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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Fiscal Policy and Supply-Side Policies

AQA A-level Economics 7136 — Topic 4.2.5

28 questions · 259 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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2. Q01	A-level Paper 3, Section A (MCQ) June 2018	1	5
3. Q02	A-level Paper 3, Section A (MCQ) June 2018	1	6
4. Q12	A-level Paper 3, Section A (MCQ) June 2018	1	7
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6. Q10	A-level Paper 3, Section A (MCQ) June 2023	1	9
7. Q17	A-level Paper 3, Section A (MCQ) June 2023	1	10
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22. Q08	A-level Paper 2, Context 2 June 2019	25	45
23. Q08	A-level Paper 2, Context 2 June 2022	25	50
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QUESTIONS

28 questions · 259 marks · 2 sub-topics



SUB-TOPIC 4.2.5.1

FISCAL POLICY

Sub-topic 4.2.5.1 · 26 questions · 243 marks · lowest tariff first



14

Do not write
outside the
box

2 3

The table below shows the marginal income tax rates in an economy for 2016.

Table: Marginal income tax rates for every \$1 of income

Taxable Income	Income tax rates 2016
From \$0 to \$10 000	0%
From \$10 001 to \$30 000	10%
From \$30 001 to \$50 000	30%
\$50 001 and above	45%

How much income tax would be payable by someone earning \$40 000 in 2016?

- A** \$5 000
B \$5 500
C \$10 000
D \$12 000

☐☐☐☐

[1 mark]

2 4

The national debt is the

- A** annual budget deficit plus the external trade deficit.
B amount by which the budget deficit increases each year.
C annual difference between government spending and tax receipts.
D the cumulative stock of outstanding central government borrowing.

☐☐☐☐

[1 mark]



1 4

IB/G/Jun17/7136/3

2

Section AAnswer **all** questions in this section.Do not write
outside the
boxOnly **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD



WRONG METHODS

If you want to change your answer you must cross out your original answer as shown. If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. **0 1** Which one of the following applies to merit goods?**A** Their marginal private benefit is greater than their marginal social benefit. ☐**B** They are likely to be provided by the market. ☐**C** They can only be supplied by the government. ☐**D** They have the characteristics of non-excludability and non-rivalry. ☐**[1 mark]****0 2** At the start of the financial year, an economy's national debt stands at £1000 billion. Over the course of the year, the government plans to spend an extra £100 billion and borrow an extra £40 billion.

If the government achieves its spending and borrowing targets, by the end of the financial year the national debt will have increased by

A 4% ☐**B** 10% ☐**C** 14% ☐**D** 40% ☐**[1 mark]**

0 2

IB/G/Jun18/7136/3

2

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[1 mark]**0 2** At the start of the financial year, an economy's national debt stands at £1000 billion. Over the course of the year, the government plans to spend an extra £100 billion and borrow an extra £40 billion.

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- A** 4% ☐
- B** 10% ☐
- C** 14% ☐
- D** 40% ☐

[1 mark]

0 2

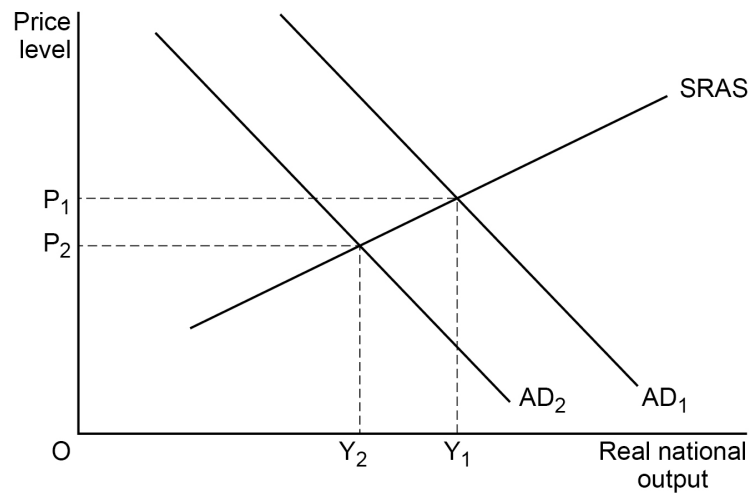
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8

1 2

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

Do not write
outside the
box



All other things being equal, the change in real national output from Y_1 to Y_2 is most likely to have been caused by an increase in the

A government's budget deficit.

☐

B level of interest rates.

☐

C size of the labour force.

☐

D volume of exports.

☐

[1 mark]



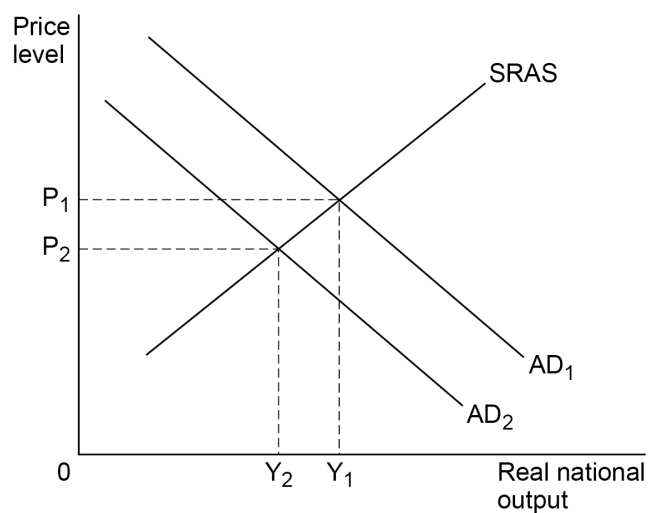
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5

0 6

Figure 2 shows two aggregate demand (AD_1 and AD_2) curves and the short-run aggregate supply ($SRAS$) curve for an economy.

Do not write
outside the
box

Figure 2

Which one of the following is the government most likely to increase if it wishes to use fiscal policy to reduce national output from Y_1 to Y_2 ?

[1 mark]**A** Infrastructure expenditure
☐
B Interest rates
☐
C Rates of income tax
☐
D The budget deficit
☐
Turn over for the next question**Turn over ►**

IB/M/Jun22/7136/3

6

Do not write
outside the
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09

In 2020, the market leader sold around three times as many vacuum cleaners in the UK as its closest rival. The market leader's dominance was built on technical innovation, protected by legal patents.

However, rivals have developed their own designs and are now challenging the market leader.

What feature of competitive markets does this illustrate?

[1 mark]

A Collusive oligopoly

☐

B Creative destruction

☐

C Hit and run competition

☐

D Static efficiency

☐

10

A £2 billion rise in government spending has led to an increase of £5 billion in national income.

All other things being equal, what is the value of the marginal propensity to consume?

[1 mark]

A 0.4

☐

B 0.6

☐

C 2.5

☐

D 3.0

☐

11

An economy operating at its long-run productive capacity at the start of 2020 has a trend rate of growth of 6% per year. Real GDP increases by 2% in 2021 and 10% in 2022.

Which one of the following accurately describes the position of the economy at the end of each year?

[1 mark]

	2021	2022	
A	Negative output gap	Negative output gap	☐
B	Negative output gap	No output gap	☐
C	Positive output gap	No output gap	☐
D	Positive output gap	Positive output gap	☐



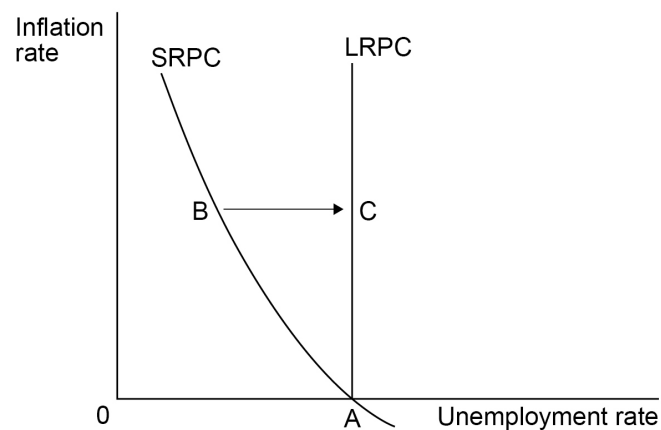
06

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9

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

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

Figure 4

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

[1 mark]

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

☐☐☐☐**1 | 7**

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

[1 mark]

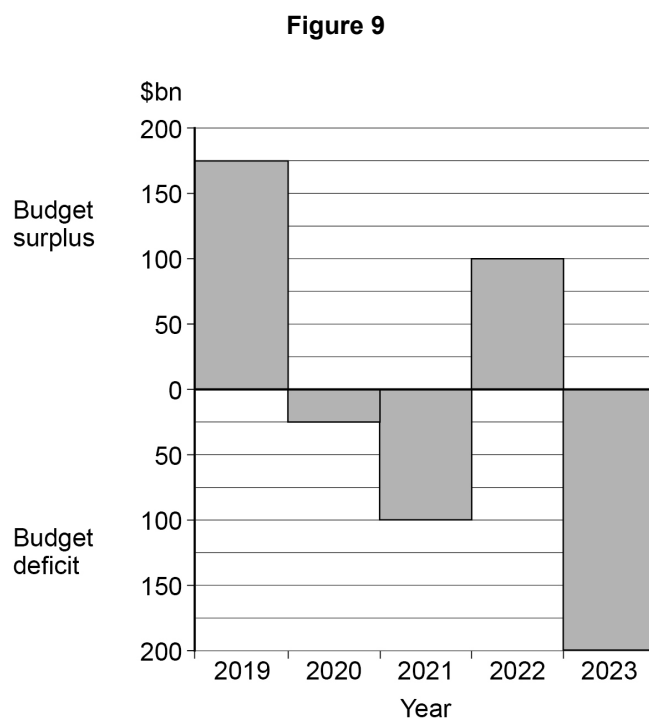
- A** Deciding how much public funding is given to each government department
- B** Enabling the government to run a budget deficit by issuing government bonds
- C** Evaluating the government's performance against its own fiscal targets
- D** Making recommendations to the government on how to reduce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

☐☐☐☐**Turn over ►**

0 9

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19

3 0**Figure 9** shows the government budget balance for an economy from 2019 to 2023.Do not write
outside the
box

All other things being equal, between 2019 and 2023, the national debt of this economy increased by

[1 mark]

- A** \$50bn
B \$200bn
C \$275bn
D \$325bn

☐☐☐☐**30****Turn over for Section B****Turn over ►**

1 9

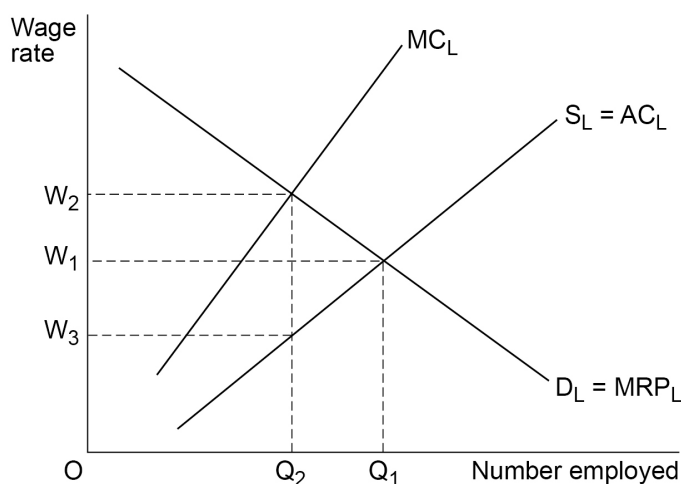
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11

2 0

Figure 5 shows the market demand for labour ($D_L = MRPL$), the market supply of labour ($S_L = AC_L$), and the marginal cost of labour (MC_L), in a particular industry. The employer in this industry is a monopsonist.

Do not write
outside the
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Figure 5

From **Figure 5**, it can be concluded that, in the absence of a trade union or a minimum wage, the firm will employ

- A** OQ_1 workers at a wage of OW_1 .
- B** OQ_2 workers at a wage of OW_1 .
- C** OQ_2 workers at a wage of OW_2 .
- D** OQ_2 workers at a wage of OW_3 .

☐☐☐☐**[1 mark]****2 1**

All other things being equal, which one of the following is most likely to increase the national debt?

- A** Foreign companies increasing their direct investment into the economy
- B** The central bank using its reserves of foreign currency to fund a trade deficit
- C** The government reducing its budget surplus by increasing its expenditure on infrastructure
- D** The government running a budget deficit, financed by selling bonds to foreign investors

☐☐☐☐**[1 mark]****Turn over ►**

1 1

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8

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1 0

At the end of the previous financial year, a country had a national debt of £20 000 billion. The government's planned expenditure for the current year exceeds its projected income by £100 billion.

All other things being equal, which one of the following is most likely to enable the government to complete its planned expenditure and reduce the national debt?

Increasing its

A planned borrowing by more than £100 billion.

☐

B projected income and borrowing by £100 billion.

☐

C projected income by £100 billion and reducing new borrowing by £100 billion.

☐

D projected tax revenue by more than £100 billion.

☐

[1 mark]

1 1

A person is considering buying a used motorbike from a dealer on the internet. The motorbike is described as being in perfect condition and is being offered at a correspondingly high price.

In this situation, asymmetric information is most likely to lead the person to

A buy the motorbike because they believe the price is justified by its condition.

☐

B know more about the motorbike's market value than the dealer.

☐

C maximise their utility by buying a cheaper used motorbike from a different dealer.

☐

D not buy the motorbike because they do not know as much about the motorbike as the dealer.

☐

[1 mark]



0 8

IB/M/Jun21/7136/3

16

*Do not write
outside the
box*

2 2 Which one of the following combinations of possible shocks: A, B, C, or D, is most likely to move an economy from a negative output gap to a positive output gap?

An unexpected increase in

- A** productivity growth combined with a larger than expected decrease in inflation. ☐
- B** the exchange rate combined with an unexpected fall in business confidence. ☐
- C** the government's budget surplus combined with a downturn in world trade. ☐
- D** the marginal propensity to consume combined with a fall in the exchange rate. ☐

[1 mark]

2 3 All other things being equal, which one of the following is the most likely consequence of technological innovation in the production process by the firms within an industry?

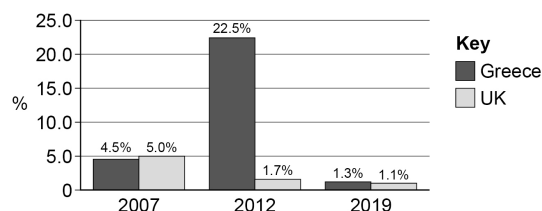
- A** A decrease in the number of firms in the industry ☐
- B** A reduction in firms' unit costs of production ☐
- C** The elimination of entry barriers into the industry ☐
- D** The invention of a product that did not previously exist ☐

[1 mark]



IB/M/Jun21/7136/3

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****National debt and government spending**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Annual average yields on long-term bonds, Greece and the UK, selected years, 2007 to 2019**

Source: Official statistics, 2020

Figure 2: Selected statistics for Greece and the UK, 2012

	Greece	UK
GDP (\$bn)	245.7	2662.1
GDP per capita (\$)	22 242	41 791
National debt (\$bn)	391	2243
Population (millions)	11.1	63.7

Source: ONS, Eurostat, World Bank 2020

Extract B: Government debt: a Greek tragedy

In 2018, after years of tough government spending cuts (austerity), the Greek government emerged from its third and final international financial rescue package, although economists warned that the country still had a “long way to go”. The European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) have loaned Greece a total of €289bn (£240bn) since 2010.

1

5

The EU and IMF insisted that, in return for help, economic reforms were necessary to reduce Greece's structural budget deficit. For many Greeks, especially the young, the years of economic hardship were severe. Higher taxes and reduced salaries and pensions led to riots on the streets. The government spending cuts also severely damaged private-sector jobs. In 2012–13, the unemployment rate peaked at 27.5%, but for those under 25 it was 58%. Eight years after austerity began, GDP was 25% below its 2010 level.

10

How did Greece find itself in this position in the first place? In 2007–08, the global financial crisis caused a worldwide recession. Many countries had huge government debts, but Greece was the worst affected with an unsustainable budget deficit following years of high government spending. In 2010, the country revealed the size of its huge budget deficit which led bond yields to soar and to a sovereign debt crisis. International lenders labelled Greek debt as ‘junk’ and the Greek Government was unable to borrow on financial markets. Greece was forced to ask for financial help.

15

But what now? In 2019, the Greek economy grew by 1.9%. It had a budget surplus (excluding interest payments on its debt) and the unemployment rate had fallen below 20%. However, the pandemic has harmed the Greek economy and the Greek government's budget is again in deficit.

20

Source: News reports, 2020

Extract C: The end of government cutbacks in the UK?

In 2019, the UK government's debt repayment burden was at its lowest level in years and it was able to borrow at record low interest rates. Before the pandemic altered every governments' fiscal plans, the UK government said they would rip up years of self-imposed budgetary constraints and increase spending to improve living standards. For years, austerity had led to under-funded public services and a low level of investment in the nation's infrastructure. 1
5

The Chancellor of the Exchequer announced a planned increase in government expenditure of 4.1% in 2020, equivalent to £13.8bn, in a move designed to signal an end to austerity. This would have been the largest increase in 15 years.

The Chancellor said he was in a position to announce an increase in government spending after the annual budget deficit had fallen to 1.1% of GDP, well below the 2% target set by the Treasury. Under his plans, no government department would experience a real-terms reduction in its budget in 2020, and the Chancellor said this protection "is what I mean by the end of austerity". Announcing the spending review in the House of Commons, he said the cost of government borrowing had fallen to historic lows, giving the government further room to increase its expenditure. 10
15

However, faced with an ageing population and significant poverty and inequality, the structural budget deficit is likely to increase over the next 30 years. Some argue that the UK should increase taxes rather than add to the national debt. Ongoing funding is needed to maintain and improve public services, such as healthcare, and to rebuild the UK's social safety net by increasing spending on welfare to support the poor and vulnerable. 20

Source: News reports, 2020

0 1

Using the data in **Extract A** (Figure 1), calculate the mean annual yield on long-term bonds in Greece over the years shown. Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A** (Figures 1 and 2) show that in 2012 Greece was more likely to have a problem with its national debt than the UK.

[4 marks]

0 3

Extract B (line 9) states: 'The government spending cuts also severely damaged private-sector jobs.'

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector.

[9 marks]

0 4

Extract C (lines 17–18) states: 'Some argue that the UK should increase taxes rather than add to the national debt.'

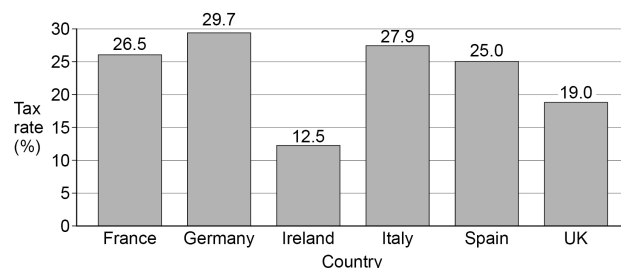
Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country's national debt is damaging for its economy.

[25 marks]

Turn over ►

2

Section A

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

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

Source: Official statistics, 2022

Extract B: Irish corporation tax

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

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

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

Source: News reports, 2021

Extract C: Extra tax revenue?

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

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

Source: News reports, 2021

0 1

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

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

[2 marks]**0 2**

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

[4 marks]**0 3**

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

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

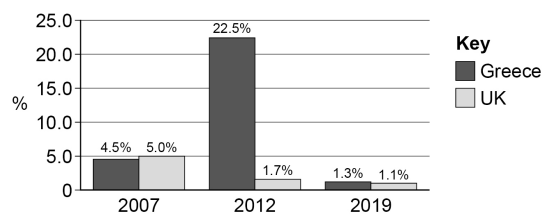
[9 marks]**0 4**

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

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

[25 marks]

Section A

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Source: News reports, 2020

Extract C: The end of government cutbacks in the UK?

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However, faced with an ageing population and significant poverty and inequality, the structural budget deficit is likely to increase over the next 30 years. Some argue that the UK should increase taxes rather than add to the national debt. Ongoing funding is needed to maintain and improve public services, such as healthcare, and to rebuild the UK's social safety net by increasing spending on welfare to support the poor and vulnerable. 20

Source: News reports, 2020

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[9 marks]

0 4

Extract C (lines 17–18) states: 'Some argue that the UK should increase taxes rather than add to the national debt.'

Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country's national debt is damaging for its economy.

[25 marks]

Turn over ►

4

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

OR

Context 2

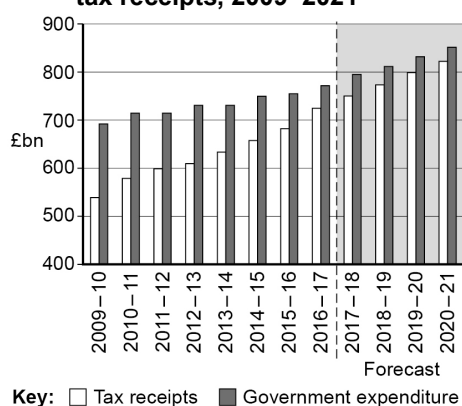
Total for this context: 40 marks

UK fiscal policy and taxation

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

Extract D

Figure 2: UK Government expenditure and tax receipts, 2009–2021



Source: OBR

Figure 3: Marginal income tax rates in Scotland and the rest of the UK, April 2018

Scotland		Rest of the UK	
Tax Band £	Tax Rate	Tax Band £	Tax Rate
0 – 11 850	0%	0 – 11 850	0%
11 851 – 13 850	19%	11 851 – 46 350	20%
13 851 – 24 000	20%		
24 001 – 43 430	21%		
43 431 – 150 000	41%	46 351 – 150 000	40%
150 001+	46%	150 001+	45%

Source: gov.uk

Extract E: Deficit reduction

In 2017, the Chancellor of the Exchequer claimed that the government was on course to create a budget surplus by 2025. However, the Office for Budget Responsibility (OBR) has suggested that the budget deficit will not be wiped out until 2031. This is 16 years later than originally forecast.

1

The Government borrowed £52bn in 2016–17, a fall of £20bn compared to the year before, as the long struggle to eliminate the deficit moved closer towards its goal. However, the OBR has forecast a 'weaker' economy than it did just nine months ago; it expects economic growth to slow and government borrowing to rise as a result. The OBR also delivered the biggest downgrade to productivity growth in its history, with output per hour expected to be 4.6% lower in 2022 than originally forecast.

5

The financial crisis of 2007–08 led to a budget deficit of almost 11% of GDP in 2009–10; the deficit has now fallen to 2.6% of GDP, the lowest level of borrowing since 2007–08. If growth could be increased, the budget deficit would fall much faster.

10

Why is deficit reduction so important in the first place? Firstly, there are the negative effects of larger interest repayments caused by a higher national debt. There is also the argument that public spending crowds out the private sector. Some economists point to the effects on future generations and the possibility that the government's credit rating may fall if borrowing is high.

15

Source: News reports, 2017

5

Extract F: Scottish income tax

In most of the UK, reducing the budget deficit has focused on austerity rather than tax rises. 1
However, the Scottish Government has announced that from April 2018, Scotland will have different rates of income tax to the rest of the UK, with changes that will see higher earners pay more and lower earners pay less. There will be a new tax band of 21% for those earning more than £24 000. The higher rate of tax will be increased from 40% to 41% and the top rate from 45% to 46%. A starter rate of 19% will also be introduced. The move to a 'five-band' income tax system should mean that nobody earning less than £33 000 in Scotland will pay more tax than they do now. 5

Estimates show that 55% of Scottish taxpayers will pay less compared to the rest of the UK under the new system, with higher earners paying more. Someone in Scotland earning £150 000 will pay £1774 more than if they lived elsewhere in the UK, with someone earning £40 000 paying £140 more. The extra revenue raised will be used to give public sector workers a 3% pay rise for those earning less than £30 000, and a 2% rise for those earning more than that, and will help towards the cost of providing superfast broadband to all premises in Scotland by 2021. 10 15

Some business leaders have warned that Scotland cannot afford to be associated with higher taxation than the rest of the UK. The Finance Minister for Scotland, Derek Mackay, claimed the changes could raise an additional £164 million and were necessary to "mitigate UK budget cuts, protect our NHS and other public services, support our economy and tackle inequality in our society". He said the tax reforms would make "Scotland's income tax system even fairer and more progressive". He resisted a bigger increase in the top rate of tax for those earning more than £150 000, aware that high earners may find ways to avoid paying it. 20

Source: News reports, 2017

0 5

Using the data in **Extract D** (Figure 3), calculate, to the **nearest pound**, the amount of income tax payable for someone in Scotland earning £13 500.

[2 marks]**0 6**

Explain how the data in **Extract D** (Figure 2) show that the UK's public finances have been improving since 2010.

[4 marks]**0 7**

Extract E (lines 11–12) states 'If growth could be increased, the budget deficit would fall much faster.'

With the help of a diagram, explain why a higher rate of economic growth is likely to reduce the budget deficit.

[9 marks]**0 8**

Extract F (line 1) states 'In most of the UK, reducing the budget deficit has focused on austerity rather than tax rises.'

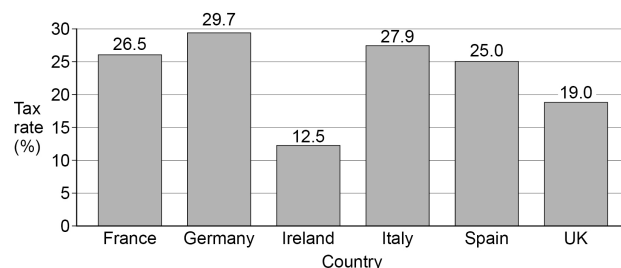
Using the data in the extracts and your knowledge of economics, evaluate the view that there is a strong case for significant increases in UK income tax rates.

[25 marks]**Turn over ►**

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2

Section A

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

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

Source: Official statistics, 2022

Extract B: Irish corporation tax

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

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

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

Source: News reports, 2021

3

Extract C: Extra tax revenue?

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

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

Source: News reports, 2021

0 1

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

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

[2 marks]**0 2**

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

[4 marks]**0 3**

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

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

[9 marks]**0 4**

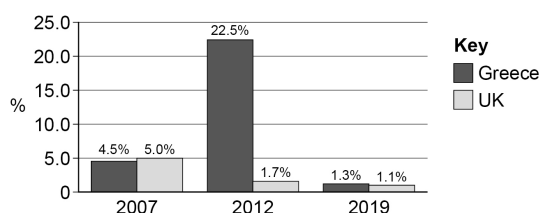
Extract B (lines 1–3) states: 'Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world's biggest companies, including Google and Facebook, to site their European headquarters in Ireland.'

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

[25 marks]

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Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****National debt and government spending**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Annual average yields on long-term bonds, Greece and the UK, selected years, 2007 to 2019**

Source: Official statistics, 2020

Figure 2: Selected statistics for Greece and the UK, 2012

	Greece	UK
GDP (\$bn)	245.7	2662.1
GDP per capita (\$)	22 242	41 791
National debt (\$bn)	391	2243
Population (millions)	11.1	63.7

Source: ONS, Eurostat, World Bank 2020

Extract B: Government debt: a Greek tragedy

In 2018, after years of tough government spending cuts (austerity), the Greek government emerged from its third and final international financial rescue package, although economists warned that the country still had a “long way to go”. The European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) have loaned Greece a total of €289bn (£240bn) since 2010.

1

5

The EU and IMF insisted that, in return for help, economic reforms were necessary to reduce Greece's structural budget deficit. For many Greeks, especially the young, the years of economic hardship were severe. Higher taxes and reduced salaries and pensions led to riots on the streets. The government spending cuts also severely damaged private-sector jobs. In 2012–13, the unemployment rate peaked at 27.5%, but for those under 25 it was 58%. Eight years after austerity began, GDP was 25% below its 2010 level.

10

How did Greece find itself in this position in the first place? In 2007–08, the global financial crisis caused a worldwide recession. Many countries had huge government debts, but Greece was the worst affected with an unsustainable budget deficit following years of high government spending. In 2010, the country revealed the size of its huge budget deficit which led bond yields to soar and to a sovereign debt crisis. International lenders labelled Greek debt as ‘junk’ and the Greek Government was unable to borrow on financial markets. Greece was forced to ask for financial help.

15

But what now? In 2019, the Greek economy grew by 1.9%. It had a budget surplus (excluding interest payments on its debt) and the unemployment rate had fallen below 20%. However, the pandemic has harmed the Greek economy and the Greek government's budget is again in deficit.

20

Source: News reports, 2020

3

Extract C: The end of government cutbacks in the UK?

In 2019, the UK government's debt repayment burden was at its lowest level in years and it was able to borrow at record low interest rates. Before the pandemic altered every governments' fiscal plans, the UK government said they would rip up years of self-imposed budgetary constraints and increase spending to improve living standards. For years, austerity had led to under-funded public services and a low level of investment in the nation's infrastructure. 1
5

The Chancellor of the Exchequer announced a planned increase in government expenditure of 4.1% in 2020, equivalent to £13.8bn, in a move designed to signal an end to austerity. This would have been the largest increase in 15 years.

The Chancellor said he was in a position to announce an increase in government spending after the annual budget deficit had fallen to 1.1% of GDP, well below the 2% target set by the Treasury. Under his plans, no government department would experience a real-terms reduction in its budget in 2020, and the Chancellor said this protection "is what I mean by the end of austerity". Announcing the spending review in the House of Commons, he said the cost of government borrowing had fallen to historic lows, giving the government further room to increase its expenditure. 10
15

However, faced with an ageing population and significant poverty and inequality, the structural budget deficit is likely to increase over the next 30 years. Some argue that the UK should increase taxes rather than add to the national debt. Ongoing funding is needed to maintain and improve public services, such as healthcare, and to rebuild the UK's social safety net by increasing spending on welfare to support the poor and vulnerable. 20

Source: News reports, 2020

0 1

Using the data in **Extract A** (Figure 1), calculate the mean annual yield on long-term bonds in Greece over the years shown. Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A** (Figures 1 and 2) show that in 2012 Greece was more likely to have a problem with its national debt than the UK.

[4 marks]

0 3

Extract B (line 9) states: 'The government spending cuts also severely damaged private-sector jobs.'

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector.

[9 marks]

0 4

Extract C (lines 17–18) states: 'Some argue that the UK should increase taxes rather than add to the national debt.'

Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country's national debt is damaging for its economy.

[25 marks]

Turn over ►

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7

OR**Essay 3**

The Government has ruled out the possibility of a rise in VAT before 2020 but other indirect taxes may increase. It has also stated that the personal income tax allowance will be increased from £10 800 in 2015/16 to £12 500 by 2020, and plans to cut the main rate of corporation tax from 20% to 17%.

1 3

Explain how changes in both government spending **and** taxation might affect the level of economic activity.

[15 marks]**1 4**

Evaluate the economic consequences for the UK economy of a significant shift in the burden of taxation from direct taxes to indirect taxes.

[25 marks]**END OF QUESTIONS****Turn over ►**

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6

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

EITHER**Essay 1**

By September 2024, the UK's national debt had risen to approximately £2 776 billion, which was equivalent to over 100% of GDP. To pay for an increase in its spending, the government may have to increase taxes.

0 9

Explain factors that may lead to an increase in a country's national debt as a percentage of GDP.

[15 marks]**1 0**

Assess the view that raising direct taxes to finance an increase in government spending is better than raising indirect taxes.

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

In 2023, the UK government allocated £5.9 billion for supply-side policies to boost long-term growth and competitiveness. One aim of supply-side policies is to achieve a lower, stable rate of inflation.

1 1

Explain how supply-side policies can help to achieve a low, stable rate of inflation.

[15 marks]**1 2**

Evaluate the view that a low rate of inflation is always beneficial for a country's macroeconomic performance.

[25 marks]

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6

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

EITHER**Essay 1**

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

0	9
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Explain the possible causes of a falling budget deficit.

[15 marks]

1	0
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To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.

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

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

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

[15 marks]

1	2
---	---

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

[25 marks]

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6

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

EITHER**Essay 1**

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

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

[15 marks]

1	0
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Evaluate the view that MNCs play a positive role in the development of LEDCs.

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

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

1	1
---	---

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

[15 marks]

1	2
---	---

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

[25 marks]

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7

OR**Essay 3**

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

1	3
---	---

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

1	4
---	---

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

[25 marks]**END OF QUESTIONS**

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5

Extract F: Scottish income tax

In most of the UK, reducing the budget deficit has focused on austerity rather than tax rises. 1
However, the Scottish Government has announced that from April 2018, Scotland will have different rates of income tax to the rest of the UK, with changes that will see higher earners pay more and lower earners pay less. There will be a new tax band of 21% for those earning more than £24 000. The higher rate of tax will be increased from 40% to 41% and the top rate from 45% to 46%. A starter rate of 19% will also be introduced. The move to a 'five-band' income tax system should mean that nobody earning less than £33 000 in Scotland will pay more tax than they do now. 5

Estimates show that 55% of Scottish taxpayers will pay less compared to the rest of the UK under the new system, with higher earners paying more. Someone in Scotland earning £150 000 will pay £1774 more than if they lived elsewhere in the UK, with someone earning £40 000 paying £140 more. The extra revenue raised will be used to give public sector workers a 3% pay rise for those earning less than £30 000, and a 2% rise for those earning more than that, and will help towards the cost of providing superfast broadband to all premises in Scotland by 2021. 10 15

Some business leaders have warned that Scotland cannot afford to be associated with higher taxation than the rest of the UK. The Finance Minister for Scotland, Derek Mackay, claimed the changes could raise an additional £164 million and were necessary to "mitigate UK budget cuts, protect our NHS and other public services, support our economy and tackle inequality in our society". He said the tax reforms would make "Scotland's income tax system even fairer and more progressive". He resisted a bigger increase in the top rate of tax for those earning more than £150 000, aware that high earners may find ways to avoid paying it. 20

Source: News reports, 2017

0 5

Using the data in **Extract D** (Figure 3), calculate, to the **nearest pound**, the amount of income tax payable for someone in Scotland earning £13 500.

[2 marks]**0 6**

Explain how the data in **Extract D** (Figure 2) show that the UK's public finances have been improving since 2010.

[4 marks]**0 7**

Extract E (lines 11–12) states 'If growth could be increased, the budget deficit would fall much faster.'

With the help of a diagram, explain why a higher rate of economic growth is likely to reduce the budget deficit.

[9 marks]**0 8**

Extract F (line 1) states 'In most of the UK, reducing the budget deficit has focused on austerity rather than tax rises.'

Using the data in the extracts and your knowledge of economics, evaluate the view that there is a strong case for significant increases in UK income tax rates.

[25 marks]**Turn over ►**

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4

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

OR

Context 2

Total for this context: 40 marks

Is inflation a problem?

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

Extract D

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

Extract E: Argentina's economic woes

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

5

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

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

10

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

15

Source: News reports, 2020

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

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

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

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

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

Source: News reports, 2020

0	5
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Using the data in **Extract D (Figure 3)**, calculate the difference between the UK's and Argentina's mean unemployment rates over the period 2015 to 2018.

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

[2 marks]

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

[4 marks]

0	7
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Extract E (lines 7–9) states: 'It was hoped that policy measures, including a reduction in tariffs... would help to reduce inflation'.

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

[9 marks]

0	8
---	---

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

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

[25 marks]

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7

OR

Essay 3

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

1	3
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Explain how the multiplier **and** accelerator affect the overall level of economic activity.

[15 marks]

1	4
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Evaluate the view that increasing taxation is the best way to reduce a budget deficit.

[25 marks]

END OF QUESTIONS

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6

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

EITHER**Essay 1**

By September 2024, the UK's national debt had risen to approximately £2 776 billion, which was equivalent to over 100% of GDP. To pay for an increase in its spending, the government may have to increase taxes.

0 9

Explain factors that may lead to an increase in a country's national debt as a percentage of GDP.

[15 marks]**1 0**

Assess the view that raising direct taxes to finance an increase in government spending is better than raising indirect taxes.

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

In 2023, the UK government allocated £5.9 billion for supply-side policies to boost long-term growth and competitiveness. One aim of supply-side policies is to achieve a lower, stable rate of inflation.

1 1

Explain how supply-side policies can help to achieve a low, stable rate of inflation.

[15 marks]**1 2**

Evaluate the view that a low rate of inflation is always beneficial for a country's macroeconomic performance.

[25 marks]

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Extract C: The end of government cutbacks in the UK?

In 2019, the UK government's debt repayment burden was at its lowest level in years and it was able to borrow at record low interest rates. Before the pandemic altered every governments' fiscal plans, the UK government said they would rip up years of self-imposed budgetary constraints and increase spending to improve living standards. For years, austerity had led to under-funded public services and a low level of investment in the nation's infrastructure. 1
5

The Chancellor of the Exchequer announced a planned increase in government expenditure of 4.1% in 2020, equivalent to £13.8bn, in a move designed to signal an end to austerity. This would have been the largest increase in 15 years.

The Chancellor said he was in a position to announce an increase in government spending after the annual budget deficit had fallen to 1.1% of GDP, well below the 2% target set by the Treasury. Under his plans, no government department would experience a real-terms reduction in its budget in 2020, and the Chancellor said this protection "is what I mean by the end of austerity". Announcing the spending review in the House of Commons, he said the cost of government borrowing had fallen to historic lows, giving the government further room to increase its expenditure. 10
15

However, faced with an ageing population and significant poverty and inequality, the structural budget deficit is likely to increase over the next 30 years. Some argue that the UK should increase taxes rather than add to the national debt. Ongoing funding is needed to maintain and improve public services, such as healthcare, and to rebuild the UK's social safety net by increasing spending on welfare to support the poor and vulnerable. 20

Source: News reports, 2020

0 1

Using the data in **Extract A** (Figure 1), calculate the mean annual yield on long-term bonds in Greece over the years shown. Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A** (Figures 1 and 2) show that in 2012 Greece was more likely to have a problem with its national debt than the UK.

[4 marks]

0 3

Extract B (line 9) states: 'The government spending cuts also severely damaged private-sector jobs.'

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector.

[9 marks]

0 4

Extract C (lines 17–18) states: 'Some argue that the UK should increase taxes rather than add to the national debt.'

Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country's national debt is damaging for its economy.

[25 marks]

Turn over ►

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SUB-TOPIC 4.2.5.2

SUPPLY-SIDE POLICIES

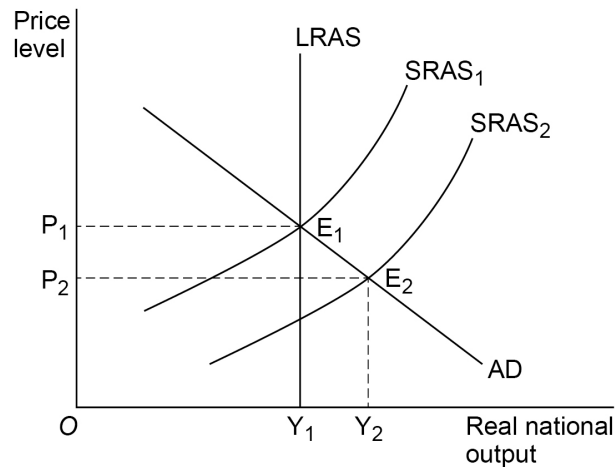
Sub-topic 4.2.5.2 · 2 questions · 16 marks · lowest tariff first



4

0 4

The diagram below shows the aggregate demand (AD) curve, the long-run aggregate supply (LRAS) curve, and two short-run aggregate supply (SRAS₁ and SRAS₂) curves for an economy. The economy's initial equilibrium is at E₁.



The most likely explanation for the move of the economy from its initial equilibrium at E₁ to a new short-run equilibrium at E₂ is a decrease in the

- A level of tariffs on imports.
- B productivity of capital.
- C rate of wage inflation.
- D value of government subsidies to farmers.

☐☐☐☐

[1 mark]

0 5

Which one of the following policies is most likely to improve the supply side of the economy? A policy which

- A increases the budget surplus.
- B reduces the natural rate of unemployment.
- C shifts resources from capital to labour intensive industries.
- D shifts the burden of tax from indirect to direct taxation.

☐☐☐☐

[1 mark]



IB/M/Jun19/7136/3

6

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

EITHER**Essay 1**

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

0	9
---	---

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

[15 marks]

1	0
---	---

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

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

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

1	1
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Explain how fiscal policy can be used to try to improve the supply side of an economy.

[15 marks]

1	2
---	---

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

[25 marks]

IB/G/Jun18/7136/2

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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 2018

SECTION A

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

KEY LIST

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

Total: 30

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

SECTION A

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

KEY LIST

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

Total: 30

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

SECTION A

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

KEY LIST

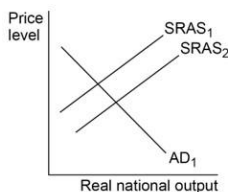
1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

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

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A** (Figure 1), calculate the mean annual yield on long-term bonds in Greece over the years shown. Give your answer to **one** decimal place.

[2 marks]

Response	Max 2 marks
For the correct answer (9.4%) with the % sign.	2 marks
For a correct answer (9.4) but without the % sign and/or to more than one decimal place. OR For the correct method but the wrong answer, to one decimal place and with the % sign.	1 mark

Calculation: $4.5 + 22.5 + 1.3 = 28.3$ $28.3/3 = 9.4333$

= 9.4% to one decimal place

MAXIMUM FOR QUESTION 01: 2 MARKS

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

- 0 2** Explain how the data in **Extract A (Figure 2)**, show that Ireland's economy performed better than the economies of France and Spain in 2021.

[4 marks]

Response:	Max 4 marks
- includes evidence that show that Ireland's economy has performed better than the economies of France and Spain in 2021 - clearly explains how this data is evidence that Ireland's economy has performed better than the economies of France and Spain in 2021.	4 marks
- includes evidence that show that Ireland's economy has performed better than the economies of France and Spain in 2021 - explanation of how this data is evidence that Ireland's economy has performed better than the economies of France and Spain in 2021.	3 marks
- includes some limited evidence that shows that Ireland's economy has performed better than the economies of France and Spain in 2021 - limited explanation of how this data is evidence that Ireland's economy has performed better than the economies of France and Spain in 2021.	2 marks
- includes evidence that does not clearly show that Ireland's economy has performed better than the economies of France and Spain in 2021 - no explanation of how this data is evidence that Ireland's economy has performed better than the economies of France and Spain in 2021.	1 mark

Relevant issues include:

- the meaning of a better macroeconomic performance
- Ireland's GDP per worker in its labour force (\$199 600), is much higher than that of France (\$94 677) and Spain (\$51 587), indicating Ireland's output per worker is much higher
- Ireland's exports as a proportion of GDP (128%) is much higher than that of France (26.4%) and Spain (35.4%), indicating they have a better trade performance
- Ireland's inflation rate (2.4%) is closer to the ECB's target of 2% than Spain's (3.1%) but not better than France's (1.6%), indicating they are close to achieving price stability
- Ireland has the lowest unemployment rate (5.1%) compared to France (9.9%) and Spain (13.3%), indicating that a smaller proportion of Ireland's labour force is out of work, seeking work and unable to find a job.

MAXIMUM FOR QUESTION 02: 4 MARKS

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

0 2 Explain how the data in **Extract A** (Figures 1 and 2) show that in 2012 Greece was more likely to have a problem with its national debt than the UK.

[4 marks]

Response:	Max 4 marks
- includes evidence that shows that in 2012, Greece was more likely to have a problem with its national debt than the UK - clearly explains how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	4 marks
- includes evidence that shows that in 2012, Greece was more likely to have a problem with its national debt than the UK - explanation of how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	3 marks
- includes some limited evidence that shows that in 2012, Greece was more likely to have a problem with its national debt than the UK - limited explanation of how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	2 marks
- includes evidence that does not clearly show that in 2012, Greece was more likely to have a problem with its national debt than the UK - no explanation of how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	1 mark

Relevant issues include:

- the meaning of the term 'national debt'
- Greek bond yields in 2012 were at 22.5% compared to the UK at 1.7% indicating much higher repayments of debt interest
- Greek bond yields in 2012 were more than 13 times that of the UK illustrating a lack of trust in Greek government finances
- Greece's national debt reached 159.1% of GDP compared to the UK's at 84.3% showing that Greece's debt was much higher than the UK's as a proportion of the economy
- Greece's national debt per capita reached \$35 225 compared to the UK's at \$35 212, this marginally shows more debt per person
- Greece's GDP per capita stood at \$22 242 compared to the UK at \$41 791 which indicates that Greek tax-payers would be faced with a proportionally higher tax burden to repay their national debt compared to the UK.

MAXIMUM FOR QUESTION 02: 4 MARKS

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

0 7 **Extract E** (lines 11–12) states ‘If growth could be increased, the budget deficit would fall much faster.’

With the help of a diagram, explain why a higher rate of economic growth is likely to reduce the budget deficit.

[9 marks]

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

An AD/AS diagram which shows AD shifting rightward may be used. An economic cycle diagram showing the economy gaining a higher GDP is also acceptable.

Some of the best students may include a diagram that has GDP on the horizontal axis and taxation plus government spending on the vertical axis. The diagram will show tax revenue increasing with GDP and probably, government spending falling as GDP rises. The diagram reflects how the cyclical deficit changes as GDP changes.

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

0 3 **Extract C** (line 13) states: ‘High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019.’

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

[9 marks]

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

An AD/AS diagram which shows AD shifting rightward may be used. An economic cycle diagram showing the economy gaining a higher GDP is also acceptable.

Some candidates may include a diagram that has GDP on the horizontal axis and taxation plus government spending on the vertical axis. The diagram will show tax revenue increasing with GDP and may also show government spending falling (or remaining the same) as GDP rises.

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

0 3 **Extract B** (line 9) states: ‘The government spending cuts also severely damaged private-sector jobs.’

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector.

[9 marks]

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

An AD/AS diagram which shows AD shifting left is likely. This may have one shift or multiple shifts. A PPF may also be used to show an economy operating inside its boundary.

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

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

- 1 3** Explain how changes in both government spending **and** taxation might affect the level of economic activity.

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

- definitions/explanations: government spending, taxation, economic activity
- explaining the different forms of government spending such as capital/current/transfers
- explaining the levels of government spending
- explaining the reasons for government spending ie the redistribution of income and wealth, merit good provision etc.
- explaining how changes in government spending and taxation can influence aggregate demand both directly and indirectly
- explaining discretionary policy
- explaining automatic stabilisers
- explaining the effects of the economic cycle on government spending and taxation
- explaining how changes in government spending could change aggregate supply such as:
 - capital spending on infrastructure
 - training and education
 - subsidies/grants for research and development
 - subsidies/grants for investment
 - tax credits
 - assisted childcare and the effects on labour supply
 - any other relevant point
- multiplier and possible accelerator effects
- explaining the different types of taxation
- explaining how changes in taxation could change aggregate supply such as:
 - reducing income tax creating incentives to work
 - reducing corporation tax allowing firms to retain more profit for investment
 - reducing taxation, possibly making UK firms more competitive abroad and effects on supply
 - using taxation (tariffs) as a form of protectionism, aiding domestic supply
 - any other relevant point.

The use of relevant diagrams such as AD/AS, or labour market diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Note: Unless a candidate considers both government expenditure and taxation, they are unlikely to have 'developed a selection of key issues that are relevant to the question' and therefore unlikely to achieve level 3.

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

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

Section B

Essay 1

Total for this essay: 40 marks

- 0 9** Explain factors that may lead to an increase in a country's national debt as a percentage of GDP.

[15 marks]

Relevant issues include:

- definitions/explanations: national debt, GDP
- explanation of the link between budget balance and the national debt
- linking changes in government spending to discretionary fiscal policy or automatic stabilisers
- linking changes in government spending and taxation to the economic cycle
- analysis of how national debt may rise as a percentage of GDP if, for example, GDP falls and national debt stays the same
- analysis of reasons government spending may increase such as:
 - spending on infrastructure or defence
 - spending on welfare benefits during periods of high unemployment
 - external or unanticipated shocks
 - interest rates and servicing the national debt
 - demographic changes
- analysis of reasons taxation may fall such as:
 - lower income tax revenue during periods of high unemployment
 - lower VAT or corporation tax revenues during recessions
 - tax evasion or tax avoidance
 - decisions to cut various taxes by the government.

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

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

MAXIMUM FOR QUESTION 09: 15 MARKS

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

Section B

Essay 1

Total for this essay: 40 marks

0	9
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 Explain the possible causes of a falling budget deficit.
[15 marks]**Relevant issues include:**

- definitions/explanations: budget, budget deficit, fiscal policy
- explaining the meaning of a falling budget deficit
- explaining different types of government spending such as capital, current or transfer spending
- explaining different types of taxation such as direct/indirect or regressive, progressive and proportional
- explaining the difference between nominal and real reductions in the budget deficit or nominal and as a percentage of GDP
- explaining the difference between a cyclical and structural deficit
- explain why cyclical or structural deficits may fall
- explaining causes of a falling budget deficit such as:
 - economic growth generating more tax revenue
 - economic growth leading to a falling need for government spending
 - discretionary tax rises generating more tax revenue
 - discretionary tax cuts which creates a fall in tax avoidance/evasion
 - austerity measures such as reductions in spending on merit and public goods
 - gains from privatisation or the sale of public assets.

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 2018

1 2 Evaluate whether achieving a budget surplus is a desirable objective of economic policy.

[25 marks]

Areas for discussion include:

- definitions/explanations: budget surplus/deficit, budget, fiscal policy
- explaining arguments in favour of a budget surplus such as:
 - reduction of national debt
 - reducing the burden on future generations
 - the possible improvements to government credit ratings and the effect on coupon rates and debt interest
 - the reduction of crowding out
 - the possible reduction in inflation
- explaining arguments against a budget surplus such as:
 - the possible effects of reduced government spending on merit and public goods
 - the possible effects of reduced spending on the supply side of the economy
 - the possible effects of increased taxation on consumption, and investment
 - the possible effects of increased taxation on international trade
 - the possible effects of a negative multiplier effect
- explaining the possible causes of the UK budget deficit
- explaining the reasons for government spending and types of spending (current, capital, transfer payments)
- the possibility that a budget surplus may be achieved automatically with economic growth rather than discretionary changes
- the debt to GDP ratio may be falling if the economy is growing even if the economy is still running a deficit
- the causes of the deficit may be vital in understanding whether a surplus is desirable, for example, is the deficit a cyclical or structural deficit?
- the state of the economy and position on the economic cycle determines whether a surplus is likely or achievable
- the view that balancing or achieving a small surplus on the current budget is desirable but borrowing to invest isn't a problem
- the issue that borrowing may be beneficial and cheap when coupon rates are low.

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

0 8 **Extract F** (line 1) states ‘In most of the UK, reducing the budget deficit has focused on austerity rather than tax rises.’

Using the data in the extracts and your knowledge of economics, evaluate the view that there is a strong case for significant increases in UK income tax rates.

[25 marks]

Areas for discussion include:

- definitions/explanations: income tax rates, taxation, tax thresholds, fiscal policy, budget deficit
- considering the possibility that tax rate increases may cause a rise or fall in tax revenue
- explaining the potential positive effects of raising income tax rates and possible rising tax receipts on:
 - deficit reduction
 - structural and cyclical deficits
 - the national debt
 - reducing the crowding-out effect
 - maintaining/improving credit ratings
 - debt interest payments
 - inequality
 - financing public spending without building up further debt
- explaining the potential negative effects of rising income tax rates and possible falling tax revenue due to:
 - disincentives to work and the effects on the replacement ratio
 - tax avoidance
 - tax evasion
 - other effects such as ‘brain-drain’
- explaining the principles of taxation
- explaining and analysing the Laffer-curve
- explaining the difference between supply-side and demand-side effects of raising income tax
- explaining the effects of income tax rises on the labour market
- explaining the effects of tax rises on consumption
- explaining the progressive nature of income tax
- explaining the potential difficulties of a ‘more-complex’ taxation system
- considering the increased possibility of fiscal drag
- considering the benefits/drawbacks of tax increases compared to government spending cuts
- considering which income groups the tax rises may apply to (higher income earners only?)
- considering the effects may depend upon the stage in the economic cycle the UK is in
- considering whether deficit reduction is desirable or necessary.

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 2022

0 8

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

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

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

- definitions/explanations: inflation, low-stable inflation, government economic objectives
- explaining the other main macroeconomic objectives of governments: economic growth, minimising unemployment and a stable balance of payments on current account
- other economic objectives such as the reduction of inequalities or protection of the environment
- the role of central banks, such as the Bank of England or Monetary Policy Committee (MPC) and inflation targets
- ways that central banks can use monetary policies such as interest rates and the transmission mechanism
- ways that central banks can use other variables such as forward guidance, operational independence and forecasting to influence inflationary expectations
- other policies such as supply-side policies which may create low inflation
- other policies such as contractionary or expansionary fiscal policies in attempting to maintain low, stable rates of inflation
- the possible beneficial effects of maintaining low stable inflation such as:
 - the creation of confidence and stability
 - the avoidance of wage-price spirals
 - the avoidance of deflation and possible creation of delayed consumption
 - allowing economic agents to factor in changes to decision making and the effects on consumption and investment
 - maintaining international competitiveness
 - the avoidance of hyperinflation
 - the effects on households, such as those on fixed incomes and the effects on savings
 - effects on government finances
- the possible negative effects of maintaining low stable inflation such as:
 - the possible trade-off with unemployment if inflation is too low
 - the possible trade-off with growth if inflation is too low
 - the focus on achieving low, stable inflation may impact upon certain groups more than others for example borrowers with variable rate mortgages
- considering the effectiveness of policies to control inflation
- the relative merits and problems of policies designed to create low stable inflation
- external shocks such as the pandemic, may force governments to alter economic targets
- the possibility that objectives may be achieved simultaneously
- whether deflation is more of a concern than low stable inflation
- whether the control of inflation depends upon the stage of the economic cycle and priorities may change
- the importance of other objectives of economic policy

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

[25 marks]

Areas for discussion include:

- definitions/explanations: taxation, budget, budget deficit, fiscal policy
- explaining reasons why the government may wish to reduce a budget deficit
- explaining reasons why a budget deficit may exist
- explaining the difference between a cyclical and structural deficit
- explaining different forms of taxation
- explaining the differences between direct/indirect and regressive/progressive/proportional taxes
- assessing how increased taxation may be beneficial to reduce the budget deficit such as:
 - considering the ability to pay
 - reducing inequality
- assessing why increased taxation may cause problems such as:
 - creating disincentives to work/‘brain drain’
 - tax evasion/avoidance
 - linking disincentives and tax evasion avoidance to the Laffer curve
 - possible effects on investment/FDI if corporation tax is raised
 - possible effects on inequality depending on whether tax rises are regressive or not
 - considering the possible effects on inflation or employment depending on which tax is raised
 - negative multiplier effects
- assessing the effects of reduced government spending as an alternative such as:
 - reduced public/merit good provision
 - reduced spending on welfare and the effects on inequality/poverty
- considering efficiency arguments
- considering increasing tax rates versus tax revenue
- explaining increasing economic growth as an alternative to reduce the budget deficit (creating more tax revenue and reducing government spending)
- explaining the principles of taxation or how taxation may affect the pattern of economic activity
- explaining equity in taxation or differences in taxes on income or wealth
- explaining how taxation may also have effects on demerit goods or the environment
- assessing the various costs and benefits of alternative methods to reduce the budget deficit such as cutting government spending or creating economic growth
- explaining how the effectiveness of policies may depend on the current level of taxation
- considering the different ways in which tax revenue can be raised either through rate rises or threshold changes
- considering different types of taxation and the costs and benefits depend on which tax is raised
- an overall assessment of whether increasing taxation is the best way to reduce a budget deficit.

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

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

MAXIMUM FOR QUESTION 14: 25 MARKS

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

1 0

Assess the view that raising direct taxes to finance an increase in government spending is better than raising indirect taxes.

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

- defining/explanations: taxation, government spending, direct taxes, indirect taxes
- explanation of government spending in terms of current, capital and transfer payments
- explanation of the various forms of taxation and differences between direct and indirect taxation
- explanation of why governments levy taxes
- explanation of the differences between progressive, proportional and regressive taxes
- discussion of the principles of taxation, such as that taxes should be equitable
- analysis and evaluation of the benefits of raising direct taxes such as:
 - equity issues and ability to pay
 - certainty and a predictable source of revenue
- analysis and evaluation of the problems of raising direct taxes such as:
 - disincentives to work
 - tax evasion
 - high rates of progressive taxation possibly leading to 'brain drain'
- analysis and evaluation of the benefits of raising indirect taxes such as:
 - targeting behaviour, for example taxing demerit goods
 - convenience by collecting at point of sale
- analysis and evaluation of the problems of raising indirect taxes such as:
 - regressive impacts and effects on inequality
 - the effects on inflation
 - the possibility that revenue may fall if the demand for goods is price elastic
- analysis and evaluation of the role and relative merits of different UK taxes
- considering the impacts of raising taxation on the macroeconomic objectives or living standards
- discussing whether taxation needs raising at all or if it is better to rely on borrowing
- considering how the impacts may depend on where the economy is in the economic cycle
- considering whether taxes are noticeable or discussion of 'stealth' taxes
- an overall assessment of whether raising direct taxes to finance an increase in government spending is better than raising indirect taxes.

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

0 4**Extract C** (lines 17–18) states: ‘Some argue that the UK should increase taxes rather than add to the national debt.’*Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country’s national debt is damaging for its economy.***[25 marks]****Areas for discussion include:**

- definitions/explanations: national debt, fiscal policy, taxation
- explaining the effects on economies in terms of the macroeconomic goals
- explaining the effects on the economies in terms of different stakeholder groups such as firms/households/the government
- the benefits of increased national debt by increased government spending on:
 - merit goods such as education and training or healthcare
 - public goods such as roads or defence
 - welfare benefits/social provision
 - the redistribution of income/wealth
 - infrastructure
 - aggregate demand as part of demand management
 - supply-side policies
 - crowding in
- the costs of increased national debt:
 - crowding out
 - lower credit rating and the effect on debt repayments
 - possible inflationary pressure
 - the effects on future generations/possible future tax rises
- considering that a higher national debt may be caused by tax cuts rather than increased government spending and effects such as:
 - incentives to work
 - tax avoidance/evasion
- explaining how global shocks, such as a pandemic, may lead to unavoidable changes in fiscal policy
- considering alternatives to building up national debt to improve economies
- considering the effects of raising tax rates on tax revenue
- considering the current levels of debt and different countries’ experiences
- considering equity and efficiency arguments regarding public service provision
- considering possible trade-offs.

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

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

MAXIMUM FOR QUESTION 04: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 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 – 7136/2 – JUNE 2018

Essay 2**Total for this essay: 40 marks****1 1** Explain how fiscal policy can be used to try to improve the supply side of an economy.**[15 marks]****Relevant issues include:**

- definitions: fiscal policy, government spending, taxation, supply-side policy
- explaining how government spending can help the supply-side through:
 - the provision of education and training
 - the provision of infrastructure
 - grants and subsidies for R+D and investment
 - increased spending on transportation to increase geographical mobility
 - industrial and regional policy
 - reduction of out-of-work welfare benefits to reduce the replacement ratio and increase labour supply
 - the use of in-work welfare benefits
- explaining how taxation can help the supply side through:
 - reducing corporation tax to encourage enterprise and FDI
 - reducing business rates to encourage investment
 - reducing income tax to encourage labour participation
 - altering income tax rates and thresholds to encourage labour participation
 - using reduced taxation, such as business rates, as part of regional policy.
- explaining how supply-side policies improve the quantity and quality of the factors of production
- explaining how supply-side policies can target both labour and product markets
- explaining how supply-side policies can be interventionist or market based

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

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