



GuideMyGrades

— YOUR GOALS. OUR EXPERTISE. —

AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Economic Performance

AQA A-level Economics 7136 — Topic 4.2.3

56 questions · 533 marks · Mark schemes included

 guidemygrades.com

 [@Guidemygrades](https://www.instagram.com/Guidemygrades)

 [@Guidemygrades](https://twitter.com/Guidemygrades)

 [@Guidemygrades](https://www.youtube.com/Guidemygrades)

 info@guidemygrades.com

 Piccadilly Business Centre, Unit C, Aldow Enterprise Park
Blackett Street, Manchester, M12 6AE

HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest mark tariff to the highest within each one.

Click any row below to jump straight to that sub-topic or question.

On every question page, click ANSWER in the top-right corner to jump to its mark scheme.

Diagrams, graphs, tables and data are printed exactly as they appeared in the original papers.

QUESTION	SOURCE	MARKS	PAGE
4.2.3.1 ECONOMIC GROWTH AND THE ECONOMIC CYCLE		26 Qs · 242 marks	4
1. Q08	A-level Paper 3, Section A (MCQ) June 2018	1	5
2. Q21	A-level Paper 3, Section A (MCQ) June 2018	1	6
3. Q24	A-level Paper 3, Section A (MCQ) June 2018	1	7
4. Q29	A-level Paper 3, Section A (MCQ) June 2018	1	8
5. Q15	A-level Paper 3, Section A (MCQ) June 2019	1	9
6. Q09	A-level Paper 3, Section A (MCQ) June 2024	1	10
7. Q04	A-level Paper 3, Section A (MCQ) November 2021	1	11
8. Q05	A-level Paper 3, Section A (MCQ) November 2021	1	12
9. Q01	A-level Paper 2, Context 1 June 2023	2	13
10. Q02	A-level Paper 2, Context 1 June 2017	4	15
11. Q06	A-level Paper 2, Context 2 June 2017	4	17
12. Q02	A-level Paper 2, Context 1 June 2019	4	19
13. Q02	A-level Paper 2, Context 1 June 2024	4	21
14. Q06	A-level Paper 2, Context 2 June 2024	4	23
15. Q03	A-level Paper 2, Context 1 June 2017	9	25
16. Q07	A-level Paper 2, Context 2 June 2024	9	28
17. Q07	A-level Paper 2, Context 2 November 2021	9	31
18. Q09	A-level Paper 2, Essay 1 June 2018	15	34
19. Q11	A-level Paper 2, Essay 2 June 2022	15	37
20. Q09	A-level Paper 2, Essay 1 June 2024	15	40
21. Q13	A-level Paper 2, Essay 3 November 2020	15	43
22. Q04	A-level Paper 2, Context 1 June 2019	25	46
23. Q12	A-level Paper 2, Essay 2 June 2022	25	52
24. Q14	A-level Paper 2, Essay 3 June 2023	25	57
25. Q08	A-level Paper 2, Context 2 June 2025	25	63
26. Q04	A-level Paper 2, Context 1 November 2020	25	68
4.2.3.2 EMPLOYMENT AND UNEMPLOYMENT		24 Qs · 207 marks	74
27. Q17	A-level Paper 3, Section A (MCQ) June 2017	1	75
28. Q19	A-level Paper 3, Section A (MCQ) June 2017	1	76
29. Q09	A-level Paper 3, Section A (MCQ) June 2018	1	77
30. Q02	A-level Paper 3, Section A (MCQ) June 2019	1	78
31. Q27	A-level Paper 3, Section A (MCQ) June 2022	1	79



QUESTION	SOURCE	MARKS	PAGE
32. Q30	A-level Paper 3, Section A (MCQ) June 2022	1	80
33. Q16	A-level Paper 3, Section A (MCQ) June 2023	1	81
34. Q27	A-level Paper 3, Section A (MCQ) June 2024	1	82
35. Q11	A-level Paper 3, Section A (MCQ) June 2025	1	83
36. Q19	A-level Paper 3, Section A (MCQ) November 2020	1	84
37. Q25	A-level Paper 3, Section A (MCQ) November 2020	1	85
38. Q17	A-level Paper 3, Section A (MCQ) November 2021	1	86
39. Q01	A-level Paper 2, Context 1 November 2020	2	87
40. Q07	A-level Paper 2, Context 2 June 2018	9	89
41. Q07	A-level Paper 2, Context 2 June 2023	9	92
42. Q09	A-level Paper 2, Essay 1 June 2017	15	95
43. Q13	A-level Paper 2, Essay 3 June 2018	15	98
44. Q11	A-level Paper 2, Essay 2 June 2024	15	101
45. Q13	A-level Paper 2, Essay 3 June 2025	15	104
46. Q11	A-level Paper 2, Essay 2 November 2020	15	107
47. Q10	A-level Paper 2, Essay 1 June 2017	25	110
48. Q14	A-level Paper 2, Essay 3 June 2018	25	115
49. Q04	A-level Paper 2, Context 1 June 2024	25	121
50. Q12	A-level Paper 2, Essay 2 June 2024	25	127
4.2.3.3 INFLATION AND DEFLATION		5 Qs · 59 marks	133
51. Q22	A-level Paper 3, Section A (MCQ) June 2022	1	134
52. Q06	A-level Paper 2, Context 2 June 2022	4	135
53. Q02	A-level Paper 2, Context 1 November 2020	4	137
54. Q04	A-level Paper 2, Context 1 June 2023	25	139
55. Q14	A-level Paper 2, Essay 3 November 2020	25	145
4.2.3.4 CONFLICTS BETWEEN MACROECONOMIC OBJECTIVES		1 Qs · 25 marks	151
56. Q12	A-level Paper 2, Essay 2 June 2023	25	152



QUESTIONS

56 questions · 533 marks · 4 sub-topics



SUB-TOPIC 4.2.3.1

ECONOMIC GROWTH AND THE ECONOMIC CYCLE

Sub-topic 4.2.3.1 · 26 questions · 242 marks · lowest tariff first



5

0 7

In recent years, several central banks around the world have implemented a policy of quantitative easing (QE). All other things being equal, which one of the following combinations **A**, **B**, **C** or **D**, is most likely to be the result of this policy?

Do not write
outside the
box

	Bank liquidity	Bond prices	Long-term interest rates
A	Decrease	Fall	Rise
B	Increase	Fall	Rise
C	Decrease	Rise	Fall
D	Increase	Rise	Fall

☐☐☐☐

[1 mark]

0 8

The price of good Y, a substitute for good X, rises from 75p to £1. As a result, the quantity of demand for good X rises from 3 million units to 5 million units per month.

What is the value of the cross elasticity of demand for good X with respect to good Y?

A +0.5☐**B** -0.5☐**C** +2.0☐**D** -2.0☐

[1 mark]

Turn over for the next question



0 5

Turn over ►

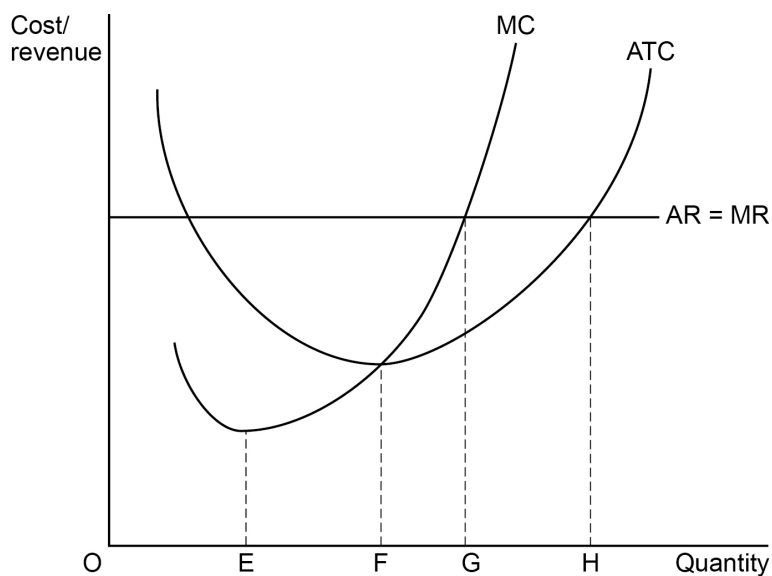
IB/G/Jun18/7136/3

14

2 | 1

The diagram below shows a firm operating in perfect competition in the short run.

Which quantity, **OE**, **OF**, **OG** or **OH**, indicates the output where profits are maximised?



A OE

☐

B OF

☐

C OG

☐

D OH

☐

[1 mark]

2 | 2

Which one of the following policies is most likely to have an immediate effect in helping to reduce the amount of poverty in the UK?

A An increase in government subsidies for buyers of electric cars

☐

B A shift in the burden of taxation from direct to indirect taxes

☐

C Setting a price floor for basic foods

☐

D The introduction of a price ceiling for household energy

☐

[1 mark]



1 4

IB/G/Jun18/7136/3

15

2 | 3

The table below shows selected components of the UK balance of payments on current account as a percentage of GDP between 2011 and 2014.

*Do not write
outside the
box*

Year	Balance of trade in goods and services	Primary income balance	Secondary income balance	Current account balance
2011	-1.6	1.3	-1.3	-1.6
2012	-2.0	0.1	-1.3	-3.2
2013	-2.0	-1.0	-1.5	-4.5
2014	-1.9	-1.8	-1.4	-5.1

It can be concluded from the data that between 2011 and 2014 the main reason for the rise in the current account deficit as a percentage of GDP was

- A** GDP growing faster than the deficit on the current account. ☐
- B** the deficit on trade in goods increasing by more than the surplus on trade in services. ☐
- C** the deterioration in the primary income balance. ☐
- D** the growth in the deficit on the secondary income balance. ☐

[1 mark]**2 | 4**

Globalisation can make some product markets more contestable.

Which one of the following characteristics of globalisation is the most likely explanation for such an increase in contestability?

- A** A reduction in protectionism ☐
- B** Greater synchronisation of economic cycles between countries ☐
- C** Higher levels of labour migration ☐
- D** The growth of employment in emerging market economies ☐

[1 mark]

Turn over for the next question



1 5

Turn over ►

IB/G/Jun18/7136/3

18

2 | 8

In a labour market dominated by a monopsonist, wages and employment are usually lower than in a competitive labour market. This is because a monopsonist

A employs workers up to the point where the marginal revenue product of labour is equal to the wage rate.

☐

B is a monopoly supplier of labour.

☐

C equates the marginal revenue product of labour with its marginal cost not the wage rate.

☐

D restricts output to raise the price of the product sold.

☐**[1 mark]****2 | 9**

Which one of the following is most likely to cause an increase in the structural budget deficit?

A A fall in income tax receipts in the downturn of the economic cycle

☐

B A rise in government spending on unemployment-related benefits during a recession

☐

C A rise in healthcare expenditure and state pension provision due to an ageing population

☐

D A rise in spending on imports during an economic recovery

☐**[1 mark]**

*Do not write
outside the
box*



1 8

IB/G/Jun18/7136/3

10

1 | 5

The table below shows different combinations of changes in the rate of interest and the government's budget position. The economy has a negative output gap. All other things being equal, which one of the combinations of policies, **A**, **B**, **C** or **D**, is most likely to reduce the economy's negative output gap?

	Rate of interest	Government's budget position
A	Increase	Decrease in surplus
B	Decrease	Increase in surplus
C	Increase	Decrease in deficit
D	Decrease	Increase in deficit

☐☐☐☐**[1 mark]****1 | 6**

The table below shows the value of the Gini coefficient for a country between 2012 and 2016. Over the five year period, the government has used progressive taxation to change the distribution of income.

Year	Gini coefficient
2012	0.60
2013	0.55
2014	0.50
2015	0.45
2016	0.40

Based on the above data, which one of the following is a positive statement?

A A progressive tax system is the fairest way of correcting income inequality.

☐

B Between 2012 and 2016 the distribution of income in the country became more equal.

☐

C The Gini coefficient is the best way of measuring changes in the distribution of income.

☐

D The government should continue to tax the rich to improve the distribution of income.

☐**[1 mark]**

Do not write
outside the
box



1 0

IB/M/Jun19/7136/3

7

09

A government introduces a number of supply-side policies that increase the size of the country's working population and labour productivity. All other things being equal, which one of the following statements identifies the most likely effects of the policies on the country's economy?

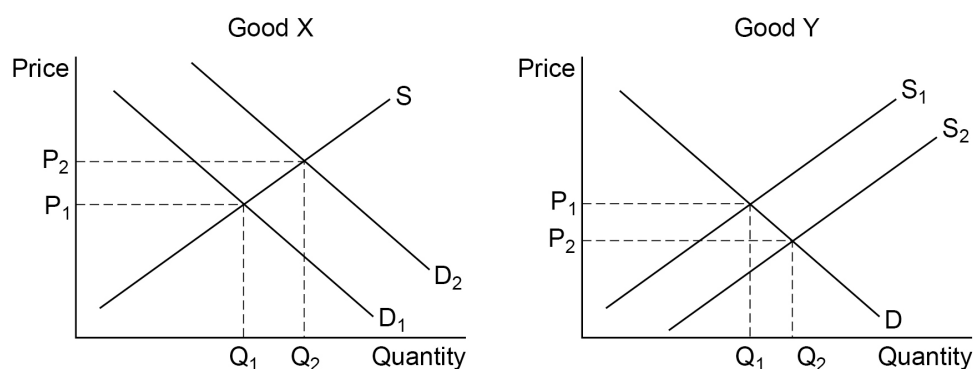
[1 mark]

- A An increase in real national income and a reduction in the balance of payments deficit ☐
- B An increase in short-run economic growth and inflation ☐
- C An increase in the trend rate of economic growth and a growing balance of payments deficit ☐
- D A reduction in unemployment and an increase in inflation ☐

10

Figure 3 shows how the markets for Good X and Good Y are affected by an increase in the demand for Good X.

Figure 3



It can be concluded that Good X and Good Y are in

[1 mark]

- A competitive demand. ☐
- B composite demand. ☐
- C derived demand. ☐
- D joint supply. ☐

Turn over ►



IB/G/Jun24/7136/3

4

0 4

Which one of the following changes in macroeconomic performance is most likely to involve a trade-off, at least in the short-run, between the objectives of government macroeconomic policy?

A Economic growth increases and the deficit on the balance of payments on current account is eliminated

☐

B Inflation declines to match its target rate and the government's budget position moves into balance

☐

C The distribution of income becomes more equal as economic growth increases

☐

D The government's budget deficit increases as the rate of unemployment is reduced

☐

[1 mark]

0 5

Table 1 contains data for GDP per capita and the Human Development Index (HDI) for four countries in a given year.

Table 1

	GDP per capita (\$)	HDI
Country 1	32 860	0.45
Country 2	29 440	0.77
Country 3	23 230	0.51
Country 4	22 650	0.92

Which one of the following statements is most consistent with the data?

A Country 1 has the highest living standards of the four countries

☐

B Country 2 has a higher rate of growth than countries 3 and 4

☐

C Country 3 is the least developed of the four countries

☐

D Country 4 has the highest life expectancy and literacy rates

☐

[1 mark]



0 4

IB/M/Jun21/7136/3

4

0 4

Which one of the following changes in macroeconomic performance is most likely to involve a trade-off, at least in the short-run, between the objectives of government macroeconomic policy?

A Economic growth increases and the deficit on the balance of payments on current account is eliminated

☐

B Inflation declines to match its target rate and the government's budget position moves into balance

☐

C The distribution of income becomes more equal as economic growth increases

☐

D The government's budget deficit increases as the rate of unemployment is reduced

☐

[1 mark]

0 5

Table 1 contains data for GDP per capita and the Human Development Index (HDI) for four countries in a given year.

Table 1

	GDP per capita (\$)	HDI
Country 1	32 860	0.45
Country 2	29 440	0.77
Country 3	23 230	0.51
Country 4	22 650	0.92

Which one of the following statements is most consistent with the data?

A Country 1 has the highest living standards of the four countries

☐

B Country 2 has a higher rate of growth than countries 3 and 4

☐

C Country 3 is the least developed of the four countries

☐

D Country 4 has the highest life expectancy and literacy rates

☐

[1 mark]

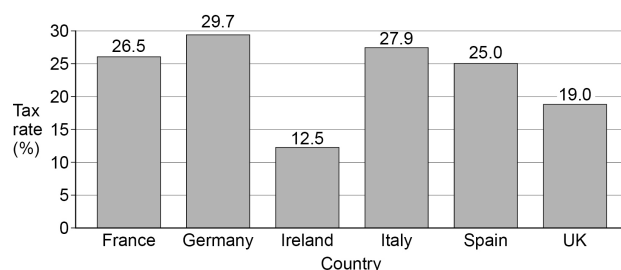


0 4

IB/M/Jun21/7136/3

2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Corporation tax in Ireland**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Corporation tax rates (%) in selected European nations, 2021**Note: Main tax rates only.
Some figures rounded.**Figure 2: Macroeconomic performance indicators for selected European nations, 2021**

	France	Ireland	Spain
GDP at current prices (\$bn)	2935	499	1202
Exports (\$bn)	775	641	462
Inflation (%)	1.6	2.4	3.1
Unemployment (thousands)	3074	127	3105
Labour force (millions)	31.0	2.5	23.3

Source: Official statistics, 2022

Extract B: Irish corporation tax

Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world's biggest companies, including Google and Facebook, to site their European headquarters in Ireland. Countries who are members of the Organisation for Economic Co-operation and Development (OECD), have agreed to a minimum corporation tax rate of 15%. Initially, Ireland was one of nine countries that refused to join the scheme but they have now all agreed to do so. 5

The deal brings an end to the country's 12.5% corporation tax rate that has applied since January 2003, which has been criticised in other EU countries and the UK, where higher corporation tax rates have applied. The new tax, which will be limited to firms with annual global revenues of over €750m, will come into force in 2023. According to some estimates, it will cost the Irish government between €800m and €2bn a year in lost tax revenue. Multinational corporations (MNCs) located in Ireland and elsewhere, employing up to 500 000 staff, could be affected. 10

Over the years, as a consequence of its low corporate tax policy, Ireland has attracted an estimated 1000 MNCs in the technology, finance and pharmaceutical sectors, including Pfizer, Intel, Yahoo, LinkedIn, TikTok, Apple, IBM and Twitter. Such is the importance of MNCs to the Irish economy, that figures released in May showed that just 100 companies accounted for almost 80% of government tax revenue. The figures exclude those sectors closed due to the lockdown, including hospitality and travel, but showed Ireland's reliance on MNCs for employment and tax revenue. In 2020, about 32% of all jobs in Ireland were in MNCs and those employees contributed 49% of all taxes on income. 15 20

Source: News reports, 2021

Extract C: Extra tax revenue?

According to figures published by the EU Tax Observatory, an independent research group, Ireland could collect an extra €12.4bn in corporation tax under the 15% global minimum corporation tax rate. The group stated that Ireland should not be that concerned about MNCs leaving the country. The biggest blow to Ireland's low-tax regime came in 2015 when, under pressure from the EU, tax avoidance schemes known as the "double Irish" were made illegal. Under this scheme multinationals paid as little as 1% tax on their profits, a fraction of the 12.5% headline corporation tax rate. 5

The argument that the Irish Government would raise more tax revenue is simple: if all OECD members have a common minimum corporation tax rate, then global MNCs would not move to where taxation is lowest, and would just pay more tax in the countries in which they are located. The report finds developing and low-income countries will benefit less than more-economically-developed countries as most MNCs operate in high-income countries. High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019. However, Ireland is now running a large budget deficit, made worse by the pandemic, and any additional government revenue would be welcomed. Ireland also has an ageing population and could use the money to pay for pensions, social care and improved welfare. 10 15

Source: News reports, 2021

0 1

Using the data in **Extract A (Figure 1)**, calculate the difference between Ireland's corporation tax rate and the mean corporation tax rate of the other five European nations.

Give your answer to **one** decimal place.

[2 marks]**0 2**

Explain how the data in **Extract A (Figure 2)**, show that Ireland's economy performed better than the economies of France and Spain in 2021.

[4 marks]**0 3**

Extract C (line 13) states: 'High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019.'

With the help of a diagram, explain how high economic growth could help to create a budget surplus.

[9 marks]**0 4**

Extract B (lines 1–3) states: 'Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world's biggest companies, including Google and Facebook, to site their European headquarters in Ireland.'

Using the data in the extracts and your knowledge of economics, assess the view that a rise in Ireland's corporation tax rate is likely to have a damaging effect on its macroeconomic performance.

[25 marks]

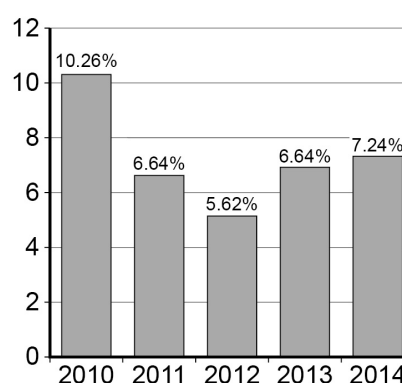
2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Economic development in India**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: India's Human Development Index (HDI) trends, 1980 to 2014**

Year	Life expectancy at birth	Expected years of schooling	GNI per capita (2011 PPP \$)	HDI value
1980	53.9	6.4	1 255	0.362
1990	57.9	7.7	1 754	0.428
2000	62.6	8.5	2 522	0.496
2010	66.5	11.1	4 499	0.586
2014	68.0	11.7	5 497	0.609

GNI = gross national income
 PPP = purchasing power parity

Figure 2: India's real GDP growth rate, 2010 to 2014

Source: Official statistics, 2015

Extract B: Is India still a developing country?

Every region of the world has seen improvements in its HDI and India, in particular, has seen major changes. Job creation is a key aspect of development. However, 95% of all workers in India are in informal employment where there is no monitoring or taxation. Nearly 120 million more workers will enter the Indian labour force over the next 10 years seeking manufacturing jobs but, so far, these jobs have not appeared. Manufacturing still counts for less than 20% of all jobs and more than half of all workers are in low productivity agriculture. The large amount of informal employment also reduces tax receipts, which limits the amount the Indian government can spend to improve the economy.

India is still a very poor country with low per capita income, widespread destitution, hunger and malnutrition. Moreover, it has poor health facilities, housing and infrastructure as well as slowly expanding education and a strong reliance on foreign aid. Despite the emergence of a rising middle class, inequality is growing and the majority of the population lack basic social and economic rights. The Indian government must find a way to do more to provide for its citizens. However, when the government has intervened in the economy, it has often resulted in failure. Some say the Indian government should adopt the Chinese model of export-led industrialisation.

3

Until the early 1990s, India was a closed economy: average tariffs exceeded 200%, quotas on imports were extensive and there were restrictions on foreign investment. India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth. In the past, nearly all advanced economies have benefited from protectionist policies, why should India be any different? 20

Source: News reports, 2016

Extract C: 'Make in India' – the road to development?

India has steadily opened up its economy and reduced regulations that have sometimes held it back. More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation. These may be risky strategies as India lacks the infrastructure that most of its global competitors have. 1

Trade reforms do appear to have produced remarkable results. India's trade, as a percentage of GDP, has increased from 15% to 40% between 1990 and 2014, and the economy is now among the fastest growing in the world. In more recent years, the Indian government's stand on trade and investment policy has displayed a shift from protecting producers to benefiting consumers. 'Make in India' is an initiative to encourage multinational companies to manufacture their products in India and shift Indian employment from the unstable primary sector to the secondary sector. 5 10

Recently, there has been a promise by foreign companies to invest \$222 billion in India. When foreign companies come to a 'Make in India' event, they see an economy that is growing at 7% annually with a large well-educated and skilled workforce. However, problems persist with regulation and tax. In the World Bank's Doing Business Index, which indicates how easy it is to set up and run a business, India is ranked 130th out of 189 countries. The question still remains, is the road to a more developed India one which involves the free market and liberalisation of trade, or one which involves government intervention and protectionism? 15

Source: News reports, 2016

0 1 Using the data in **Extract A (Figure 2)**, calculate, to **two** decimal places, the mean growth rate for India from 2010 to 2014. [2 marks]

0 2 Explain why the data in **Extract A (Figure 1)** show that living standards in India have improved. [4 marks]

0 3 **Extract B** (lines 17–19) states 'India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.'
With the help of a diagram, explain how export subsidies may help promote economic growth in India. [9 marks]

0 4 **Extract C** (lines 2–3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'
Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India. [25 marks]

Turn over ►

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Inflation, deflation and economic policy

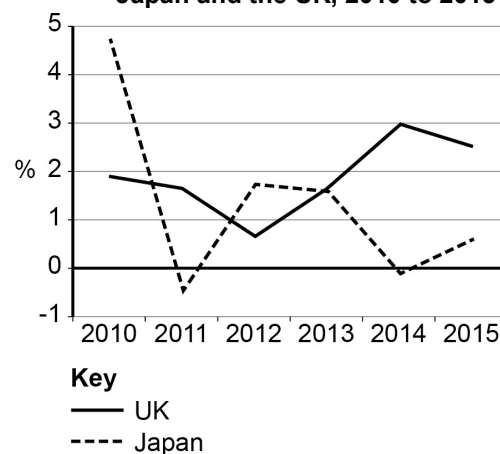
Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: CPI inflation rates (%) for Japan and the UK, 2010 to 2015

Year	Japan	UK
2010	-0.72	3.29
2011	-0.28	4.48
2012	-0.03	2.83
2013	0.36	2.56
2014	2.75	1.46
2015	0.80	0.05

Figure 4: Real GDP growth rates (%) for Japan and the UK, 2010 to 2015



Source: Official Statistics

Extract E: Good and bad deflation

Deflation is bad when it is the result of falling aggregate demand. Consumers buy fewer goods and services and firms cut prices whilst consumption and investment decisions are delayed. This can lead to worsening company profits, cost cutting and job losses. Less spending damages economic growth and could lead to a deflationary spiral. However, this has not been the UK's recent experience. A glut in the supply of oil has driven down its price. This has had a positive effect on most businesses who face lower costs. In the retail sector, in particular, prices are lower because goods are cheaper to manufacture and transport. Businesses can also spend more on investment, hiring staff or offering pay rises. This has led to pay growth and productivity gains in the private sector after years of stagnation. Improvements in productivity on the supply side of the economy could actually lead to more deflation but this could be viewed as good deflation.

Professor Steve Keen believes even mild deflation is bad news. If the government continues with its programme of austerity, he is convinced the UK is heading for bad deflation. "Deflation is only benign, or even beneficial, in a world in which no one has any debt. Bizarrely, this is the world that conventional economists actually imagine we live in, since their models have ignored debt. Deflation increases the burden of people's debt, which is what happened in the 1930s, during the Great Depression."

The most immediate implication of continued deflation is that it makes a rise in interest rates less likely and, in the short term, this is good news for borrowers, but not for savers. This should also allow more time for the economy to recover, with low interest rates helping consumers and firms to access cheaper credit.

Source: News reports, 2016

Extract F: The Japanese problem

If the UK wishes to see another economy's experience of when deflation turns bad, then it only needs to look at Japan. Over the last two decades, Japan has used a variety of policies in an attempt to overcome deflation. For almost 20 years, the Bank of Japan's main interest rate has hovered around 0% and at times been negative. Japan has embarked on several fiscal stimulus programmes, although with a debt to GDP ratio of 245% in 2015, some see this as a worry. Furthermore, the Bank of Japan is currently carrying out quantitative easing equivalent to approximately £500bn per year. So far, the Japanese economy has not escaped from the risk of deflation.

So what can the UK learn from Japan? For much of 2015, CPI inflation in the UK was at, or very close to, 0%. Consumer spending is fairly robust at the moment but if economic agents anticipate falling prices, they may begin to factor this into their expectations. This could lead to bad deflation which can be very difficult to tackle effectively.

In recent times, the UK has arguably seen a stronger recovery than many other developed economies, although there is uncertainty over what should be done to maintain this in the future. After the financial crisis of 2007/08, UK Bank Rate was reduced to an historic low of 0.5%, and although it has since been cut to 0.25%, there is little scope to reduce it much further. The Bank of England has also used quantitative easing to try to stimulate the economy. However, the results of this are debatable. In terms of fiscal policy, the current government appears to be determined to continue with its austerity programme. What is not clear is what should be done if low inflation turns to bad deflation.

Source: News reports, 2016

0 5 Using the data in **Extract D (Figure 3)**, calculate, to **two** decimal places, the mean inflation rate for Japan from 2010 to 2015. **[2 marks]**

0 6 Explain how the data in **Extract D (Figure 4)** show that Japan has been less successful than the UK in achieving a stable rate of economic growth. **[4 marks]**

0 7 **Extract E** (lines 9–10) states 'Improvements in productivity on the supply side of the economy could actually lead to more deflation.'

With the help of a diagram, explain how improvements in productivity could cause deflation. **[9 marks]**

0 8 **Extract F** (lines 19–20) states 'What is not clear is what should be done if low inflation turns to bad deflation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that monetary policy is the most effective way of tackling deflation in developed economies such as the UK and Japan. **[25 marks]**

Turn over ►

2

Section AAnswer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****GDP and living standards**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Selected data for Costa Rica, UK and USA, 2015/2016 unless stated**

	Costa Rica	UK	USA
GDP (PPP \$bn)	69.6	2 518.1	16 890.2
Population (millions)	4.9	64.7	321.8
Mean years of schooling	8.7	13.3	13.2
Infant mortality rate (under 5s per 1000 births)	9.7	4.2	6.5
Average annual increase (%) of the HDI (1990–2015)	0.7	0.6	0.3
Gini coefficient (average 2010–2015)	0.49	0.33	0.41
CO ₂ emissions (tonnes per capita)	1.6	6.2	16.1

Footnote: PPP = Purchasing Power Parity
HDI = Human Development Index

Source: United Nations and World Bank

Extract B: What is GDP?

Imagine £50 notes stacked on top of each other, stretching almost 4500 kilometres into the sky. This fantastically large amount of money (more than £2 trillion) is the current estimated value of the UK's Gross Domestic Product (GDP). 1

GDP is the standard measure of the size and health of a country's economy but it is important to distinguish between nominal and real GDP. It's the way we measure and compare how well or badly countries are doing. In other words, it is the total value of the output of goods and services produced in an economy over a period of time. The higher the value of GDP, the bigger the economy. If injections into an economy's circular flow of income increase, then this may generate multiple increases in GDP, depending upon the size of the marginal propensity to consume. 5 10

Why is the measurement of GDP important? Well, it's a way of keeping track of how the economy is doing, and whether it is growing. We can also use it to measure one economy against other economies using purchasing power parity exchange rates. If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending. If real GDP goes down, the economy is not doing so well; this is associated with falling incomes, lower consumption and a lower standard of living. 15

Source: News reports, 2017

Extract C: A happy planet?

We are facing tough times. The crises that dominate the media today are set against a background of an increasingly unstable global economy, rising inequalities and the ever-present challenges of climate change. GDP growth on its own does not mean a better life for everyone, particularly in countries that are already wealthy. This growth of GDP may not reflect inequalities in material conditions between people in a country and does not value the things that really matter to people, such as social relations, health, or how they spend their free time.

The Happy Planet Index is one of the alternative ways of measuring what really matters: sustainable wellbeing for all. This year, Costa Rica has topped the Happy Planet Index for the third time, achieving relatively high life expectancy and wellbeing with a small ecological footprint. Costa Ricans generally have higher wellbeing than the residents of many rich nations and live longer than people in the USA (who are ranked 108th in the index). This is achieved with an impact on the environment which is much smaller than that of the USA or UK (ranked 34th).

Costa Rica is a world leader when it comes to environmental protection, with 99% of its electricity coming from renewable sources, and a commitment to becoming carbon neutral by 2021. They also abolished the army in 1949 and reallocated the defence budget to funding education, health and pensions, further enriching the lives of its citizens. Other measures of living standards, such as the HDI, do not rank Costa Rica quite so highly (66th compared to the USA in 10th position). This is because the HDI does not place as much emphasis on the environment compared to the Happy Planet Index.

Increasingly economic growth is incompatible with the planetary limits we are up against. Rising GDP may be a sign that we are using more of the earth's scarce resources. Some believe the Happy Planet Index gives a clearer picture of broader living standards and their sustainability.

Source: News reports, 2017

0 1

Using the data in **Extract A**, calculate the GDP per capita for Costa Rica in 2015/2016 to the **nearest dollar**.

[2 marks]

0 2

Explain how the data in **Extract A** indicate living standards may be higher in the UK than in the USA.

[4 marks]

0 3

Extract B (lines 8–9) states 'If injections into an economy's circular flow of income increase, then this may generate multiple increases in GDP.'

With the help of a diagram, explain how an increase in injections may generate multiple increases in an economy's GDP.

[9 marks]

0 4

Extract B (lines 13–15) states 'If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending.'

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, governments across the world should prioritise achieving economic growth.

[25 marks]

Turn over ►

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Productivity and living standards**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A: Indicators of economic performance and living standards, selected nations, 2021**

	Productivity (GDP per hour worked, US \$)	Productivity change 2010–2021 (%)	Life expectancy at birth (years)	Gini coefficient	Expected years of schooling (years)	CO ₂ emissions per capita (tonnes)
Estonia	42.9	+28.8	77.1	0.308	15.9	7.9
Hungary	39.9	+16.7	74.5	0.300	15.0	5.0
UK	59.1	+3.5	80.7	0.351	17.3	4.9

Source: OECD & WHO, 2022

Extract B: The UK's productivity puzzle

The economist Paul Krugman once wrote that “Productivity isn’t everything, but, in the long-run, it is almost everything”. Productivity is a key determinant of living standards because it affects the amount of goods and services that can be produced, and therefore consumed, from the resources that are available. Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards. Although productivity can be measured in several different ways, one common way is GDP per hour worked. 5

When economies move through their economic cycles, it is not unusual for productivity to fall during downturns, as happened in 2008–2009. However, the persistently low rate of growth of productivity that the UK has experienced since 2010 is unusual. Productivity growth in other nations, including Estonia and Hungary, has been much higher. The UK’s low rate of productivity growth is often referred to as ‘The UK’s productivity puzzle’. If the pre-2007 trend in productivity growth had continued, UK productivity would now be over 30% higher than it is today. 10

Many economists have tried to provide reasons for the productivity puzzle. Among the suggestions are low levels of investment and the impact of the financial crisis on banks’ willingness to lend to new businesses. More people working beyond normal retirement age has led to an older workforce and may have affected productivity. These factors may be relevant but they do not provide a complete explanation for the weakness in UK productivity growth. 15

So, what can be done to raise productivity? Investing in human capital to improve people’s skills and supporting improvements in technology should help. Creating a stable economy and effective use of the tax and benefits system are also key factors in driving productivity growth. 20

Source: News reports, 2022

Extract C: Falling living standards in the UK?

According to the Office for Budget Responsibility (OBR), in 2022, the UK faced its biggest fall in living standards on record as the surging cost of living reduced real wages. The OBR also forecast a significant increase in unemployment.

Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound and the war in Ukraine. Inflation was at a 41-year high and average real household income was expected to fall by 7%, back to the level it was in 2013. The rising cost of living led to industrial action by workers trying to achieve pay increases that compensated for the rise in prices. 5

In response to the rise in inflation, the Bank of England increased Bank Rate. The rise in Bank Rate meant that financial institutions raised the rate of interest on mortgages. As a result, it has been forecast that house prices are likely to fall by around 9% over the next two years. 10

In his Autumn Statement of 2022, the UK Chancellor of the Exchequer, Jeremy Hunt, announced tax rises and cuts in public spending even though the UK economy was expected to contract in 2023. The cuts in public spending are likely to damage public services and came at a time when poverty and inequality appeared to be rising with life expectancy falling. Some have argued that tackling these issues, to prevent a further fall in living standards, is more important than introducing measures to increase productivity. 15

Source: News reports, 2022

0 1

Using the data in **Extract A**, calculate the ratio of the UK's GDP per hour worked to \$1 of GDP per hour worked in Hungary.

Give your answer to **two** decimal places.

[2 marks]

0 2

Explain how the data in **Extract A** show that higher productivity may result in higher living standards.

[4 marks]

0 3

Extract C (lines 4–5) states 'Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound...'

With the help of a diagram, explain how a depreciation of the pound may cause inflation.

[9 marks]

0 4

Extract B (lines 4–5) states: 'Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards.'

Using the data in the extracts and your knowledge of economics, assess the view that the government should make raising productivity a priority in order to improve living standards in the UK.

[25 marks]

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Globalisation and deglobalisation

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D: Macroeconomic performance indicators, selected Southeast Asian economies, 2010 to 2021**

	GDP per capita (constant prices, PPP)		Average annual growth rate 2010–2021 (%)	Average unemployment rate 2010–2021 (%)	Exports (% of GDP)	
	2010	2021			2010	2021
Malaysia	9 041	11 371	4.3	3.4	86.9	68.8
Thailand	5 076	7 233	2.6	0.7	66.5	58.2
Vietnam	1 673	3 694	5.9	1.6	54.2	93.3

Note: PPP = Purchasing power parity

Source: World Bank, 2022

Extract E: Made in Vietnam

Trade and foreign investment have helped Vietnam emerge from extreme poverty. Integration with global manufacturing has kept Vietnam's economy growing even during the pandemic. In 2020, GDP rose by 2.9%, while many other countries experienced recession. The latest forecasts indicate an economic growth rate of over 8% in 2022.

Vietnam's openness to trade and investment has made the country an important link in the global economy and it has been one of the five fastest growing countries in the world over the past 30 years. Its record has been characterised by steady growth compared to boom-busts in similar nations. According to the World Bank, Vietnam is a lower-middle income economy but the government wants it to become a high-income economy by 2045. 5

Vietnam's development is often compared to that of China in the 1990s or early 2000s. Both are former command economies that now focus on export-led growth. However, Vietnam is very different in terms of the amount of foreign investment and its connection to global supply chains. Since 1990, Vietnam's inflows of foreign direct investment have averaged 6% of GDP each year, more than twice the global average and a much higher percentage of GDP than China has ever recorded over a sustained period. 10

As many countries in Southeast Asia developed and wages rose, multinational corporations (MNCs) were attracted by Vietnam's low labour costs and stable exchange rate. A low rate of corporation tax has also contributed to both short-run and long-run economic growth. Vietnam is also a member of the ASEAN free trade area and has bilateral trade deals with the European Union and the USA. In the past decade, exports have risen by over 140%. However, Vietnam has become increasingly dependent on foreign companies for growth and employment, while foreign competition has meant that many domestic firms have struggled. 15

Source: News reports, 2022

5

Extract F: A period of deglobalisation?

After decades of growing integration and interdependence between nations, trade and investment flows between countries have been growing more slowly and, in some cases, falling. This process has been labelled 'deglobalisation' and is characterised by rising protectionism, reduced dependence on foreign imports and increased self-reliance by nations. However, could the rise in protectionism have boosted the Vietnamese economy in the short term?

5

The trade war between the USA and China, which started in 2018, has probably helped Vietnam. It is estimated that, in 2019, US tariffs on imports from China resulted in the US buying \$31bn more imports from other low-cost Asian countries rather than China. Vietnam supplied almost half of these imports.

10

China's rising labour costs, and the growing tensions between the world's superpowers, make it easy to see why many big firms are relocating to Vietnam. Apple's biggest suppliers, Foxconn and Pegatron, are building big factories in Vietnam, creating many jobs. Other big firms moving production from China to Vietnam include Dell, Hewlett Packard, Google and Microsoft.

15

Some see deglobalisation as a threat. Many nations such as Vietnam rely on international trade and investment for employment and economic growth. If other countries start to protect their economies from Vietnamese imports, this could damage the economic development of Vietnam. The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost.

20

Source: News reports, 2022

0 5

Using the data in **Extract D**, calculate the percentage change in Vietnam's GDP per capita between the years 2010 and 2021.

Give your answer to **one** decimal place.

[2 marks]**0 6**

Explain how the data in **Extract D** show that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.

[4 marks]**0 7**

Extract E (lines 17–18) states: 'A low rate of corporation tax has also contributed to both short-run and long-run economic growth.'

With the help of a diagram, explain how a low rate of corporation tax may cause short-run **and** long-run economic growth.

[9 marks]**0 8**

Extract F (lines 19–20) states: 'The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost.'

Using the data in the extracts and your knowledge of economics, discuss the view that a slowing, or reversal, of globalisation would be harmful to developing economies such as Vietnam.

[25 marks]

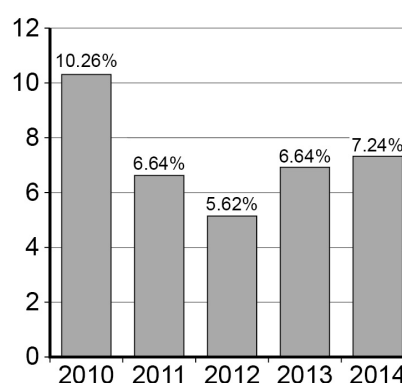
2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Economic development in India**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: India's Human Development Index (HDI) trends, 1980 to 2014**

Year	Life expectancy at birth	Expected years of schooling	GNI per capita (2011 PPP \$)	HDI value
1980	53.9	6.4	1 255	0.362
1990	57.9	7.7	1 754	0.428
2000	62.6	8.5	2 522	0.496
2010	66.5	11.1	4 499	0.586
2014	68.0	11.7	5 497	0.609

GNI = gross national income
 PPP = purchasing power parity

Figure 2: India's real GDP growth rate, 2010 to 2014

Source: Official statistics, 2015

Extract B: Is India still a developing country?

Every region of the world has seen improvements in its HDI and India, in particular, has seen major changes. Job creation is a key aspect of development. However, 95% of all workers in India are in informal employment where there is no monitoring or taxation. Nearly 120 million more workers will enter the Indian labour force over the next 10 years seeking manufacturing jobs but, so far, these jobs have not appeared. Manufacturing still counts for less than 20% of all jobs and more than half of all workers are in low productivity agriculture. The large amount of informal employment also reduces tax receipts, which limits the amount the Indian government can spend to improve the economy.

India is still a very poor country with low per capita income, widespread destitution, hunger and malnutrition. Moreover, it has poor health facilities, housing and infrastructure as well as slowly expanding education and a strong reliance on foreign aid. Despite the emergence of a rising middle class, inequality is growing and the majority of the population lack basic social and economic rights. The Indian government must find a way to do more to provide for its citizens. However, when the government has intervened in the economy, it has often resulted in failure. Some say the Indian government should adopt the Chinese model of export-led industrialisation.

3

Until the early 1990s, India was a closed economy: average tariffs exceeded 200%, quotas on imports were extensive and there were restrictions on foreign investment. India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth. In the past, nearly all advanced economies have benefited from protectionist policies, why should India be any different? 20

Source: News reports, 2016

Extract C: 'Make in India' – the road to development?

India has steadily opened up its economy and reduced regulations that have sometimes held it back. More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation. These may be risky strategies as India lacks the infrastructure that most of its global competitors have. 1

Trade reforms do appear to have produced remarkable results. India's trade, as a percentage of GDP, has increased from 15% to 40% between 1990 and 2014, and the economy is now among the fastest growing in the world. In more recent years, the Indian government's stand on trade and investment policy has displayed a shift from protecting producers to benefiting consumers. 'Make in India' is an initiative to encourage multinational companies to manufacture their products in India and shift Indian employment from the unstable primary sector to the secondary sector. 5 10

Recently, there has been a promise by foreign companies to invest \$222 billion in India. When foreign companies come to a 'Make in India' event, they see an economy that is growing at 7% annually with a large well-educated and skilled workforce. However, problems persist with regulation and tax. In the World Bank's Doing Business Index, which indicates how easy it is to set up and run a business, India is ranked 130th out of 189 countries. The question still remains, is the road to a more developed India one which involves the free market and liberalisation of trade, or one which involves government intervention and protectionism? 15

Source: News reports, 2016

0 1 Using the data in **Extract A (Figure 2)**, calculate, to **two** decimal places, the mean growth rate for India from 2010 to 2014. [2 marks]

0 2 Explain why the data in **Extract A (Figure 1)** show that living standards in India have improved. [4 marks]

0 3 **Extract B** (lines 17–19) states 'India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.'
With the help of a diagram, explain how export subsidies may help promote economic growth in India. [9 marks]

0 4 **Extract C** (lines 2–3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'
Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India. [25 marks]

Turn over ►

Handwriting practice area with 30 horizontal dotted lines.

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Globalisation and deglobalisation

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D: Macroeconomic performance indicators, selected Southeast Asian economies, 2010 to 2021

	GDP per capita (constant prices, PPP)		Average annual growth rate 2010–2021 (%)	Average unemployment rate 2010–2021 (%)	Exports (% of GDP)	
	2010	2021			2010	2021
Malaysia	9 041	11 371	4.3	3.4	86.9	68.8
Thailand	5 076	7 233	2.6	0.7	66.5	58.2
Vietnam	1 673	3 694	5.9	1.6	54.2	93.3

Note: PPP = Purchasing power parity

Source: World Bank, 2022

Extract E: Made in Vietnam

Trade and foreign investment have helped Vietnam emerge from extreme poverty. Integration with global manufacturing has kept Vietnam's economy growing even during the pandemic. In 2020, GDP rose by 2.9%, while many other countries experienced recession. The latest forecasts indicate an economic growth rate of over 8% in 2022.

Vietnam's openness to trade and investment has made the country an important link in the global economy and it has been one of the five fastest growing countries in the world over the past 30 years. Its record has been characterised by steady growth compared to boom-busts in similar nations. According to the World Bank, Vietnam is a lower-middle income economy but the government wants it to become a high-income economy by 2045. 5

Vietnam's development is often compared to that of China in the 1990s or early 2000s. Both are former command economies that now focus on export-led growth. However, Vietnam is very different in terms of the amount of foreign investment and its connection to global supply chains. Since 1990, Vietnam's inflows of foreign direct investment have averaged 6% of GDP each year, more than twice the global average and a much higher percentage of GDP than China has ever recorded over a sustained period. 10

As many countries in Southeast Asia developed and wages rose, multinational corporations (MNCs) were attracted by Vietnam's low labour costs and stable exchange rate. A low rate of corporation tax has also contributed to both short-run and long-run economic growth. Vietnam is also a member of the ASEAN free trade area and has bilateral trade deals with the European Union and the USA. In the past decade, exports have risen by over 140%. However, Vietnam has become increasingly dependent on foreign companies for growth and employment, while foreign competition has meant that many domestic firms have struggled. 15

Source: News reports, 2022

5

Extract F: A period of deglobalisation?

After decades of growing integration and interdependence between nations, trade and investment flows between countries have been growing more slowly and, in some cases, falling. This process has been labelled 'deglobalisation' and is characterised by rising protectionism, reduced dependence on foreign imports and increased self-reliance by nations. However, could the rise in protectionism have boosted the Vietnamese economy in the short term?

5

The trade war between the USA and China, which started in 2018, has probably helped Vietnam. It is estimated that, in 2019, US tariffs on imports from China resulted in the US buying \$31bn more imports from other low-cost Asian countries rather than China. Vietnam supplied almost half of these imports.

10

China's rising labour costs, and the growing tensions between the world's superpowers, make it easy to see why many big firms are relocating to Vietnam. Apple's biggest suppliers, Foxconn and Pegatron, are building big factories in Vietnam, creating many jobs. Other big firms moving production from China to Vietnam include Dell, Hewlett Packard, Google and Microsoft.

15

Some see deglobalisation as a threat. Many nations such as Vietnam rely on international trade and investment for employment and economic growth. If other countries start to protect their economies from Vietnamese imports, this could damage the economic development of Vietnam. The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost.

20

Source: News reports, 2022

0 5

Using the data in **Extract D**, calculate the percentage change in Vietnam's GDP per capita between the years 2010 and 2021.

Give your answer to **one** decimal place.

[2 marks]**0 6**

Explain how the data in **Extract D** show that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.

[4 marks]**0 7**

Extract E (lines 17–18) states: 'A low rate of corporation tax has also contributed to both short-run and long-run economic growth.'

With the help of a diagram, explain how a low rate of corporation tax may cause short-run **and** long-run economic growth.

[9 marks]**0 8**

Extract F (lines 19–20) states: 'The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost.'

Using the data in the extracts and your knowledge of economics, discuss the view that a slowing, or reversal, of globalisation would be harmful to developing economies such as Vietnam.

[25 marks]

Handwriting practice area with 20 sets of horizontal dotted lines.

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

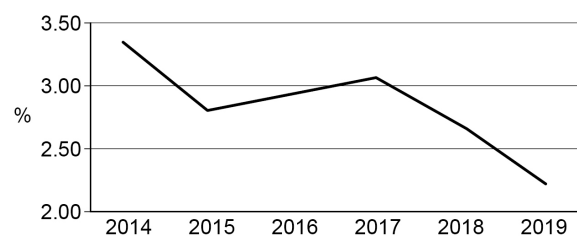
Total for this context: 40 marks

South Korea's economy

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: Annual real GDP growth rates (%) for South Korea, 2014–2019



Source: Worldbank, 2020

Figure 4: Consumer price index (CPI) for South Korea, 2014–2019 (June 2015 = 100)

Date	CPI index
31 Dec 2014	99.10
31 Dec 2015	100.22
31 Dec 2016	101.56
31 Dec 2017	102.99
31 Dec 2018	104.35
31 Dec 2019	105.12

Source: Official statistics, 2020

Extract E: South Korea: a model for development?

The Republic of Korea (South Korea) holds the number one spot in the recently released 2019 Bloomberg Innovation Index. This index scores economies using factors such as research and development (R&D) spending and the number of large high-tech companies. South Korea gained top scores worldwide for manufacturing value-added, as well as a measure that includes enrolment in higher education and the proportion of science and engineering graduates. 1

South Korea's transformation from one of the poorest countries in the world in the 1950s to a major industrial power and member of the Organisation for Economic Co-operation and Development (OECD) was exceptionally rapid, reflecting effective economic policies. South Korea's sound fiscal and monetary policy decisions, as well as high levels of investment in human and physical capital and a commitment to free trade, led to rapid growth. Per capita income increased from 6% of the OECD average in 1970 to 89% in 2017. Rapid development has been export-led, with large business groups, known as 'chaebols', making South Korea the world's sixth-largest exporter. 5

Investment in R&D has been an important driver of economic growth and industrial progress. It is a key factor that has contributed to the technological competitiveness and productivity of many developing countries. Some economists also point to the vital role the government played in helping to create the conditions needed for sustained economic growth. However, it is the private sector, working in conjunction with the government, which is key to South Korea's success. Samsung, Hyundai, Kia and LG are just some of the successful companies which sell to a worldwide market and drive innovation. 15

Source: News reports, 2019

Extract F: Is South Korea's miracle economic performance over?

Although growth in South Korea is forecast to be around 3% in 2019, this is far below its average rate of 7.3%, and the country finds itself with a negative output gap. Recently, exports declined for a tenth consecutive month and in September the consumer price index fell 0.4% from a year earlier. Some are wondering if South Korea's miracle economic performance is over.

Trade ministry data showed exports in September plunged 11.7% from a year earlier. Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year, requiring the Bank of Korea to cut interest rates further. The central bank cut its base rate of interest from 1.75% to 1.50% in July 2019, the first cut in three years, as falling global demand and increasing trade tensions damaged macroeconomic performance. However, the South Korean government and central bank issued statements, saying that Asia's fourth-largest economy would not fall into a long period of deflation.

South Korea is one of the world's top ten exporters and its trade problems have been made worse by a number of recent events. Overseas shipments by South Korea are heavily dependent on sales of computer chips and electronic goods, which have been suffering from a fall in chip prices. South Korea also became involved in a trade war with Japan which was referred to the World Trade Organisation (WTO). Slowing growth in China, the world's second-largest economy and South Korea's top market for exports, also damaged trade.

Source: News reports, 2019

0 5 Using the data in **Extract D** (Figure 4), calculate South Korea's rate of inflation for the year ended 31 December 2019. Give your answer to **two** decimal places. **[2 marks]**

0 6 Explain how the data in **Extract D** (Figures 3 and 4) show why the South Korean central bank may have been considering a further cut in its base rate of interest. **[4 marks]**

0 7 **Extract E** (line 14) states: 'Investment in R&D has been an important driver of economic growth and industrial progress.'

With the help of a diagram, explain how investment in research and development (R&D) can help to increase the long-run growth rate of an economy. **[9 marks]**

0 8 **Extract F** (lines 7–8) states: 'Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year'.

Using the data in the extracts and your knowledge of economics, evaluate policies which could be used to boost South Korea's exports and increase its trade surplus. **[25 marks]**

Turn over ►

Handwriting practice area with horizontal dotted lines.

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

An African Development Bank report showed that Angola received more direct foreign investment than any other African country in 2015. Angola is a less economically developed country (LEDC) that has had fluctuating economic growth in the past. Despite having suffered from a long civil war which ended in 2002, many multinational corporations (MNCs) are now investing heavily in Angola's growing economy.

0	9
---	---

Explain the main barriers that LEDCs face when attempting to achieve stable, long-term economic growth.

[15 marks]

1	0
---	---

Evaluate the view that MNCs play a positive role in the development of LEDCs.

[25 marks]

OR**Essay 2**

In the 2016 Autumn statement, the UK Chancellor of the Exchequer, Philip Hammond, officially abandoned the government's policy of trying to achieve a budget surplus by 2020. While some criticise the government for failing to achieve its fiscal target, others argue that the government should be doing more to help the supply side of the economy.

1	1
---	---

Explain how fiscal policy can be used to try to improve the supply side of an economy.

[15 marks]

1	2
---	---

Evaluate whether achieving a budget surplus is a desirable objective of economic policy.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

The UK has been running a deficit on its balance of trade in goods and services since 1998. Expenditure-reducing and expenditure-switching policies can both be used to correct a trade deficit. However, the UK government has focused on other objectives rather than achieving a trade balance.

0	9
---	---

Explain how expenditure-switching policies can be used to reduce a deficit on a country's balance of trade in goods and services.

[15 marks]

1	0
---	---

Assess the view that floating exchange rates are always better than fixed exchange rates.

[25 marks]**OR****Essay 2**

In 2018, the European Commission estimated that Bulgaria and Romania were both experiencing positive output gaps whilst the UK was experiencing a negative output gap. Persistent output gaps can cause problems for economies which may be addressed by supply-side improvements.

1	1
---	---

Explain the main problems for an economy of having a large positive output gap.

[15 marks]

1	2
---	---

Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

In November 2022, the Bank of England warned there was a risk that the UK was heading for a recession. This announcement came shortly after the money supply fell, following its rapid growth in 2020 and 2021.

0 9

Explain possible reasons why a country may enter a recession.

[15 marks]**1 0**

Assess whether an increase in the money supply is always damaging for an economy.

[25 marks]**OR****Essay 2**

In August 2022, the Office for National Statistics (ONS) announced that the unemployment rate had reached 3.5%, the lowest rate in almost 50 years. Some argue this is below the natural rate of unemployment (NRU) and that very high levels of employment may cause problems for the economy.

1 1

Explain the factors which determine the natural rate of unemployment.

[15 marks]**1 2**

Discuss the view that high levels of employment are always beneficial for an economy.

[25 marks]

Handwriting practice area with 30 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

7

OR**Essay 3**

In 2015, Lithuania joined the eurozone, adopting the euro as its currency. Since then, the euro has appreciated by more than 15% against the pound sterling. Some have argued that this will reduce economic growth in Lithuania and other countries within the eurozone.

1	3
---	---

 Explain how an appreciation of its currency is likely to affect a country's rate of economic growth.

[15 marks]

1	4
---	---

 Evaluate the costs and benefits for a country of joining a currency union, such as the eurozone.

[25 marks]**END OF QUESTIONS**

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

2

Section AAnswer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****GDP and living standards**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Selected data for Costa Rica, UK and USA, 2015/2016 unless stated**

	Costa Rica	UK	USA
GDP (PPP \$bn)	69.6	2 518.1	16 890.2
Population (millions)	4.9	64.7	321.8
Mean years of schooling	8.7	13.3	13.2
Infant mortality rate (under 5s per 1000 births)	9.7	4.2	6.5
Average annual increase (%) of the HDI (1990–2015)	0.7	0.6	0.3
Gini coefficient (average 2010–2015)	0.49	0.33	0.41
CO ₂ emissions (tonnes per capita)	1.6	6.2	16.1

Footnote: PPP = Purchasing Power Parity
HDI = Human Development Index

Source: United Nations and World Bank

Extract B: What is GDP?

Imagine £50 notes stacked on top of each other, stretching almost 4500 kilometres into the sky. This fantastically large amount of money (more than £2 trillion) is the current estimated value of the UK's Gross Domestic Product (GDP). 1

GDP is the standard measure of the size and health of a country's economy but it is important to distinguish between nominal and real GDP. It's the way we measure and compare how well or badly countries are doing. In other words, it is the total value of the output of goods and services produced in an economy over a period of time. The higher the value of GDP, the bigger the economy. If injections into an economy's circular flow of income increase, then this may generate multiple increases in GDP, depending upon the size of the marginal propensity to consume. 5 10

Why is the measurement of GDP important? Well, it's a way of keeping track of how the economy is doing, and whether it is growing. We can also use it to measure one economy against other economies using purchasing power parity exchange rates. If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending. If real GDP goes down, the economy is not doing so well; this is associated with falling incomes, lower consumption and a lower standard of living. 15

Source: News reports, 2017

Extract C: A happy planet?

We are facing tough times. The crises that dominate the media today are set against a background of an increasingly unstable global economy, rising inequalities and the ever-present challenges of climate change. GDP growth on its own does not mean a better life for everyone, particularly in countries that are already wealthy. This growth of GDP may not reflect inequalities in material conditions between people in a country and does not value the things that really matter to people, such as social relations, health, or how they spend their free time.

The Happy Planet Index is one of the alternative ways of measuring what really matters: sustainable wellbeing for all. This year, Costa Rica has topped the Happy Planet Index for the third time, achieving relatively high life expectancy and wellbeing with a small ecological footprint. Costa Ricans generally have higher wellbeing than the residents of many rich nations and live longer than people in the USA (who are ranked 108th in the index). This is achieved with an impact on the environment which is much smaller than that of the USA or UK (ranked 34th).

Costa Rica is a world leader when it comes to environmental protection, with 99% of its electricity coming from renewable sources, and a commitment to becoming carbon neutral by 2021. They also abolished the army in 1949 and reallocated the defence budget to funding education, health and pensions, further enriching the lives of its citizens. Other measures of living standards, such as the HDI, do not rank Costa Rica quite so highly (66th compared to the USA in 10th position). This is because the HDI does not place as much emphasis on the environment compared to the Happy Planet Index.

Increasingly economic growth is incompatible with the planetary limits we are up against. Rising GDP may be a sign that we are using more of the earth's scarce resources. Some believe the Happy Planet Index gives a clearer picture of broader living standards and their sustainability.

Source: News reports, 2017

0 1 Using the data in **Extract A**, calculate the GDP per capita for Costa Rica in 2015/2016 to the nearest dollar.

[2 marks]

0 2 Explain how the data in **Extract A** indicate living standards may be higher in the UK than in the USA.

[4 marks]

0 3 **Extract B** (lines 8–9) states 'If injections into an economy's circular flow of income increase, then this may generate multiple increases in GDP.'

With the help of a diagram, explain how an increase in injections may generate multiple increases in an economy's GDP.

[9 marks]

0 4 **Extract B** (lines 13–15) states 'If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending.'

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, governments across the world should prioritise achieving economic growth.

[25 marks]

Turn over ►

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

The UK has been running a deficit on its balance of trade in goods and services since 1998. Expenditure-reducing and expenditure-switching policies can both be used to correct a trade deficit. However, the UK government has focused on other objectives rather than achieving a trade balance.

0	9
---	---

Explain how expenditure-switching policies can be used to reduce a deficit on a country's balance of trade in goods and services.

[15 marks]

1	0
---	---

Assess the view that floating exchange rates are always better than fixed exchange rates.

[25 marks]**OR****Essay 2**

In 2018, the European Commission estimated that Bulgaria and Romania were both experiencing positive output gaps whilst the UK was experiencing a negative output gap. Persistent output gaps can cause problems for economies which may be addressed by supply-side improvements.

1	1
---	---

Explain the main problems for an economy of having a large positive output gap.

[15 marks]

1	2
---	---

Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

7

OR

Essay 3

According to the Office for National Statistics, the UK's real gross domestic product (GDP) increased by an estimated 7.5% in 2021, the fastest rate in 80 years. This followed a fall in real GDP of 9.4% in 2020.

1	3
---	---

Explain possible causes of economic growth.

[15 marks]

1	4
---	---

Evaluate the view that economic growth usually leads to an improvement in living standards.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

Copyright information

For confidentiality purposes, all acknowledgements of third-party copyright material are published in a separate booklet. This booklet is published after each live examination series and is available for free download from www.aqa.org.uk

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders may have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements. If you have any queries please contact the Copyright Team.

Copyright © 2023 AQA and its licensors. All rights reserved.

IB/G/Jun23/7136/2



Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with 30 horizontal dotted lines.

Extract F: A new world order?

While some see the benefits of the emergence of the BRICS+ economies, others are more worried by their rapid economic growth. BRICS+ countries are using their vast resources, large markets and expanding technological capabilities to challenge the dominance of traditional economic powers like the USA and the European Union. Their competitive pricing in manufacturing, energy exports and technology services threatens industries in developed countries, potentially leading to job losses and a reallocation of global capital flows.

5

The BRICS+ economies' heavy reliance on resource extraction and industrialisation raises environmental concerns. Some argue that their pursuit of economic growth prioritises short-term gains over sustainable practices, contributing to global environmental problems. This may impose economic costs on other nations through climate change and resource scarcity, leading to increased commodity prices.

10

Recently, there has been a rise in protectionism which led to tensions between countries, increased economic uncertainty and affected the pattern of world trade. Even before the new members joined, the BRICS' share of global export of goods increased from 10.7% in 2000 to 23.3% in 2023. Meanwhile, the share of the G7's global export of goods fell from 45.1% to 28.9% over the same period.

15

Source: News reports, 2024

0 5

Using the data in **Extract D (Figure 3)**, calculate the difference between the percentage increase in GDP for Japan and the USA between 2001 and 2023.

Give your answer to **one** decimal place.

[2 marks]**0 6**

Explain how the data in **Extract D (Figure 3)** show how Ethiopia has developed at a faster rate than Japan since 2001.

[4 marks]**0 7**

Extract E (lines 15–17) states: 'In recent years, some of the BRICS+ countries, including China and India, have been responsible for large foreign direct investment (FDI) inflows into the G7.'

With the help of a suitable diagram, explain how increased inward foreign direct investment (FDI) can affect a country's level of employment.

[9 marks]**0 8**

Extract F (lines 1–2) states: 'While some see the benefits of the emergence of the BRICS+ economies, others are more worried by their rapid economic growth.'

Using the data in the extracts and your knowledge of economics, assess the view that the continued rapid economic growth of the BRICS+ economies is likely to be damaging to the macroeconomic performance of G7 nations, such as the UK.

[25 marks]

Handwriting practice area with 30 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with 30 horizontal dotted lines.

Handwriting practice area with 30 horizontal dotted lines.

2

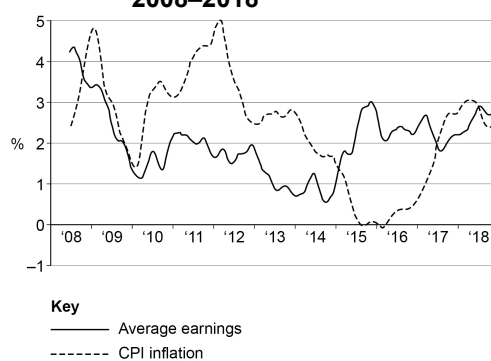
Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Unemployment and the labour market**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Unemployment and underemployment rates in the UK, 2007–2018**

Years	Unemployment rate (%)	Underemployment rate (%)
2007–08	5.5	7.3
2009–10	7.8	9.6
2011–12	8.0	10.2
2013–14	6.9	10.1
2015–16	5.1	8.8
2017–18	4.2	7.8

Note: Underemployment is where people are working fewer hours than they wish, or in jobs that do not reflect their skills or training

Source: ONS, 2018

Figure 2: Growth in average earnings and CPI inflation rate in the UK, 2008–2018

Source: ONS, 2018

Extract B: Unemployment and real wages

According to a recent study on wage growth, the youngest worker today would need to wait nearly 80 years to see the average real wage in the UK double from its current level. At just 4.2%, unemployment in the UK is at its lowest level in decades. It should be the best of times, but data from the Office for National Statistics (ONS) show that the percentage of people who are 'underemployed', often working on zero-hours contracts, is greater than it was during the financial crisis of 2007–08. Some claim this is the true cause of poor real wage growth. 1
5

Supply-side reforms to labour markets are meant to boost productivity but can be damaging for some workers. Unregulated labour markets can lead to inequality and poor pay, which also reduces government tax revenue. Workers who are only temporarily employed can experience a lack of stability and firms may have little incentive to invest in human capital. Consequently, these workers may not get the opportunity to develop new skills. Firms may also face higher costs from replacing workers who leave because they feel undervalued. 10

It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation's workers. There are calls for some restoration of trade union powers, more rights for workers on zero-hours contracts and measures to raise pay to ensure that workers feel the benefits of employment. 15

Source: News reports, 2018

Extract C: Free market, supply-side labour market reforms

Free market supply-side reforms often focus on either encouraging individuals to take up work by making it more attractive, or by making it more difficult for people to remain on unemployment-related benefits. A feature of recent government supply-side policy has been to create and maintain flexible working practices. The Confederation of British Industry (CBI) argues that “the UK’s flexible labour market is an invaluable strength of our economy which should be protected”. The UK’s employment rate is the highest since recent records began in 1971, and 97% of firms say the UK’s flexible labour market is vital to improving firms’ competitiveness. 1 5

Having a flexible workforce, which can respond quickly to changes in demand, may benefit both businesses and workers. There is a growing need for workers to have more flexibility, whether to allow them to balance work with such things as childcare, study commitments or as an alternative income when work in their preferred occupation is unavailable. Some labour market analysts also point to flexible labour markets as one of the key reasons that, after the recession of 2008–09, unemployment did not reach the levels it did in the recessions of the 1980s and 1990s. 10 15

Some point to the fact the UK has the least-regulated labour market in Europe. Hiring and firing staff is easier than in countries such as France, where the difficulty of getting rid of unproductive workers makes firms more cautious about employing someone in the first place. Improving workers’ productivity is the key to increasing real GDP and real wage rises. Having a flexible workforce allows the UK to meet the challenges of a dynamic global economy. It not only helps keep unemployment low, but also helps achieve other macroeconomic objectives. 20

Source: News reports, 2018

0 1

Using the data in **Extract A** (Figure 1), calculate the mean unemployment rate for the UK from 2007–08 to 2017–18. Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A** (Figure 2) show that the UK has had poor real wage growth since 2008.

[4 marks]

0 3

Extract C (line 19) states: ‘Improving workers’ productivity is the key to increasing real GDP’.

With the help of a diagram, explain how improving productivity should lead to rising real GDP.

[9 marks]

0 4

Extract B (lines 13–14) states: ‘It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation’s workers’.

Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy.

[25 marks]

Turn over ►

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with 30 horizontal dotted lines.

SUB-TOPIC 4.2.3.2

EMPLOYMENT AND UNEMPLOYMENT

Sub-topic 4.2.3.2 · 24 questions · 207 marks · lowest tariff first



11

Do not write
outside the
box

1 7

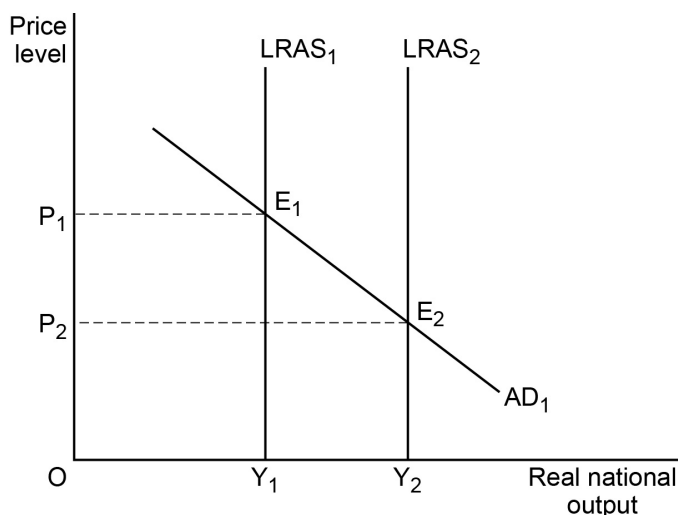
The primary measure of unemployment in the UK is based on the

- A** number of people joining the labour force minus the number of people leaving the labour force. ☐
- B** number of people not working who are of working age. ☐
- C** the number of people actively seeking work and available to start work. ☐
- D** proportion of the population of working age without a job. ☐

[1 mark]

1 8

The diagram below depicts an aggregate demand (AD) curve and two long-run aggregate supply (LRAS) curves for an economy. The economy's initial equilibrium is at E_1 .



All other things being equal, the movement of the economy from its initial equilibrium at E_1 to E_2 is most likely to be caused by an increase in

- A** government borrowing. ☐
- B** labour productivity. ☐
- C** the rate of deflation. ☐
- D** money wage rates. ☐

[1 mark]



1 1

Turn over ►

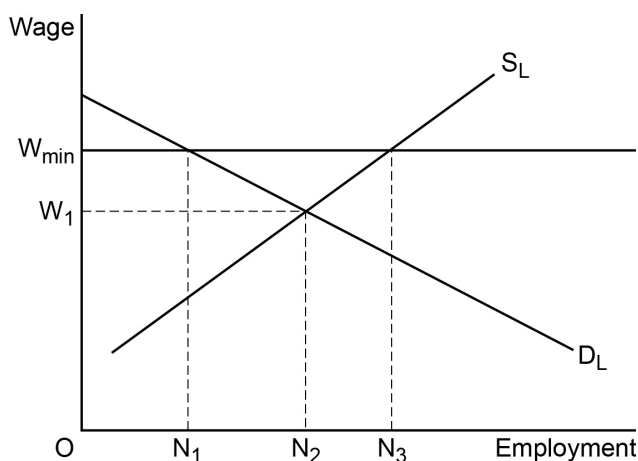
IB/G/Jun17/7136/3

12

Do not write
outside the
box

1 9

The diagram below represents the market for unskilled agricultural labourers where the demand for agricultural labourers is D_L and the supply is S_L . The trade union representing agricultural labourers has negotiated a minimum wage of $OW_{\min}$ for its members.



The effect of implementing a minimum wage of $OW_{\min}$ is that

- A cyclical unemployment increases by $(ON_3 - ON_1)$. ☐
- B frictional unemployment increases by $(ON_2 - ON_1)$. ☐
- C real wage unemployment increases by $(ON_3 - ON_1)$. ☐
- D the natural rate of unemployment increases by $(ON_2 - ON_1)$. ☐

[1 mark]

2 0

A bank makes a new loan to a customer. All other things being equal, which combination of events, **A**, **B**, **C** or **D**, shows what will happen?

	Bank's liabilities	Bank's assets	Money supply	
A	Increase	Increase	Increases	☐
B	Increase	Fall	Increases	☐
C	Fall	Increase	Falls	☐
D	Fall	Fall	Falls	☐

[1 mark]



1 2

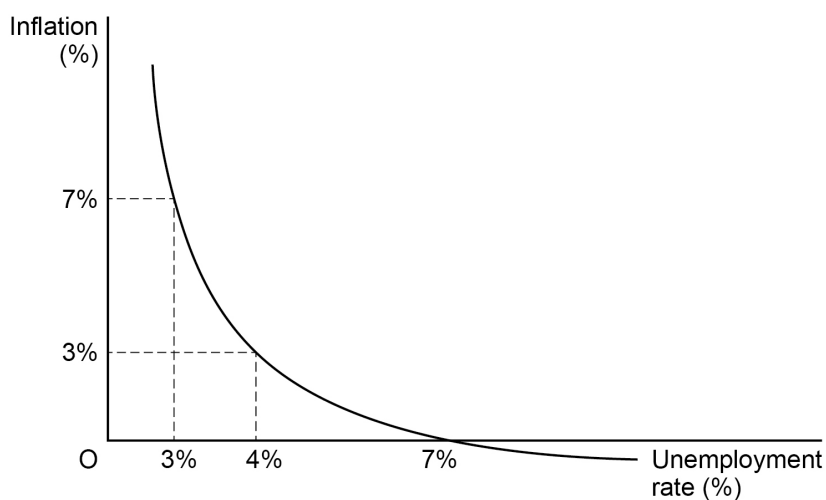
IB/G/Jun17/7136/3

6

09

The short-run Phillips curve below illustrates the relationship between unemployment and inflation in an economy.

Do not write
outside the
box



The Phillips curve shows that in this economy

- A** high inflation leads to high unemployment. ☐
- B** there is an inversely proportional relationship between unemployment and inflation. ☐
- C** the trade-off for reducing inflation from 7% to 3% is a 4% increase in unemployment. ☐
- D** the trade-off for reducing unemployment from 7% to 4% is 3% inflation. ☐

[1 mark]

10

Which one of the following is most likely to be associated with behavioural economic theory?

- A** All consumer behaviour is based on rational utility-maximising decisions. ☐
- B** An individual's economic decisions may be biased. ☐
- C** Price changes cannot explain how competitive markets achieve equilibrium. ☐
- D** The behaviour of firms is based on their desire to maximise profit. ☐

[1 mark]



06

IB/G/Jun18/7136/3

3

0 2

The table below contains selected data on a country's macroeconomic performance over a 20 year period.

*Do not write
outside the
box*

Year	Unemployment (%)	Rate of inflation (%)	Balance of trade on current account (\$ bn)
1998	6.0	3.5	-20
2003	5.8	3.0	-19
2008	5.5	2.5	-12
2013	5.2	2.0	-2
2018	5.0	1.5	+3

All other things being equal, which one of the following, **A**, **B**, **C** or **D**, can be inferred from the above data?

- A** The natural rate of unemployment is falling ☐
- B** The price level is increasing more slowly ☐
- C** The volume of exports is increasing ☐
- D** There is an inverse relationship between unemployment and inflation ☐

[1 mark]**0 3**

Which one of the following is most likely to result in complete market failure?

- A** Negative externalities in production and consumption ☐
- B** Non-excludability and no enforceable property rights ☐
- C** The existence of demerit goods in some markets ☐
- D** The government setting maximum prices for excludable and rival goods ☐

[1 mark]

Turn over for the next question

Turn over ►



0 3

IB/M/Jun19/7136/3

18

2 7

Changing patterns of consumption have meant that summer holidays at UK seaside towns have become less popular. As a result, UK seaside holiday towns are affected by seasonal unemployment and increasing structural unemployment.

Which one of the following is the most likely consequence of this change in the pattern of consumption?

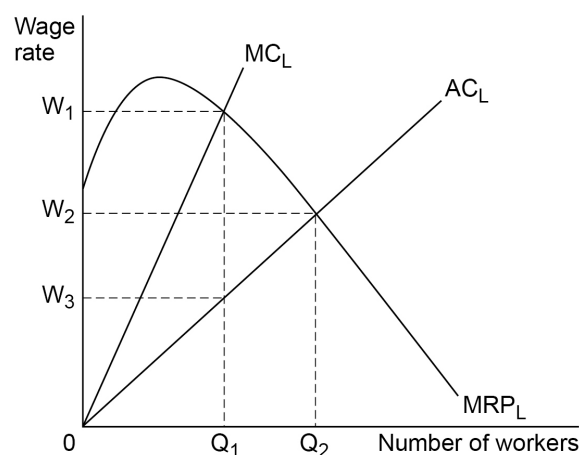
[1 mark]

- A Occupational immobility of labour will help to reduce structural unemployment. ☐
- B The cost of living for people who live in UK seaside towns will fall. ☐
- C Unemployment is likely to be higher in the summer than the winter. ☐
- D Wages in UK seaside towns will rise because firms want to retain workers. ☐

2 8

Figure 8 shows the marginal cost (MC_L), average cost (AC_L) and marginal revenue product (MRP_L) curves for labour in a specialised computer programming industry.

Figure 8



Following a series of mergers between firms in this industry, a single large firm remains as a monopsony employer.

Which one of the following is the most likely to result from a competitive labour market being replaced by a monopsony employer?

[1 mark]

- A The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$. ☐
- B The total amount paid in wages will increase from $(W_3 \times Q_1)$ to $(W_1 \times Q_1)$. ☐
- C The wage rate will fall from W_1 to W_2 . ☐
- D The wage rate will increase from W_3 to W_2 . ☐



1 8

IB/M/Jun22/7136/3

19

2 | 9

Table 6 shows the value of the UK's Human Development Index (HDI) over the period 2015 to 2019.

Do not write
outside the
box

Table 6

Year	2015	2016	2017	2018	2019
UK HDI Value	0.916	0.918	0.919	0.920	0.932

All other things being equal, which one of the following is most likely to explain the trend shown in **Table 6**?

[1 mark]

- A** A fall in the sterling exchange rate ☐
- B** Falling emissions of greenhouse gases ☐
- C** Increasing life expectancy at birth ☐
- D** Reductions in income inequality ☐

3 | 0

Unemployed workers in the south of a country are unable to take up jobs in the north of the country due to higher housing costs. This is an example of

[1 mark]

- A** cyclical unemployment. ☐
- B** frictional unemployment. ☐
- C** geographical immobility of labour. ☐
- D** occupational immobility of labour. ☐

30

Turn over for Section B**Turn over ►**

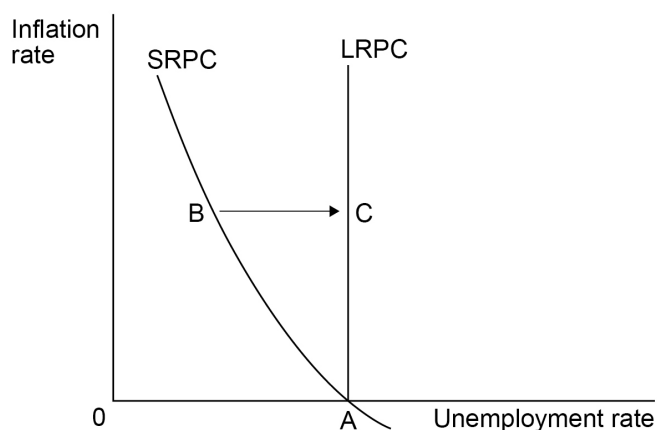
1 9

IB/M/Jun22/7136/3

9

1 | 6**Figure 4** shows a short-run Phillips curve (SRPC) and a long-run Phillips curve (LRPC).

Government intervention moves the economy from position A to position B and then the economy moves from position B to position C.

Figure 4

Which one of the following is most likely to explain the movement from position B to position C?

[1 mark]

- A** Demand for exports has risen as a result of the intervention
- B** Economic agents have higher inflation expectations due to the intervention
- C** The government cut taxes to reduce unemployment
- D** The intervention has increased the natural rate of unemployment

☐☐☐☐**1 | 7**

Which one of the following is a role of the UK's Office for Budget Responsibility?

[1 mark]

- A** Deciding how much public funding is given to each government department
- B** Enabling the government to run a budget deficit by issuing government bonds
- C** Evaluating the government's performance against its own fiscal targets
- D** Making recommendations to the government on how to reduce its budget deficit

☐☐☐☐**Turn over ►**

0 9

IB/G/Jun23/7136/3

19

2 7**Table 8** shows an index of copper exports for a country during the years 2020 to 2023.**Table 8**

Year	Index of copper exports (2020 = 100)
2020	100.0
2021	106.0
2022	112.1
2023	118.0

Which one of the following statements is correct?

[1 mark]

- A** Between 2020 and 2023, the mean annual rate of growth in the country's exports of copper was 6%
- B** In 2022, the country's exports of copper grew by 6.1%
- C** The highest rate of growth in the country's exports of copper was in 2023
- D** The rate of growth in the country's exports of copper was higher in 2021 than in 2022

☐☐☐☐**Turn over for the next question****Turn over ►**

1 9

IB/G/Jun24/7136/3

10

1 0

Which one of the following best explains the operation of the accelerator process?

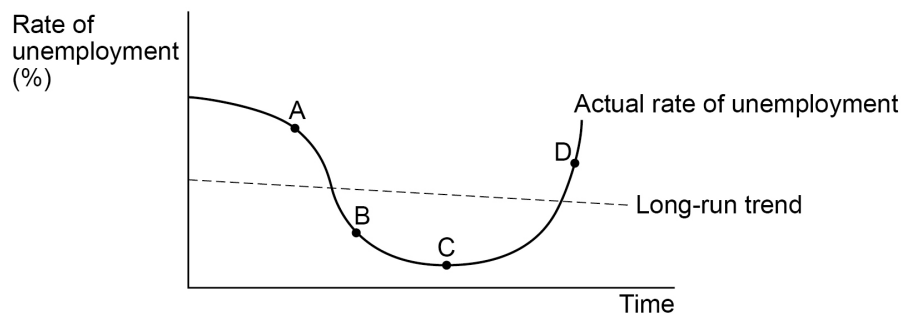
[1 mark]

- A** An increase in investment leads to a larger increase in national income ☐
- B** An increase in productive capacity leads to a larger change in investment ☐
- C** The growth of productive capacity depends on the growth in investment ☐
- D** The level of investment depends on the rate of change in national income ☐

1 1

Figure 2 shows the long-run trend rate of unemployment and the actual rate of unemployment in a country over a period of time.

Figure 2



At which one of the following points was the economy most likely to be in the recession phase of its economic cycle?

[1 mark]

- A** Point A ☐
- B** Point B ☐
- C** Point C ☐
- D** Point D ☐



1 0

IB/M/Jun25/7136/3

10

*Do not write
outside the
box***1 | 8**

Which one of the following government policies is most likely to reduce market failure and to improve the allocation of resources?

- A** A higher rate of tax on all firms earning profit
- B** A minimum price for demerit goods above their free market price
- C** Free market pricing for the provision of public goods
- D** Subsidies paid to all loss-making firms to maintain full employment

☐☐☐☐**[1 mark]****1 | 9**

The long-run Phillips curve shows that

- A** the expected rate of inflation is zero.
- B** there is an inverse relationship between unemployment and inflation in the long run.
- C** there is no trade-off between reducing inflation and lower unemployment in the long run.
- D** unemployment can only be reduced in the long run by an increase in aggregate demand.

☐☐☐☐**[1 mark]**

IB/M/Jun20/7136/3

14

*Do not write
outside the
box***2 4**

Moral hazard results when individuals and organisations make investment decisions

A based on asymmetric information.☐**B** because they expect to make a large profit.☐**C** based on the returns made on previous investments.☐**D** knowing that others will bear the loss if things go wrong.☐**[1 mark]****2 5**

An economy is estimated to be experiencing a 2% rate of frictional unemployment plus a 3% rate of structural and real wage unemployment. If it is also experiencing cyclical unemployment of 4%, its natural rate of unemployment is most likely to be

A 3%☐**B** 5%☐**C** 6%☐**D** 9%☐**[1 mark]**

IB/M/Jun20/7136/3

12

1 7 Table 3 contains labour market data, in millions, for the UK in 2019.

Do not write
outside the
box

Table 3

Population aged 16 years and over	53.3
Economically active labour force	34.3
Total employment	33.0
Total unemployment	1.3

Source: ONS

Which one of the following, calculated in accordance with international guidelines, represents the UK's unemployment rate in 2019?

A 2.4%

☐

B 3.7%

☐

C 3.8%

☐

D 4.0%

☐

[1 mark]



1 2

IB/M/Jun21/7136/3

2

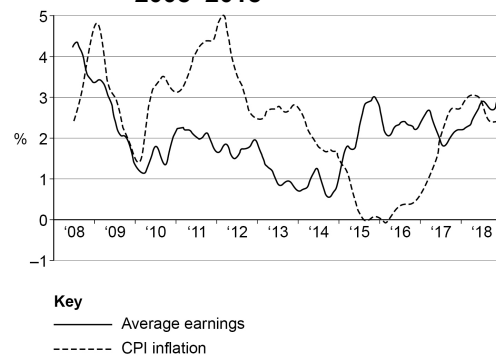
Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Unemployment and the labour market**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Unemployment and underemployment rates in the UK, 2007–2018**

Years	Unemployment rate (%)	Underemployment rate (%)
2007–08	5.5	7.3
2009–10	7.8	9.6
2011–12	8.0	10.2
2013–14	6.9	10.1
2015–16	5.1	8.8
2017–18	4.2	7.8

Note: Underemployment is where people are working fewer hours than they wish, or in jobs that do not reflect their skills or training

Source: ONS, 2018

Figure 2: Growth in average earnings and CPI inflation rate in the UK, 2008–2018

Source: ONS, 2018

Extract B: Unemployment and real wages

According to a recent study on wage growth, the youngest worker today would need to wait nearly 80 years to see the average real wage in the UK double from its current level. At just 4.2%, unemployment in the UK is at its lowest level in decades. It should be the best of times, but data from the Office for National Statistics (ONS) show that the percentage of people who are 'underemployed', often working on zero-hours contracts, is greater than it was during the financial crisis of 2007–08. Some claim this is the true cause of poor real wage growth. 1 5

Supply-side reforms to labour markets are meant to boost productivity but can be damaging for some workers. Unregulated labour markets can lead to inequality and poor pay, which also reduces government tax revenue. Workers who are only temporarily employed can experience a lack of stability and firms may have little incentive to invest in human capital. Consequently, these workers may not get the opportunity to develop new skills. Firms may also face higher costs from replacing workers who leave because they feel undervalued. 10

It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation's workers. There are calls for some restoration of trade union powers, more rights for workers on zero-hours contracts and measures to raise pay to ensure that workers feel the benefits of employment. 15

Source: News reports, 2018

Extract C: Free market, supply-side labour market reforms

Free market supply-side reforms often focus on either encouraging individuals to take up work by making it more attractive, or by making it more difficult for people to remain on unemployment-related benefits. A feature of recent government supply-side policy has been to create and maintain flexible working practices. The Confederation of British Industry (CBI) argues that “the UK’s flexible labour market is an invaluable strength of our economy which should be protected”. The UK’s employment rate is the highest since recent records began in 1971, and 97% of firms say the UK’s flexible labour market is vital to improving firms’ competitiveness. 1 5

Having a flexible workforce, which can respond quickly to changes in demand, may benefit both businesses and workers. There is a growing need for workers to have more flexibility, whether to allow them to balance work with such things as childcare, study commitments or as an alternative income when work in their preferred occupation is unavailable. Some labour market analysts also point to flexible labour markets as one of the key reasons that, after the recession of 2008–09, unemployment did not reach the levels it did in the recessions of the 1980s and 1990s. 10 15

Some point to the fact the UK has the least-regulated labour market in Europe. Hiring and firing staff is easier than in countries such as France, where the difficulty of getting rid of unproductive workers makes firms more cautious about employing someone in the first place. Improving workers’ productivity is the key to increasing real GDP and real wage rises. Having a flexible workforce allows the UK to meet the challenges of a dynamic global economy. It not only helps keep unemployment low, but also helps achieve other macroeconomic objectives. 20

Source: News reports, 2018

0 1

Using the data in **Extract A** (Figure 1), calculate the mean unemployment rate for the UK from 2007–08 to 2017–18. Give your answer to **one** decimal place.

[2 marks]**0 2**

Explain how the data in **Extract A** (Figure 2) show that the UK has had poor real wage growth since 2008.

[4 marks]**0 3**

Extract C (line 19) states: ‘Improving workers’ productivity is the key to increasing real GDP’.

With the help of a diagram, explain how improving productivity should lead to rising real GDP.

[9 marks]**0 4**

Extract B (lines 13–14) states: ‘It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation’s workers’.

Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy.

[25 marks]**Turn over ►**

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Monetary policy and stability

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: UK household gross debt to income, 2006 to 2020

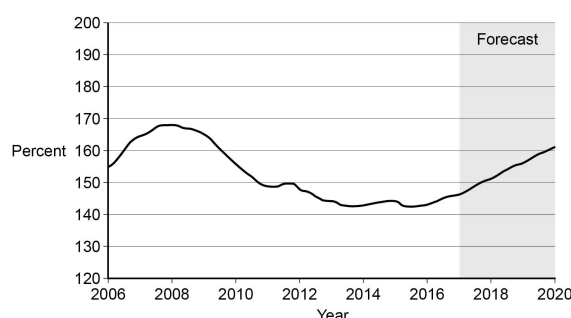


Figure 4: Household saving ratio, 2006 to 2016

Year	Saving ratio (%)
2006	7.6
2008	7.5
2010	11.2
2012	9.3
2014	8.4
2016	7.1

Source: ONS

Extract E: Financial regulation and monetary policy

In response to the lessons learned from the global financial crisis of 2007/08, the government of the UK has introduced major reforms to financial markets. The government recognised that systemic risk, moral hazard and imperfect information had all contributed to the credit crunch and subsequent recession in the UK. As a result, changes have been made to try to avoid a recurrence of failing banks and expensive state-backed bailouts. 5

The Prudential Regulation Authority (PRA) was established to ensure the stability of firms offering financial services and the Financial Conduct Authority (FCA) was set up to regulate the industry. Also, the Bank of England is responsible for supervising the whole financial system through the Financial Policy Committee (FPC). The FPC identifies and attempts to reduce risks in the system. The new framework is seen as the biggest change for the Bank of England since it was given operational independence for the conduct of monetary policy in 1997. 10

Since 2013, the Treasury has required the Bank of England to place more emphasis on helping the government to achieve its objectives for growth and employment, in addition to its central objective of maintaining price stability. However, some argue that trying to maintain stable prices and low unemployment could create trade-offs. 15

The Monetary Policy Committee's decision to lower Bank Rate to 0.5% in 2009, and the subsequent decision to lower it to 0.25% in 2016, have been instrumental in the UK's sustained recovery and return to low levels of unemployment. The Bank of England has also used quantitative easing (QE) to boost consumption and investment. Maintaining low interest rates is considered by many to be vital for both consumer and business confidence. 20

Source: News reports, 2016

IB/G/Jun18/7136/2

5

Extract F: A new financial crisis?

Has increased regulation worked or could the UK be on the verge of another financial crisis? The Bank of England is keeping a close watch on consumer spending amid signs that households are reducing their savings and building up debts. The Governor of the Bank, Mark Carney, said that consumption has been high in recent times, helping the economy, but he repeated the warning that living costs were likely to rise on the back of a weak pound and put a strain on households' real incomes. He also stated: "The saving ratio has fallen towards its pre-crisis lows, and consumer borrowing has accelerated noticeably." 5

It can be argued that rising borrowing has been caused by Bank Rate being kept too low for too long. The Austrian economist, Friedrich Hayek, highlighted artificially low interest rates and excessive credit creation as being the main causes of cyclical instability, damaging both investment and confidence. Asset price bubbles occur, including unsustainable rises in house prices, and eventually boom turns to bust. A major cause of the financial crisis in 2007/08 was arguably the unsustainably high level of debt that had been accumulated, but total world debt is now far in excess of the 2008 level. 10 15

Some form of financial crisis appears to occur every 7 to 10 years. As inflation rises, there will come a time when the Monetary Policy Committee decides to increase Bank Rate. This will affect many people who have become accustomed to cheap credit and who are tied into mortgages where the monthly repayments vary with interest rates. 20

Source: News reports, 2016

0 5 Using the data in **Extract D (Figure 4)**, calculate the average amount saved per household in 2016 if average household income was £26 300. Give your answer to the nearest pound. [2 marks]

0 6 Explain how the data in **Extract D (Figures 3 and 4)** show that consumer confidence may have risen since 2014. [4 marks]

0 7 **Extract E** (lines 16–17) states 'However, some argue that trying to maintain stable prices and low unemployment could create trade-offs.' [9 marks]

With the help of a diagram, explain why a trade-off between price stability and low unemployment might occur.

0 8 **Extract F** (lines 10–12) states 'The Austrian economist, Friedrich Hayek, highlighted artificially low interest rates and excessive credit creation as being the main causes of cyclical instability.' [25 marks]

Using the data in the extracts and your knowledge of economics, evaluate the view that maintaining low interest rates for a sustained period of time may be damaging to the UK's macroeconomic stability.

Turn over ►

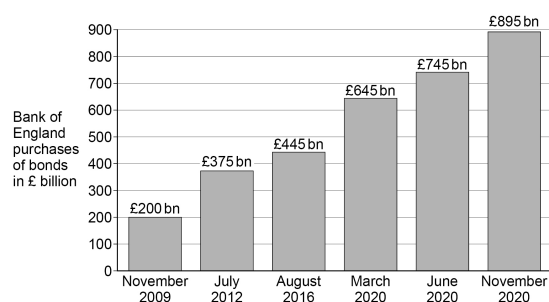
IB/G/Jun18/7136/2

Handwriting practice area with horizontal dotted lines.

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2**Total for this context: 40 marks****Quantitative easing in the UK**Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 3: Cumulative value of quantitative easing in the UK**

Source: Bank of England, 2022

Figure 4: Macroeconomic performance indicators for the UK, averages, 2006 to 2021

	2006 –2009	2010 –2013	2014 –2017	2018 –2021
Economic growth rate (%)	0.1	1.8	2.5	0.4
CPI inflation rate (%)	2.6	3.3	1.2	2.0
Unemployment rate (%)	6.0	7.9	5.2	4.2
Balance of payments on current account (% of GDP)	–3.3	–3.3	–4.8	–3.1

Source: ONS, 2022

Extract E: Unconventional monetary policy?

Since March 2009, an experiment has been underway in the UK. The Bank of England reduced Bank Rate to almost zero and introduced a new policy to the UK, known as quantitative easing (QE). Back then, financial markets around the world were in crisis and banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.

5

Faced with these problems, the Monetary Policy Committee (MPC) decided to cut Bank Rate to 0.5%, down from 5% in October 2008, but this was not enough on its own. Emergency meetings with the Chancellor at the time, Alistair Darling, led to the use of unconventional monetary policy in the form of QE. Initially, the Bank of England bought bonds worth £75bn but soon began to purchase more.

10

QE was originally intended to be an emergency measure but has remained in place. The total spent on buying government bonds under QE has been expanded repeatedly, reaching £895bn, with the latest round coming during the coronavirus pandemic. However, the fact that the Bank of England has continued increasing its bond purchases, and that interest rates remain close to zero, indicate that QE may not have been as successful as was hoped. Andrew Sentance, an economist who was on the MPC and who helped draw up the plan, said that financial markets in March 2009 pointed to Bank Rate returning to 3% by 2011. He also stated that he didn't think anybody on the MPC believed that QE was anything other than an emergency measure.

15

In some respects, the policy worked wonders. The UK enjoyed a strong recovery from the 2008 crash and had the longest run of unbroken quarterly growth of any major economy. UK unemployment peaked at 8.5%, compared to 10% in the US and 12.1% in the eurozone. It then dropped to 3.8% before the pandemic, the lowest rate since the mid-1970s.

20

Source: News reports, 2022

5

Extract F: Quantitative easing – a dangerous addiction?

While helping to keep borrowing costs down, low interest rates and QE created huge inequalities. Those with assets such as property have seen their prices soar. The FTSE 100 share index reached record highs and more than doubled between 2009 and 2021. The least wealthy 10% of households saw their real wealth rise by an average of £3000 between 2008 and 2014, compared to an average rise of £350 000 for the wealthiest 10%. However, the Bank of England argues that QE has helped to keep people in work. 5

Low interest rates meant that the return on savings fell but families with mortgages had cheaper repayment costs. This encouraged spending, helping to fuel the economic recovery. Cheap borrowing costs have, however, allowed debts to build up. Borrowing on credit cards, personal loans and car finance have soared above pre-2008 levels. There is also the effect on the cost of living through higher inflation rates. 10

Rock-bottom interest rates and QE stimulated the economy. However, the Conservative-led coalition government, elected in 2010, adopted a policy of austerity, cutting government spending to reduce the budget deficit. Monetary policy fuelled growth, but austerity pulled in the opposite direction. This made it harder to raise Bank Rate as growth was low. Although interest rates began to rise in late 2017 and 2021, they are still below the rates seen before the 2007–08 financial crisis. 15

Some say that the use of QE is a dangerous addiction and its overuse can lead to problems in the future. Many economists believe QE has lost some of its effectiveness and warn that a fresh round could lead to higher inflation and increase wealth inequality. It is argued that, in the future, the Treasury should use fiscal policy to stimulate the economy rather than relying on QE. 20

Source: News reports, 2022

0 5

Using the data in **Extract D (Figure 3)**, calculate the value of bonds that had been purchased by November 2020 for every £1 worth of bonds purchased by November 2009.

Give your answer in £s and to **two** decimal places.

[2 marks]**0 6**

Explain how the data in **Extract D (Figure 4)**, show that the growth in quantitative easing (shown in **Figure 3**) may have been successful in helping the UK achieve its macroeconomic objectives since 2009.

[4 marks]**0 7**

Extract E (lines 4–5) states: ‘...banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.’

With the help of a diagram, explain how reduced availability of credit from banks may lead to increased unemployment.

[9 marks]**0 8**

Extract F (lines 18–19) states: ‘Some say that the use of QE is a dangerous addiction and its overuse can lead to problems in the future.’

Using the data in the extracts and your knowledge of economics, assess the view that the continued use of quantitative easing (QE) is damaging for the UK economy.

[25 marks]

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

0	9
---	---

Explain how government policies can reduce the natural rate of unemployment.

[15 marks]

1	0
---	---

Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]**OR****Essay 2**

The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

1	1
---	---

Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

[15 marks]

1	2
---	---

Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

7

OR**Essay 3**

In July 2017, more people were employed in the UK than ever before. At the same time, the UK unemployment rate fell to 4.3%, the lowest rate for 40 years. Whilst this suggests that the government's policies for employment are working, some claim that zero-hours contracts, low real wages and temporary jobs have made many people worse off.

1	3
---	---

Explain the causes of cyclical **and** structural unemployment.**[15 marks]**

1	4
---	---

Assess the view that falling unemployment will inevitably lead to an improvement in the standard of living for people in the UK.

[25 marks]**END OF QUESTIONS**

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

In November 2022, the Bank of England warned there was a risk that the UK was heading for a recession. This announcement came shortly after the money supply fell, following its rapid growth in 2020 and 2021.

0 9

Explain possible reasons why a country may enter a recession.

[15 marks]**1 0**

Assess whether an increase in the money supply is always damaging for an economy.

[25 marks]**OR****Essay 2**

In August 2022, the Office for National Statistics (ONS) announced that the unemployment rate had reached 3.5%, the lowest rate in almost 50 years. Some argue this is below the natural rate of unemployment (NRU) and that very high levels of employment may cause problems for the economy.

1 1

Explain the factors which determine the natural rate of unemployment.

[15 marks]**1 2**

Discuss the view that high levels of employment are always beneficial for an economy.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

7

OR**Essay 3**

Gross domestic product (GDP) is a widely used measure of economic activity, but it has several limitations when used as the sole indicator of living standards. Less economically developed countries (LEDs) need to look at ways to not only boost their GDPs but also to develop their economies.

1 3

Explain the main limitations of using national income data to assess differences in living standards between countries.

[15 marks]**1 4**

Assess the view that economic development in LEDs is best achieved through interventionist strategies.

[25 marks]**END OF QUESTIONS**

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

In 2017, the UK's annual budget deficit was 2.3% of GDP, the lowest level since 2001. In 2017, the UK's deficit on the current account of the balance of payments fell to 3.3% of GDP, the lowest level since 2011.

0	9
---	---

Explain the possible causes of a falling budget deficit.

[15 marks]

1	0
---	---

To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.

[25 marks]**OR****Essay 2**

During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK's prosperity.

1	1
---	---

Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.

[15 marks]

1	2
---	---

Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

0	9
---	---

Explain how government policies can reduce the natural rate of unemployment.

[15 marks]

1	0
---	---

Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]**OR****Essay 2**

The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

1	1
---	---

Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

[15 marks]

1	2
---	---

Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

7

OR**Essay 3**

In July 2017, more people were employed in the UK than ever before. At the same time, the UK unemployment rate fell to 4.3%, the lowest rate for 40 years. Whilst this suggests that the government's policies for employment are working, some claim that zero-hours contracts, low real wages and temporary jobs have made many people worse off.

1	3
---	---

Explain the causes of cyclical **and** structural unemployment.**[15 marks]**

1	4
---	---

Assess the view that falling unemployment will inevitably lead to an improvement in the standard of living for people in the UK.

[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

Copyright information

For confidentiality purposes, from the November 2015 examination series, acknowledgements of third party copyright material will be published in a separate booklet rather than including them on the examination paper or support materials. This booklet is published after each examination series and is available for free download from www.aqa.org.uk after the live examination series.

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders may have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements. If you have any queries please contact the Copyright Team, AQA, Stag Hill House, Guildford, GU2 7XJ.

Copyright © 2018 AQA and its licensors. All rights reserved.

IB/G/Jun18/7136/2

Handwriting practice lines consisting of 30 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Productivity and living standards**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A: Indicators of economic performance and living standards, selected nations, 2021**

	Productivity (GDP per hour worked, US \$)	Productivity change 2010–2021 (%)	Life expectancy at birth (years)	Gini coefficient	Expected years of schooling (years)	CO ₂ emissions per capita (tonnes)
Estonia	42.9	+28.8	77.1	0.308	15.9	7.9
Hungary	39.9	+16.7	74.5	0.300	15.0	5.0
UK	59.1	+3.5	80.7	0.351	17.3	4.9

Source: OECD & WHO, 2022

Extract B: The UK's productivity puzzle

The economist Paul Krugman once wrote that “Productivity isn’t everything, but, in the long-run, it is almost everything”. Productivity is a key determinant of living standards because it affects the amount of goods and services that can be produced, and therefore consumed, from the resources that are available. Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards. Although productivity can be measured in several different ways, one common way is GDP per hour worked. 5

When economies move through their economic cycles, it is not unusual for productivity to fall during downturns, as happened in 2008–2009. However, the persistently low rate of growth of productivity that the UK has experienced since 2010 is unusual. Productivity growth in other nations, including Estonia and Hungary, has been much higher. The UK’s low rate of productivity growth is often referred to as ‘The UK’s productivity puzzle’. If the pre-2007 trend in productivity growth had continued, UK productivity would now be over 30% higher than it is today. 10

Many economists have tried to provide reasons for the productivity puzzle. Among the suggestions are low levels of investment and the impact of the financial crisis on banks’ willingness to lend to new businesses. More people working beyond normal retirement age has led to an older workforce and may have affected productivity. These factors may be relevant but they do not provide a complete explanation for the weakness in UK productivity growth. 15

So, what can be done to raise productivity? Investing in human capital to improve people’s skills and supporting improvements in technology should help. Creating a stable economy and effective use of the tax and benefits system are also key factors in driving productivity growth. 20

Source: News reports, 2022

Extract C: Falling living standards in the UK?

According to the Office for Budget Responsibility (OBR), in 2022, the UK faced its biggest fall in living standards on record as the surging cost of living reduced real wages. The OBR also forecast a significant increase in unemployment.

Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound and the war in Ukraine. Inflation was at a 41-year high and average real household income was expected to fall by 7%, back to the level it was in 2013. The rising cost of living led to industrial action by workers trying to achieve pay increases that compensated for the rise in prices. 5

In response to the rise in inflation, the Bank of England increased Bank Rate. The rise in Bank Rate meant that financial institutions raised the rate of interest on mortgages. As a result, it has been forecast that house prices are likely to fall by around 9% over the next two years. 10

In his Autumn Statement of 2022, the UK Chancellor of the Exchequer, Jeremy Hunt, announced tax rises and cuts in public spending even though the UK economy was expected to contract in 2023. The cuts in public spending are likely to damage public services and came at a time when poverty and inequality appeared to be rising with life expectancy falling. Some have argued that tackling these issues, to prevent a further fall in living standards, is more important than introducing measures to increase productivity. 15

Source: News reports, 2022

0 1

Using the data in **Extract A**, calculate the ratio of the UK's GDP per hour worked to \$1 of GDP per hour worked in Hungary.

Give your answer to **two** decimal places.

[2 marks]

0 2

Explain how the data in **Extract A** show that higher productivity may result in higher living standards.

[4 marks]

0 3

Extract C (lines 4–5) states 'Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound...'

With the help of a diagram, explain how a depreciation of the pound may cause inflation.

[9 marks]

0 4

Extract B (lines 4–5) states: 'Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards.'

Using the data in the extracts and your knowledge of economics, assess the view that the government should make raising productivity a priority in order to improve living standards in the UK.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

In November 2022, the Bank of England warned there was a risk that the UK was heading for a recession. This announcement came shortly after the money supply fell, following its rapid growth in 2020 and 2021.

0 9

Explain possible reasons why a country may enter a recession.

[15 marks]**1 0**

Assess whether an increase in the money supply is always damaging for an economy.

[25 marks]**OR****Essay 2**

In August 2022, the Office for National Statistics (ONS) announced that the unemployment rate had reached 3.5%, the lowest rate in almost 50 years. Some argue this is below the natural rate of unemployment (NRU) and that very high levels of employment may cause problems for the economy.

1 1

Explain the factors which determine the natural rate of unemployment.

[15 marks]**1 2**

Discuss the view that high levels of employment are always beneficial for an economy.

[25 marks]

7

OR

Essay 3

In November 2022, the UK government announced large public spending cuts and tax rises in order to reduce the budget deficit. Some economists worry that this may cause a negative multiplier effect and damage economic activity.

1	3
---	---

Explain how the multiplier **and** accelerator affect the overall level of economic activity.

[15 marks]

1	4
---	---

Evaluate the view that increasing taxation is the best way to reduce a budget deficit.

[25 marks]

END OF QUESTIONS

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

SUB-TOPIC 4.2.3.3

INFLATION AND DEFLATION

Sub-topic 4.2.3.3 · 5 questions · 59 marks · lowest tariff first



14

2 2 Table 3 shows different combinations of performance for three macroeconomic indicators.

Which one of the combinations, **A**, **B**, **C** or **D**, is most likely to indicate an economy experiencing an economic boom?

[1 mark]

Table 3

	Imports	Price level	Job vacancies	
A	Decreasing	Increasing	Decreasing	☐
B	Decreasing	Decreasing	Increasing	☐
C	Increasing	Increasing	Increasing	☐
D	Increasing	Decreasing	Decreasing	☐

2 3 Table 4 shows the values of nominal GDP and a price index in two different years.

Table 4

Year	2015	2019
Nominal GDP (£ billions)	250	290
Price index	100	110

What was the value of real GDP in 2019, to the nearest £ billion, expressed in 2015 prices?

[1 mark]

- A** £227 billion ☐
- B** £261 billion ☐
- C** £264 billion ☐
- D** £319 billion ☐



1 4

IB/M/Jun22/7136/3

4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Is inflation a problem?

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3 and Figure 4 not reproduced here due to third-party copyright restrictions

Extract E: Argentina's economic woes

In 2019, Argentina's inflation rate hit 53.8%, climbing to its highest level in thirty years. This confirmed Argentina's place among the five countries with the highest inflation rates in the world, just behind Venezuela, Zimbabwe, South Sudan and Sudan. However, inflation isn't the only problem faced by Argentina. The country has just suffered three years of recession and the government has often struggled to meet its debt repayments. 5

Despite one of the tightest monetary policies in Argentina's history, implemented in 2018 after a currency crisis, inflation continued to rise and the recession deepened. It was hoped that policy measures, including a reduction in tariffs and strict currency controls, would help to reduce inflation, but so far this has not happened.

In 2020, Argentina's central bank cut its base interest rate to support the recovery of the economy. However, it has been argued that lower interest rates would be likely to cause further inflation. "Loosening monetary policy without having a clear fiscal plan or winning over the confidence of businesses and consumers is a mistake", said an Argentine economist. 10

Some argue that Argentina should prioritise eliminating inflation over other objectives of economic policy. In the 1970s and 1980s, the UK experienced high inflation. Policies were put in place to reduce the money supply and reduce government spending. The control of inflation became the main target of UK government macroeconomic policy. However, reducing inflation often comes at the expense of growth and jobs, at least in the short term. 15

Source: News reports, 2020

5

Extract F: Is the problem of high inflation in the past?

These days, most advanced economies no longer suffer from rapidly rising prices. Despite over a decade of low interest rates, increases in the money supply and record employment levels, inflation rates in most advanced economies remain low.

Since the 1990s, many governments have set inflation targets which their central banks are required to achieve. This has contributed to a reduction in inflation. In some countries, the risk of deflation has been greater than the risk of inflation. In the 2000s and the early 2010s, rising commodity prices added to inflationary pressures. However, since oil and some other commodity prices crashed in 2014, in many advanced economies inflation above 3% has been rare. In emerging markets, inflation tends to be higher, but the direction of change is the same. For nearly two decades, economists have talked about an era of 'global disinflation'.

Low inflation can be self-reinforcing as expectations change. Also, as inflation falls, the real rate of interest is likely to increase, weakening demand and further reducing inflation. This would not be a problem if central banks could cut nominal interest rates sufficiently to offset the risk of deflation, but many have little room to do so. Nominal rates are near zero in the UK, and only a little higher in the USA.

Before the pandemic, two-thirds of countries in the Organisation for Economic Co-operation and Development (OECD) had low inflation and a record proportion of their population of working age in employment. This has led some to claim that the Phillips curve is outdated and no longer a relevant model. Low inflation and low unemployment can be achieved simultaneously.

Source: News reports, 2020

0 5

Using the data in **Extract D (Figure 3)**, calculate the difference between the UK's and Argentina's mean unemployment rates over the period 2015 to 2018.

Give your answer to **two** decimal places.

[2 marks]

0 6

Explain how the data in **Extract D (Figures 3 and 4)** show that there may be a short-run trade-off between unemployment and inflation.

[4 marks]

0 7

Extract E (lines 7–9) states: 'It was hoped that policy measures, including a reduction in tariffs... would help to reduce inflation'.

With the help of a diagram, explain how a reduction in tariffs could help to reduce inflation.

[9 marks]

0 8

Extract E (lines 15–17) states: 'Policies were put in place to reduce the money supply and reduce government spending. The control of inflation became the main target of UK government macroeconomic policy.'

Using the data in the extracts and your knowledge of economics, evaluate the view that achieving a low and stable rate of inflation should be the main economic objective of governments.

[25 marks]**Turn over ►**

2

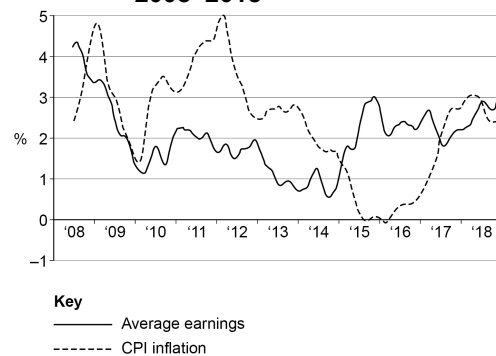
Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Unemployment and the labour market**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Unemployment and underemployment rates in the UK, 2007–2018**

Years	Unemployment rate (%)	Underemployment rate (%)
2007–08	5.5	7.3
2009–10	7.8	9.6
2011–12	8.0	10.2
2013–14	6.9	10.1
2015–16	5.1	8.8
2017–18	4.2	7.8

Note: Underemployment is where people are working fewer hours than they wish, or in jobs that do not reflect their skills or training

Source: ONS, 2018

Figure 2: Growth in average earnings and CPI inflation rate in the UK, 2008–2018

Source: ONS, 2018

Extract B: Unemployment and real wages

According to a recent study on wage growth, the youngest worker today would need to wait nearly 80 years to see the average real wage in the UK double from its current level. At just 4.2%, unemployment in the UK is at its lowest level in decades. It should be the best of times, but data from the Office for National Statistics (ONS) show that the percentage of people who are 'underemployed', often working on zero-hours contracts, is greater than it was during the financial crisis of 2007–08. Some claim this is the true cause of poor real wage growth. 1
5

Supply-side reforms to labour markets are meant to boost productivity but can be damaging for some workers. Unregulated labour markets can lead to inequality and poor pay, which also reduces government tax revenue. Workers who are only temporarily employed can experience a lack of stability and firms may have little incentive to invest in human capital. Consequently, these workers may not get the opportunity to develop new skills. Firms may also face higher costs from replacing workers who leave because they feel undervalued. 10

It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation's workers. There are calls for some restoration of trade union powers, more rights for workers on zero-hours contracts and measures to raise pay to ensure that workers feel the benefits of employment. 15

Source: News reports, 2018

Extract C: Free market, supply-side labour market reforms

Free market supply-side reforms often focus on either encouraging individuals to take up work by making it more attractive, or by making it more difficult for people to remain on unemployment-related benefits. A feature of recent government supply-side policy has been to create and maintain flexible working practices. The Confederation of British Industry (CBI) argues that “the UK’s flexible labour market is an invaluable strength of our economy which should be protected”. The UK’s employment rate is the highest since recent records began in 1971, and 97% of firms say the UK’s flexible labour market is vital to improving firms’ competitiveness. 1 5

Having a flexible workforce, which can respond quickly to changes in demand, may benefit both businesses and workers. There is a growing need for workers to have more flexibility, whether to allow them to balance work with such things as childcare, study commitments or as an alternative income when work in their preferred occupation is unavailable. Some labour market analysts also point to flexible labour markets as one of the key reasons that, after the recession of 2008–09, unemployment did not reach the levels it did in the recessions of the 1980s and 1990s. 10 15

Some point to the fact the UK has the least-regulated labour market in Europe. Hiring and firing staff is easier than in countries such as France, where the difficulty of getting rid of unproductive workers makes firms more cautious about employing someone in the first place. Improving workers’ productivity is the key to increasing real GDP and real wage rises. Having a flexible workforce allows the UK to meet the challenges of a dynamic global economy. It not only helps keep unemployment low, but also helps achieve other macroeconomic objectives. 20

Source: News reports, 2018

0 1

Using the data in **Extract A** (Figure 1), calculate the mean unemployment rate for the UK from 2007–08 to 2017–18. Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A** (Figure 2) show that the UK has had poor real wage growth since 2008.

[4 marks]

0 3

Extract C (line 19) states: ‘Improving workers’ productivity is the key to increasing real GDP’.

With the help of a diagram, explain how improving productivity should lead to rising real GDP.

[9 marks]

0 4

Extract B (lines 13–14) states: ‘It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation’s workers’.

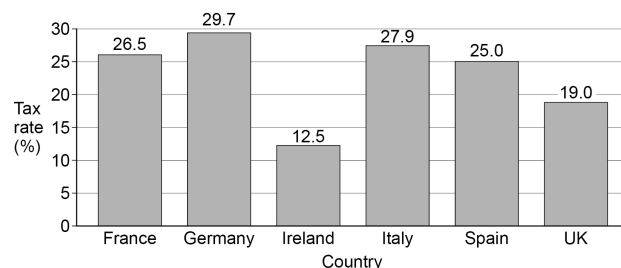
Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy.

[25 marks]

Turn over ►

2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Corporation tax in Ireland**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Corporation tax rates (%) in selected European nations, 2021**Note: Main tax rates only.
Some figures rounded.**Figure 2: Macroeconomic performance indicators for selected European nations, 2021**

	France	Ireland	Spain
GDP at current prices (\$bn)	2935	499	1202
Exports (\$bn)	775	641	462
Inflation (%)	1.6	2.4	3.1
Unemployment (thousands)	3074	127	3105
Labour force (millions)	31.0	2.5	23.3

Source: Official statistics, 2022

Extract B: Irish corporation tax

Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world's biggest companies, including Google and Facebook, to site their European headquarters in Ireland. Countries who are members of the Organisation for Economic Co-operation and Development (OECD), have agreed to a minimum corporation tax rate of 15%. Initially, Ireland was one of nine countries that refused to join the scheme but they have now all agreed to do so. 5

The deal brings an end to the country's 12.5% corporation tax rate that has applied since January 2003, which has been criticised in other EU countries and the UK, where higher corporation tax rates have applied. The new tax, which will be limited to firms with annual global revenues of over €750m, will come into force in 2023. According to some estimates, it will cost the Irish government between €800m and €2bn a year in lost tax revenue. Multinational corporations (MNCs) located in Ireland and elsewhere, employing up to 500 000 staff, could be affected. 10

Over the years, as a consequence of its low corporate tax policy, Ireland has attracted an estimated 1000 MNCs in the technology, finance and pharmaceutical sectors, including Pfizer, Intel, Yahoo, LinkedIn, TikTok, Apple, IBM and Twitter. Such is the importance of MNCs to the Irish economy, that figures released in May showed that just 100 companies accounted for almost 80% of government tax revenue. The figures exclude those sectors closed due to the lockdown, including hospitality and travel, but showed Ireland's reliance on MNCs for employment and tax revenue. In 2020, about 32% of all jobs in Ireland were in MNCs and those employees contributed 49% of all taxes on income. 15 20

Source: News reports, 2021

Extract C: Extra tax revenue?

According to figures published by the EU Tax Observatory, an independent research group, Ireland could collect an extra €12.4bn in corporation tax under the 15% global minimum corporation tax rate. The group stated that Ireland should not be that concerned about MNCs leaving the country. The biggest blow to Ireland's low-tax regime came in 2015 when, under pressure from the EU, tax avoidance schemes known as the "double Irish" were made illegal. Under this scheme multinationals paid as little as 1% tax on their profits, a fraction of the 12.5% headline corporation tax rate. 5

The argument that the Irish Government would raise more tax revenue is simple: if all OECD members have a common minimum corporation tax rate, then global MNCs would not move to where taxation is lowest, and would just pay more tax in the countries in which they are located. The report finds developing and low-income countries will benefit less than more-economically-developed countries as most MNCs operate in high-income countries. High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019. However, Ireland is now running a large budget deficit, made worse by the pandemic, and any additional government revenue would be welcomed. Ireland also has an ageing population and could use the money to pay for pensions, social care and improved welfare. 10 15

Source: News reports, 2021

0 1

Using the data in **Extract A (Figure 1)**, calculate the difference between Ireland's corporation tax rate and the mean corporation tax rate of the other five European nations.

Give your answer to **one** decimal place.

[2 marks]**0 2**

Explain how the data in **Extract A (Figure 2)**, show that Ireland's economy performed better than the economies of France and Spain in 2021.

[4 marks]**0 3**

Extract C (line 13) states: 'High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019.'

With the help of a diagram, explain how high economic growth could help to create a budget surplus.

[9 marks]**0 4**

Extract B (lines 1–3) states: 'Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world's biggest companies, including Google and Facebook, to site their European headquarters in Ireland.'

Using the data in the extracts and your knowledge of economics, assess the view that a rise in Ireland's corporation tax rate is likely to have a damaging effect on its macroeconomic performance.

[25 marks]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with 25 horizontal dotted lines.

Handwriting practice area with 25 horizontal dotted lines.

Handwriting practice area with 25 horizontal dotted lines.

7

OR**Essay 3**

In 2015, Lithuania joined the eurozone, adopting the euro as its currency. Since then, the euro has appreciated by more than 15% against the pound sterling. Some have argued that this will reduce economic growth in Lithuania and other countries within the eurozone.

1	3
---	---

Explain how an appreciation of its currency is likely to affect a country's rate of economic growth.

[15 marks]

1	4
---	---

Evaluate the costs and benefits for a country of joining a currency union, such as the eurozone.

[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

Copyright information

For confidentiality purposes, all acknowledgements of third-party copyright material are published in a separate booklet. This booklet is published after each live examination series and is available for free download from www.aqa.org.uk.

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders may have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements. If you have any queries please contact the Copyright Team.

Copyright © 2020 AQA and its licensors. All rights reserved.



IB/M/Jun20/7136/2

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

SUB-TOPIC 4.2.3.4

CONFLICTS BETWEEN MACROECONOMIC OBJECTIVES

Sub-topic 4.2.3.4 · 1 question · 25 marks · lowest tariff first



6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Over the last two centuries, international trade has grown faster than global GDP, completely transforming the world economy. Today, about one quarter of total global output is exported. Globalisation has generated gains for the UK economy but has also made it vulnerable to external shocks.

0	9
---	---

Explain the main causes of globalisation.

[15 marks]

1	0
---	---

Assess the view that increased globalisation has been beneficial for the UK economy.

[25 marks]**OR****Essay 2**

Throughout 2021 and 2022, the UK suffered from supply-side problems which caused prices to rise. Within an economic cycle, there are often trade-offs between different macroeconomic objectives. However, many economists argue that the government should do more to reduce the likelihood of these trade-offs persisting in the long run.

1	1
---	---

Explain the possible causes of a shift in the short-run aggregate supply curve to the left.

[15 marks]

1	2
---	---

Evaluate how, in the long-run, governments could try to reconcile conflicts between the various objectives of economic policy.

[25 marks]

7

OR

Essay 3

According to the Office for National Statistics, the UK's real gross domestic product (GDP) increased by an estimated 7.5% in 2021, the fastest rate in 80 years. This followed a fall in real GDP of 9.4% in 2020.

1	3
---	---

Explain possible causes of economic growth.

[15 marks]

1	4
---	---

Evaluate the view that economic growth usually leads to an improvement in living standards.

[25 marks]

END OF QUESTIONS

 guidemygrades.com

Handwriting practice area with horizontal dotted lines.

 guidemygrades.com

Handwriting practice area with horizontal dotted lines.

MARK SCHEMES

official mark schemes



MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2023

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A (Figure 1)**, calculate the difference between Ireland's corporation tax rate and the mean corporation tax rate of the other five European nations.

Give your answer to **one decimal place**.

[2 marks]

Response	Max 2 marks
For the correct answer (13.1 percentage points) to one decimal place. Accept an answer of 13.1%	2 marks
For a correct answer but not to one decimal place. OR For the correct answer (13.1) but without the words 'percentage points' or % sign. OR For the correct method but the wrong answer, to one decimal place, and including the words 'percentage points' or the % sign. OR For calculating the mean of the other 5 European nations (25.62%) with the % sign.	1 mark

Calculation:

Mean of other European nations = $(26.5 + 29.7 + 27.9 + 25.0 + 19.0)/5$

= 128.1/5

= 25.62%

Mean of other European nations – Ireland = $25.62 - 12.50 = 13.12$

= 13.1 percentage points to 1 decimal place.

MAXIMUM FOR QUESTION 01: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

- 0 2** Explain why the data in **Extract A (Figure 1)** show that living standards in India have improved.

[4 marks]

Response	Max 4 marks
- includes evidence that shows that living standards in India have improved - clearly explains how this data is evidence that India is moving to a higher level of human development	4 marks
- includes evidence that shows that living standards in India have improved - unclear explanation of how this data is evidence that that India is moving to a higher level of human development	3 marks
- includes some limited evidence that shows that living standards in India have improved - limited explanation of how this data is evidence that India is moving to a higher level of human development	2 marks
- includes evidence that does not clearly show that living standards in India have improved - no explanation of how this data is evidence that India is moving to a higher level of human development	1 mark

Relevant issues include:

- meaning of 'living standards'
- life expectancy has risen from 53.9 years in 1980 to 68.0 years in 2014
- expected years of schooling has increased from 6.4 years in 1980 to 11.7 years in 2014
- the Gross National Income per capita has risen from \$1255 in 1980 to \$5497 in 2014
- the HDI score has risen from 0.362 in 1980 to 0.609 in 2014

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

- 0 6** Explain how the data in **Extract D (Figure 4)** show that Japan has been less successful than the UK in achieving a stable rate of economic growth.

[4 marks]

Response	Max 4 marks
- includes evidence that shows that Japan has been less successful than the UK in achieving a stable rate of economic growth - clearly explains how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	4 marks
- includes evidence that shows that Japan has been less successful than the UK in achieving a stable rate of economic growth - unclear explanation of how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	3 marks
- includes some evidence that shows that Japan has been less successful than the UK in achieving a stable rate of economic growth - limited explanation of how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	2 marks
- includes evidence that does not clearly show that Japan has been less successful than the UK in achieving a stable rate of economic growth - no explanation of how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	1 mark

Relevant issues include:

- meaning of 'stable rate of economic growth'
- the highest annual rate of economic growth recorded for the period was for Japan at 4.75% in 2010 compared to the UK's highest rate of 3.0% in 2014
- the lowest annual rate of economic growth recorded for the period was for Japan at -0.5% in 2011, compared to the UK's lowest rate of 0.75% in 2012
- Japan has a greater range of real GDP growth. It has a high of 4.75% in 2010 compared to a low of -0.5% in 2011, a range of 5.25 percentage points, whereas the UK has a high of 3% in 2014 compared to a low of 0.75% in 2012, a range of 2.25 percentage points
- the UK never experienced a negative annual percentage change in Real GDP whereas Japan did. Japan experienced a 0.5% negative rate in 2011 and a 0.1% negative rate in 2014 whereas the lowest rate for the UK was 0.75% in 2012.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2019

0 2 Explain how the data in **Extract A** indicate living standards may be higher in the UK than in the USA.

[4 marks]

Response	Max 4 marks
- includes evidence that shows that living standards in the UK are higher than in the USA - clearly explains how this data is evidence that living standards are higher in the UK than the USA	4 marks
- includes evidence that shows that living standards in the UK are higher than in the USA - unclear explanation of how this data is evidence that living standards in the UK are higher than in the USA	3 marks
- includes some limited evidence that shows that living standards in the UK are higher than in the USA - limited explanation of how this data is evidence that living standards in the UK are higher than in the USA	2 marks
- includes evidence that does not clearly show that living standards in the UK are higher than in the USA - no explanation of how this data is evidence that living standards in the UK are higher than in the USA.	1 mark

Relevant issues include:

- the meaning of the term 'living standards'
- the mean years of schooling is higher in the UK (13.3 years) compared to the USA (13.2 years) indicating the UK may have a more educated population
- the infant mortality rate is lower in the UK (4.2 per 1000 births) compared to the USA (6.5 per 1000 births) indicating the UK has better healthcare
- the Gini coefficient is lower in the UK (0.33) compared to the USA (0.41) indicating that there is lower inequality in the UK which could be linked to living standards being higher for some people on lower incomes
- CO₂ emissions are lower in the UK (6.2 tonnes per capita) than the USA (16.1 tonnes per capita) indicating less environmental pollution in the UK.

MAXIMUM FOR QUESTION 02: 4 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

0 2 Explain how the data in **Extract A** show that higher productivity may result in higher living standards.

[4 marks]

Response:	Max 4 marks
- includes evidence that shows that higher productivity may result in higher living standards - clearly explains how this data is evidence that higher productivity may result in higher living standards	4 marks
- includes evidence that shows that higher productivity may result in higher living standards - explanation of how this data is evidence that higher productivity may result in higher living standards.	3 marks
- includes some limited evidence that shows that higher productivity may result in higher living standards - limited explanation of how this data is evidence that higher productivity may result in higher living standards.	2 marks
- includes evidence that does not clearly show that higher productivity may result in higher living standards - no explanation of how this data is evidence that higher productivity may result in higher living standards.	1 mark

Relevant issues include:

- the meaning of productivity or living standards
- explaining why higher productivity might be expected to result in higher living standards
- the UK has the highest productivity rate (\$59.1 GDP per hour worked) and has the highest life expectancy (80.7 years) indicating better healthcare provision
- Hungary has the lowest productivity rate (\$39.9 GDP per hour worked) and has the lowest life expectancy (74.5 years) indicating worse healthcare provision
- the UK has the highest productivity rate (\$59.1 GDP per hour worked) and has the longest expected years of schooling (17.3 years) indicating better education provision
- Hungary has the lowest productivity rate (\$39.9 GDP per hour worked) and has the lowest expected years of schooling (15.0 years) indicating worse education provision
- the UK has the highest productivity rate (\$59.1 GDP per hour worked) and has the lowest CO₂ emissions per capita (4.9 tonnes) indicating lower pollution levels per person from production
- Estonia has the second lowest productivity (\$42.9 GDP per hour worked) which is only marginally higher than Hungary, but has the worst CO₂ emissions per capita (7.9 tonnes) indicating higher pollution levels per person from production.

MAXIMUM FOR QUESTION 02: 4 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

- 0 6** Explain how the data in **Extract D** show that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.

[4 marks]

Response:	Max 4 marks
- includes evidence that shows Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021 - clearly explains how this data is evidence Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.	4 marks
- includes evidence that shows Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021 - explanation of how this data is evidence Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.	3 marks
- includes some limited evidence that shows Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021 - limited explanation of how this data is evidence Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.	2 marks
- includes evidence that does not clearly show Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021 - no explanation of how this data is evidence that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.	1 mark

Relevant issues include:

- the meaning of 'outperformed' in terms of macroeconomic objectives
- Vietnam has had the largest percentage increase in GDP per capita (120.8% from 2010 to 2021) compared to Malaysia (25.8%) and Thailand (42.5%) indicating the largest rise in living standards per person
- Vietnam has achieved the highest annual growth rate from 2010–2021 (5.9%) compared to Malaysia (4.3%) and Thailand (2.6%)
- Vietnam has a lower average rate of unemployment from 2010–2021 (1.6%) than Malaysia (3.4%) although not lower than Thailand
- Vietnam has had a rise in exports as a % of GDP (54.2% to 93.3%) whereas Malaysia and Thailand have both fallen. Malaysia (86.9% to 68.8%) and Thailand (66.5% to 58.2%)
- Vietnam now has the highest share of exports as a % of GDP in 2021 (93.3%) whereas in 2011, it was lowest (54.2%) indicating improved export performance.

MAXIMUM FOR QUESTION 06: 4 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

0 3 **Extract B** (lines 17-19) states ‘India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.’

With the help of a diagram, explain how export subsidies may help promote economic growth in India.

[9 marks]

Level of response	Response	Max 9 marks
3	- is well organised and develops one or more of the key issues that are relevant to the question - shows sound knowledge and understanding of relevant economic terminology, concepts and principles - includes good application of relevant economic principles and/or good use of data to support the response - includes well-focused analysis with a clear, logical chain of reasoning - includes a relevant diagram that will, at the top of this level, be accurate and used appropriately	7–9 marks
2	- includes one or more issues that are relevant to the question - shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present - includes reasonable application of relevant economic principles and/or data to the question - includes some reasonable analysis but it might not be adequately developed and may be confused in places - may include a relevant diagram	4–6 marks
1	- is very brief and/or lacks coherence - shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely - demonstrates very limited ability to apply relevant economic principles and/or data to the question - may include some very limited analysis but the analysis lacks focus and/or becomes confused - may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects	1–3 marks

A micro diagram showing a rightward shift in supply is expected. The candidate could demonstrate the effects of increased exports, due to the subsidy, using an AD/AS diagram. Provided there is valid explanation, accept either a rightward shift in the SRAS or a rightward shift in AD.

Relevant issues include:

- definitions/explanations: export subsidy, exports, trade, economic growth
- impact of an export subsidy on price, quantity, the volume and value of trade
- impact of an export subsidy on employment in particular industries
- linking trade to aggregate demand
- impact of export subsidies on investment
- linking export subsidies to both short-run and long-run economic growth

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

0 7 **Extract E** (lines 17–18) states: ‘A low rate of corporation tax has also contributed to both short-run and long-run economic growth.’

With the help of a diagram, explain how a low rate of corporation tax may cause short-run **and** long-run economic growth.

[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram showing a rise in AD **and** LRAS is expected. However, some candidates may just shift the LRAS curve. This is acceptable, provided it also includes an AD curve, because it shows an increase in actual and potential output. Also, candidates may use a PPF to show long-run growth by shifting out the boundary **and** illustrate short-run growth by including a point that moves closer to, or onto, the new boundary.

It is also acceptable for candidates to display the information on 2 separate diagrams, with short-run economic growth on one, and long-run economic growth on another.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2021

0 7 **Extract E** (line 14) states: ‘Investment in R&D has been an important driver of economic growth and industrial progress.’

With the help of a diagram, explain how investment in research and development (R&D) can help to increase the long-run growth rate of an economy.

[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram showing an increase in LRAS would be expected. A PPF showing the frontier shifting outwards would also be suitable.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2018

Section B**Essay 1****Total for this essay: 40 marks**

- | | |
|---|---|
| 0 | 9 |
|---|---|
- Explain the main barriers that LEDCs face when attempting to achieve stable, long-term economic growth.

[15 marks]**Relevant issues include:**

- definitions/explanations: economic growth, stable growth, LEDCs
- explaining the main characteristics of LEDCs with reference to measurements such as the HDI or GDP
- explaining factors that may be barriers to growth such as:
 - corruption
 - lack of property rights (both physical and intellectual)
 - poor infrastructure
 - a lack of, or poor quality, human capital
 - a lack of, or poor quality, physical capital
 - a lack of savings causing a lack of capital accumulation
 - institutional factors
 - primary product dependency
 - informal employment and a lack of tax revenue.

Note: some candidates may answer this question in terms of why MEDCs find it easier to achieve economic growth. This approach is fine and should be rewarded accordingly.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 13 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2022

Essay 2

Total for this essay: 40 marks

1 1 Explain the main problems for an economy of having a large positive output gap. **[15 marks]**

Relevant issues include:

- definitions/explanations: output, output gap, positive output gap, economic cycle
- linking positive output gaps to booms
- reasons which may have caused an economy to end up in a positive output gap
- linking positive output gaps to real output growing faster than productive potential
- if the output gap is persistent it will eventually lead the economy to overheat
- explaining the problems which may be caused by positive output gaps such as:
 - demand-pull inflation as too much money is chasing too few goods
 - cost-push inflation due to labour shortages
 - wage-price spirals
 - rising imports as consumption is rising and possible leakages rise
 - falling exports if inflationary pressure occurs
 - an increase in the current account deficit
 - unsustainable asset price rises
 - potential effects on the exchange rate
- linking the 'problems' of the economy having a large positive output gap to the causes such as low productivity growth.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

Section B

Essay 1

Total for this essay: 40 marks

0	9
---	---

 Explain possible reasons why a country may enter a recession.

[15 marks]

Relevant issues include:

- definitions/explanations: recession, economic cycle
- explaining some of the main features of a recession or the difference between the depth or duration of a recession
- linking recessions to falling real national output
- explaining the causes of recessions due to falling AD such as:
 - reduced credit and/or supply of money
 - falling confidence
 - increased interest rates
 - increased taxation
 - reduced government spending
 - speculative bubbles bursting
 - appreciation of currency
 - falling global demand
- explaining the causes of recession due to supply-side issues such as
 - increased oil prices
 - increased indirect taxation
 - supply-side shocks such as rising commodity prices
- explaining the difference between internal and external causes of recessions
- explaining negative multiplier and/or accelerator effects
- explaining the role of expectations on consumption and investment.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

Essay 3**Total for this essay: 40 marks**

- | | |
|----------|----------|
| 1 | 3 |
|----------|----------|
- Explain how an appreciation of its currency is likely to affect a country's rate of economic growth.*

[15 marks]**Relevant issues include:**

- definitions/explanations: appreciation, exchange rates, floating exchange rates, economic growth
- explaining the possible causes of an appreciation affecting the supply and demand of a currency, such as:
 - speculation of a rise
 - inward investment
 - tourism
 - increased export demand
- explaining how an appreciation makes imports relatively more affordable and linking it to:
 - rising imports values and effects on aggregate demand (either slowing it down or reducing it ceteris paribus) and short-run economic growth
 - how this may affect decisions by companies over foreign direct investment and the effects on long-run economic growth
 - reduced cost of raw materials and effects on increasing the short-run aggregate supply curve and short-run growth
- explaining how an appreciation makes exports less competitive and linking it to:
 - falling export values and effects on aggregate demand (either slowing it down or reducing it ceteris paribus) and short-run economic growth
 - how this may affect domestic companies decisions to invest abroad or remain in the domestic economy
- considering possible multiplier effects
- considering elasticities of demands for exports and imports and linking this to growth
- considering exchange rate 'uncertainty' and potential impacts upon investment.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2019

0 4**Extract B** (lines 13–15) states ‘If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending’.

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, governments across the world should prioritise achieving economic growth.

[25 marks]**Areas for discussion include:**

- definitions/explanations: long-run economic growth, short-run economic growth, living standards
- explaining the links between a higher GDP or real GDP/capita and living standards
- explaining why economic growth may lead to improved living standards through:
 - increased employment and disposable incomes
 - more consumption possibilities
 - improved public services and merit good provision
 - a reduction in absolute poverty
- explaining why economic growth may lead to worsening living standards through:
 - inflation and its effects on individuals such as those on fixed incomes or those with low wage-bargaining power
 - the negative externalities of production such as pollution or deforestation
 - the using up of scarce resources
 - inequality
 - stress/loss of leisure time
- explaining the methods by which the government could stimulate short-run economic growth through:
 - expansionary fiscal policies such as decreasing income tax rates or increased government spending
 - expansionary monetary policies such as decreasing interest rates or increasing the money supply (although this may not directly be controlled by the government)
- explaining the methods by which the government could stimulate long-run economic growth through:
 - interventionist supply-side policies such as increased provision of education and training
 - market based supply-side policies such as lowering corporation tax
- the difference between achieving short-run and long-run economic growth
- considering what “happiness” means and whether material well-being correlates with happiness
- considering that it may depend upon the country in question, for example many LEDCs may require economic growth at a faster rate than many developed economies
- considering the objective of economic growth in comparison to the other objectives
- considering whether long-run economic growth can be achieved and the subsequent improvement in living standards
- considering the effects and/or trade-offs of economic growth depend where the economy is in the economic cycle.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2022

1 2 Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

Areas for discussion include:

- definitions/explanations: supply-side, supply-side improvements, interventionist policies
- explaining why supply-side improvements may be necessary
- the difference between interventionist and free-market approaches
- the differences in targeting labour markets or product markets
- explaining interventionist supply-side policies such as:
 - education
 - apprenticeships/vocational training
 - infrastructure
 - regional policy
 - health spending
 - housing supply policies
- explaining free market supply-side policies such as:
 - privatisation
 - deregulation
 - tax and welfare benefit system changes
 - flexible labour markets including trade union reform
 - promoting free trade
 - removing red tape/bureaucracy
 - policies to promote immigration
- the effects of supply-side policy on the macroeconomic goals or living standards
- considering that some supply-side policies require 'intervention' to make them more 'free-market' such as legislation reducing trade-union power to allow the market system to work
- the problems that so called 'carrot and stick' policies may create
- the merits of interventionist versus free-market approaches
- the unintended consequences of policies or government failure
- the real-life experiences and effectiveness of policies: for example, has privatisation worked in all markets such as railways?
- the potential financial costs or cost effectiveness of supply-side policies
- considering that supply-side policies can affect AD
- the difficulties of measuring the effectiveness of supply-side policies and time lags.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2023

1 4 Evaluate the view that economic growth usually leads to an improvement in living standards.
[25 marks]

Areas for discussion include:

- definitions/explanations: living standards, economic growth
- explaining the links between economic growth, real GDP/capita and living standards
- explaining the significance of the rate of growth of the country's population
- explaining why economic growth may lead to improved living standards through:
 - reduced unemployment and increased disposable incomes
 - increased consumption possibilities
 - improved public services and merit good provision due to increased tax revenue
 - a reduction in absolute poverty
- explaining why economic growth may lead to worsening living standards through:
 - inflation and its effects on individuals such as those on fixed incomes or those with low wage-bargaining power
 - the negative externalities of increased output such as pollution or deforestation
 - the using up of scarce resources
 - inequality
 - stress/loss of leisure time
- the limitations of using economic growth figures in order to assess living standards
- considering how the economic growth has been achieved and whether it improves living standards ie spending on the military may add to GDP but not improve living standards
- considering the effects of corruption on living standards
- considering that high growth may reflect recovery from recession rather than improved living standards
- alternative ways of measuring living standards such as the HDI
- it may depend upon the country in question, for example many LEDCs may require economic growth at a faster rate than many developed economies
- the objective of economic growth in comparison to the other objectives
- whether long-run economic growth can be achieved and the subsequent improvement in living standards
- considering economic development rather than growth in terms of improving the quality of life
- the effects and/or trade-offs of economic growth may depend on where the economy is in the economic cycle.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2025

0 8

Extract F (lines 1–2) states: ‘While some see the benefits of the emergence of the BRICS+ economies, others are more worried by their rapid economic growth.’

Using the data in the extracts and your knowledge of economics, assess the view that the continued rapid economic growth of the BRICS+ economies is likely to be damaging to the macroeconomic performance of G7 nations, such as the UK.

[25 marks]**Areas for discussion include:**

- definitions/explanations: economic growth, macroeconomic performance
- analysis and evaluation of the possible benefits of the growth of the BRICS+ economies on the G7 nations such as:
 - increased export opportunities
 - opportunities for outsourcing
 - opportunities for investment abroad including capital and portfolio investment
 - the benefits of comparative advantage
 - increased access to natural resources
 - competition driving innovation and R+D
 - increased consumer surplus from new, more reliable supply chains
- analysis and evaluation of the possible problems of the growth of the BRICS+ economies on the G7 nations such as:
 - loss of infant industries
 - the problems of enforcing property rights
 - increased imports (leakages from the circular flow)
 - loss of global influence of institutions such as the world bank or IMF
 - competition for resources driving up prices
 - environmental concerns
 - unemployment
 - opening up the economies to economic shocks
- discussing the impact of the emergence of BRICS+ on the G7 economies in terms of the macroeconomic performance indicators or living standards
- analysis and evaluation of whether all G7 nations will be impacted in the same way
- discussing recent issues such as trade wars between China and the USA
- analysis and evaluation of arguments for and against globalisation or deglobalisation
- considering the ability of G7 nations to adapt or diversify to changes in the global economy
- discussing protectionism or recent developments between G7 nations such as embargoes or political tensions with Russia
- analysis and evaluation of possible changes in future technology changing opportunities for knowledge transfer, innovation or trade
- considering whether collaboration between the G7 nations and the BRICS+ economies is likely or not
- an overall assessment of whether continued rapid economic growth of the BRICS+ economies is likely to be damaging to the macroeconomic performances of G7 nations, such as the UK.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

0 4

Extract B (lines 13–14) states: ‘It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation’s workers’.

Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy.

[25 marks]**Areas for discussion include:**

- definitions/explanations: free market, supply-side, supply-side reforms, labour markets, macroeconomic performance
- explaining different free market supply-side reforms to labour markets such as:
 - flexible working practices
 - trade union reforms
 - changes to income tax
 - changes to benefits
 - legislation changes and deregulation
- explaining the benefits of supply-side labour market reforms such as:
 - lower inflation rates due to lower costs of production
 - lower unemployment rates due to flexible working
 - improved export performance due to improved competitiveness
 - increased economic growth due to rising productivity
 - attracting FDI and both short-run and long-run growth
- explaining the problems of supply-side labour market reforms such as:
 - rising costs to firms due to retraining costs
 - insecurity leading to a lack of investment in human capital and growth
 - welfare benefit cuts leading to a lack of consumption, AD and growth
 - instability for individuals and low real wages
 - possible damages to economic growth through low wages, low skill and low productivity
- considering other factors other than the macroeconomic performance such as effects on standards of living, government finances or inequality
- considering or contrasting with interventionist supply-side approaches
- considering the long-term or short-term effects
- considering impacts on various markets, such as the impact of zero-hours contracts on the housing market.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

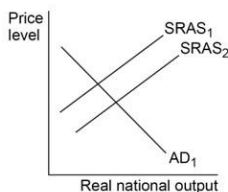
KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

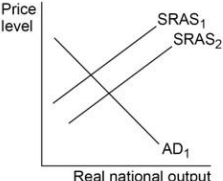
KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
3	D (+12.5)	13	B (5th worker is employed.)	23	A (strengthened against the pound sterling and strengthened against the euro.)
4	C (the rate of inflation.)	14	D (zero)	24	D (industry regulators grow too close to the firms they are regulating.)
5	A (A)	15	C (The adoption of satisficing behaviour)	25	C (An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced)
6	B (Bringing down the rate of inflation)	16	B (Economic agents have higher inflation expectations due to the intervention)	26	A (The proportion of employers' total costs which are made up by wages)
7	B (Availability bias and social norms)	17	C (Evaluating the government's performance against its own fiscal targets)	27	C (more equal and the Gini coefficient has decreased.)
8	B (Some firms will leave the market and the price will rise)	18	A (Increase its purchases of government securities)	28	B (An improvement in the balance of payments on current account)
9	B (Creative destruction)	19	D (The supply curve for potatoes shifts due to the incentive function of prices)	29	B (Banks may engage in more risky lending if they believe the central bank will support them in a crisis)
10	B (0.6)	20	C (4 units)	30	A (£50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

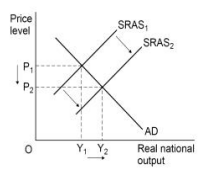
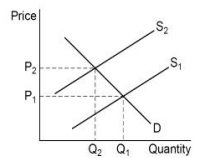
SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R ₁ cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A**KEY LIST**

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A**KEY LIST**

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A** (Figure 1), calculate the mean unemployment rate for the UK from 2007–08 to 2017–18. Give your answer to **one** decimal place.

[2 marks]

Response	Max 2 marks
For the correct answer (6.3%) with the % sign.	2 marks
For a correct answer (6.3) but without the % sign and/or to more than one decimal place. OR For the correct method but the wrong answer, to one decimal place and with the % sign.	1 mark

Calculation: $(5.5 + 7.8 + 8.0 + 6.9 + 5.1 + 4.2) / 6 = 6.25\%$ = 6.3% to one decimal place.

MAXIMUM FOR QUESTION 01: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2018

0 7 **Extract E** (lines 16–17) states ‘However, some argue that trying to maintain stable prices and low unemployment could create trade-offs.’

With the help of a diagram, explain why a trade-off between price stability and low unemployment might occur.

[9 marks]

Level of response	An answer that:	Max 9 marks
3	- is well organised and develops one or more of the key issues that are relevant to the question - shows sound knowledge and understanding of relevant economic terminology, concepts and principles - includes good application of relevant economic principles and/or good use of data to support the response - includes well-focused analysis with a clear, logical chain of reasoning - includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	- includes one or more issues that are relevant to the question - shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present - includes reasonable application of relevant economic principles and/or data to the question - includes some reasonable analysis but it might not be adequately developed and may be confused in places - may include a relevant diagram.	4–6 marks
1	- is very brief and/or lacks coherence - shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely - demonstrates very limited ability to apply relevant economic principles and/or data to the question - may include some very limited analysis but the analysis lacks focus and/or becomes confused - may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

A short-run Phillips curve diagram is expected with co-ordinates plotted. An AD/AS diagram with an upward sloping AS curve and showing a shift in AD is also acceptable.

Relevant issues include:

- definitions/explanations: unemployment, price stability, inflation, trade-off
- explaining how lower unemployment leads to higher disposable incomes
- describing the possible effects on consumption and demand-pull inflation
- describing how a smaller pool of labour may cause labour shortages leading to increased wage demands and cost-push effects
- describing the wage-price spiral.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2023

0 7

Extract E (lines 4–5) states: ‘...banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.’

With the help of a diagram, explain how reduced availability of credit from banks may lead to increased unemployment.

[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram showing a fall in AD would be expected. However, candidates may decide to use a diagram showing a movement from the boundary of a PPF to inside a PPF or an economic cycle diagram to illustrate the effects of falling availability of credit.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

Essay 1**Total for this Essay: 40 marks**

0	9
---	---

 Explain how government policies can reduce the natural rate of unemployment. **[15 marks]****Relevant issues include:**

- definitions/explanations: unemployment, government policies, the natural rate of unemployment
- linking the natural rate to equilibrium in the labour market
- identifying the natural rate as being caused by mainly “voluntary” unemployed workers
- linking the natural rate to structural, frictional or real wage unemployment
- explaining the nature of the supply and demand for labour
- explaining the role of supply-side policies in reducing the natural rate
- considering interventionist or laissez-faire approaches to reducing the natural rate
- explaining the role of wage and inflationary expectations in altering the natural rate
- explaining any of the following:
 - the level of JSA
 - the level of taxation
 - the NMW
 - training schemes
 - transferable skills
 - occupational mobility
 - geographical mobility
 - trade union reform
 - labour market flexibility
 - childcare assistance
 - reducing hysteresis/long-term unemployment
 - reducing wage expectations
 - or any other valid reason.

The use of relevant diagrams to support the analysis such as a long-run Phillips curve or a labour market diagram should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 13 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2018

Essay 3**Total for this essay: 40 marks****1 3** Explain the causes of cyclical **and** structural unemployment.**[15 marks]****Relevant issues include:**

- definitions/explanations: unemployment, cyclical unemployment, structural unemployment
- in terms of cyclical unemployment, explaining:
 - that cyclical unemployment is often seen as involuntary
 - that cyclical unemployment is linked to demand deficiency
 - possible causes of a fall in aggregate demand
 - the derived demand for labour and linking cyclical unemployment to national output
 - interdependence of economies and global downturns
 - reduction in confidence and animal spirits
 - problems in financial markets affecting the real economy
 - causes of negative output gaps or causes of falling output and linking this to the demand for labour
 - recessions and possible negative multiplier and accelerator effects on cyclical unemployment
- in terms of structural unemployment, explaining:
 - structural unemployment may come about by the decline of an industry due to changes in the pattern of demand
 - structural unemployment is often seen as voluntary
 - structural unemployment as essentially a supply-side problem
 - technological unemployment
 - examples in the UK where structural unemployment has occurred
 - skills mis-matches and the need for geographical and occupational mobility
 - globalisation and the rise of emerging economies
 - potential regional issues and the effects on particular industries.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 13 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

Essay 2

Total for this essay: 40 marks

1	1
---	---

 Explain the factors which determine the natural rate of unemployment.
[15 marks]**Relevant issues include:**

- definitions/explanations: natural rate of unemployment (NRU), unemployment
- explaining that at the NRU there is no involuntary unemployment
- explaining the concept of voluntary unemployment
- explaining that the NRU is determined by supply-side factors
- explaining that the NRU is largely made up of frictional and structural unemployment but also real wage unemployment
- describing labour market ‘imperfections’
- explaining the determinants of the NRU such as:
 - the level of benefits
 - the level of income tax
 - skills and education
 - labour mobility (occupational and geographical)
 - labour market flexibility
 - real wage rates compared to expectations
 - availability of job information
 - the level of the NMW
 - trade union power
- explaining the replacement ratio and its significance
- explaining the unemployment trap and its significance.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2025

Essay 3**Total for this essay: 40 marks****1 3***Explain the main limitations of using national income data to assess differences in living standards between countries.***[15 marks]****Relevant issues include:**

- definitions/explanations: national income, living standards
- explanation of the limitations of using national income data such as not:
 - accounting for inequality and the distribution of income and wealth
 - including non-market activities such as caregiving or subsistence farming or accounting for shadow economies
 - measuring the quality of life or considering the quality of goods and services
 - considering the environmental impacts of production or the using up of scarce resources
 - considering work-life balance or considering political or social aspects such as personal freedoms or safety
- explanation of the need to consider population size and the difficulties in estimating this
- explanation of the need for PPP exchange rates when comparing living standards between countries
- describing how even if PPP is accounted for it still doesn't include variations in regional prices
- explanation of how spending on things such as the military may add to national income but not necessarily improve living standards
- explanation of problems in collating data particularly in economies with high rates of informal employment
- explanation of alternative ways of measuring living standards such as the HDI, Gini coefficient, Lorenz curve, Happy Planet Index or other happiness indicators.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

Essay 2

Total for this essay: 40 marks

- 1 1** Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.

[15 marks]

Relevant issues include:

- definitions/explanations: demand-side shocks, supply-side shocks, unemployment
- explaining how unemployment is measured
- explaining the nature of shocks in terms of them being unexpected, unanticipated, exogenous or sudden
- explaining that an unfavourable demand-side shock reduces aggregate demand
- explaining how this affects the derived demand for labour
- examples of how demand-side shocks and explaining why they may cause unemployment such as:
 - an unexpected rise in interest rates causing a fall in borrowing and investment
 - a recession in a major trading partner causing falling export demand
 - a sudden decrease in the money supply, caused by a fall in bank lending damaging consumption and/or investment
- explaining how supply-side shocks may lead to falling real GDP hence a fall in the demand for labour such as:
 - a sudden rise in oil price reducing real national output increasing unemployment
- explaining how supply-side shocks may cause structural unemployment such as:
 - the invention of new technology where capital-intensive production replaces labour-intensive production
 - a country 'opening up' its markets to trade leading to cheaper imports causing deindustrialisation
- explaining how other supply-side shocks may cause unemployment such as:
 - unexpected increases to benefit payments reducing the incentive to work
 - unanticipated increases in income tax rates creating disincentives to quickly move into a new job
- explaining how supply-side shocks may cause real-wage unemployment such as:
 - rising trade union power, driving up wage expectations, and creating a mismatch between supply and demand

The use of relevant diagrams, such as AD or SRAS shifting to the left, to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2017

- 1 0** Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]

Areas for discussion include:

- definitions/explanations: unemployment, macroeconomic policy, macroeconomic goals, trade-offs
- explaining the various causes/types of unemployment
- distinguishing between involuntary and voluntary unemployment
- explaining the different policy responses depending upon the nature of the unemployment
- explaining the effects of falling unemployment on:
 - inflation
 - economic growth
 - trade
 - other goals such as the budget deficit
- highlighting the UK's experience in reducing unemployment whilst maintaining stable inflation and a satisfactory balance of payments position
- the role of supply-side policies and productivity improvements in avoiding conflicts
- the effects of economic shocks on the economy and the difficulty of insulating against these
- the short-run Phillips curve
- government policies to reduce unemployment
- considering the relative success of recent government policies in the UK or other economies
- considering the position of the economy in terms of the proximity to the productive potential
- considering the position of the UK in terms of the economic cycle.

The use of relevant diagrams such as the short-run Phillips curve and AD/AS diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2018

- 1 4** Assess the view that falling unemployment will inevitably lead to an improvement in the standard of living for people in the UK.

[25 marks]

Areas for discussion include:

- definitions/explanations: unemployment, standard of living, quality of life
- explaining why falling unemployment may improve living standards through:
 - increased incomes and consumption possibilities
 - allowing individuals to have more disposable income to spend on leisure
 - motivational and possible health effects
 - social interaction
 - increased tax revenue allowing government to continue spending without accumulating debt
- explaining how falling unemployment may not improve living standards such as:
 - possible inflationary effects which may do little to help those on fixed incomes or low bargaining power
 - inequality may get worse particularly for those not in work
 - cost of living increases
 - reduced unemployment may indicate increased output which may indicate more pollution
- explaining other measures of the standard of living such as the HDI
- explaining quality of life factors
- the issue that the type of work and bargaining power of the workers may determine the relative winners and losers from falling unemployment
- productivity and implications for growth and wages
- the possible effects on firm's costs of a tight labour market and the potential of cost-push inflationary pressure
- the nature and security of the jobs that have been created by considering the effects of zero-hours contracts on issues such as the ability to access credit, job security and incomes
- issues around the 'gig economy', underemployment and the lack of permanent or constant employment and income.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

0 4

Extract B (lines 4–5) states: ‘Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards.’

Using the data in the extracts and your knowledge of economics, assess the view that the government should make raising productivity a priority in order to improve living standards in the UK.

[25 marks]

Areas for discussion include:

- definitions/explanations: productivity, real wages, living standards
- linking rising productivity to supply-side policies
- explaining how the government could help raise productivity by using methods such as:
 - using the tax system to create incentives in labour markets
 - improving labour mobility
 - providing education to develop skills and human capital
 - improving healthcare
 - providing grants or subsidies for R&D or improving technology
 - using the tax system to encourage investment
 - deregulating markets
 - privatising markets
 - creating more competition
- explaining why raising productivity is likely to lead to an improvement in living standards
- assessing other benefits of raising productivity such as:
 - efficiency
 - the effects on real wages or GDP per capita
 - the effects on the macroeconomic objectives
 - the effects on living standards
 - international competitiveness
 - firms’ average costs and profits
- assessing alternative measures to improve living standards such as:
 - focusing on reducing unemployment
 - tackling inflation/reducing the cost of living
 - reducing inequality and poverty
 - focusing on the environment
 - improving the wages of public sector workers
 - improving public services and welfare
- the pros and cons of each method of raising living standards
- possible trade-offs in trying to improve living standards
- considering the term ‘priority’ and the current situation in the UK
- the possibility that multiple methods could be used
- the view that living standards may be subjective and desirable outcomes may change over time
- the difficulties of raising productivity, and the effectiveness of policies
- time lags and the costs of implementing policies
- productivity may be improved through the private sector, regardless of government intervention
- an overall assessment of whether the government should prioritise raising productivity to try to improve living standards in the UK.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2024

- 1 2** Discuss the view that high levels of employment are always beneficial for an economy. **[25 marks]**

Areas for discussion include:

- definitions/explanations: employment, unemployment
- explaining the main objectives of government macroeconomic policy: economic growth, price stability, minimising unemployment and a stable balance of payments on current account
- assessing the benefits of high levels of employment such as:
 - reduced unemployment
 - the various costs of unemployment
 - economic growth
 - increased consumption possibilities
 - increased incomes
 - improved living standards
 - reduced government spending
 - increased tax revenue
 - reduced government borrowing
 - benefits to firms such as increased revenue and profits
- assessing the costs of high levels of employment such as:
 - demand-pull inflation caused by rising AD
 - cost-push inflation caused by a tight labour market
 - wage-price spirals
 - labour market shortages
 - increased spending on imports
 - possible reductions in productivity
- explaining trade-offs in terms of the short-run Phillips Curve
- explaining the various types of unemployment and linking them to how employment can be increased
- considering that increased employment does not necessarily mean falling unemployment
- linking increased employment to possible increases in the labour force
- linking to increased productive capacity/LRAS
- explaining increased employment may have been caused by new entrants or individuals returning to the labour force
- explaining government policies which may have been used to increase employment and the possible downsides of each method
- considering if the rise is temporary or long-run
- considering that the effects of increased employment may depend on where the economy is in the economic cycle
- an overall assessment of whether high levels of employment are always beneficial for an economy.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

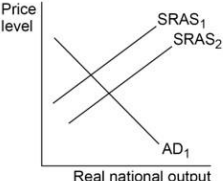
Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2022

0 6 Explain how the data in **Extract D (Figures 3 and 4)** show that there may be a short-run trade-off between unemployment and inflation.

[4 marks]

Response:	Max 4 marks
- includes evidence that shows that there may be a short-run trade-off between unemployment and inflation - clearly explains how this data is evidence that there may be a short-run trade-off between unemployment and inflation.	4 marks
- includes evidence that shows that there may be a short-run trade-off between unemployment and inflation - explanation of how this data is evidence that there may be a short-run trade-off between unemployment and inflation.	3 marks
- includes some limited evidence that shows that there may be a short-run trade-off between unemployment and inflation - limited explanation of how this data is evidence that there may be a short-run trade-off between unemployment and inflation.	2 marks
- includes evidence that does not clearly show that there may be a short-run trade-off between unemployment and inflation - no explanation of how this data is evidence that there may be a short-run trade-off between unemployment and inflation.	1 mark

Relevant issues include:

- the meaning of 'trade-off' or 'unemployment' or 'inflation'
- explaining the trade-off in terms of an inverse relationship with possible reference to the Phillips curve
- explaining why a trade-off may occur between unemployment and inflation
- the largest fall in unemployment rates occurred in both France (10.4% in 2015 to 9.0% in 2018) and the USA (5.3% in 2015 to 3.9% in 2018) which both experienced significant rises in inflation rates (France 0.1% in 2015 to 2.1% in 2018 and the USA 0.1% in 2015 and 2.4% in 2018)
- the largest increase in unemployment was in Brazil (8.3% in 2015 to 12.3% in 2018) who also experienced a significant fall in their inflation rate (9.0% in 2015 to 3.7% in 2018)
- other than Argentina, the largest increase in inflation was in the UK (0.0% in 2015 to 2.5% in 2018) who also had a large fall in unemployment (5.4% to 4.1%)
- of the five nations displayed only Argentina appeared to not show a trade-off (unemployment rose from 6.5% in 2015 to 9.2% in 2018 whereas inflation rose from 10.0% to 34.3%).

Note: Some candidates may attempt to illustrate the trade-off using diagrammatic analysis and the data. This should be rewarded as evidence of the trade-off.

MAXIMUM FOR QUESTION 06: 4 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

0 2 Explain how the data in **Extract A** (Figure 2) show that the UK has had poor real wage growth since 2008.

[4 marks]

Response:	Marks
- includes evidence that shows that the UK has had poor real wage growth since 2008 - clearly explains how this data is evidence that the UK has had poor real wage growth since 2008.	4 marks
- includes evidence that shows that the UK has had poor real wage growth since 2008 - explanation of how this data is evidence that the UK has had poor real wage growth since 2008.	3 marks
- includes some limited evidence that shows that the UK has had poor real wage growth since 2008 - limited explanation of how this data is evidence that the UK has had poor real wage growth since 2008.	2 marks
- includes evidence that does not clearly show that the UK has had poor real wage growth since 2008 - no explanation of how this data is evidence that the UK has had poor real wage growth since 2008.	1 mark

Relevant issues include:

- the meaning of the term 'real wage growth' or 'poor real wage growth'
- for the majority of years (2009–2014) and (2017–2018) the inflation rate is higher than the average earnings rate
- using evidence to explain that real wage growth was negative
- from 2009–2014 inflation was, on average, more than 1% above earnings rates
- when the inflation rate peaked, the increase in average earnings rate was much lower (in late 2011 the inflation rate reached 5% compared to average earnings growth of 2.9%)
- when the average earnings rate peaked, the inflation rate was only slightly lower (in 2008, the average earnings rate was at 4.3% compared to an inflation rate of 2.5%)
- the compound effects of price level rises, with inflation changes earlier in the chart
- linking all of the above to low real wage growth.

MAXIMUM FOR QUESTION 02: 4 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2023

0 4

Extract B (lines 1–3) states: ‘Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world’s biggest companies, including Google and Facebook, to site their European headquarters in Ireland.’

Using the data in the extracts and your knowledge of economics, assess the view that a rise in Ireland’s corporation tax rate is likely to have a damaging effect on its macroeconomic performance.

[25 marks]**Areas for discussion include:**

- definitions/explanations: tax, corporation tax, macroeconomic performance
- explaining how corporation tax is a tax levied on a firm’s profits
- explaining how low corporation tax can attract FDI and MNCs into a nation
- explaining the benefits of attracting FDI and MNCs such as:
 - increased short-run and long-run growth
 - reduced unemployment
 - the possible effects of reduced inflation if productive potential is increased
 - the effects on international trade such as being a base for increased exports
- explaining that a higher rate of corporation tax may drive away FDI and MNCs
- explaining the possible costs of losing FDI and MNCs such as:
 - reduced growth rates (both short-run and long-run)
 - increased unemployment
 - possible effects on inflation (could it lead to deflation?)
 - the effects on international trade such as a loss of exports
- explaining other possible effects such as on living standards, government finances or inequality
- linking MNCs and FDI to wealth creation and the possible ‘trickle-down’ effect
- considering regional disparities that may occur
- the effects on GDP versus the effects on GNP if profits are repatriated
- tax avoidance issues
- whether the change in tax rates will impact at all, if industries are not footloose
- the benefits of possible increased tax revenue on macroeconomic performance if FDI and MNCs remain in Ireland
- the benefits of possible increased tax revenue on other areas of the economy such as welfare provision.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2020

- 1 4** Evaluate the costs and benefits for a country of joining a currency union, such as the eurozone.

[25 marks]

Areas for discussion include:

- definitions/explanations: currency union, the eurozone, exchange rate systems
- explaining the benefits of joining a currency union such as:
 - stability of currency allowing for business planning
 - trade creation due to reduced transaction costs
 - possible benefits from increased specialisation and gains from comparative advantage
 - price transparency between fellow members
 - possible reduced inflation due to reduced import costs
 - attracting inward investment
 - protection for smaller countries from financial crisis or speculation
- explaining the costs of joining a currency union, such as:
 - changeover costs or menu costs to firms
 - the inability to have control over the instruments of monetary policy
 - 'one size fits all' interest rates
 - possibly not an optimal currency area due to cultural/language barriers
 - possibly limits to fiscal policy such as the EU growth and stability pact
 - no scope for a competitive devaluation
- considering political factors
- considering short-run costs and benefits against long-run costs and benefits
- considering from different countries' perspectives, such as the potential stability of currency union outweighing the negative effects
- considering the actual experiences of some European countries (such as Greece)
- considering the difficulties of exiting a currency union, once one is established.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/2 – JUNE 2023

- 1 2** Evaluate how, in the long-run, governments could try to reconcile conflicts between the various objectives of economic policy.

[25 marks]

Areas for discussion include:

- definitions/explanations: long-run, reconciling conflicts, economic objectives, economic policy
- explaining the main objectives of government macroeconomic policy: economic growth, price stability, minimising unemployment and a stable balance of payments on current account
- explaining the main conflicts arising such as:
 - economic growth causing rising inflation
 - economic growth causing rising imports and balance of payments deficit on current account
 - lower unemployment causing inflation.
- explaining how negative and positive output gaps relate to unemployment and inflationary pressures
- explaining trade-offs and conflict resolution in terms of the short-run and long-run Phillips Curve
- considering other objectives of macroeconomic policy, such as balancing the budget, environmental objectives and achieving an equitable distribution of income
- considering that the importance attached to the different objectives may change over time or depend on the stage of development of a nation
- explain that governments may satisfice rather than attempt to achieve all of the objectives at the same time
- explaining how demand-side policies can be used to try to achieve objectives but may cause trade-offs
- the monetarist/supply-side view that the major macroeconomic objectives are compatible in the long run
- the merits of interventionist versus free-market approaches to supply-side policies
- unintended consequences of policies or government failure
- considering the potential financial costs or cost effectiveness of supply-side policies
- the difficulties of measuring the effectiveness of supply-side policies and time lags.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS