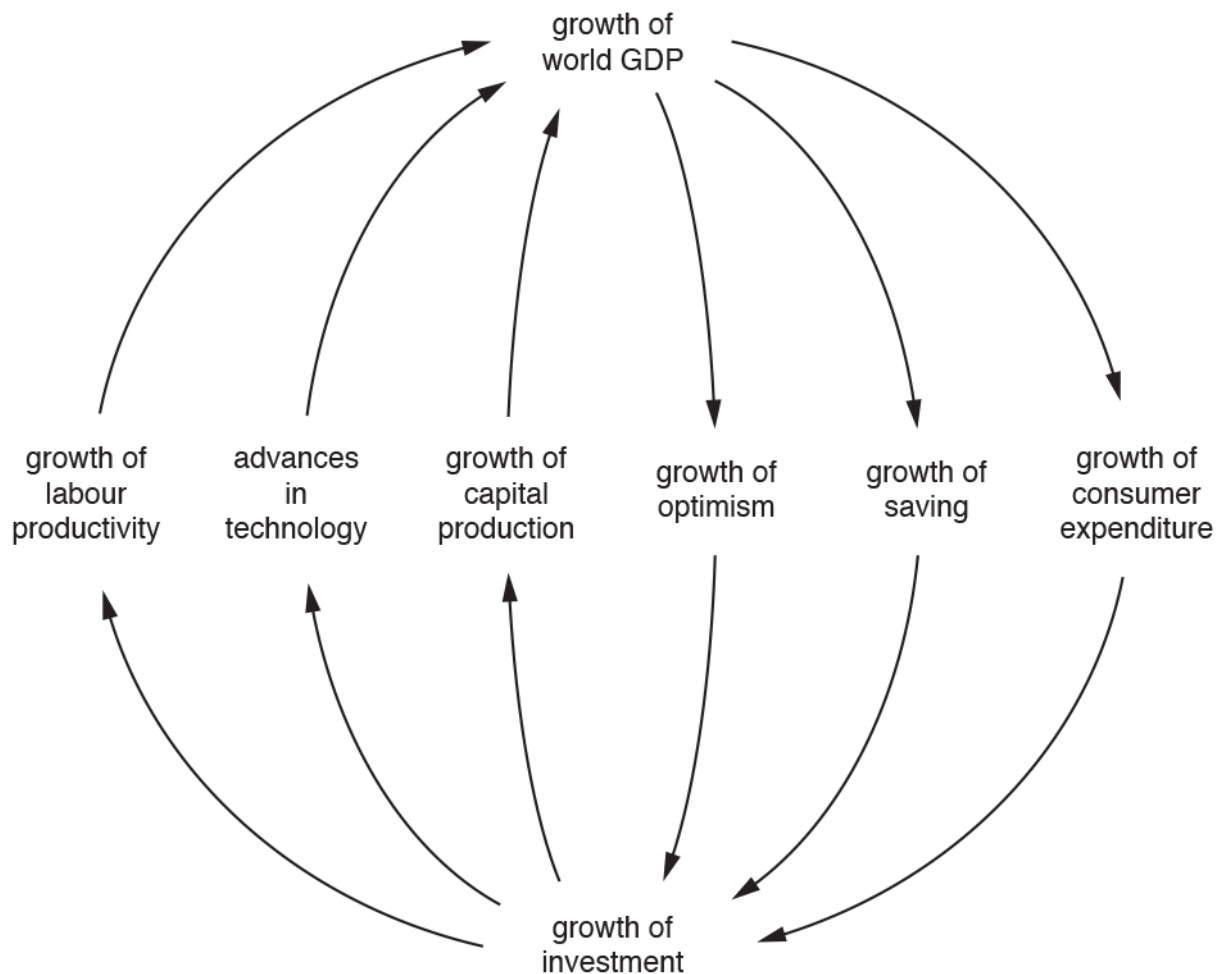
Your answer

[1]

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. Explain how Fig. 1. illustrates the Harrod-Domar model.

[2]

- 8 * In 2018 the UK Prime Minister said she would put financial services at the heart of a new trade deal with the EU.

Evaluate whether the UK financial sector makes a positive contribution to the UK economy.

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[25]

10 What is included in 'broad money' but is excluded from 'narrow money'?

- A** Commercial banks' deposits at the Bank of England
B Notes and coins in circulation
C Retail deposits with financial institutions
D Stocks and shares

Your answer

1

[1]

11 Which of the following policy options is **not** available to a central bank?

- A Cutting marginal tax rates
B Exchange rate adjustment
C Increasing the interest rate
D Quantitative easing

Your answer

1

[1]

- ### Your answer

[1]

- Evaluate the effectiveness of the World Bank in promoting economic growth and development.

This image shows a blank sheet of white paper with horizontal dashed lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or drawing. There are no margins, text, or other markings on the paper.

[15]

- A Contagion
- B High inflation
- C Liquidity crisis
- D Moral hazard

Since April 2013 the Financial Conduct Authority has been responsible for regulating financial institutions in the UK. Which of the following describes one outcome financial regulation is designed to achieve?

- Your answer

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16 Which of the following is a policy measure available to a central bank?

- A Setting the basic rate of income tax
- B Setting the budget for government spending
- C Setting the national minimum wage
- D Setting the short term interest rate

Your answer

[1]

17 According to the Harrod–Domar model of growth, which of the following combinations is likely to result in the fastest rate of economic growth?

	Savings ratio	Capital–output ratio
A	High	High
B	High	Low
C	Low	High
D	Low	Low

Your answer

[1]

18 Which theory argues a high savings ratio is fundamental to achieving economic growth?

- A Harrod-Domar model
- B Heckscher-Ohlin model
- C Marshall-Lerner condition
- D Prebisch-Singer hypothesis

Your answer

[1]

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

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

[25]

- A Commercial banks' deposits at the Bank of England
- B Government bonds with a maturity of less than five years
- C Money held in savings accounts
- D Retail deposits held current accounts

[1]

22 In 2008, Northern Rock was taken into state ownership, following a crisis in which customers queued outside branches in large numbers to withdraw their savings concerned they may not get their money back. What type of financial regulation would have reduced the risk of this?

- A Competition policy
- B Quantitative easing
- C Requiring banks to hold a higher proportion of deposits as liquid assets
- D Reducing the central bank rate of interest

Your answer

[1]

23 * Microfinance has grown significantly in recent years. There has been a growth in microfinance institutions and microfinance is now available in most developing countries.

Evaluate whether microfinance promotes economic development.

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

[25]

- 24 Many developing nations face the problem of a poorly developed financial sector. This is partly because individuals are unwilling to save their money in financial institutions. Some are worried that the financial institutions may go bankrupt, which will result in them losing their savings. How can a central bank help to overcome this problem?
- A Act as a lender of last resort
 - B Issue banknotes and coins
 - C Maintain price stability
 - D Manage the government's borrowing

Your answer

[1]

END OF QUESTION PAPER

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
1	Using Fig.1, evaluate whether increasing the funds banks have available to lend will be likely to reverse a deflationary spiral Level 3 (9–12 marks) Good knowledge and understanding of how an increase in bank lending may affect a deflationary spiral Good – strong analysis of how an increase in the funds available to lend may reverse a deflationary spiral. 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 increasing the funds banks have available will be likely to reduce a deflationary spiral, weighing both why it might and why it might not. Strong evaluation should include a supported judgment. There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated. Level 2 (5–8 marks) Good knowledge and understanding of how an increase in bank lending may affect a deflationary spiral Reasonable analysis of how an increase in the funds available to lend may reverse a deflationary spiral. 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.	12 (AO1 x 1) (AO2 x 1) (AO3 x 5) (AO4 x 5)	Indicative content Increasing the funds banks have available to lend may mean that banks will be more willing to lend both to households and firms. If households and firms borrow more, consumer expenditure and investment may increase. This can encourage firms to increase output and take on more workers. If investment increases, the multiplier and the accelerator will cause aggregate demand to increase by even more. If aggregate demand increases more rapidly than aggregate supply, the price level may start to increase. However, although banks have more funds available to lend, they may be reluctant to do so. There may be a credit crunch with banks concerned that if they were to lend more, they might not be repaid as households and firms may default on their loans. Even if banks are prepared to lend more, households and firms may not want to borrow. They may lack confidence in the future. If, on the other hand, households borrow and spend more, firms will not necessarily increase their output if they initially had spare capacity or if they think the rise in demand will not last. A rise in firms' output does not always increase employment. Firms may be able to produce more by using more capital equipment, getting existing workers to increase their productivity or to work more hours. Private sector spending may increase but if government spending falls it is possible that aggregate demand may not rise. Higher aggregate demand may still be accompanied by a fall in the price level, if aggregate supply increases by a greater amount. This, however, will create 'good' rather than 'bad' deflation and will be unlikely to cause a deflationary spiral. Whether an increase in the ability of banks to lend will reduce a deflationary spiral will be influenced by households and firms' expectations of the future and past experiences. Once a deflationary spiral is

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis Reasonable evaluation of whether increasing the funds banks have available will be likely to reduce a deflationary spiral, 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 1 (1–4 marks) Limited – reasonable knowledge and understanding of how an increase in bank lending may affect a deflationary spiral. Limited analysis of how an increase in the funds available to lend may reverse a deflationary spiral Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of whether increasing the funds banks have available will be likely to reduce a deflationary spiral, in the form of an unsupported statement or no evaluation. 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. 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.		underway, it is difficult to reverse. This is because banks are likely to have experienced defaults on loans and so be worried about households' and firms' ability to repay. Households' and firms' confidence is also likely to have been adversely affected by their experience of the deflationary gap. Other aspects of quantitative easing may be more effective such as the purchase of debt and helping firms raise finance without needing to borrow from banks Examiner's Comments There was a full range of performance on this question. Some candidates produced strong answers which explored how an increase in the funds banks have available may reverse a deflationary spiral and which included strong evaluation. These answers made good use of aggregate demand and supply analysis. The evaluation sometimes included not only reference to consumer confidence levels, the responsiveness of demand to changes in the rate of interest and banks' capital and liquidity positions. Some candidates, however, did not appear to have thought carefully enough about the question. For instance, a number of candidates did not discuss the effect of increasing funds when there is a deflationary spiral. Indeed, some wrote about the effects during an economic boom, As with Q1(d), a number of candidates also wrote that the effect will depend on the size of the change without establishing why this might be significant.

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	
2			B		1 (AO1)	Rationale A This is a function of the World Trade Organisation B Correct: this is the primary objective of the World Bank C This is a function of the International Monetary Fund D This is a function of the International Monetary Fund
			Total		1	
3			B		1 (AO1)	Rationale A Debt relief involves the cancellation of debt owed by one nation to another B Correct: microfinance represents small scale loans to individuals or groups to incentivise entrepreneurship. C Overseas development assistance would be to governments or NGOs rather than individuals or firms. D Remittances are funds transferred from migrants to their home country
			Total		1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
4			D	1 (AO3)	Rationale A The supply of loanable funds is determined by saving, which is not directly impacted by changes in corporation tax B The supply of loanable funds is determined by saving, which is not directly impacted by changes in corporation tax C An increase in the corporation tax rate will reduce rather than increase investment D Correct: investment will become less profitable, decreasing firms' demand for loanable funds
			Total	1	
5			A	1 (AO3)	Rationale A Correct: $M = PQ / V = 1200 / 4 = \text{£}300\text{bn.}$ B Assumes the money supply is equal to real GDP. C $M = QV / P$ D $M = Q \times P$
			Total	1	
6			C	1 (AO1)	Rationale A Interest rates are likely to be very high on this form of borrowing as there is a strong chance of default with limited security for the lender. B Banks will charge a higher interest rate because there is a greater probability of defaulting. C Correct: banks do not expect borrowers to default and even if they did they could recover the money owed as the loan is secured. D Low security means the bank stands to lose the investment if the borrower defaults on loan repayments.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
7			Explain how Fig. 1 illustrates the Harrod-Domar model. A model that says the rate of growth = the savings ratio/the capital output ratio (productivity of capital investment) (1) the growth of savings, leading to growth of Investment and/or growth of capital production to increase in world growth as shown by fig 1(1)	2 (AO2 x 2)	Examiner's Comments Many candidates showed good understanding of the Harrod-Domar model, but there were also many who confused 'growth leading to saving'. When using the data to explain a concept such as the Harrod-Domar, it would be helpful to answer in a two-stage way. First describe the Harrod-Domar model, then say in what way the Figure matched the definition/concept. Exemplar 1 (b) Explain how Fig. 1. illustrates the Harrod-Domar model. There is a growth of saving, there is a growth of capital accumulation. This increase the 'growth of investment' and bring economic growth by the 'growth of world GDP', which is a sustainable cycle. The exemplar shows how a candidate can get full marks by starting with savings and explaining the relationship with investment and then growth
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
8	Evaluate whether the UK financial sector makes a positive contribution to the UK economy. Level 5 (21–25 marks) Good-Strong knowledge and understanding of the UK financial sector. Strong analysis of the contribution the UK financial sector makes to the UK economy. 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 the contribution the UK financial sector makes to the UK economy, weighing up both the positive and negative impacts it has had on the UK economy 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 UK financial sector. Strong analysis of the contribution the UK financial sector makes to the UK economy. 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 the contribution the UK financial sector makes to the UK economy, weighing up both the positive and negative impacts it has had on the UK economy but	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> Reasons why the financial sector makes a positive contribution to the UK Economy The UK financial sector has and continues to provide a range of services that help the UK economy to operate. Banks enable the government, firms and households to make and receive payments, to save and to borrow. They act as an intermediary between those who have more funds than they currently want to spend and those who want more funds than they have available at the moment. Banks, insurance companies, hedge funds and pension companies enable firms and households to pool risks. The stock exchange deals in second hand shares and government securities. By providing a market for the purchase and sale of shares and government bonds. It makes it easier for firms and the government to sell shares and government securities. The existence of the stock exchange also enables firms to grow externally by merging or taking over other firms. The foreign exchange market provides importers and exporters and those investing overseas to buy and sell currencies. Most of the trade is, however, undertaken by those speculating on changes in the value of different currencies. Speculation can cause large fluctuations in exchange rates which can create uncertainty and discourage investment. It does, though, enable governments to influence the value of their currencies by buying and selling their currency. The UK has a relatively large financial sector. It contributes just over 10% of the country's output and makes a very significant contribution, nearly 50%, to the output of London. Over the years, the financial sector has

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			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 UK financial sector. Good analysis of the contribution the UK financial sector makes to the UK 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 the contribution the UK financial sector makes to the UK economy, considering both the positive and negative impacts it has had on the UK economy. <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 UK financial sector. Reasonable analysis of the contribution the UK financial sector makes to the UK 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 the contribution the UK financial sector makes to the UK economy, considering both the positive and negative impacts it has had on the UK economy.		generated a considerable amount of tax revenue. It has also provided a relatively high number of jobs. In 2017, more than a million workers were employed in the financial sector. A relatively, and increasingly, high proportion of these jobs are well-paid. The UK appears to have a comparative advantage in financial services, providing a wide range of high-quality services at a competitive price. Exports of financial services are the largest, single component of UK exports of goods and services. The UK has had a substantial surplus on its trade in financial services in the last twenty years. A country's financial sector has the potential to be the driver for innovation and economic growth by promoting investment. Reasons why the financial sector has made a negative contribution to the UK Economy. The UK's financial sector, however, has been criticised for concentrating on loans to households and interbank loans. A relatively small proportion of UK loans are loans to firms to spend on capital goods. This may be one reason why the UK has a relatively low rate of investment compared to other OECD countries. Loans to households, including mortgages, have helped to fuel consumer booms and inflation in the past. The financial sector, specifically the banks, played a key role in the global financial crisis and recession of 2007 and 2008. US banks had lent to low income households to buy homes. The mortgages they gave were often more than the face value of the homes and were sometimes more than six times the borrowers' incomes. Some of these so-called sub-prime were sold in bundles of debt to other financial institutions, including UK banks. When unemployment started to rise in the USA, there were mortgage defaults. US banks got into difficulty with the biggest bankruptcy in the world occurring in 2008 when Lehman Brothers'

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance								
			<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 UK financial sector. Limited or no analysis of the contribution the UK financial sector makes to the UK 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 the contribution the UK financial sector makes to 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 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</td><td>Above bottom and either below middle or at middle 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	Above bottom and either below middle or at middle of level		Bank went out of business. A number of UK banks had to be helped by the government. A credit crunch developed with banks becoming reluctant to lend. This, in turn, resulted in households spending less and firms reducing their output. Other valid evaluation. • Market failure in the financial sector. • Market bubbles. • externalities Possible judgement. UK financial institutions have played and continue to play a key role in the UK economy over the years. They have and do carry out a range of functions which facilitate trade, utilise savings to finance investment, cover cash shortfalls, finance home purchase and the purchase of consumer durables and allow risks to be shared. The UK financial sector makes a major contribution to the macroeconomy although the benefits, in terms of output and employment, are largely concentrated in the capital. UK banks, anxious to make high profits, did not make sure that they had sufficient funds to cope with defaults. UK banks may also not have facilitated investment as much as possible over the last twenty years by being rather reluctant to give long term loans to firms to spend on capital goods. Depends upon regulation from the Bank of England and the FCA. Examiner's Comments The least popular question, but there were answers that covered the full range of possible responses. Many candidates that chose this question had an excellent understanding of recent events in the financial markets, including the recent recession, bailouts and moral hazard. The
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	Above bottom and either below middle or at middle of level												

Mark Scheme

Question			Answer/Indicative content		Marks	Guidance
			level	(depending on number of marks available)		best answers focused on exactly how financial markets enhanced (or damaged) economic performance rather than just describing recent events. Candidates knew financial services made up a large proportion of the UK exports – analysis that started with this usually gained good analysis. Others confused the financial sector and the central bank; candidates would usually talk about base rate changes and its effect on the macroeconomy rather than answering the question. Most of the evaluation centred around the global financial crisis of 2008, better candidates gained good evaluation by looking at the economic effects of moral hazard, systematic risk, and asymmetric information in the financial sector. Strong evaluation was awarded for concluding remarks on regulation and the role of confidence within the financial sector. Exemplar 7 <i>P1. If financial institutions continue inflation targeting, this may cause a fall in country's output, further reducing the output of the country from Q₁ to Q₂, causing a worse off economic output.</i> <i>Also, Banks acting as a last lender resort may encourage Retail Banks and Investment banks to participate in high risk investment as they know that they will get help from Bank of England if they went bankrupt. This creates a moral hazard where large banks know are too big to fail and Bank of England are forced to bail out. This may cause further financial instability as large banks are involved in higher risk investment to be bailed out. Besides, bailing out banks may</i>
			On the borderline of this level and the one below	At bottom of level		

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					not benefit the UK economy as (a) not only solves short-term impact, where there may still be some structural problem to banks. This causes people to still be less likely to put deposits into the bank, causing less saving into that bank and eventual failure of the bank. This causes financial instability and as people have less confidence into the country's institutions, there will be a fall in FDI, and fall in investment, which causes fall in AD and AS of the economy, causing a fall in output and GDP. Overall whether the financial sector can contribute to UK economy depends on the government's regulation to the financial sector, e.g. setting a high capital ratio to prevent regulatory capture where Bank of England may be biased towards investment banks and the financial institutions are not regulated in finding profit to prevent them from speculative investment which may cause loss of depositor's money and cause fall in people's confidence on financial institutions. The candidate in this response made sufficient use of theory regarding moral hazard and bail outs to be awarded good evaluation, the judgement in relation to regulation made it strong.
			Total	25	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
9			Level 5 (21–25 marks) Good knowledge and understanding of the role of a central bank, particularly as lender of last resort. Strong analysis of the effects on the economy of allowing a bank to fail. Strong evaluation including a supported judgement on whether a central bank should ever allow a bank to fail. <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>	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content:</i> - the role of a central bank - lender of last resort - impact of the failure of a retail bank. Arguments for: - may reduce the risk of moral hazard. Retail banks may be discouraged from lending to people and firms who are not creditworthy and from buying toxic debt if they know they will not be bailed out by the central bank - encouraging retail banks to undertake more prudent policies might reduce the risk of a financial crisis in the future - it might create more stability in the housing market as it may reduce the risk of banks lending to home buyers who will not be able to make the repayments and so will get into debt - when a retail bank's high risk strategy is successful it benefits in the form of higher profits. When such a strategy fails, it may be the taxpayers who end up paying the price - the collapse of a failing bank may enable more efficient banks to enter the market. Arguments against: - there is a risk of creating a run on the banking system. Seeing one bank failing may encourage customers of other banks to withdraw their deposits. As banks create more deposits than they have liquid assets to support them, not every depositor can be paid out - banks borrow from and lend to each other. If a bank goes out of business owing other banks money, it will weaken their position - a run on the banking system may lead to people losing some of their savings which, in turn, could reduce consumer expenditure
			Level 4 (16–20 marks) Good knowledge and understanding of the role of a central bank particularly as lender of last resort. Strong analysis of the effects on the economy of allowing a bank to fail. Good evaluation as to whether a government should allow a bank to fail but without considering whether this should 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 the role of a central bank, particularly as lender of last resort. Good analysis of the effects on the economy of allowing a bank to fail. Reasonable evaluation as to whether a government should allow a bank to fail but without considering whether this should always be the case.		

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	<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 role of a central bank. Reasonable analysis of the effects on the economy of allowing a bank to fail. Reasonable evaluation of whether a government should allow a bank to fail but without considering whether this should 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 the role of a central bank. Limited analysis of the effects on the economy of allowing a bank to fail. 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.		• a collapse in the banking system would reduce employment and could reduce a country's export revenue by lowering the amount it earns from selling financial services • if a number of banks go out of business, firms may find it difficult to obtain finance for investment. Existing banks may also become too cautious, becoming reluctant to lend to all but the most creditworthy borrowers – adding to a credit crunch. Reducing investment may lower both aggregate demand and aggregate supply. As a result, actual and potential economic growth may fall • other banks may respond by building up their reserves and reducing lending. This can lead to a fall in the money supply and so cause deflation. Credit, where appropriate, knowledge/analysis of other, relevant factors. Possible routes into evaluation: • the decision will depend on the size and importance of the retail bank • the situation within the economy as a whole • the decision will be influenced by how well the banking sector as a whole is performing. If the rest of the banking sector is in good order, a central bank may feel confident in allowing one bank to fail • a central bank will be more concerned to prevent a retail bank failing if the banking sector is playing a key role in the internal performance of the economy • if the banking sector is closely integrated into the greater financial sector, then a failing bank may have a significant impact on the external performance of the economy • if the bank in question is largely a domestic bank or whether it operates within the global economy.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			Total	25	
10			C	1 (AO1)	Rationale A Included in narrow money. B Included in narrow money. C Correct: Retail bank deposits are in broad money but not in narrow money. D Stocks and shares are not in narrow or broad money.
			Total	1	
11			A	1 (AO1)	Rationale A Correct: central banks do not control tax rates in a country; this is down to the government. B This is one of the policy measures available to central banks. C This is one of the policy measures available to central banks. D This is one of the policy measures available to central banks.
			Total	1	
12			B	1 (AO2)	Rationale A It is excessive risk taking rather than abuse of monopoly power that was the problem in the financial services industry. B Correct: excessive risk taking meant banks did not have sufficient capital reserves, ultimately causing a shortage of liquidity that the central bank struggled to deal with. C The recession was not the cause of the financial crisis; it was the result. Any double dip can also be argued to have occurred as a result of policy responses to the initial recession. D If anything a lack of financial regulation increased consumption by too much, incentivizing people to spend beyond their means.
			Total	1	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
13	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.

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 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	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
14			D	1 (AO1)	Rationale A Contagion results from globalisation and increased interdependence. B Acting as a lender of last resort is not necessarily inflationary. C Central banks act as a lender of last resort to prevent banks facing liquidity crises. D Correct: banks are incentivised to take more risks when they know they will be bailed out by the central bank.
			Total	1	
15			B	1 (AO1)	Rationale A Regulators play no role in ensuring individuals have access to cheap finance. B Correct: capital controls reduce the likelihood of banks having liquidity problems. C Regulation does not seek to limit the profit of banks. D Regulators do not intervene to ensure banks are behaving competitively.
			Total	1	
16			D	1 (AO1)	Rationale A A fiscal policy measure. B A fiscal policy measure. C Set by the government. D Correct: A monetary policy measure and so within the remit of the central bank.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
17			B	1 (AO1)	Rationale A A high capital–output ratio means physical capital isn’t very productive resulting in a lower rate of economic growth. B Correct: A high savings ratio provides banks with funding to lend to finance capital investment and a low capital–output ratio means more productive physical capital. C Low savings means banks cannot lend to fund capital investment. D Low savings means banks cannot lend to fund capital investment.
			Total	1	
18			A	1 (AO1)	Rationale A Correct: the Harrod-Domar model demonstrates that a high savings ratio is essential in enabling the high levels of investment required to achieve high rates of economic growth B This is a theory of international trade which suggests countries will specialise in the production of goods which intensively use the factors of production they have high factor endowments of C This suggests that a devaluation of the currency will only improve the current account if the sum of the price elasticities of demand for exports and imports is greater than one D This explains why the terms of trade of developing countries are declining over time because of the relative price falls in the primary sector
			Total	1	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
19	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
20	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 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	
21			A	1 (AO1)	Rationale A Correct: This is a component of narrow money, along with notes and coins. B This is part of broad money, and is more illiquid than narrow money. C This is part of broad money, and is more illiquid than narrow money. D This is part of broad money, and is more illiquid than narrow money.
			Total	1	
22			C	1 (AO1)	Rationale A This would be used to prevent firms from exploiting their market power – it would not help prevent a run on a bank. B This is a form of monetary policy, not financial regulation. C Correct: Forcing a bank to keep a higher liquidity ratio will decrease the risk of a run on a bank, because banks will have more money readily available to pay depositors who are requesting their funds. This will increase confidence amongst depositors. D This is a form of monetary policy, not financial regulation.
			Total	1	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
23	Microfinance has grown significantly in recent years. There has been a growth in microfinance institutions and microfinance is now available in most developing countries. Evaluate whether microfinance promotes economic development. Level 5 (21–25 marks) Good -Strong knowledge and understanding of microfinance. Strong analysis of how microfinance 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 significantly errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether microfinance promotes economic development, weighing up both the positive and negative impacts it has had on the UK economy 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 microfinance. Strong analysis of how microfinance 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	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	<i>Indicative content</i> Microfinance involves giving small loans to the poor to help them start and develop small businesses that can take them out of poverty. For instance, a loan may be given a woman to buy a sewing machine, enabling her to sell the clothes she produces. A lower rate of interest is charged on the loans than on any money they might be able to borrow from money lenders. The poor are often not able to get loans from traditional banks. Muhammad Yunus is credited with starting microfinance. He founded the Grameen Bank to give loans to reduce poverty and promote economic development. There are various ways that microfinance can reduce poverty and promote economic development. One is that it can increase the income of those who start successful businesses. With higher incomes, the recipients of the loans may be able to enjoy better housing, healthcare and nutrition. If this is the case, their life expectancy is likely to increase. They may now also be able to educate their children. This is because the parents may no longer need their children to work to supplement the families' income and because the families may now be able to afford any school fees. With more education, the children may be able to gain well-paid jobs and enjoy a good standard of living. If the businesses started by the recipients of the loans are successful, they may employ other people in their area. This may reduce unemployment and raise the living standards of their employees. The businesses may buy goods and services from others in the area, thereby increasing employment. In addition, any rise in incomes will have a multiplier effect. Those receiving higher incomes will spend more which may benefit local businesses. Microfinance may also promote gender equality. A relatively high proportion of the loans have been given to women. This has not only increased their incomes but has

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	of whether microfinance promotes economic development, weighing up both the positive and negative impacts it has had on the UK economy but 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 microfinance. Good analysis of the contribution of how microfinance 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 microfinance promotes economic development, considering both the positive and negative impacts it has had on the UK economy. <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 microfinance. Reasonable analysis of how microfinance 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		also increased their status and confidence. Some doubts, however, have been raised about the effectiveness of microfinance. It has been pointed out that it may be difficult to start businesses in poor areas because of a lack of demand and because of an absence of some of the factors needed for economic growth and development. For instance, in a poor area there may be no schools for those who live there even if they could afford to. It is also argued that while the interest charged on the loans may be significantly lower than that charged by some money lenders, it may still be relatively high, making the loans difficult to repay. Some economists argue that it would be better to give the poor income grants. These would not have to be repaid. Microfinance is not the most generous form of aid but it does enable more to be helped than in the case of income grants. Its effectiveness can also be increased by providing guidance to the recipients of the loans and by making it be part of a package of promoting development including increasing the provision of education. <u>Examiner's Comments</u> Question 5 was only answered by a few candidates. The candidate's responses indicate a mixed knowledge of microfinance. Stronger responses had a clear understanding of what it is and how it could increase incomes leading to the ability to spend on nutrition and education, and also how local employment could increase leading to further increases in income and hence promoted development. Evaluation often considered the effectiveness of microfinance and how the loan was spent and the problems with potential interest repayments and debt. Weaker responses did not clearly understand what microfinance was and hence could not relate it to development.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			microfinance promotes economic development, considering both the positive and negative impacts it has had on the UK economy. <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 microfinance. Limited or no analysis of how microfinance may affect t 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 microfinance promotes 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 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</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		
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Question			Answer/Indicative content	Marks	Guidance
			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	
24			A	AO3	Rationale A Correct: This reduces the risks of banks failing, as if they run into problems they can be bailed out by the central bank. This increases confidence in the financial sector. B This is a function of a central bank but would not help overcome the problem explained in the question. C This is a function of a central bank but would not help overcome the problem explained in the question. D This is a function of a central bank but would not help overcome the problem explained in the question.
			Total	1	