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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Financial Markets and Monetary Policy

AQA A-level Economics 7136 — Topic 4.2.4

52 questions · 284 marks · Mark schemes included

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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.

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QUESTIONS

52 questions · 284 marks · 4 sub-topics



SUB-TOPIC 4.2.4.1

THE STRUCTURE OF FINANCIAL MARKETS AND FINANCIAL ASSETS

Sub-topic 4.2.4.1 · 7 questions · 7 marks · lowest tariff first



13

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2 1

A government issued bond has a nominal value of £100 and the annual coupon is £6. The bond has 35 years until maturity. Its current yield is 5%. The current market price of the bond is

A £100

☐

B £105

☐

C £106

☐

D £120

☐

[1 mark]

2 2

Which one of the following combinations, **A**, **B**, **C** or **D**, best distinguishes between the functions of the money market and the capital market?

	Money market	Capital market	
A	The market for issuing new shares	The market where foreign currency is exchanged at some point in the future	☐
B	The market where commercial banks provide short-term loans to each other	The market where businesses obtain funds to finance long-term growth	☐
C	The market where foreign currencies are traded	The main market in which commercial banks lend to each other	☐
D	The market where the government finances its budget deficit by issuing bonds	The market where short-term debt is converted into equity finance	☐

[1 mark]

Turn over for the next question



1 3

Turn over ►

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13

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☐

D £120

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[1 mark]

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[1 mark]

Turn over for the next question



1 3

Turn over ►

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12

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1 9

A large Asian steel-producing country dumps its surplus steel on the world market. All other things being equal, if the demand for steel is price elastic, the most likely consequence for the EU market for steel will be to

A reduce excess capacity in the EU steel-making industry.

☐

B reduce the value of steel imports into the EU.

☐

C shift the demand curve for EU steel workers to the left.

☐

D shift the supply curve of EU steel workers to the left.

☐

[1 mark]

2 0

A company has an issued share capital of £1 million and an outstanding corporate bond issue of £200 000. To fund its expansion, the company issues additional corporate bonds for £300 000. All other things being equal, after the issue of the additional corporate bonds the ratio of the company's total debt to its equity will be

A 0.2:1

☐

B 0.3:1

☐

C 0.5:1

☐

D 2.0:1

☐

[1 mark]

2 1

Despite its central bank operating a policy of quantitative easing for several years, an economy has rising unemployment and a rate of inflation significantly below the target rate set by the government. All other things being equal, which one of the following actions is the central bank most likely to take in order to meet the target for inflation?

A A policy leading to an appreciation of the exchange rate.

☐

B An increase in its base rate of interest and the reversal of its quantitative easing policy.

☐

C Providing forward guidance indicating that the bank will continue with its programme of quantitative easing.

☐

D Selling some of its stock of government bonds to other financial institutions.

☐

[1 mark]



1 2

IB/M/Jun19/7136/3

16

2 5

The price of a government bond was £10 000 when it was issued. The bond does not have a maturity date and the government is not intending to buy back the bond. The bond pays £200 per year to the bond holder and has a market price of £8 000.

Which one of the following fractions represents the yield on the bond?

[1 mark]

A $\frac{1}{50}$

☐

B $\frac{1}{40}$

☐

C $\frac{1}{5}$

☐

D $\frac{4}{5}$

☐

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10

1 4

In 2015, the UK government introduced a tax on firms using landfill sites to dispose of waste. After the tax was introduced, there was a significant rise in illegal dumping of waste. This is most likely to be an example of

[1 mark]

- A** a negative externality in consumption.
- B** government failure due to unintended consequences.
- C** market failure resulting from imperfect information.
- D** the tragedy of the commons.

☐☐☐☐**1 5**

Which one of the following functions of money is likely to be most effective during a period of deflation?

[1 mark]

- A** Measure of value
- B** Standard of deferred payment
- C** Store of value
- D** Unit of account

☐☐☐☐

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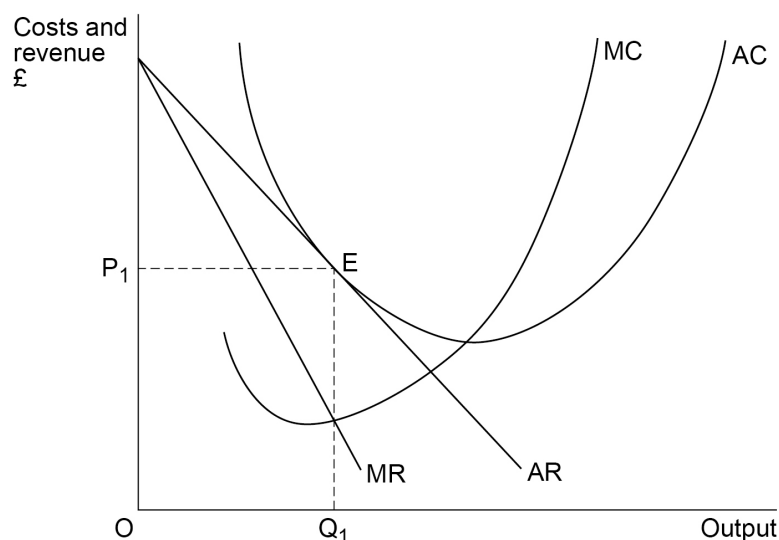
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0 8

Figure 2 shows the equilibrium position, point E, of a profit-maximising firm in a monopolistically competitive industry.

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Figure 2



All other things being equal, which one of the following applies to the firm's equilibrium at point E? The firm is

A in short-run equilibrium, but not in long-run equilibrium.

☐

B making normal profit because $AC = AR$.

☐

C making supernormal profit because $MC = MR$.

☐

D productively efficient but not allocatively efficient.

☐

[1 mark]

0 9

A long-dated £100 government bond with a coupon rate of 5% has a current market value of £125. This implies that the

A current yield on the bond is 4%.

☐

B current yield on the bond is 5%.

☐

C market rate of interest is 2.5%.

☐

D market rate of interest is 5%.

☐

[1 mark]

Turn over ►



0 5

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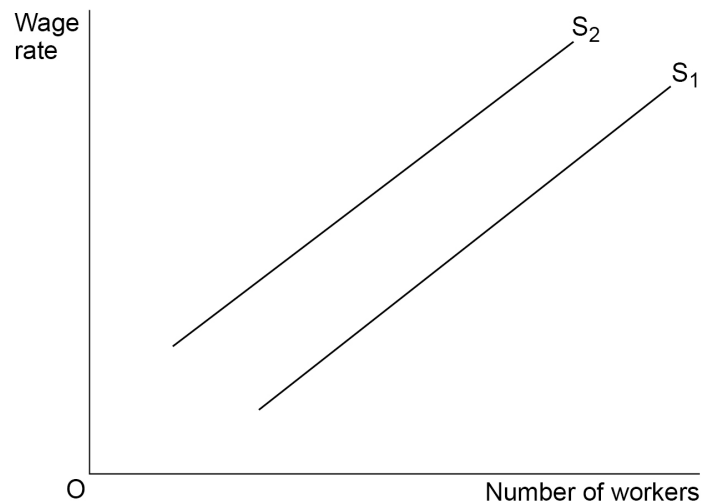
18

2 6 The money market is the financial market in which

- A** companies issue new shares to the public and financial institutions. ☐
- B** dealers are able to trade foreign currencies. ☐
- C** long-term company securities and government bonds are traded. ☐
- D** short-term finance is provided for companies and governments. ☐

[1 mark]

2 7 **Figure 9** shows two labour supply (S_1 and S_2) curves for workers qualified to the level necessary to be employed in a particular industry.

Figure 9

All other things being equal, the shift of the supply of labour curve from S_1 to S_2 is most likely to be explained by a reduction in

- A** job security for qualified workers in the industry. ☐
- B** the average wage rate in the industry. ☐
- C** the productivity of workers in the industry. ☐
- D** the qualifications required by the industry. ☐

[1 mark]



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SUB-TOPIC 4.2.4.2

COMMERCIAL BANKS AND INVESTMENT BANKS

Sub-topic 4.2.4.2 · 10 questions · 24 marks · lowest tariff first



14

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box**2 | 3**

The table below shows different combinations of changes in a commercial bank's liquidity and capital ratios. All other things being equal, which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to improve the bank's financial stability?

	Liquidity ratio	Capital ratio	
A	Increase	Decrease	☐
B	Increase	Increase	☐
C	Decrease	Increase	☐
D	Decrease	Decrease	☐

[1 mark]**2 | 4**

An economy had a 3% increase in its real GDP over a one year period. In the same period its population grew by 5% and its rate of inflation was 2.5%. From these data it can be inferred that

A its Human Development Index decreased by 2%. ☐

B nominal GDP per capita increased. ☐

C real wages fell due to inflation. ☐

D the number of unemployed people increased. ☐

[1 mark]**2 | 5**

The marginal propensity to consume (MPC) in an economy is 0.5. If the MPC increases by 20% the new value of its multiplier will be

A 2.0 ☐

B 2.5 ☐

C 5.0 ☐

D 10.0 ☐

[1 mark]

1 4

IB/M/Jun19/7136/3

7

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0 9 A firm charging different customers different prices for the same product is practising [1 mark]

- A limit pricing. ☐
- B marginal cost pricing. ☐
- C price discrimination. ☐
- D price leadership. ☐

1 0 In an economy, an index showing the change in the money supply multiplied by the velocity of circulation increases from 100 to 115.5. At the same time, the final output produced by the economy increases from 100 to 110.

According to Fisher's equation of exchange, the price level will increase by [1 mark]

- A 5% ☐
- B 5.5% ☐
- C 10% ☐
- D 15.5% ☐

1 1 Systemic risk is most likely to occur in financial systems when [1 mark]

- A investment banks have low capital-output ratios. ☐
- B most banks carry out both commercial and investment banking activities. ☐
- C the central bank acts as lender of last resort to financial institutions. ☐
- D the commercial banks have high liquidity ratios. ☐

Turn over ►



0 7

IB/M/Jun22/7136/3

17

2 6 Table 5 contains figures from the balance sheet of a commercial bank.

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Table 5

Item	Value (£ bn)
Cash	45
Share capital	100
Loans advanced	135
Fixed assets	115
Long-term liabilities	85
Investments	50
Reserves (retained profit)	30
Balances at the central bank	25
Deposits and other liabilities	185
Other liquid assets	30

What is the value of this bank's total liquid assets?

[1 mark]

- A** £70 bn ☐
- B** £100 bn ☐
- C** £130 bn ☐
- D** £175 bn ☐

Turn over for the next question

Turn over ►



1 7

IB/M/Jun22/7136/3

Do not write
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box**2 4**

Following a reduction in the level of cash reserves required by the regulator, a commercial bank increases its mortgage lending.

Which one of the following describes how the bank's liquidity and profitability are most likely to change?

[1 mark]

- A** Liquidity and profitability both improve
- B** Liquidity and profitability both worsen
- C** Liquidity improves and profitability worsens
- D** Liquidity worsens and profitability improves

☐☐☐☐**2 5**

A country joins a customs union. Which one of the following is the most likely consequence of its membership?

[1 mark]

- A** Exports to non-member countries will increase
- B** Exports to other member countries will be more expensive
- C** Imports from non-member countries will be cheaper
- D** Imports from other member countries will increase

☐☐☐☐**2 6**

Which one of the following helps to explain why, in a freely floating exchange rate system, market forces are likely to automatically reduce a deficit or surplus on a country's balance of trade?

[1 mark]

- A** A deficit will lead to excess demand for the country's currency and a depreciating exchange rate.
- B** A deficit will lead to excess supply of the country's currency and an appreciating exchange rate.
- C** A surplus will lead to excess demand for the country's currency and an appreciating exchange rate.
- D** A surplus will lead to excess supply of the country's currency and a depreciating exchange rate.

☐☐☐☐

1 8

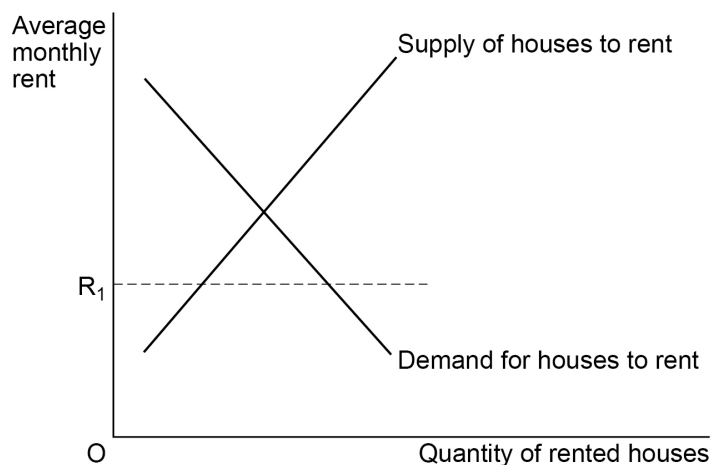
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13

1 4

Figure 4 shows a market for houses to rent. The current average monthly rent in the market is R_1 .

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Figure 4

Why is this market in disequilibrium at an average monthly rent of R_1 ?

[1 mark]

- A** Market forces are likely to encourage landlords to reduce the rent they charge
- B** Market forces are likely to lead to an increase in the average rent and fewer houses available for tenants
- C** Some landlords who would like to rent houses out at R_1 cannot find tenants
- D** Some potential tenants who would like to rent a house at R_1 cannot find a house to rent

☐☐☐☐

Turn over for the next question

Turn over ►



1 3

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16

1 7

Which one of the following is most likely to be included in a broad measure of the money supply but not in a narrow measure of the money supply?

[1 mark]

- A** Commercial banks' deposits with the central bank
- B** Notes and coins held by households
- C** Savings deposited with commercial banks that have more than a year to maturity
- D** The total amount owed on credit cards that has been outstanding for more than 28 days

☐☐☐☐

1 8

Table 5 shows the liquidity ratio and capital ratio for two, otherwise identical, banks.

Table 5

	Liquidity ratio	Capital ratio
Bank Y	0.03:1	12.1%
Bank Z	0.05:1	14.4%

All other things being equal, it is likely that

[1 mark]

- A** Bank Y is less profitable than Bank Z and is less secure.
- B** Bank Y is less profitable than Bank Z but is more secure.
- C** Bank Y is more profitable than Bank Z and is more secure.
- D** Bank Y is more profitable than Bank Z but is less secure.

☐☐☐☐

1 6

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16

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☐☐☐☐

1 6

IB/M/Jun25/7136/3

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24

2 8

A government announces that, over a 10 year period, it plans to reduce the number of tradable pollution permits it issues each year.

Which one of the following is the most likely response from firms in industries affected by the announcement?

[1 mark]

- A** Firms are likely to delay investment into more environmentally friendly production methods
- B** Only the firms that generate the most pollution are likely to react at all
- C** Over time, more firms will have an incentive to reduce their pollution
- D** The firms with the lowest costs of reducing pollution will buy the most permits

☐☐☐☐**2 9**

All other things being equal, which one of the following is most likely to be a consequence of inflation in the UK?

[1 mark]

- A** The amounts outstanding on households' existing mortgages will fall in real terms
- B** The nominal value of people's incomes before tax will fall
- C** The price of all goods and services sold in the UK will increase
- D** The real value of the money deposited in commercial banks will increase

☐☐☐☐

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6

0 7 Table 2 contains a simple balance sheet for a bank.

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Table 2

Assets (£ billion)		Liabilities (£ billion)	
Cash	20	Customer Deposits	700
Cash held at Central Bank	70	Money owed to Central Bank	30
Securities held	130	Money owed to other banks	170
Loans	730	Shareholders Equity	100
Other assets	50		
Total assets 1000		Total liabilities 1000	

From the balance sheet it can be concluded that this bank is

- A** a threat to financial stability because it holds no capital. ☐
- B** an investment bank because it holds non-interest bearing cash. ☐
- C** earning large profits because most of its assets are loans. ☐
- D** most likely to be a commercial bank because its main liabilities are customer deposits. ☐

[1 mark]

0 8 The free-rider problem in economics means that government intervention is necessary to prevent market failure in the supply of

- A** inferior goods. ☐
- B** merit goods. ☐
- C** private goods. ☐
- D** public goods. ☐

[1 mark]



0 6

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7

OR**Essay 3**

Commercial banks provide financial services for both individuals and businesses. In 2007–08, the financial crisis led many to argue for tighter regulation of the banks to prevent problems in financial markets affecting the real economy. However, financial markets are not the only source of cyclical instability. Governments can use a variety of policies to try to create a more stable economy.

1	3
---	---

Explain the role of commercial banks in the economy.

[15 marks]

1	4
---	---

Assess policies which can be used to reduce cyclical instability in the UK.

[25 marks]**END OF QUESTIONS**

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SUB-TOPIC 4.2.4.3

CENTRAL BANKS AND MONETARY POLICY

Sub-topic 4.2.4.3 · 33 questions · 227 marks · lowest tariff first

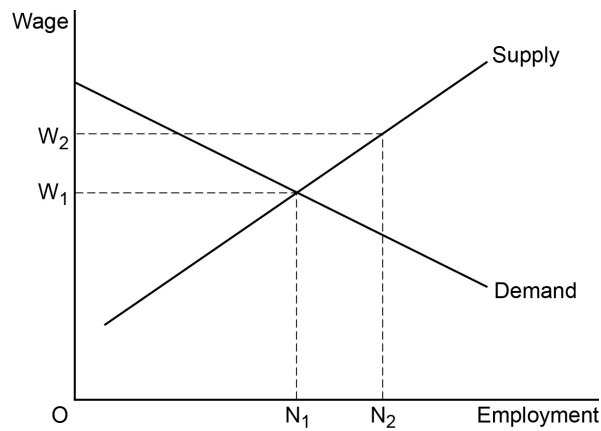


4

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0 4

The diagram below shows the market for bricklayers.



The original equilibrium wage is W_1 and the number of bricklayers employed is N_1 . Which one of the following events is most likely to increase the wage paid to bricklayers to W_2 and increase employment to N_2 ?

- A** A cut in bank rate leading to a fall in mortgage interest rates ☐
- B** A fall in the number of young people training as apprentice bricklayers ☐
- C** An improvement in working conditions in the construction industry ☐
- D** An increase in the wages paid to electricians in the construction industry ☐

[1 mark]



0 4

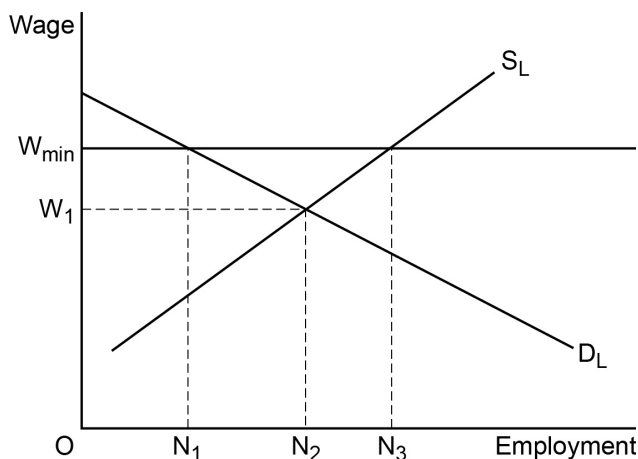
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12

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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

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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
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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 ►

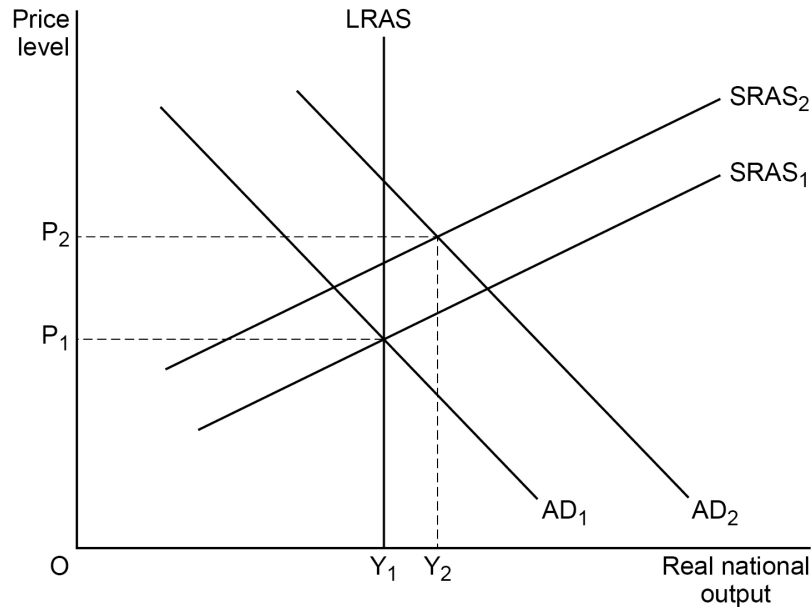
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16

2 | 5

The diagram below shows two aggregate demand (AD) curves, two short-run aggregate supply (SRAS) curves, and the long-run aggregate supply (LRAS) curve for an economy.

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box*



The increase in the price level from P_1 to P_2 raises the rate of inflation above the target rate set by the government. In an attempt to bring inflation back to its target rate, the central bank announces a change in interest rates. Other things being equal, this is most likely to

A create upward pressure on the exchange rate.

☐

B increase bond prices.

☐

C make business loans more affordable.

☐

D reduce the cost of servicing the national debt.

☐

[1 mark]



1 6

IB/G/Jun18/7136/3

6

0 8

A rational, utility maximising consumer is considering the purchase of a used car. Her final choice is between two cars which are identical in **all** respects except for the differences shown below.

	Price	Period of guarantee against faults
Car 1	£8 000	3 months
Car 2	£10 000	12 months

Based on the above information, which one of the following is the most likely explanation for the customer's purchase of Car 2? She

- A** has £10 000 of savings available to buy herself a used car.
- B** has a positive income elasticity of demand for used cars.
- C** has a price inelastic demand curve for used cars.
- D** wants to reduce the risks from asymmetric information.

☐☐☐☐

[1 mark]

0 9

All other things being equal, if the velocity of circulation is constant, the quantity theory of money based on Fisher's equation of exchange, $MV=PQ$, predicts that an x% increase in the money supply will always cause an x%

- A** decrease in the rate of interest.
- B** increase in nominal national income.
- C** increase in real national income.
- D** increase in the rate of economic growth.

☐☐☐☐

[1 mark]

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12

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1 9

A large Asian steel-producing country dumps its surplus steel on the world market. All other things being equal, if the demand for steel is price elastic, the most likely consequence for the EU market for steel will be to

A reduce excess capacity in the EU steel-making industry.

☐

B reduce the value of steel imports into the EU.

☐

C shift the demand curve for EU steel workers to the left.

☐

D shift the supply curve of EU steel workers to the left.

☐

[1 mark]

2 0

A company has an issued share capital of £1 million and an outstanding corporate bond issue of £200 000. To fund its expansion, the company issues additional corporate bonds for £300 000. All other things being equal, after the issue of the additional corporate bonds the ratio of the company's total debt to its equity will be

A 0.2:1

☐

B 0.3:1

☐

C 0.5:1

☐

D 2.0:1

☐

[1 mark]

2 1

Despite its central bank operating a policy of quantitative easing for several years, an economy has rising unemployment and a rate of inflation significantly below the target rate set by the government. All other things being equal, which one of the following actions is the central bank most likely to take in order to meet the target for inflation?

A A policy leading to an appreciation of the exchange rate.

☐

B An increase in its base rate of interest and the reversal of its quantitative easing policy.

☐

C Providing forward guidance indicating that the bank will continue with its programme of quantitative easing.

☐

D Selling some of its stock of government bonds to other financial institutions.

☐

[1 mark]



1 2

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16

2 8

A country experiences a large net capital outflow. All other things being equal, the most likely consequence of this in the short run will be a decrease in

A its exchange rate.

☐

B its net income from overseas investments.

☐

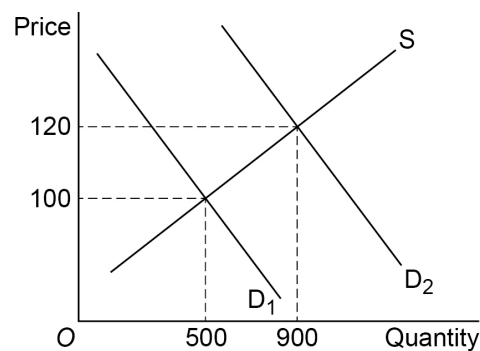
C its rate of interest.

☐

D the value of exports and imports.

☐
[1 mark]**2 9**

The diagram below shows two market demand curves (D_1 and D_2) and the market supply curve (S), for Good X.



The price elasticity of supply of Good X when the demand curve shifts from D_1 to D_2 is

A +0.25

☐

B +2.0

☐

C +4.0

☐

D +7.5

☐
[1 mark]

IB/M/Jun19/7136/3

4

0 4

Table 1 shows the individual price indices and the weightings of the three goods that make up a price index.

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Table 1

Good	Weighting	Price Index in April 2022 (April 2021=100)
X	0.1	102
Y	0.4	104
Z	0.5	103

What was the percentage increase in the overall price index between April 2021 to April 2022?

[1 mark]**A** 1.1%☐**B** 3%☐**C** 3.3%☐**D** 9%☐**0 5**

When using data to make international comparisons of the standard of living, purchasing power parity (PPP) exchange rates are more useful than market exchange rates.

This is because PPP exchange rates take into account differences in countries'

[1 mark]**A** distribution of income.☐**B** levels of taxation.☐**C** price levels.☐**D** rates of population growth.☐

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7

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0 9 A firm charging different customers different prices for the same product is practising [1 mark]

- A limit pricing. ☐
- B marginal cost pricing. ☐
- C price discrimination. ☐
- D price leadership. ☐

1 0 In an economy, an index showing the change in the money supply multiplied by the velocity of circulation increases from 100 to 115.5. At the same time, the final output produced by the economy increases from 100 to 110.

According to Fisher's equation of exchange, the price level will increase by [1 mark]

- A 5% ☐
- B 5.5% ☐
- C 10% ☐
- D 15.5% ☐

1 1 Systemic risk is most likely to occur in financial systems when [1 mark]

- A investment banks have low capital-output ratios. ☐
- B most banks carry out both commercial and investment banking activities. ☐
- C the central bank acts as lender of last resort to financial institutions. ☐
- D the commercial banks have high liquidity ratios. ☐

Turn over ►



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.

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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

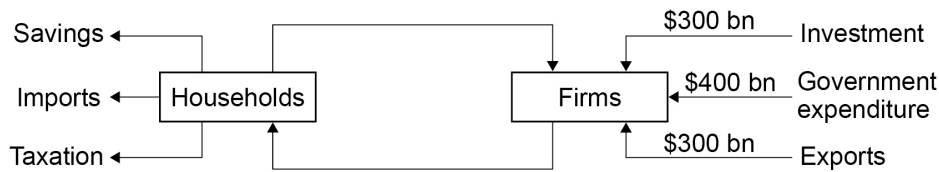
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05

Figure 2 shows the injections into and withdrawals from the circular flow of income of an economy which is in macroeconomic equilibrium.

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Figure 2



In the economy, net exports are $-\$50\text{bn}$. Which one of the combinations, **A**, **B**, **C** or **D**, shows the levels of savings, taxation and imports?

[1 mark]

	Savings (\$bn)	Taxation (\$bn)	Imports (\$bn)	
A	300	350	350	☐
B	350	400	250	☐
C	350	250	350	☐
D	450	300	250	☐

06

A central bank has raised interest rates as part of monetary policy.

Which one of the following policy objectives is this most likely to assist the government in achieving?

[1 mark]

- A** A more equitable distribution of income
- ☐
- B** Bringing down the rate of inflation
- ☐
- C** Increasing the rate of economic growth
- ☐
- D** Minimising the rate of unemployment
- ☐



10

1 8

Which one of the following is a policy that the Bank of England is most likely to undertake if it wants to increase the money supply?

[1 mark]

- A** Increase its purchases of government securities
- B** Increase market interest rates by increasing Bank Rate
- C** Increase the capital ratio required of commercial banks
- D** Increase the liquidity ratio required of commercial banks

☐☐☐☐

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14

1 | 9

Table 6 shows the national debt and gross domestic product (GDP) for the UK in the second quarters of 2020 and 2022.

Table 6

Year	National debt (£bn)	GDP (£bn)
2020	2069	2190
2022	2437	2391

All other things being equal, which one of the following is most likely to help the government manage the impact of the changes shown in **Table 6**?

[1 mark]

- A** Contractionary monetary policy by the Bank of England
- B** Falling demand for government bonds from foreign investors
- C** Rising interest rates in global financial markets
- D** Sustained rises in nominal national income in future years

☐☐☐☐

2 | 0

A firm has a downward-sloping average revenue curve and a U-shaped average total cost curve. Which one of the following meets the condition required for the firm to be productively efficient?

The firm is producing the quantity at which

[1 mark]

- A** average revenue equals average total cost.
- B** average revenue equals marginal cost.
- C** marginal cost equals average total cost.
- D** marginal revenue equals marginal cost.

☐☐☐☐

1 4

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23

Do not write
outside the
box**2 | 6**

Which one of the following is a supply-side policy that is most likely to lead to an improvement in the balance of trade in goods and services on the current account of the UK's balance of payments?

[1 mark]

- A** A significant and sustained reduction in Bank Rate by the Monetary Policy Committee of the Bank of England ☐
- B** Deregulation that makes it easier for UK transnational corporations to invest abroad ☐
- C** Increasing the supply of pounds on the foreign exchange market to reduce the exchange rate and make exports cheaper ☐
- D** Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods ☐

2 | 7

Which one of the following statements regarding UK competition policy is correct?

[1 mark]

- A** An objective of competition policy is to reduce firms' profits by preventing firms from charging prices that are higher than their marginal cost of production. ☐
- B** Competition policy aims to increase social welfare by discouraging existing firms from entering new markets that have a low concentration ratio and are already very competitive. ☐
- C** Competition policy recognises that a monopoly may be preferable to many small firms producing in a competitive market due to the existence of diseconomies of scale. ☐
- 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. ☐

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

2 3

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6

1 0

All other things being equal, in which one of the following circumstances is the Bank of England most likely to raise Bank Rate to maintain financial stability?

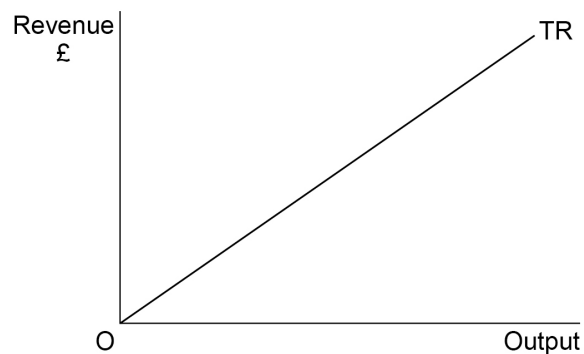
- A** A fall in bank liquidity and capital ratios following several years of rapid growth in bank lending and a boom in house prices ☐
- B** An increase in the government's target for the rate of inflation following a significant increase in the rate of productivity growth ☐
- C** An increase in the savings ratio as the economy recovers from a recession ☐
- D** A rise in share prices on global stock markets due to the growth in world trade ☐

[1 mark]

1 1

Figure 3 shows a firm's total revenue (TR) curve.

Figure 3



Which one of the following combinations, **A**, **B**, **C** or **D**, describes how the firm's average revenue and marginal revenue will change as the firm expands its output?

	Average revenue	Marginal revenue	
A	Increases	Increases	☐
B	Constant	Constant	☐
C	Decreases	Decreases	☐
D	Increases	Constant	☐

[1 mark]



0 6

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7

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1 2 According to the hypothesis of diminishing marginal utility, when marginal utility is zero

- A** average utility is negative.
- B** the good is a demerit good.
- C** total utility from consuming the good is maximised.
- D** total utility will increase by consuming more of the good.

☐☐☐☐

[1 mark]

1 3 **Table 2** shows the inflation rate and the rate of growth of the money supply for an economy between 2016 and 2019.

Table 2

Year	Inflation	Rate of growth of money supply
2016	3.1%	3.5%
2017	3.5%	3.3%
2018	2.9%	3.2%
2019	2.5%	2.0%

From the data in **Table 2** it may be concluded that, all other things being equal, there was

- A** a fall in the value of money throughout the entire period.
- B** a policy of quantitative easing in operation throughout the entire period.
- C** an inverse relationship between inflation and the rate of growth of the money supply.
- D** continuous disinflation throughout the entire period.

☐☐☐☐

[1 mark]

Turn over ►



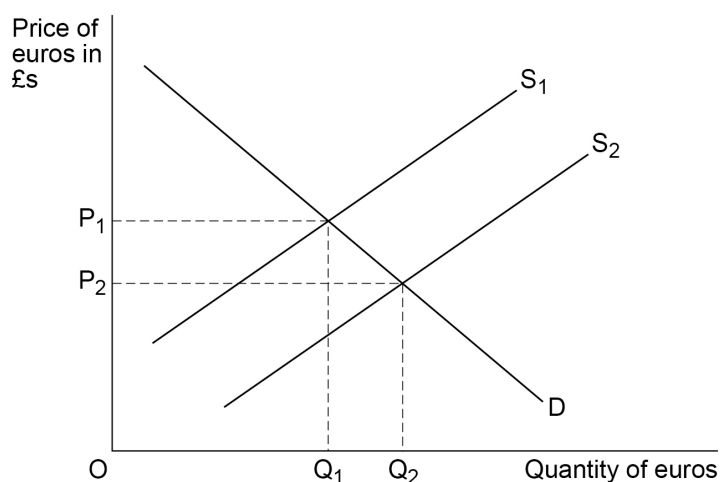
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17

2 | 9

Figure 8 shows two supply (S_1 and S_2) curves and the demand (D) curve for euros on the foreign exchange market and the price of euros in terms of pounds sterling.

Do not write
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box

Figure 8

Which one of the following is the most likely explanation for the change in the exchange rate shown in **Figure 8**?

An increase in eurozone

- A** companies buying factories in the UK.
- B** exports of manufactured goods to the UK.
- C** interest rates relative to those in the UK.
- D** productivity growth relative to that in the UK.

☐☐☐☐**[1 mark]****3 | 0**

The behaviour of a consumer buying a 75-inch large screen TV is biased due to bounded rationality and the anchoring effect. This implies that the choice of which TV to buy is based on the price of

- A** all available 75-inch TVs, given sufficient time to obtain the information.
- B** the cheapest available 75-inch TV, in order to maximise utility.
- C** the first 75-inch TV seen and imperfect information about available alternatives.
- D** the most expensive 75-inch TV, believing that this indicates the best quality available.

☐☐☐☐**[1 mark]****30****Turn over ►**

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10

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1 3

A feature of the UK government's workplace pension scheme is that employers are required to enrol their employees in the scheme unless the employees make a conscious decision to opt out and join another scheme.

An individual choosing to remain in their workplace pension scheme is an example of a person

- A accepting the default choice.
- B acting irrationally by ignoring an economic incentive.
- C being anchored by a previous financial decision.
- D using a rule of thumb to make the choice.

☐☐☐☐

[1 mark]

1 4

The Bank of England's Monetary Policy Committee increases Bank Rate to reduce the risk of an increase in inflationary pressure in the economy. All other things being equal, which one of the following is most likely to result from the policy change?

- A Consumption will increase since house prices will rise and increase wealth.
- B Investment will increase as the return on investment projects rises.
- C Savings will increase as interest rates rise in real terms.
- D The exchange rate will fall as a result of increased capital inflows.

☐☐☐☐

[1 mark]

1 5

An increase in the national minimum wage may be used to make the distribution of income more equal. Such a policy is most likely to be effective when the elasticity of demand for labour in low-paid work is

- A elastic.
- B inelastic.
- C perfectly elastic.
- D unitary elastic.

☐☐☐☐

[1 mark]

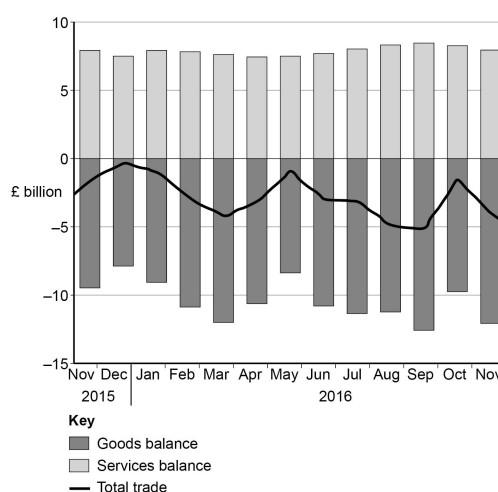


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2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****The UK's trade balance**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Sterling effective exchange rate index, November 2015 to November 2016****Figure 2: Balance of UK trade, November 2015 to November 2016**

Source: ONS

Extract B: The UK's trade deficit

In September 2016, the UK's trade deficit with the rest of the world widened unexpectedly. Exports fell, despite a sharp fall in the value of the pound. The trade deficit in goods alone rose to £12.7bn. The value of imports increased by £1.3bn to £38.8bn, while exports fell by £0.2bn to £26.1bn. The rebalancing of the UK economy to achieve export-led growth has not happened yet.

5

The disappointing trade figures suggest that the 16% fall in the value of the pound since the EU referendum in June 2016 has failed to lift exports significantly. An economist at Scotiabank, said "If we are lucky, the weak pound may boost exports, but export growth tends to be driven more by the strength of overseas demand, rather than the exchange rate." Others point to a lack of competitiveness and low productivity as being central to the UK's poor export performance.

10

In Quarter 3 of 2016, the UK economy grew much faster than many economists had initially expected, with signs that the growth had been supported by rising consumer spending. This may be one of the reasons why imports of goods have increased. A statistician at the ONS, said that "In this first full quarter since the EU referendum, there is little evidence of the lower pound feeding through into trade volumes or prices."

15

In recent years, the UK's earnings on assets overseas have fallen relative to the earnings of foreign investors in the UK. This contributed to the deterioration in the

3

current account balance, leading to a record deficit of 5.4% of GDP in 2015. Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit. The effects on employment, the need to attract inward investment and the possible negative effects on growth and living standards are among the causes for concern. 20

Source: News reports, 2016

Extract C: Germany's trade surplus

Germany's surplus on the current account of its balance of payments surged to a record level in 2015, at 8.5% of GDP. It has now overtaken the Chinese surplus as the largest imbalance in the world. This imbalance is clearly causing problems inside the eurozone and globally. If the German current account is in surplus, it implies that other nations are in deficit. 5

Although the German government views the surplus as evidence of economic success, there is growing pressure from other countries and the European Commission for Germany to take steps to reduce the surplus. Trade deficits and surpluses may be self-correcting in a floating exchange rate system, but as Germany is part of the eurozone, its currency does not fluctuate against those of other member countries, since they all use the euro. 10

Germany's surplus has been increased by low oil prices and the relatively low value of the euro. Healthy growth in other European nations has also contributed to strong demand for German exports. Whatever the reason for Germany's surplus, the UK may only look on in envy. 15

Source: News reports, 2016

0 | 1

Using the data in **Extract A (Figure 1)**, calculate the change in the effective exchange rate index, as a percentage, between November 2015 (point A) and November 2016 (point B). Give your answer to **two** decimal places.

[2 marks]**0 | 2**

Extract B describes the trade figures as 'disappointing'.

Explain how the data in **Extract A (Figure 2)** show that the UK's trade performance has been 'disappointing' given the fall in the value of the pound since November 2015.

[4 marks]**0 | 3**

Extract C (lines 8–9) states 'Trade deficits and surpluses may be self-correcting in a floating exchange rate system.'

With the help of a diagram showing the supply of and demand for a currency, explain how a floating exchange rate may help to correct a trade surplus.

[9 marks]**0 | 4**

Extract B (lines 19–21) states 'Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit.'

Using the data in the extracts and your knowledge of economics, assess the impact of a persistent current account deficit on the macroeconomic performance of the UK economy.

[25 marks]**Turn over ►**

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Section A

Answer EITHER Context 1 OR Context 2.

EITHER

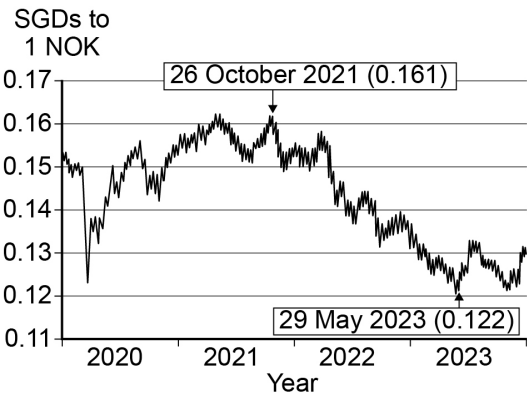
Context 1 The value of the Norwegian krone and its effects on Norway’s economy

Total for this context: 40 marks

Study **Extracts A, B and C**, and then answer **all** parts of Context 1 which follow.

Extract A:

Figure 1: Norwegian krone (NOK) to Singapore dollar (SGD) exchange rate, January 2020 to December 2023



Source: Investing.com, 2024

Figure 2: Macroeconomic performance indicators for Germany, Norway and Singapore, average rates between 2020 and 2023

	Germany	Norway	Singapore
GDP growth (%)	0.2	1.5	2.7
Inflation rate (%)	4.0	4.0	3.3
Unemployment rate (%)	3.4	3.9	3.9
Current account balance (% of GDP)	6.5	15.9	17.6

Source: World Bank, 2024

Extract B: Norway’s currency, the krone, has depreciated

The value of the Norwegian currency, the krone, has depreciated. Over the past 10 years, the krone has fallen by over 20% against the euro and the US dollar. Although a fall in the value of the krone may help some macroeconomic objectives, it can make others harder to achieve.

Inflation has decreased since its peak of 7.5% in October 2022. However, the depreciating krone means that it will take longer for inflation to reach its target rate as imported goods become more expensive. Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.

Norway’s average CPI inflation rate for 2023 was 5.5%, with nominal wage growth of 5.1%. Thus, real wage growth was negative, reducing average living standards. Norway’s economy is heavily reliant on the export of oil, which makes the krone sensitive to changes in oil prices. Sales of oil and gas helped Norway record a current account surplus of 17.5% of GDP in 2023.

Some economists argue that in a small open economy like Norway’s, managing the exchange rate, by intervening in currency markets, is the best way to achieve economic and price stability. They believe that, over the medium-term, there is a stable and predictable link between the exchange rate and inflation. However, targeting the exchange rate means the central bank gives up control of interest rates.

Source: News reports, 2024

Extract C: Singapore's managed exchange rate

An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore. Rather than focusing on using interest rates, the Monetary Authority of Singapore (MAS) manages the country's exchange rate. Singapore does not peg its currency directly to another, such as the US dollar. Instead, the Singapore dollar (SGD) is allowed to fluctuate, within a band, against a trade-weighted basket of currencies. 5

This approach has several benefits for Singapore's economy. A managed floating exchange rate provides Singapore's government with the flexibility to respond to economic shocks and maintain stability. It allows the exchange rate to adjust gradually, reducing the risk of volatile currency movements. Also, by managing the SGD against a basket of currencies, Singapore's government can ensure that its economy remains competitive in international trade. 10

A stable economy and exchange rate is attractive to foreign investors, leading to large inflows of foreign direct investment (FDI). It is also crucial for Singapore's role as a global financial centre. However, by targeting the exchange rate, the ability to use other tools of macroeconomic policy is limited. 15

Source: News reports, 2024

0 1 Using the data in **Extract A (Figure 1)**, calculate how the value of the Norwegian krone has changed compared to the Singapore dollar between 26 October 2021 and 29 May 2023.

Give your answer as a percentage and to **one** decimal place.

[2 marks]

0 2 Explain how the data in **Extract A (Figure 2)** show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.

[4 marks]

0 3 **Extract B** (lines 6–7) states: 'Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.'

With the help of a suitable diagram, explain how an appreciation of the krone could help Norway reduce inflation.

[9 marks]

0 4 **Extract C** (lines 1–2) states: 'An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore.'

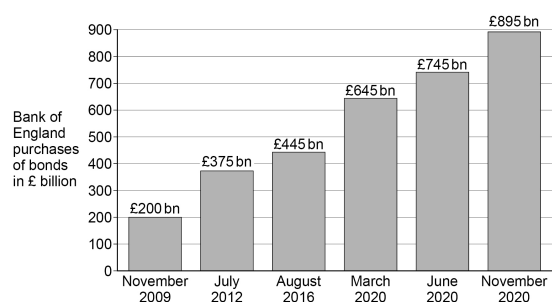
Using the data in the extracts and your knowledge of economics, assess the view that an economy is likely to perform better with a managed exchange rate rather than a freely floating exchange rate.

[25 marks]

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]

Section A

Answer EITHER Context 1 OR Context 2.

EITHER

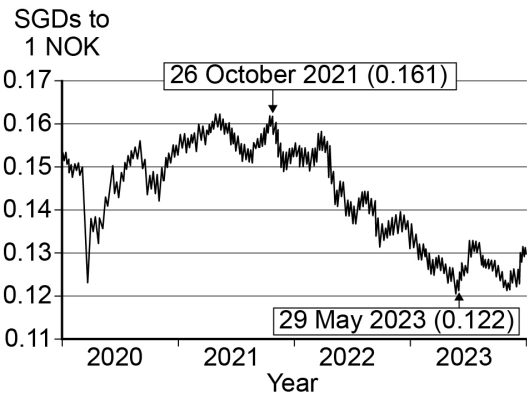
Context 1 The value of the Norwegian krone and its effects on Norway’s economy

Total for this context: 40 marks

Study Extracts A, B and C, and then answer all parts of Context 1 which follow.

Extract A:

Figure 1: Norwegian krone (NOK) to Singapore dollar (SGD) exchange rate, January 2020 to December 2023



Source: Investing.com, 2024

Figure 2: Macroeconomic performance indicators for Germany, Norway and Singapore, average rates between 2020 and 2023

	Germany	Norway	Singapore
GDP growth (%)	0.2	1.5	2.7
Inflation rate (%)	4.0	4.0	3.3
Unemployment rate (%)	3.4	3.9	3.9
Current account balance (% of GDP)	6.5	15.9	17.6

Source: World Bank, 2024

Extract B: Norway’s currency, the krone, has depreciated

The value of the Norwegian currency, the krone, has depreciated. Over the past 10 years, the krone has fallen by over 20% against the euro and the US dollar. Although a fall in the value of the krone may help some macroeconomic objectives, it can make others harder to achieve.

Inflation has decreased since its peak of 7.5% in October 2022. However, the depreciating krone means that it will take longer for inflation to reach its target rate as imported goods become more expensive. Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.

Norway’s average CPI inflation rate for 2023 was 5.5%, with nominal wage growth of 5.1%. Thus, real wage growth was negative, reducing average living standards. Norway’s economy is heavily reliant on the export of oil, which makes the krone sensitive to changes in oil prices. Sales of oil and gas helped Norway record a current account surplus of 17.5% of GDP in 2023.

Some economists argue that in a small open economy like Norway’s, managing the exchange rate, by intervening in currency markets, is the best way to achieve economic and price stability. They believe that, over the medium-term, there is a stable and predictable link between the exchange rate and inflation. However, targeting the exchange rate means the central bank gives up control of interest rates.

Source: News reports, 2024

Extract C: Singapore's managed exchange rate

An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore. Rather than focusing on using interest rates, the Monetary Authority of Singapore (MAS) manages the country's exchange rate. Singapore does not peg its currency directly to another, such as the US dollar. Instead, the Singapore dollar (SGD) is allowed to fluctuate, within a band, against a trade-weighted basket of currencies. 5

This approach has several benefits for Singapore's economy. A managed floating exchange rate provides Singapore's government with the flexibility to respond to economic shocks and maintain stability. It allows the exchange rate to adjust gradually, reducing the risk of volatile currency movements. Also, by managing the SGD against a basket of currencies, Singapore's government can ensure that its economy remains competitive in international trade. 10

A stable economy and exchange rate is attractive to foreign investors, leading to large inflows of foreign direct investment (FDI). It is also crucial for Singapore's role as a global financial centre. However, by targeting the exchange rate, the ability to use other tools of macroeconomic policy is limited. 15

Source: News reports, 2024

0 1 Using the data in **Extract A (Figure 1)**, calculate how the value of the Norwegian krone has changed compared to the Singapore dollar between 26 October 2021 and 29 May 2023.

Give your answer as a percentage and to **one** decimal place.

[2 marks]

0 2 Explain how the data in **Extract A (Figure 2)** show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.

[4 marks]

0 3 **Extract B** (lines 6–7) states: 'Some analysts hope that, before long, the currency will start to appreciate which could help Norway reduce inflation.'

With the help of a suitable diagram, explain how an appreciation of the krone could help Norway reduce inflation.

[9 marks]

0 4 **Extract C** (lines 1–2) states: 'An economy that has seen considerable success by intervening in the foreign exchange market to manage its currency is Singapore.'

Using the data in the extracts and your knowledge of economics, assess the view that an economy is likely to perform better with a managed exchange rate rather than a freely floating exchange rate.

[25 marks]

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

OR

Context 2 The emergence of BRICS+

Total for this context: 40 marks

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

Extract D:

Figure 3: Development indicators of selected BRICS+ and G7 economies, 2001 and 2023

	GDP (\$ billions)*		Population (millions)		Life expectancy at birth (years)		Expected years of schooling	
	2001	2023	2001	2023	2001	2023	2001	2023
Egypt	437	2 123	75	115	67.6	71.6	10.9	12.9
Ethiopia	40	400	69	129	51.4	67.3	4.7	9.9
Japan	3 439	6 398	127	124	81.5	84.7	15.0	15.5
USA	10 582	27 720	284	343	76.9	79.3	15.8	16.4

Note: *GDP at current prices, using purchasing power parity exchange rates
some figures are estimated

Source: Official statistics, 2024

Extract E: BRICS+

The term ‘BRIC’ was first used by Jim O’Neill, an economist at Goldman Sachs, in a 2001 paper titled ‘Building Better Global Economic BRICs’. The paper identified Brazil, Russia, India and China as the major emerging economies with the potential to significantly reshape the global economic landscape. This was due to their large populations, high economic growth rates and increasing influence in world affairs. By 2009, the group had adopted a formal identity, with their governments meeting annually.

5

South Africa joined in 2010, making it ‘BRICS’. Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates were invited to join the BRICS in 2024, which is now referred to as ‘BRICS+’. The group was designed to bring together the world’s most important developing countries and to challenge the political and economic power of the G7 countries (a group of seven of the world’s most advanced economies including the UK, Japan and the USA).

10

The middle-class populations of the BRICS+ countries are increasing fast, providing growing export markets for the G7. Firms based in the G7 can reduce their costs by outsourcing production to the BRICS+ countries. The G7 nations may benefit from investing in infrastructure, technology and energy industries in the BRICS+ economies. 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.

15

Source: News reports, 2024

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]

4

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

OR

Context 2

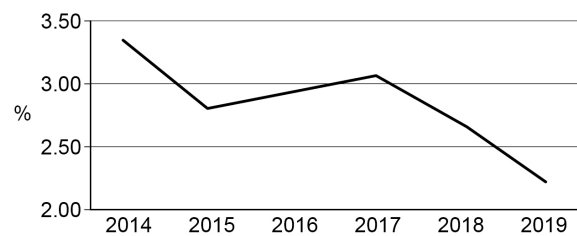
Total for this context: 40 marks

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 ►

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

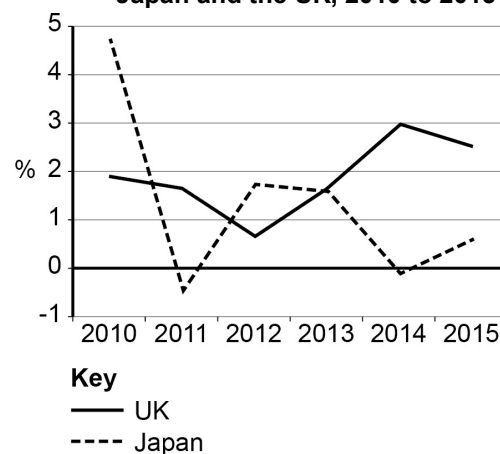
Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

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. 10

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." 15

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. 20

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 ►**

Handwriting practice area with 20 sets of horizontal dotted lines.

6

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

EITHER**Essay 1**

Between 2014 and 2018, the pound fell by more than 20% against the dollar and euro. Some argued that this would benefit the UK's macroeconomic performance, but others claimed that a lower exchange rate will cause problems.

0	9
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Explain why the value of a currency may fall in a floating exchange rate system.

[15 marks]

1	0
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Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

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

Since 1998, the Bank of England has had responsibility for the operation of monetary policy and maintaining price stability. In response to the financial crisis of 2007–08, the Financial Services Act 2012 gave the Bank of England overall responsibility for financial stability. This was designed to reduce systemic risk and the impact on the real economy of problems that arise in financial markets.

1	1
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Explain how the monetary policy transmission mechanism works when the Monetary Policy Committee (MPC) raises Bank Rate.

[15 marks]

1	2
---	---

Evaluate the view that strict rules and regulations on financial markets are essential to help create a more stable economy.

[25 marks]

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Handwriting practice area with horizontal dotted lines.

6

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

EITHER**Essay 1**

Since 1992, the UK has had a floating exchange rate, and between August and December 2019, the pound sterling rose by around 10%. In the recent past, several nations, such as Japan, Switzerland and China, have actively intervened to influence the value of their currencies.

0	9
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Explain how a government or central bank can intervene to prevent the value of its currency rising.

[15 marks]

1	0
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Evaluate the possible impact on the cost of living **and** the standard of living in the UK of a sustained rise in the value of the pound sterling against other currencies, such as the euro and the US dollar.

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

The savings ratio is the proportion of national income that is saved. The UK savings ratio reached 10.6% in 2015 but fell to 3.9% in 2017. This indicates rising consumption and a fall in savings across the economy. Economists debate whether or not this change in consumption and savings is beneficial.

1	1
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Explain the main causes of rising consumption in an economy.

[15 marks]

1	2
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To what extent do you agree that a fall in savings is beneficial for the UK economy? Justify your answer.

[25 marks]

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Handwriting practice area with horizontal dotted lines.

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 ►**

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Handwriting practice area with 30 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with 30 horizontal dotted lines.

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.'

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

[9 marks]**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.'

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.

[25 marks]**Turn over ►**

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6

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

EITHER**Essay 1**

Between 2014 and 2018, the pound fell by more than 20% against the dollar and euro. Some argued that this would benefit the UK's macroeconomic performance, but others claimed that a lower exchange rate will cause problems.

0	9
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Explain why the value of a currency may fall in a floating exchange rate system.

[15 marks]

1	0
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Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

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

Since 1998, the Bank of England has had responsibility for the operation of monetary policy and maintaining price stability. In response to the financial crisis of 2007–08, the Financial Services Act 2012 gave the Bank of England overall responsibility for financial stability. This was designed to reduce systemic risk and the impact on the real economy of problems that arise in financial markets.

1	1
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Explain how the monetary policy transmission mechanism works when the Monetary Policy Committee (MPC) raises Bank Rate.

[15 marks]

1	2
---	---

Evaluate the view that strict rules and regulations on financial markets are essential to help create a more stable economy.

[25 marks]

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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]

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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]

Area for writing the answer, consisting of horizontal dotted lines.

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7

OR**Essay 3**

Commercial banks provide financial services for both individuals and businesses. In 2007–08, the financial crisis led many to argue for tighter regulation of the banks to prevent problems in financial markets affecting the real economy. However, financial markets are not the only source of cyclical instability. Governments can use a variety of policies to try to create a more stable economy.

1	3
---	---

Explain the role of commercial banks in the economy.

[15 marks]

1	4
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Assess policies which can be used to reduce cyclical instability in the UK.

[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

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2 1 6 A 7 1 3 6 / 2

IB/M/Jun21/7136/2

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SUB-TOPIC 4.2.4.4

THE REGULATION OF THE FINANCIAL SYSTEM

Sub-topic 4.2.4.4 · 2 questions · 26 marks · lowest tariff first



11

1 6

A person eats six biscuits a day to maximise their total utility from the consumption of biscuits.

The price of biscuits increases by 50%, leading to a change in the individual's daily consumption of biscuits.

Which one of the following combinations, **A**, **B**, **C** or **D**, shows the most likely changes in the individual's total utility and marginal utility?

	Total utility derived from their daily consumption of biscuits	Marginal utility derived from the last biscuit consumed each day	
A	Decrease	Decrease	☐
B	Increase	Decrease	☐
C	Decrease	Increase	☐
D	Increase	Increase	☐

[1 mark]**1 7**

A large, unexpected decline in house prices could lead to a systemic crisis in the financial system.

This is most likely to happen if, following the fall in house prices, commercial banks and building societies

- A** have a low ratio of capital to their total assets. ☐
- B** have followed Prudential Regulation Authority (PRA) guidance to reduce the amount they lend to high-risk borrowers. ☐
- C** have the option to use the Bank of England as the lender of last resort. ☐
- D** hold a high proportion of liquid assets on their balance sheets. ☐

[1 mark]

Turn over for the next question



1 1

Turn over ►

IB/G/Jun18/7136/3

*Do not write
outside the
box*

6

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

EITHER**Essay 1**

Between 2014 and 2018, the pound fell by more than 20% against the dollar and euro. Some argued that this would benefit the UK's macroeconomic performance, but others claimed that a lower exchange rate will cause problems.

0	9
---	---

Explain why the value of a currency may fall in a floating exchange rate system.

[15 marks]

1	0
---	---

Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

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

Since 1998, the Bank of England has had responsibility for the operation of monetary policy and maintaining price stability. In response to the financial crisis of 2007–08, the Financial Services Act 2012 gave the Bank of England overall responsibility for financial stability. This was designed to reduce systemic risk and the impact on the real economy of problems that arise in financial markets.

1	1
---	---

Explain how the monetary policy transmission mechanism works when the Monetary Policy Committee (MPC) raises Bank Rate.

[15 marks]

1	2
---	---

Evaluate the view that strict rules and regulations on financial markets are essential to help create a more stable economy.

[25 marks]

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MARK SCHEMES

official mark schemes



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 2019

SECTION A

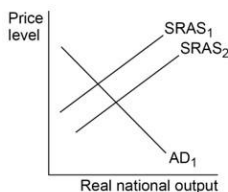
KEY LIST

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 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 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 – 7136/3 – JUNE 2019

SECTION A

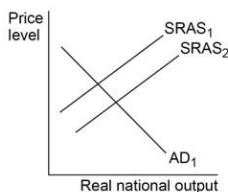
KEY LIST

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

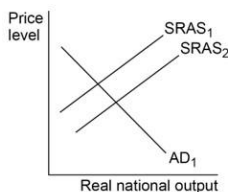
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3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
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5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
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9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
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MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

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

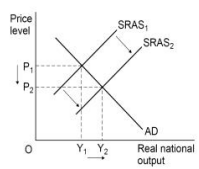
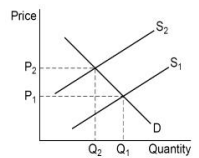
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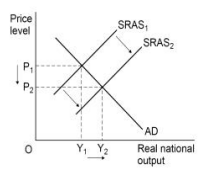
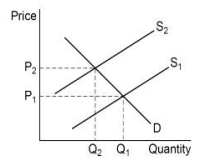
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

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)

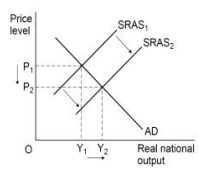
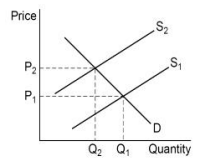
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

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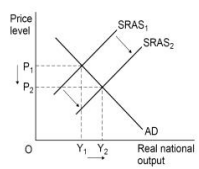
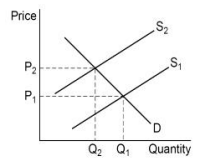
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

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

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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 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 2021

Essay 3**Total for this essay: 40 marks****1 3** *Explain the role of commercial banks in the economy.***[15 marks]****Relevant issues include:**

- definitions/explanations: commercial banks, financial markets
- distinguishing between a commercial bank and an investment bank
- giving examples of major commercial or high street banks
- explaining the role of commercial banks:
 - accepting deposits (current accounts and savings accounts)
 - lending and credit (loans and mortgages)
 - access to cash
 - currency trading
 - business advice
 - insurance
 - cheque and credit card processing
 - share trading
 - safety/security
 - providing an efficient means of payment
 - promoting saving
- explaining the assumption that commercial banks are profit seeking
- explaining that the basic model of commercial banks is that they lend with higher interest than the interest paid on saving
- explaining how consumption and therefore aggregate demand (AD) can be affected by commercial banks
- explaining how investment and therefore AD and aggregate supply (AS) can be affected by commercial banks
- explaining the role of commercial banks in credit creation.

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 – 7136/3 – 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 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 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 2019

SECTION A

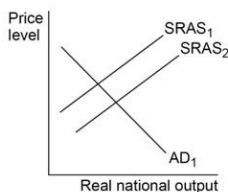
KEY LIST

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

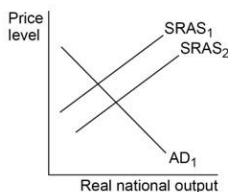
KEY LIST

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

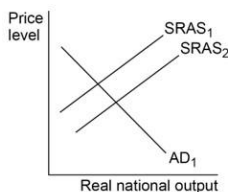
KEY LIST

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

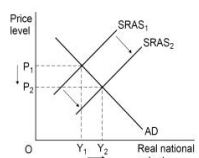
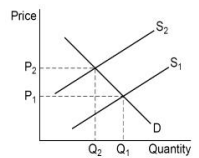
SECTION A

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 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 2018

Section A

Context 1

Total for this context: 40 marks

- 0 1** Using the data in **Extract A (Figure 1)**, calculate the change in the effective exchange rate index, as a percentage, between November 2015 (point A) and November 2016 (point B). Give your answer to **two** decimal places.

[2 marks]

Calculation: $\frac{93.13 - 74.10}{93.13} \times 100 = 20.43380 = -20.43\%$ to two decimal places

Note: The candidate must include the 'minus' (-) sign or state that this is a 'fall' or 'depreciation' for the full 2 marks.

Response	Marks
For the correct answer (-20.43%) with the % sign and to two decimal places.	2 marks
For a correct answer (-20.43%) but without the % sign and/or not to two decimal places. Also, for an answer of 20.43% but without an indication of a minus (-), fall or depreciation.	1 mark

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

Section A

Context 1

Total for this context: 40 marks

0 1 Using the data in **Extract A (Figure 1)**, calculate how the value of the Norwegian krone has changed compared to the Singapore dollar between 26 October 2021 and 29 May 2023.

Give your answer as a percentage and to **one decimal place**.

[2 marks]

Calculation: 26 of October 2021 = 0.161 29 of May 2023 = 0.122

$$0.161 - 0.122 = 0.039$$

$$(0.039 / 0.161) \times 100 = 24.22$$

The change in the value of the krone = -24.2% to one d.p.

Response	Max 2 marks
For the correct answer (–24.2%) with the % sign and to one decimal place. Also allow any indication that the amount has decreased, such as the word ‘fallen’, ‘depreciated’ or ‘lower’. Also, for an answer which states it was “32% higher at the start compared to now” or words to that effect.	2 marks
For a correct answer but not to one decimal place. OR For the correct answer (–24.2) but without the % sign. OR For the correct answer of (24.2%) but without the negative sign or any indication that it has depreciated. OR For the correct method but the wrong answer, to one decimal place, with the % and negative sign.	1 mark

MAXIMUM FOR QUESTION 01: 2 MARKS

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

- 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]

Response:	Max 4 marks
- includes evidence that show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 - clearly explains how this data is evidence that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009.	4 marks
- includes evidence that show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 - explanation of how this data is evidence that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009.	3 marks
- includes some limited evidence that show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 - limited explanation of how this data is evidence that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009.	2 marks
- includes evidence that does not clearly show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 - no explanation of how this data is evidence as to show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009.	1 mark

Relevant issues include:

- the meaning of quantitative easing (QE), macroeconomic objectives
- explaining how QE can benefit growth
- explaining how QE can help avoid low inflation/deflation
- explaining how QE can help employment
- before 2009, growth averaged 0.1% (2006–2009) but afterwards the average growth rates were always higher and reached a high average of 2.5% (2014–2017)
- after 2009 the lowest growth average was 0.4% (2018–2021) which is above the rate of 0.1% (2006–2009)
- after 2009, the economy avoided deflation with the lowest average inflation rate of 1.2% (2014–2017) and this was still inside the acceptable target range of 2%+/-1%
- unemployment fell over the period from 6.0% (2006–2009) compared to 4.2% (2018–2021) which indicates an increased demand for labour due to higher real national output.

MAXIMUM FOR QUESTION 06: 4 MARKS

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

0 2

*Explain how the data in **Extract A (Figure 2)** show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.*

[4 marks]

Response:	Max 4 marks
- includes evidence that show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway. - clearly explains how this data is evidence that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.	4 marks
- includes evidence that show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway. - explanation of how this data is evidence that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.	3 marks
- includes some limited evidence that show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway. - limited explanation of how this data is evidence that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.	2 marks
- includes evidence that does not clearly show that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway. - no explanation of how this data is evidence that Singapore may have benefitted from managing its exchange rate compared to Germany and Norway.	1 mark

Relevant issues include:

- the meaning of managing its exchange rate
- Singapore had the highest average GDP growth rate (2.7%) compared to Germany who had the lowest growth rate (0.2%) or Norway (1.5%) which may be due to Singapore depreciating their currency to increase exports, a component of AD
- Singapore has the lowest inflation rate (3.3%) compared to both Norway and Germany (4.0%) which may be due to Singapore appreciating their currency to reduce import costs or diminish demand-pull inflationary pressures
- Singapore has the highest current account balance as a % of GDP (17.6%) compared to Germany who have the lowest (6.5%) and Norway (15.9%) which may be due to Singapore depreciating their currency to maintain competitiveness to increase exports and reduce imports
- Singapore has the highest current account balance as a % of GDP which may be due to Singapore depreciating their currency to maximise net primary and secondary income flows
- candidates can also be rewarded for explaining the benefits of higher growth, low inflation and/or export-led growth.

MAXIMUM FOR QUESTION 02: 4 MARKS

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

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]

Response:	Max 4 marks
- includes evidence that show how Ethiopia has developed at a faster rate than Japan since 2001. - clearly explains how this data is evidence that Ethiopia has developed at a faster rate than Japan since 2001.	4 marks
- includes evidence that show how Ethiopia has developed at a faster rate than Japan since 2001. - explanation of how this data is evidence that Ethiopia has developed at a faster rate than Japan since 2001.	3 marks
- includes some limited evidence that show how Ethiopia has developed at a faster rate than Japan since 2001. - limited explanation of how this data is evidence that Ethiopia has developed at a faster rate than Japan since 2001.	2 marks
- includes evidence that does not clearly show how Ethiopia has developed at a faster rate than Japan since 2001. - no explanation of how this data is evidence that Ethiopia has developed at a faster rate than Japan since 2001.	1 mark

Relevant issues include:

- the meaning of economic development
- Ethiopia had a larger increase in GDP (900%) than Japan (86%) possibly indicating rising incomes
- Ethiopia had a larger increase in GDP per capita (434.9%) than Japan (90.5%) possibly indicating rising consumption possibilities
- Ethiopia had a larger absolute and percentage rise in life expectancy (51.4 to 67.3 years = 30.9%) than Japan (81.5 to 84.7 years = 3.9%) possibly indicating faster development of healthcare
- Ethiopia had a larger absolute and percentage increase in expected years of schooling (4.7 to 9.9 years = 110.6%) than Japan (15.0 to 15.5 years = 3.3%) possibly indicating faster education improvements in Ethiopia.

MAXIMUM FOR QUESTION 06: 4 MARKS

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

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]

Response:	Max 4 marks
- includes evidence that show why the South Korean central bank may have been considering a further cut in their base rate of interest - clearly explains how this data is evidence as to why the South Korean central bank may have been considering a further cut in their base rate of interest	4 marks
- includes evidence that show why the South Korean central bank may have been considering a further cut in their base rate of interest - explanation of how this data is evidence as to why the South Korean central bank may have been considering a further cut in their base rate of interest	3 marks
- includes some limited evidence that show why the South Korean central bank may have been considering a further cut in their base rate of interest - limited explanation of how this data is evidence as to why the South Korean central bank may have been considering a further cut in their base rate of interest	2 marks
- includes evidence that does not clearly show why the South Korean central bank may have been considering a further cut in their base rate of interest - no explanation of how this data is evidence as to show why the South Korean central bank may have been considering a further cut in their base rate of interest	1 mark

Relevant issues include:

- the meaning of 'interest rates' or 'base rate of interest'
- explaining that a cut in the central bank's base rate of interest is likely to lead to a fall in other interest rates
- economic growth has fallen from 3.3% in 2014 to 2.2% in 2019 which shows that a boost may be needed to consumer spending
- economic growth is at 2.2% in 2019, the lowest rate on the chart, which may show that firms may need looser monetary policy to increase investment
- the annual % change in the CPI is at its lowest from 2018 to 2019 at 0.74%, this indicates the economy is close to deflation and may need a boost to AD
- the annual % change in the CPI appears to be slowing down, 0.74% in 2018–19 compared to 1.32% in 2017–18 and 1.41% in 2016–17. This shows that the economy may be moving away from its productive potential (also backed by Extract F stating they are in a negative output gap).

MAXIMUM FOR QUESTION 06: 4 MARKS

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

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]

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	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 is expected, showing a rightward shift of the AS curve, this can either be LRAS or SRAS.

Relevant issues include:

- definitions/explanations: productivity, supply side, deflation, price level
- possible causes of increased productivity
- relating productivity to supply-side policies (interventionist or market-based)
- linking productivity to average costs/costs of the factors of production
- linking productivity to increases in the long-run productive potential
- explaining the link between falling costs of production and the general price-level.

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

Essay 2

Total for this essay: 40 marks

1 1*Explain how the monetary policy transmission mechanism works when the Monetary Policy Committee (MPC) raises Bank Rate.***[15 marks]****Relevant issues include:**

- definitions/explanations: monetary policy, transmission mechanism, Bank Rate, interest rates
- the role of the MPC in achieving 2% +/- 1% CPI inflation and supporting the government's objectives regarding growth and employment
- explaining how a rise in Bank Rate may reduce household consumption:
 - due to a rise in saving
 - due to credit becoming more expensive
 - due to variable rate mortgages becoming more expensive
- explaining how a rise in Bank Rate may reduce investment:
 - due to credit becoming more expensive
 - due to investment appraisal being unfavourable
 - more pessimism
- explaining how a rise in Bank rate may appreciate the exchange rate:
 - due to a rise in demand for the currency and/or a fall in supply of the currency on the FOREX (hot money flows)
- the impact on asset prices and the consequent wealth effects
- explaining how all of the above affect AD.

The use of relevant diagrams such as AD/AS or the supply of and demand for currency, 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 2021

Section B

Essay 1

Total for this essay: 40 marks

0 9

*Explain how a government or central bank can intervene to prevent the value of its currency rising.***[15 marks]**

Relevant issues include:

- definitions/explanations: central bank, currency, exchange rate, value of currency, appreciation
- explaining the difference between a managed float and free float
- explaining why countries may wish to intervene in the currency markets
- explaining the FOREX market and the supply and demand of currency
- explaining the role of reserves of foreign currency, or perhaps gold
- explaining the difference between 'direct' currency manipulation or 'indirect' through influencing the market
- linking currency manipulation to 'fixing', 'pegging' or currency 'ceiling'
- explaining the flow of 'hot money'
- explaining how governments or central banks can prevent the value of a currency rising:
 - by selling the domestic currency and buying foreign currencies, or gold, adding to foreign exchange reserves
 - by reducing interest rates to make the holding of domestic currency less attractive and reducing the flow of hot money
 - by increasing the money supply (as long as this is linked to increased supply of currency on FOREX such as increased import consumption)
 - easing exchange controls and/or encouraging overseas investment
 - the use of sovereign wealth funds to buy overseas assets, eg China investing in US government bonds.

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 09: 15 MARKS

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

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]

Areas for discussion include:

- definitions/explanations: monetary policy, deflation, developed economies
- deflation and the different types (malign v benign)
- the effects of deflation
- the nature of developed economies and different experiences of deflation
- the role of interest rates and the transmission mechanism
- the effects of interest rates on investment, employment, saving and consumption
- the link between long-term saving and long-term investment
- the effectiveness of interest rates at very low levels including negative interest rates
- consideration of the MPC's role, primarily in targeting inflation but also in targeting growth
- consideration of differences in the two economies which may determine the effectiveness of monetary policy
- the use of quantitative easing and consideration of its success
- the possible role of the exchange rate in stimulating the economy
- the use of fiscal policy and fiscal stimulus
- considering how government debt may affect the ability to use fiscal policy
- considering how private-sector debt may influence the effectiveness of policies designed to combat deflation
- consideration of the potential conflicts in policy
- the significance of economic shocks and their impact on policies to tackle deflation.

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 2018

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’.

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.

[25 marks]

Areas for discussion include:

- definitions/explanations: interest rates, monetary policy, economic stability, cyclical instability, credit creation
- explaining the possible effects of low interest rates on:
 - saving and borrowing, including loans and mortgages
 - consumption
 - investment
 - the exchange rate
 - confidence
- explaining the benefits of low interest rates for:
 - growth (long-run and short-run)
 - unemployment
 - inflation or avoidance of deflation
 - the current account of the balance of payments
- explaining the drawbacks of persistently low interest rates such as:
 - inflationary pressure and overheating the economy
 - asset-price and speculative bubbles
 - over-complacency in firms and the build-up of private-sector debt
 - effects on financial institutions and the real economy if people/firms default on their debt repayments
 - effects on the housing market if interest rates need to rise
 - effects on people relying on savings such as pensioners
 - possibly leading to malinvestment and sustaining zombie businesses
- considering why interest rates were low in the first place
- explaining the role of the MPC in setting Bank Rate and the factors taken into consideration when setting the rate
- explaining the monetary policy transmission mechanism
- explanation of alternative schools of thought regarding monetary policy
- the role of other aspects of monetary policy (eg forward-guidance or Q.E.) alongside conventional interest rate policy
- the potential short-term benefits of lower interest rates such as household consumption rising compared to long-term financial burden
- the role of the financial authorities in reducing the possibility of households taking on too much debt.

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 2019

- 1 0** Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

[25 marks]

Areas for discussion include:

- definitions/explanations: macroeconomic performance, depreciation
- explaining the causes of a depreciation in the currency
- explaining the impact of depreciation on the price of imports or exports
- explaining the impact of a depreciation of the pound on economic growth
 - such as the effects on AD
 - such as the potential rise in FDI
- explaining the impact of a depreciation of the pound on unemployment
 - such as a rise in exports and the subsequent increase in the derived demand for labour
- explaining the impact of a depreciation of the pound on inflation
 - such as the impact on demand-pull inflation from rising exports
 - such as the increased cost of raw materials or other imports
- explaining the impact of a depreciation of the pound on the current account of the balance of payments
 - such as increased international competitiveness and a rise in exports
 - such as the relative price of foreign goods becoming more expensive and a fall in imports
- considering the extent of the fall in currency and its subsequent impacts
- considering whether the currency self-corrects to some extent
- considering short-run and long-run implications of depreciation, eg on economic growth
- considering the Marshall-Lerner condition, elasticities and the 'J-curve' effect
- considering whether it has any impact in the long run, eg will the inflationary impact of the depreciation erode its effects?
- considering the short-run and long-run impact of a fall in the exchange rate on living standards.

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 10: 25 MARKS

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

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]**Areas for discussion include:**

- definitions/explanations: quantitative easing (QE), money supply, monetary policy
- explaining how the effects of QE could be measured, in terms of the macroeconomic objectives: economic growth, price stability, minimising unemployment and a stable balance of payments on current account
- explaining how the effects of QE on other issues could be measured, such as: living standards, the cost of living, inequality, government finances or on firms
- explaining the role of the Bank of England or Monetary Policy Committee (MPC)
- explaining the difference between government bonds (gilts) and commercial bonds
- explaining the process of QE and its effects in terms of:
 - creating liquidity in financial markets
 - the impact on bank lending
 - the impact on interest rates
 - the impact on the money supply
 - the impact on asset prices
 - the impact on bond prices and yields in the secondary market
 - the impact on the FOREX and exchange rates
- explaining the impact on household and corporate spending, confidence and aggregate demand
- explaining the main drawbacks of QE such as:
 - inflation
 - inequality
 - fuelling speculative bubbles
 - cyclical instability
- considering the limitations of QE such as:
 - when bond yields are low, there is little scope for further reduction
 - the possibility of being in a liquidity trap
 - money hoarding by financial institutions
 - bonds may have been held by foreign investors, therefore they may not directly stimulate the UK economy
- the role of fiscal policy and decisions by the government such as austerity
- consideration of the word ‘continued’ and although QE may/may not have been successful in the past it is not guaranteed to be/not be successful in the future
- considering other ways that the Bank of England can use instruments such as Bank Rate, forward guidance, operational independence and forecasting to influence the macroeconomy.

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 2024

1 0 Assess whether an increase in the money supply is always damaging for an economy. **[25 marks]**

Areas for discussion include:

- definitions/explanations: the money supply
- explaining how the effects of increases in the money supply could be measured such as the macroeconomic performance indicators
- explaining the difference between narrow and broad money
- explaining reasons why the money supply may grow such as lower interest rates, quantitative easing, central bank printing more cash, banks holding lower reserves, increased bank credit, increased government borrowing or expansionary fiscal policy
- assessing the possible problems caused by an increased money supply such as:
 - inflation
 - cyclical instability
 - asset price bubbles
 - inequality
 - malinvestment
 - possible future increases in interest rates
- assessing the possible benefits of an increase in the money supply such as:
 - increased output and growth
 - increased employment
 - increased investment
 - possible multiplier effects
 - increased income/wages
 - increased confidence
- explaining time-lags and delays in effects
- discussing short-run versus long-run effects
- explaining the quantity theory of money and the monetarist model
- explaining the Fisher equation of exchange $MV=PQ$
- explaining possible trade-offs with macroeconomic objectives
- explaining that the effects depend on the rate of growth in the supply of money
- discussing the costs and benefits of each method of increasing the money supply
- considering how real wages may be affected by increases in the money supply
- discussing how relative bargaining power may determine the costs or benefits to individuals
- discussing possible government and central bank responses to increased money supply
- considering the term 'always'
- explaining why the consequences will be affected by the degree of spare capacity and the trend rate of growth of the economy
- an overall assessment of whether an increase in the money supply is always damaging 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 10: 25 MARKS

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

1 4 Assess policies which can be used to reduce cyclical instability in the UK.

[25 marks]

Areas for discussion include:

- definitions/explanations: cyclical instability, economic cycle, policies
- explaining reasons why cyclical instability is damaging
- explaining the benefits of cyclical stability
- explaining how monetary policy can be used to reduce cyclical instability such as:
 - independent Bank of England
 - pre-emptive use of Bank Rate
 - forecasting and forward guidance
 - using quantitative easing when needed
- explaining how fiscal policy can be used to reduce cyclical instability such as:
 - automatic stabilisers
 - demand management policies
 - Keynesian multipliers
- explaining how supply-side policy can be used to reduce cyclical instability such as:
 - creating a flexible workforce that can adapt to changing demand conditions
 - creating the conditions suitable for investment to increase productive capacity
- explaining how financial regulation can be used to reduce cyclical instability such as:
 - use of regulators (FPC, PRA, FCA)
 - reduction of systemic risk by splitting investment and commercial banking activities
 - stress-testing of banks
 - use of reserve asset ratio's
- explaining how global shocks, such as a pandemic, may lead to unavoidable cyclical instability
- explaining how the appropriate response may depend upon the cause of the instability
- considering the effectiveness of each method with possible reference to historical aspects
- considering the issue that shocks are often unanticipated and whether the economy can cope with external changes
- considering the relative time-lags involved in carrying out different policies
- considering the view that 'stability is destabilising' and that some degree of instability can help economic agents avoid complacency.

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 – 7136/3 – 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 – 7136/2 – JUNE 2019

1 2 Evaluate the view that strict rules and regulations on financial markets are essential to help create a more stable economy.

[25 marks]

Areas for discussion include:

- definitions/explanations: financial markets, macroeconomic stability, financial stability
- relating rules and regulations to the FPC, FCA, and PRA and explaining the functions of each of the regulatory bodies
- explaining both micro and macro prudential regulation
- giving examples, such as explaining the build up to the last major financial crisis in the UK in 2007/08
- explaining systemic risk and the impacts on the real economy in terms of:
 - growth
 - unemployment
 - inflation
 - government finances
- explaining liquidity ratios and the 'stress-testing' of banks
- explaining the role of other economic agents in attempting to create macroeconomic stability
 - such as the MPC's role in price stability and helping achieve the government's objectives for growth and unemployment
 - such as the OBR's role in monitoring the impact of government budgetary changes
 - such as the EU's rules regarding fiscal stability
 - such as the Basel accords
- considering the possibility of government failure in banking or regulatory capture
- considering financial market failure, speculative bubbles and moral hazard
- considering that too much regulation may cause 'banking brain-drain' and damage the UK's financial services industry in the long-run
- considering the relative success (or failure) of current regulations or improvements that can be made to the system
- considering the possibility of market failure in banking such as asymmetric information in financial products
- considering that economic stability is much more than just financial stability
- considering that some external economic shocks may not be fully insulated against.

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