



GuideMyGrades

— YOUR GOALS. OUR EXPERTISE. —

AQA AS ECONOMICS: QUESTIONS BY TOPIC

Financial Markets and Monetary Policy

AQA AS Economics 7135 — Topic 4.2.4

30 questions · 88 marks · Mark schemes included

 guidemygrades.com

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

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

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

 info@guidemygrades.com

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

HOW TO USE THIS BOOKLET

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

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

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

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

QUESTION	SOURCE	MARKS	PAGE
4.2.4.3 CENTRAL BANKS AND MONETARY POLICY		30 Qs · 88 marks	3
1. Q03	AS Paper 2, Section A (MCQ) June 2017	1	4
2. Q11	AS Paper 2, Section A (MCQ) June 2017	1	5
3. Q17	AS Paper 2, Section A (MCQ) June 2017	1	6
4. Q09	AS Paper 2, Section A (MCQ) June 2018	1	7
5. Q14	AS Paper 2, Section A (MCQ) June 2018	1	8
6. Q15	AS Paper 2, Section A (MCQ) June 2018	1	9
7. Q17	AS Paper 2, Section A (MCQ) June 2018	1	10
8. Q07	AS Paper 2, Section A (MCQ) June 2019	1	11
9. Q16	AS Paper 2, Section A (MCQ) June 2019	1	12
10. Q19	AS Paper 2, Section A (MCQ) June 2019	1	13
11. Q09	AS Paper 2, Section A (MCQ) June 2022	1	14
12. Q10	AS Paper 2, Section A (MCQ) June 2022	1	15
13. Q12	AS Paper 2, Section A (MCQ) June 2022	1	16
14. Q20	AS Paper 2, Section A (MCQ) June 2022	1	17
15. Q02	AS Paper 2, Section A (MCQ) June 2023	1	18
16. Q07	AS Paper 2, Section A (MCQ) June 2023	1	19
17. Q08	AS Paper 2, Section A (MCQ) June 2023	1	20
18. Q20	AS Paper 2, Section A (MCQ) June 2023	1	21
19. Q02	AS Paper 2, Section A (MCQ) November 2020	1	22
20. Q16	AS Paper 2, Section A (MCQ) November 2020	1	23
21. Q20	AS Paper 2, Section A (MCQ) November 2020	1	24
22. Q21	AS Paper 2, Context 1 June 2017	3	25
23. Q21	AS Paper 2, Context 1 November 2020	3	26
24. Q22	AS Paper 2, Context 1 June 2017	4	27
25. Q23	AS Paper 2, Context 1 June 2018	4	28
26. Q22	AS Paper 2, Context 1 June 2023	4	29
27. Q28	AS Paper 2, Context 2 November 2020	4	30
28. Q25	AS Paper 2, Context 1 June 2018	10	31
29. Q25	AS Paper 2, Context 1 June 2023	10	35
30. Q26	AS Paper 2, Context 1 June 2023	25	39



QUESTIONS

30 questions · 88 marks · 1 sub-topics



SUB-TOPIC 4.2.4.3

CENTRAL BANKS AND MONETARY POLICY

Sub-topic 4.2.4.3 · 30 questions · 88 marks · lowest tariff first



4

Do not write
outside the
box

0 3

Which one of the following is not part of the role of the Monetary Policy Committee of the Bank of England?

A Achieving the target rate of inflation

☐

B Changing Bank Rate

☐

C Reviewing various pieces of macroeconomic data

☐

D Setting the target rate for inflation

☐

[1 mark]

0 4

The table below shows the components of gross domestic product (GDP) for an economy in 2016.

	£bn
Consumption	850
Imports	210
Government expenditure	300
Investment	180
Exports	230

Aggregate demand in the economy is

A £1310bn

☐

B £1350bn

☐

C £1560bn

☐

D £1770bn

☐

[1 mark]



0 4

IB/G/Jun17/7135/2

8

Do not write
outside the
box

1 1

All other things being equal, under which of the following circumstances is an economy most likely to experience deflation?

	Exchange rate	Labour productivity	Employment	
A	Falling	Falling	Rising	☐
B	Falling	Rising	Falling	☐
C	Rising	Falling	Rising	☐
D	Rising	Rising	Falling	☐

[1 mark]

1 2

In an economy, the government reduced its spending by £4bn at the same time as exports rose by £20bn. As a result of these changes, national income rose by £20bn. The size of the multiplier is

- A 0.75 ☐
- B 1 ☐
- C 1.2 ☐
- D 1.25 ☐

[1 mark]

1 3

An economy has a surplus on the current account of its balance of payments. Under which of the following circumstances is the economy most likely to experience a reduction in its current account surplus?

	Growth in the world economy	Domestic inflation	Domestic productivity	
A	Falling	Rising	Falling	☐
B	Falling	Falling	Falling	☐
C	Rising	Falling	Falling	☐
D	Rising	Rising	Rising	☐

[1 mark]



0 8

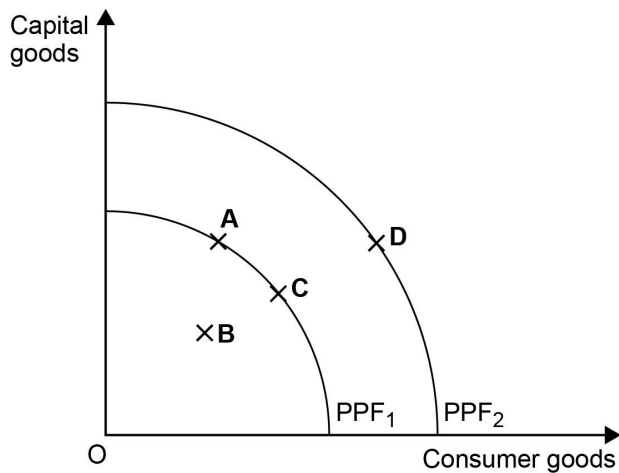
IB/G/Jun17/7135/2

10

Do not write
outside the
box

1 6

The diagram below shows two production possibility frontiers (PPF) for an economy.



Which one of the following movements represents an economy that has experienced short-run but not long-run economic growth?

A A to B

☐

B A to C

☐

C B to C

☐

D C to D

☐

[1 mark]

1 7

The table below shows four possible combinations of circumstances facing the UK economy. All other things being equal, which one of the following combinations is most likely to lead the Monetary Policy Committee of the Bank of England to lower Bank Rate?

	Output gap	Exchange rate	Inflation rate
A	Negative	Falling	Above target
B	Negative	Rising	Below target
C	Positive	Falling	Below target
D	Positive	Rising	Above target

☐☐☐☐

[1 mark]



1 0

IB/G/Jun17/7135/2

6

0 9

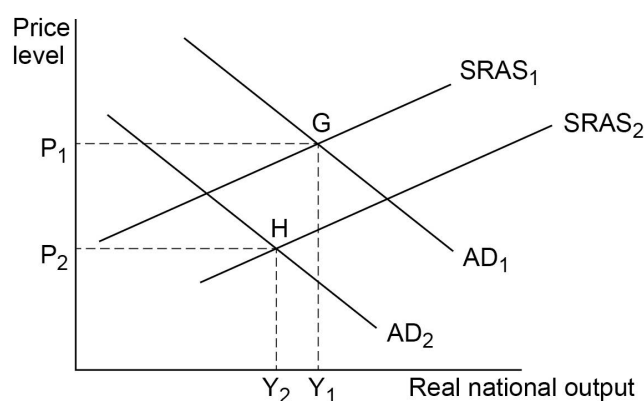
Inflationary pressures are normally low when an economy has a negative output gap. The most likely explanation for this is that

- A** consumers' spending on imports and the exchange rate rise. ☐
- B** the Bank of England may cut bank rate and increase the money supply. ☐
- C** the government's tax revenue falls and spending on benefits increases. ☐
- D** unemployment is high and firms have excess capacity. ☐

[1 mark]

1 0

In the diagram below, an economy is initially in equilibrium at point G. Aggregate demand then shifts from AD_1 to AD_2 and the short-run aggregate supply curve shifts from $SRAS_1$ to $SRAS_2$.



Which one of the following combinations of events will cause these shifts in AD and SRAS and move the economy to a new equilibrium at point H?

- A** A cut in income tax and an increase in VAT ☐
- B** A fall in money wages and a fall in house prices ☐
- C** An increase in productivity and a rise in consumer confidence ☐
- D** Higher energy prices and lower government expenditure ☐

[1 mark]



0 6

IB/M/Jun18/7135/2

8

1 3

A government is planning to reduce its budget deficit by increasing taxes on tobacco and reducing spending on defence.

These policies are most likely to

A change the pattern of economic activity in the long run.

☐

B increase inflation in the long run.

☐

C increase the level of economic activity in the short run.

☐

D reduce exports in the short run.

☐
[1 mark]**1 4**

The table below shows four possible sets of circumstances for the UK economy. Which set of circumstances is most likely to cause the Monetary Policy Committee of the Bank of England to raise bank rate?

	Output gap	Exchange rate	
A	negative	falling	☐
B	negative	rising	☐
C	positive	falling	☐
D	positive	rising	☐

[1 mark]

Do not write
outside the
box



0 8

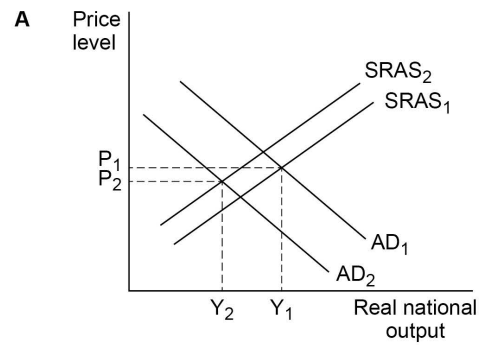
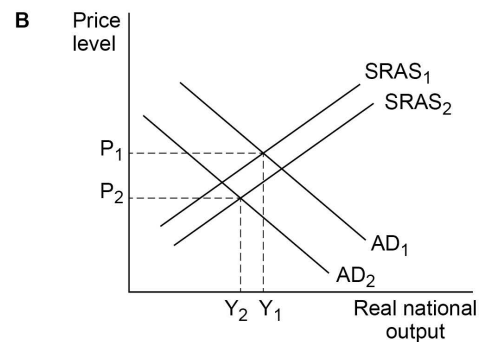
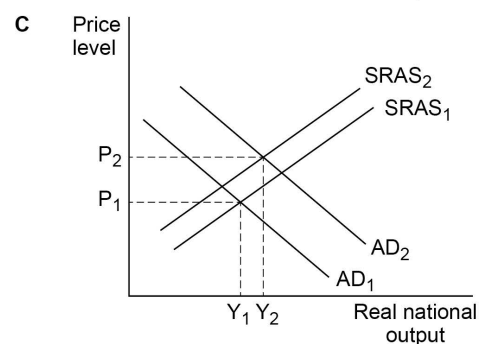
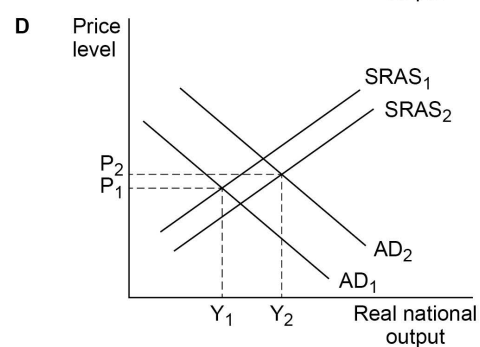
IB/M/Jun18/7135/2

9

1 5

An economy that imports most of its energy experiences a large appreciation in its exchange rate. Which one of the following AD/AS diagrams best illustrates the resulting changes to the economy's price level and real national output?

Do not write
outside the
box


☐

☐

☐

☐
[1 mark]**Turn over ►**

IB/M/Jun18/7135/2

10

1 6

A government raises income tax rates for very high wage earners and spends all of the extra revenue raised on higher welfare benefits. The result is a reduction in income inequality and a fall in the rate of economic growth. This is also most likely to

A lead to a reduction in government borrowing and national debt.

☐

B result in an improvement in incentives to work.

☐

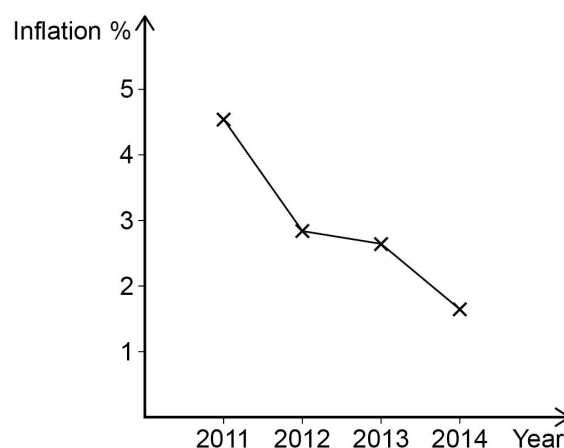
C show a potential conflict between macroeconomic policy objectives.

☐

D show the use of a contractionary fiscal policy.

☐**[1 mark]****1 7**

The diagram below shows the annual rate of inflation in the UK between 2011 and 2014.



From the graph it can be concluded that between 2011 and 2014

A real wages increased.

☐

B the price level was rising.

☐

C the real value of money increased.

☐

D the UK experienced deflation.

☐**[1 mark]**

1 0

IB/M/Jun18/7135/2

5

07

Many firms use profits to finance their capital investment instead of borrowing from banks. For these firms, higher interest rates are most likely to

- A cause them to change the type of investment made with more investment in buildings.
- B cause them to reduce their investment as they can now earn more interest from saving their profits.
- C have no impact on the amount of investment undertaken as they pay no interest.
- D result in more investment as they can earn more interest on money deposited in banks.

☐☐☐☐

[1 mark]

08

There is a large depreciation in an economy's exchange rate but the value of its exports does not increase. The most likely reason for the absence of an increase in the value of exports is that

- A consumer confidence in the economy has fallen.
- B other countries are in recession.
- C the government has implemented contractionary fiscal policy.
- D there is an increase in unemployment in the economy.

☐☐☐☐

[1 mark]

Turn over for the next question

Turn over ►



05

IB/M/Jun19/7135/2

Do not write
outside the
box

9

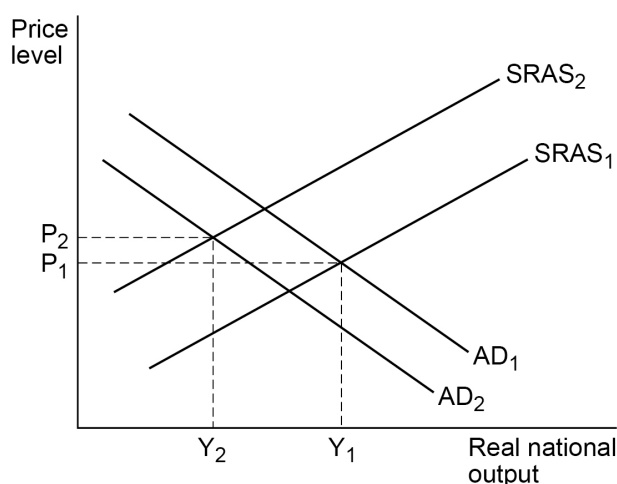
1 6

The Monetary Policy Committee of the Bank of England has to assess inflationary pressures when deciding on the level of Bank Rate. Which one of the following pieces of information is most likely to persuade the Committee to raise Bank Rate?

- A** A fall in the number of job vacancies advertised ☐
- B** GDP growth at below the trend rate in the previous two quarters ☐
- C** Statistics showing an increase in bank lending to households ☐
- D** Surveys showing that many firms have spare capacity ☐

[1 mark]**1 7**

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



Which one of the following combinations of events is most likely to have caused the shift from AD₁ to AD₂ and the shift from SRAS₁ to SRAS₂?

- A** A fall in commodity prices and a fall in savings ☐
- B** A fall in money wages and an increase in imports ☐
- C** An increase in the budget deficit and a fall in productivity ☐
- D** An increase in VAT and an increase in income tax ☐

[1 mark]**Turn over for the next question****Turn over ►**

0 9

IB/M/Jun19/7135/2

10

1 | 8

An economy has a deficit on the current account of the balance of payments. Which one of the following sets of circumstances is most likely to lead to a reduction in the economy's current account deficit?

	Output gap	Inflation in other countries	Domestic productivity	
A	Negative	Falling	Falling	☐
B	Negative	Rising	Rising	☐
C	Positive	Falling	Rising	☐
D	Positive	Rising	Falling	☐

[1 mark]**1 | 9**

Which one of the following sets of circumstances is most likely, other things remaining the same, to lead to demand-pull and cost-push inflation in an economy?

- A** A depreciation in the exchange rate, and a reduction in the government's budget surplus ☐
- B** Labour productivity growth in the economy accelerates, and interest rates fall ☐
- C** The minimum wage is increased, and business confidence in the economy falls ☐
- D** World demand for commodities increases, and the economy's trade surplus becomes smaller ☐

[1 mark]

Do not write
outside the
box



1 0

IB/M/Jun19/7135/2

6

09

An economy has a positive output gap and the government decides to increase interest rates. Which one of the following outcomes is most likely to result from the higher interest rates?

	Investment	Output gap	Savings
A	Decrease	Decrease	Increase
B	Decrease	Increase	Decrease
C	Increase	Decrease	Decrease
D	Increase	Increase	Increase

☐☐☐☐

[1 mark]

10

Faster growth in national income caused investment in an economy to increase. This means that the increase in investment resulted from

A an increase in spare capacity.

☐

B lower interest rates.

☐

C the action of the accelerator.

☐

D the action of the multiplier.

☐

[1 mark]

11

An indirect tax is a tax levied on

A firms' profits.

☐

B income.

☐

C savings.

☐

D spending.

☐

[1 mark]



06

IB/M/Jun22/7135/2

6

0 9

An economy has a positive output gap and the government decides to increase interest rates. Which one of the following outcomes is most likely to result from the higher interest rates?

	Investment	Output gap	Savings
A	Decrease	Decrease	Increase
B	Decrease	Increase	Decrease
C	Increase	Decrease	Decrease
D	Increase	Increase	Increase

☐☐☐☐

[1 mark]

1 0

Faster growth in national income caused investment in an economy to increase. This means that the increase in investment resulted from

A an increase in spare capacity.

☐

B lower interest rates.

☐

C the action of the accelerator.

☐

D the action of the multiplier.

☐

[1 mark]

1 1

An indirect tax is a tax levied on

A firms' profits.

☐

B income.

☐

C savings.

☐

D spending.

☐

[1 mark]

Do not write
outside the
box



0 6

IB/M/Jun22/7135/2

7

1 2

The Bank of England decides to raise interest rates to bring inflation back to its target rate. This policy is less likely to be effective if at the same time

A firms' profits and investment fall.

☐

B income tax rates are reduced.

☐

C labour productivity grows more quickly.

☐

D other countries reduce their demand for UK exports.

☐**[1 mark]**

*Do not write
outside the
box*

Turn over for the next question

Turn over ►



0 7

IB/M/Jun22/7135/2

11

1 9

In the short run, an increase in government borrowing is most likely to result in lower

A consumer expenditure.☐**B** government expenditure.☐**C** national debt.☐**D** unemployment.☐**[1 mark]****2 0**

A government wanting to use monetary policy to reduce deflation could decrease the

A exchange rate.☐**B** minimum wage.☐**C** money supply.☐**D** rate of indirect tax.☐**[1 mark]***Do not write
outside the
box***20****END OF SECTION A****Turn over ►**

1 1

IB/M/Jun22/7135/2

2

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

For each question 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 is an injection into the circular flow of income?

[1 mark]**A** Consumer expenditure☐**B** Exports☐**C** Imports☐**D** Wages☐**0 2**

In which one of the following situations is an increase in aggregate demand most likely to result in higher inflation?

[1 mark]**A** Household savings are increasing☐**B** Mortgage interest rates are high☐**C** Resources are fully employed☐**D** Unemployment is rising☐

0 2

IB/M/Jun23/7135/2

6

0 7

Which one of the following is most likely to be used to identify a phase of the economic cycle?

[1 mark]

A Firms' capacity utilisation

☐

B Structural unemployment

☐

C The economy's productive potential

☐

D The exchange rate

☐**0 8**

An economy has a low rate of economic growth and high unemployment.

Which one of the following sets of policies would be most likely to increase growth and reduce unemployment whilst avoiding a rise in inflation?

[1 mark]

A A cut in income tax and lower interest rates

☐

B Higher interest rates and an appreciation in the exchange rate

☐

C Higher welfare benefits and an increase in the money supply

☐

D Increased expenditure on training and an investment subsidy

☐

*Do not write
outside the
box*



0 6

IB/M/Jun23/7135/2

6

0 7

Which one of the following is most likely to be used to identify a phase of the economic cycle?

[1 mark]

A Firms' capacity utilisation

☐

B Structural unemployment

☐

C The economy's productive potential

☐

D The exchange rate

☐**0 8**

An economy has a low rate of economic growth and high unemployment.

Which one of the following sets of policies would be most likely to increase growth and reduce unemployment whilst avoiding a rise in inflation?

[1 mark]

A A cut in income tax and lower interest rates

☐

B Higher interest rates and an appreciation in the exchange rate

☐

C Higher welfare benefits and an increase in the money supply

☐

D Increased expenditure on training and an investment subsidy

☐

*Do not write
outside the
box*



0 6

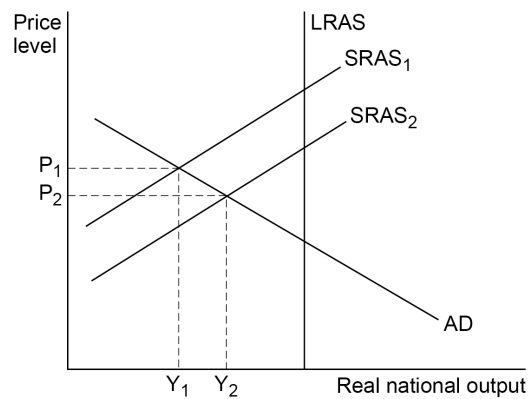
IB/M/Jun23/7135/2

12

1 | 9

Figure 2 shows the aggregate demand curve (**AD**), short-run aggregate supply curves (**SRAS**) and long-run aggregate supply curve (**LRAS**) for an economy.

Do not write
outside the
box

Figure 2

The short-run aggregate supply curve shifts from **SRAS₁** to **SRAS₂**. Which one of the following is the most likely cause of the resulting increase in real national output?

[1 mark]

- A** An increase in bank lending to households
- B** An increase in government expenditure
- C** Productivity rising faster than money wages
- D** The action of the multiplier

☐
☐
☐
☐

2 | 0

Which one of the following is most likely to result in an increase in exports from the UK economy? An increase in

[1 mark]

- A** inflation in other countries.
- B** productivity in other countries.
- C** UK incomes.
- D** UK interest rates.

☐
☐
☐
☐

20

END OF SECTION A

1 2

IB/M/Jun23/7135/2

2

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

For each question 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** An economy experiences a positive supply-side shock. Other things remaining equal, the impact on the economy is most likely to be**A** higher inflation and faster economic growth.☐**B** higher output and lower inflation.☐**C** lower employment and slower economic growth.☐**D** lower unemployment and a larger budget deficit.☐**[1 mark]****0 2** The quantity of food imported by an economy increases by 12% in one year. The most likely cause is a fall in**A** domestic farm prices.☐**B** income tax.☐**C** the exchange rate.☐**D** welfare benefits.☐**[1 mark]**

0 2

IB/M/Jun20/7135/2

9

Do not write
outside the
box

1 6

Output of the UK economy is at the normal capacity level and the Bank of England decides to implement measures to restrict the supply of credit to households. The most likely reason for this policy is that

- A earnings are increasing fast.
- B house prices are falling.
- C productivity is growing more quickly.
- D the exchange rate is appreciating.

☐☐☐☐

[1 mark]

1 7

Table 1 shows the index of export prices, the current monetary value of a country's exports and the calculated value, to the nearest £ billion, of the value of its exports at 2017 prices.

Table 1

Year	Current monetary value of exports (£ billion)	Index of export prices	Value of the country's exports at 2017 prices (£ billion)
2016	180	90	?
2017	200	100	200
2018	240	110	218
2019	300	120	?

Which **one** of the following is correct?

- A The value of the country's exports in 2016 at 2017 prices, to the nearest £ billion, was £162 billion
- B The value of the country's exports in 2016 at 2017 prices, to the nearest £ billion, was £198 billion
- C The value of the country's exports in 2019 at 2017 prices, to the nearest £ billion, was £240 billion
- D The value of the country's exports in 2019 at 2017 prices, to the nearest £ billion, was £250 billion

☐☐☐☐

[1 mark]

Turn over ►



0 9

IB/M/Jun20/7135/2

11

1 9

If the current account of the balance of payments is in surplus, then

- A** the exchange rate of the country's currency must be appreciating.
- B** the net value of trade in goods and services plus the net value of primary and secondary income must be positive.
- C** the total of all money flows into the economy must be greater than the total of all money flows out.
- D** the value of exports of goods and services must be greater than the value of imports of goods and services.

☐☐☐☐**[1 mark]****2 0**

The level of unemployment in an economy has fallen. The most likely cause is

- A** a reduction in firms' profits.
- B** a rise in the retirement age.
- C** an increase in immigration.
- D** lower mortgage interest rates.

☐☐☐☐**[1 mark]***Do not write
outside the
box***20****END OF SECTION A****Turn over ►**

1 1

IB/M/Jun20/7135/2

12

Do not write
outside the
box**Section B**

Look at the insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

OR

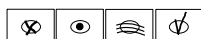
Questions 27 to 32 on pages 22 to 32 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context ☐Context ☐

WRONG METHODS



CORRECT METHOD

**EITHER****Context 1****Total for this Context: 50 marks****MANAGING THE UK ECONOMY**

Use the insert provided to study **questions 21 to 26** and **Extracts A, B and C**, and then answer the questions in the spaces which follow.

 Define the term 'real interest rate' **Extract B** (line 5).**[3 marks]**

Extra space



1 2

IB/G/Jun17/7135/2

12

Section B

Look at the insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

OR

Questions 27 to 32 on pages 23 to 32 of this answer booklet.

There is a total of 50 marks for either context.

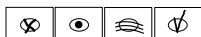
*Do not write
outside the
box*

Shade the circle below to indicate which context you have answered.

Context **0 1** ☐

Context **0 2** ☐

WRONG METHODS



CORRECT METHOD

**EITHER****Context 1**

Total for this context: 50 marks

THE UK RETAIL INDUSTRY

Use the insert provided to study **Questions 21 to 26** and **Extracts A, B and C**, and then answer the questions in the spaces which follow.

2 1

Define 'falling exchange rate' in **Extract B** (line 7).

[3 marks]



IB/M/Jun20/7135/2

13

Do not write
outside the
box

2 2

The price of a television is £500 without VAT. Use **Extract C** to calculate the decrease in the amount of VAT that would have to be paid on this television as a result of the tax cut introduced by Alistair Darling.

[4 marks]

2 3

Use **Extract A** to identify **two** significant points of comparison between the growth of mortgage lending and the growth of consumer credit over the period shown.

[4 marks]

Comparison 1 _____

Extra space _____

Comparison 2 _____

Extra space _____



Turn over ►

IB/G/Jun17/7135/2

2 2

Assume that the increase in national income as a result of the proposed Heathrow airport expansion is £29 billion.

Use **Extract C** to calculate, to one decimal place, the value of the multiplier. **[4 marks]**

2 3

Use **Extract A** to identify **two** significant features of the changes in the sterling exchange rate over the period shown. **[4 marks]**

Feature 1

Feature 2

Extra space

Do not write
outside the
box



14

2 2

The original price of an overnight stay in a hotel room is £180 including VAT. Calculate the new price of an overnight stay, following the reduction in VAT referred to in **Extract B** (line 15).

[4 marks]

Do not write
outside the
box



IB/M/Jun23/7135/2

23

Do **NOT** answer Context 2 if you have answered Context 1.Do not write
outside the
box

OR

Context 2

Total for this context: 50 marks

CONFLICTING ECONOMIC OBJECTIVES

Use the insert provided to study **Questions 27 to 32** and **Extracts D, E and F**, and then answer the questions in the spaces which follow.

2 | 7Define 'growing budget deficit' in **Extract F** (lines 15–16).**[3 marks]**

2 | 8

Use **Extract E** to calculate, to **two** decimal places, the ratio of cars produced in the UK for export markets to each car produced for the home market, for the year ended December 2018.

[4 marks]

Turn over ►



IB/M/Jun20/7135/2

16

2	5
---	---

Extract B (lines 9–11) states ‘The Bank of England’s Monetary Policy Committee loosened its monetary policy in an attempt to prevent a downturn in the economic cycle.’

Explain how monetary policy might help to prevent a downturn in the economic cycle.

[10 marks]

Do not write
outside the
box



IB/M/Jun18/7135/2

Do not write
outside the
box

[illegible]

32

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Extra space

Do not write
outside the
box



Handwriting practice area with 30 horizontal dotted lines.

Handwriting practice area with 30 horizontal dotted lines.

19

2	6
---	---

Extract C (lines 18–19) states: ‘It remains to be seen whether very low interest rates are good for the economy.’

Use the extracts and your knowledge of economics to assess the view that very low interest rates are good for the UK economy.

[25 marks]

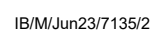
Do not write
outside the
box

Turn over ►



IB/M/Jun23/7135/2

Do not write
outside the
box

[illegible]

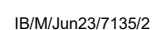
Extra space

Do not write
outside the
box

Turn over ►



Do not write
outside the
box

[illegible]

*Do not write
outside the
box*

[illegible]

50



24

Do **NOT** answer Context 2 if you have answered Context 1.Do not write
outside the
box

OR

Context 2

Total for this context: 50 marks

INTERNATIONAL TRADE

Use the Insert provided to study **Questions 27 to 32** and **Extracts D, E and F**, and then answer the questions in the spaces which follow.

2 7 Define 'economic recovery' **Extract E** (line 17).

[3 marks]

2 8 In the year to July 2020, the deficit in the balance of trade in goods was £105 billion. Calculate the value of imports of goods for the year to July 2020, using the information in **Extract E** (lines 12–15) to help you.

[4 marks]



IB/M/Jun23/7135/2

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with 25 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

MARK SCHEMES

official mark schemes



MARK SCHEME – AS ECONOMICS – 7135/2– JUNE 2017

SECTION A

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

KEY LIST

1	B	11	D
2	B	12	D
3	D	13	A
4	B	14	B
5	B	15	B
6	C	16	C
7	D	17	B
8	D	18	D
9	A	19	D
10	B	20	C

	<u>Total</u>
A	2
B	8
C	3
D	7
	<u>20</u>

MARK SCHEME – AS ECONOMICS – 7135/2– JUNE 2017

SECTION A

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

KEY LIST

1	B	11	D
2	B	12	D
3	D	13	A
4	B	14	B
5	B	15	B
6	C	16	C
7	D	17	B
8	D	18	D
9	A	19	D
10	B	20	C

	<u>Total</u>
A	2
B	8
C	3
D	7
	<u>20</u>

MARK SCHEME – AS ECONOMICS – 7135/2– JUNE 2017

SECTION A

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

KEY LIST

1	B	11	D
2	B	12	D
3	D	13	A
4	B	14	B
5	B	15	B
6	C	16	C
7	D	17	B
8	D	18	D
9	A	19	D
10	B	20	C

	<u>Total</u>
A	2
B	8
C	3
D	7
	<u>20</u>

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2018

SECTION A

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

KEY LIST

1	D	11	B
2	B	12	C
3	C	13	A
4	A	14	C
5	C	15	B
6	B	16	C
7	B	17	B
8	D	18	B
9	D	19	C
10	B	20	B

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2018

SECTION A

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

KEY LIST

1	D	11	B
2	B	12	C
3	C	13	A
4	A	14	C
5	C	15	B
6	B	16	C
7	B	17	B
8	D	18	B
9	D	19	C
10	B	20	B

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2018

SECTION A

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

KEY LIST

1	D	11	B
2	B	12	C
3	C	13	A
4	A	14	C
5	C	15	B
6	B	16	C
7	B	17	B
8	D	18	B
9	D	19	C
10	B	20	B

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2018

SECTION A

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

KEY LIST

1	D	11	B
2	B	12	C
3	C	13	A
4	A	14	C
5	C	15	B
6	B	16	C
7	B	17	B
8	D	18	B
9	D	19	C
10	B	20	B

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2019

Section A

KEY LIST

1	C	11	A
2	C	12	A
3	B	13	C
4	A	14	B
5	D	15	D
6	B	16	C
7	B	17	D
8	B	18	B
9	C	19	A
10	B	20	D

Totals

A 4
B 7
C 5
D 4

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2019

Section A

KEY LIST

1	C	11	A
2	C	12	A
3	B	13	C
4	A	14	B
5	D	15	D
6	B	16	C
7	B	17	D
8	B	18	B
9	C	19	A
10	B	20	D

Totals

A 4
B 7
C 5
D 4

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2019

Section A

KEY LIST

1	C	11	A
2	C	12	A
3	B	13	C
4	A	14	B
5	D	15	D
6	B	16	C
7	B	17	D
8	B	18	B
9	C	19	A
10	B	20	D

Totals

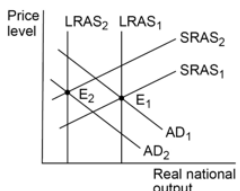
A 4
 B 7
 C 5
 D 4

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2022

SECTION A

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

KEY LIST

1	D (An increase in productive potential)	11	D (spending)
2	B (Faster economic growth abroad and lower world commodity prices)	12	B (income tax rates are reduced)
3	A (allow easier comparison of data)	13	C 
4	C (structural unemployment)	14	B (budget surplus)
5	A (Falling, Falling, Rising)	15	B (£1455bn)
6	D (reduce aggregate demand)	16	D (stimulate supply-side improvements)
7	C (rose faster in Country X between 2017 and 2019)	17	C (Expansionary fiscal policy and a stronger exchange rate)
8	D (real incomes may have risen or fallen)	18	B (job vacancies)
9	A (Decrease, Decrease, Increase)	19	D (unemployment)
10	C (the action of the accelerator)	20	A (exchange rate)

Totals

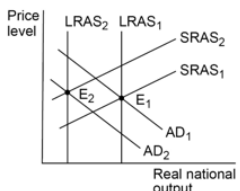
A 4
B 5
C 5
D 6

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2022

SECTION A

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

KEY LIST

1	D (An increase in productive potential)	11	D (spending)
2	B (Faster economic growth abroad and lower world commodity prices)	12	B (income tax rates are reduced)
3	A (allow easier comparison of data)	13	C 
4	C (structural unemployment)	14	B (budget surplus)
5	A (Falling, Falling, Rising)	15	B (£1455bn)
6	D (reduce aggregate demand)	16	D (stimulate supply-side improvements)
7	C (rose faster in Country X between 2017 and 2019)	17	C (Expansionary fiscal policy and a stronger exchange rate)
8	D (real incomes may have risen or fallen)	18	B (job vacancies)
9	A (Decrease, Decrease, Increase)	19	D (unemployment)
10	C (the action of the accelerator)	20	A (exchange rate)

Totals

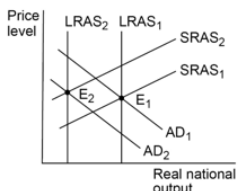
A 4
B 5
C 5
D 6

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2022

SECTION A

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

KEY LIST

1	D (An increase in productive potential)	11	D (spending)
2	B (Faster economic growth abroad and lower world commodity prices)	12	B (income tax rates are reduced)
3	A (allow easier comparison of data)	13	C 
4	C (structural unemployment)	14	B (budget surplus)
5	A (Falling, Falling, Rising)	15	B (£1455bn)
6	D (reduce aggregate demand)	16	D (stimulate supply-side improvements)
7	C (rose faster in Country X between 2017 and 2019)	17	C (Expansionary fiscal policy and a stronger exchange rate)
8	D (real incomes may have risen or fallen)	18	B (job vacancies)
9	A (Decrease, Decrease, Increase)	19	D (unemployment)
10	C (the action of the accelerator)	20	A (exchange rate)

Totals

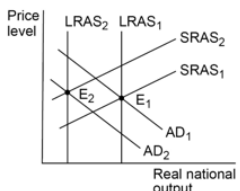
A 4
B 5
C 5
D 6

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2022

SECTION A

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

KEY LIST

1	D (An increase in productive potential)	11	D (spending)
2	B (Faster economic growth abroad and lower world commodity prices)	12	B (income tax rates are reduced)
3	A (allow easier comparison of data)	13	C 
4	C (structural unemployment)	14	B (budget surplus)
5	A (Falling, Falling, Rising)	15	B (£1455bn)
6	D (reduce aggregate demand)	16	D (stimulate supply-side improvements)
7	C (rose faster in Country X between 2017 and 2019)	17	C (Expansionary fiscal policy and a stronger exchange rate)
8	D (real incomes may have risen or fallen)	18	B (job vacancies)
9	A (Decrease, Decrease, Increase)	19	D (unemployment)
10	C (the action of the accelerator)	20	A (exchange rate)

Totals

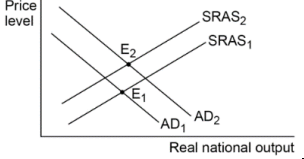
A 4
B 5
C 5
D 6

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2023

SECTION A

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

KEY LIST

1	B (Exports)	11	A (cut government borrowing.)
2	C (Resources are fully employed)	12	B (Real national income increased)
3	D (The value of money rose between 2008 and 2011.)	13	C (government.)
4	C 	14	B (Government grants for firms with growth potential)
5	A (Corporation tax)	15	C (Rising, Absent, Increasing)
6	C (£42bn.)	16	A (A decrease in employment)
7	A (Firms' capacity utilisation)	17	D (positive supply-side shock.)
8	D (Increased expenditure on training and an investment subsidy)	18	C (An increase in the budget surplus and a switch from spending on pensions to spending on new airports)
9	C (the pattern of economic activity has changed.)	19	C (Productivity rising faster than money wages)
10	A (W)	20	A (inflation in other countries.)

Totals

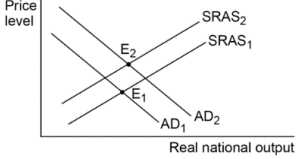
A 6
B 3
C 8
D 3

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2023

SECTION A

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

KEY LIST

1	B (Exports)	11	A (cut government borrowing.)
2	C (Resources are fully employed)	12	B (Real national income increased)
3	D (The value of money rose between 2008 and 2011.)	13	C (government.)
4	C 	14	B (Government grants for firms with growth potential)
5	A (Corporation tax)	15	C (Rising, Absent, Increasing)
6	C (£42bn.)	16	A (A decrease in employment)
7	A (Firms' capacity utilisation)	17	D (positive supply-side shock.)
8	D (Increased expenditure on training and an investment subsidy)	18	C (An increase in the budget surplus and a switch from spending on pensions to spending on new airports)
9	C (the pattern of economic activity has changed.)	19	C (Productivity rising faster than money wages)
10	A (W)	20	A (inflation in other countries.)

Totals

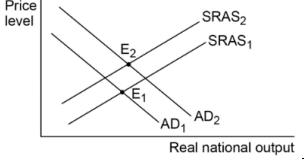
A 6
B 3
C 8
D 3

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2023

SECTION A

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

KEY LIST

1	B (Exports)	11	A (cut government borrowing.)
2	C (Resources are fully employed)	12	B (Real national income increased)
3	D (The value of money rose between 2008 and 2011.)	13	C (government.)
4	C 	14	B (Government grants for firms with growth potential)
5	A (Corporation tax)	15	C (Rising, Absent, Increasing)
6	C (£42bn.)	16	A (A decrease in employment)
7	A (Firms' capacity utilisation)	17	D (positive supply-side shock.)
8	D (Increased expenditure on training and an investment subsidy)	18	C (An increase in the budget surplus and a switch from spending on pensions to spending on new airports)
9	C (the pattern of economic activity has changed.)	19	C (Productivity rising faster than money wages)
10	A (W)	20	A (inflation in other countries.)

Totals

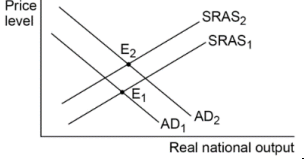
A 6
B 3
C 8
D 3

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2023

SECTION A

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

KEY LIST

1	B (Exports)	11	A (cut government borrowing.)
2	C (Resources are fully employed)	12	B (Real national income increased)
3	D (The value of money rose between 2008 and 2011.)	13	C (government.)
4	C 	14	B (Government grants for firms with growth potential)
5	A (Corporation tax)	15	C (Rising, Absent, Increasing)
6	C (£42bn.)	16	A (A decrease in employment)
7	A (Firms' capacity utilisation)	17	D (positive supply-side shock.)
8	D (Increased expenditure on training and an investment subsidy)	18	C (An increase in the budget surplus and a switch from spending on pensions to spending on new airports)
9	C (the pattern of economic activity has changed.)	19	C (Productivity rising faster than money wages)
10	A (W)	20	A (inflation in other countries.)

Totals

A 6
B 3
C 8
D 3

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2020

Section A

KEY LIST

1	B	11	B
2	B	12	B
3	A	13	A
4	C	14	B
5	D	15	A
6	D	16	A
7	D	17	D
8	C	18	A
9	C	19	B
10	C	20	D

Totals

A 5
B 6
C 4
D 5

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2020

Section A

KEY LIST

1	B	11	B
2	B	12	B
3	A	13	A
4	C	14	B
5	D	15	A
6	D	16	A
7	D	17	D
8	C	18	A
9	C	19	B
10	C	20	D

Totals

A 5
B 6
C 4
D 5

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2020

Section A

KEY LIST

1	B	11	B
2	B	12	B
3	A	13	A
4	C	14	B
5	D	15	A
6	D	16	A
7	D	17	D
8	C	18	A
9	C	19	B
10	C	20	D

Totals

A 5
B 6
C 4
D 5

MARK SCHEME – AS ECONOMICS – 7135/2– JUNE 2017

SECTION B**Context 1 Managing the UK Economy****Total for this Context: 50 marks.****2 1** Define the term 'real interest rate' **Extract B** (line 5).**[3 marks]**

Level of response	Response	Max 3 marks
3	A full and precise definition is given.	3 marks
2	The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.	2 marks
1	Some fragmented points are made.	1 marks

Examples of acceptable definitions, worth 3 marks:

- real interest rate is the cost of borrowing and/or reward for saving money as a percentage of sum borrowed/saved which has been adjusted to take into account the rate of inflation
- the percentage of the sum borrowed and/or saved that is charged to borrowers/paid to savers with the effects of inflation removed

Examples of a definition worth 2 marks:

- the cost of borrowing money with the effects of inflation removed
- the reward for lending/saving money adjusted for inflation

Examples of a definition worth 1 mark:

- defines only interest rate (e.g. cost of borrowing or reward from saving), may or may not include % of the sum borrowed or saved
- defines only the term 'real'

Note:**Full and precise understanding can be demonstrated by referring to either saving and/or borrowing****MAXIMUM FOR QUESTION 21: 3 MARKS**

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2020

Section B

Context 1 THE UK RETAIL INDUSTRY

Total for this context: 50 marks

2	1
---	---

 Define 'falling exchange rate' in **Extract B** (line 7).

[3 marks]

Level of response	Response	Max 3 marks
3	A full and precise definition is given.	3 marks
2	The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.	2 marks
1	Some fragmented points are made.	1 mark

Examples of acceptable definitions worth 3 marks:

- when the value of one currency in terms of another depreciates/weakens/is worth less
- the value of one currency in comparison to another currency. One currency reduces in value/weakens/depreciates compared to the other.

Examples of a definition worth 2 marks:

- £1 = US\$1.40 becomes £1 = US\$1.30
- when the value of one currency in terms of another *falls* – ie no alternative to 'falling'

Examples of a definition worth 1 mark:

- a depreciating currency
- the value of one currency compared to another.

MAXIMUM FOR QUESTION 21: 3 MARKS

MARK SCHEME – AS ECONOMICS – 7135/2– JUNE 2017

- 2 2** The price of a television is £500 without VAT. Use **Extract C** to calculate the decrease in the amount of VAT that would have to be paid on this television as a result of the tax cut introduced by Alistair Darling.

[4 marks]

Response	Max 4 marks
For a correct answer: £12.50 or £12.5	4 marks
Omitting the £ sign but figure is correct, 12.50 or 12.5	3 marks
Calculates old VAT £87.50 and the new VAT of £75.00 but not the decrease with or without £ signs	2 marks
For a valid attempt at a calculation, even though the answer is incorrect – must show a valid attempt at calculating VAT at either 17.5% or 15% Calculates only one of the VAT figures with or without £ signs	1 mark

Note:

$$\begin{array}{rcl}
 £500 \times 0.175 & = & £87.50 \\
 £500 \times 0.15 & = & \underline{£75.00} \\
 & & £12.50
 \end{array}$$

MAXIMUM FOR QUESTION 22: 4 MARKS

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2018

23 Use **Extract A** to identify **two** significant features of the changes in the sterling exchange rate over the period shown.

[4 marks]

Award up to 2 marks for each significant feature identified.

Response	Marks
Identifies a significant feature. Makes accurate use of the data to support the feature identified. Unit of measurement given accurately.	2 marks
Identifies a significant feature but only one piece of data is given when two are needed and/or no unit of measurement is given and/or the unit of measurement is inaccurate and/or the wrong date is given.	1 mark

If a candidate identifies more than 2 significant features, reward the best two.

Significant points include:

- the value of the pound fell from US\$1.46 to US\$1.29 over the period shown
- the value of the pound fell from US\$1.46 in May 2016 to US\$1.29 in April 2017
- the value of the pound was highest in June 2016 at US\$1.48
- the value of the pound was lowest in January 2017 at US\$1.21
- there was a significant fall in the value of the pound in June 2016 from US\$1.48 to US\$1.32
- the value of the pound had a range of 27 cents, over the period shown, **and/or** ranging from a low value of US\$1.21 in January 2017, to a high of US\$1.48 in June 2016
- the value of the pound fluctuated over the period shown, **supported by at least one set of data**, for example, the most significant change occurred in June 2016 when it fell from a value of US\$1.48 to US\$1.32 in a matter of days, **and/or** it fell from US\$1.30 in September 2016 to US\$1.21 in October 2016.

Note

- Allow a margin of +/- US\$0.02.
- If values given are outside of this tolerance, award zero marks for that feature because there is incorrect use of data.

MAXIMUM FOR QUESTION 23: 4 MARKS

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2023

- 2 2** The original price of an overnight stay in a hotel room is £180 including VAT. Calculate the new price of an overnight stay, following the reduction in VAT referred to in **Extract B** (line 15).

[4 marks]

Calculation:

£180 x 100 divided by 120 = £150
 £150 x 105 divided by 100 = £157.50

OR

£180 x 105 divided by 120 = £157.50

Response	Max 4 marks
For the correct answer: £157.50. Accept £157.5	4 marks
For the correct answer without units: 157.50	3 marks
For an answer rounded to the nearest £: £158 or £157 OR For identifying the price of the hotel room without VAT (£150) and either the original VAT value (£30) or new VAT value (£7.50) but an incorrect answer (with units)	2 marks
For a correct method for the calculation but the wrong answer OR For identifying the price of the hotel room without VAT (£150) or the original VAT value (£30) or new VAT value (£7.50) but an incorrect answer (with units) OR £151.20/£151.2	1 mark

MAXIMUM FOR QUESTION 22: 4 MARKS

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2020

- 2 8** Use **Extract E** to calculate, to **two** decimal places, the ratio of cars produced in the UK for export markets to each car produced for the home market, for the year ended December 2018.

[4 marks]

Calculation:

$$1\,237\,608 / 281\,832 = 4.39 : 1$$

Response	Max 4 marks
For the correct answer: 4.39 : 1	4 marks
For an answer not rounded to two decimal places: 4.4 : 1 or 4.391 : 1 OR For an answer expressed the wrong way around: 1 : 4.39 correctly rounded to two decimal places	3 marks
For an answer calculated the other way around (281 832 / 1 237 608): 1 : 0.23 correctly rounded to two decimal places OR For an answer not expressed as a ratio: 4.39 or 439%	2 marks
For identifying the correct figures for the calculation: 1 273 608 and 281 832 OR For an answer not expressed as a ratio AND not rounded to two decimal places: 4.4 or 4.391	1 mark

MAXIMUM FOR QUESTION 28: 4 MARKS

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2018

25 *Extract B (lines 9–11) states ‘The Bank of England’s Monetary Policy Committee loosened its monetary policy in an attempt to prevent a downturn in the economic cycle.’*

Explain how monetary policy might help to prevent a downturn in the economic cycle.

[10 marks]

Level of response	An answer that:	Max 10 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 - may include a relevant diagram to support their explanation.	8 - 10 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 to support their explanation.	4 - 7 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 diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.	1 - 3 marks

Relevant issues include:

- what is meant by monetary policy
- what is meant by a downturn in the economic cycle, ie a fall in economic activity, falling output and rising unemployment (some candidates might interpret as a ‘downturn’, a fall in the rate of growth)
- how interest rates/Bank Rate affect consumption/investment/AD
- how money supply/QE affect consumption/investment/AD
- how a falling exchange rate affects exports/imports/AD
- how AD affects the level of economic activity/output/employment.

MAXIMUM FOR QUESTION 25: 10 MARKS

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2023

2 5 **Extract B** (lines 7–9) states: ‘With this in mind, the government sets the target rate of inflation that the Bank of England’s Monetary Policy Committee (MPC) has to achieve.’

Explain **two** factors considered by the Bank of England’s MPC when setting Bank Rate.

[10 marks]

Level of response	An answer that:	Max 10 marks
3	- identifies two valid reasons - 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 - may include a relevant diagram to support their explanation.	8–10 marks
2	- identifies at least one valid reason - 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 to support their explanation.	4–7 marks
1	- identifies at least one valid reason - 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 diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.	1–3 marks

Relevant issues include:

- meaning of monetary policy, Bank Rate, inflation, target rate of inflation, Bank of England's MPC
- demand-pull and cost-push influences
- state of the economy/phase of the economic cycle
- unemployment rate
- rate of change in money wages
- growth of money and credit
- house prices
- commodity prices
- government policy
- changes in other economies
- expectations
- Exchange rate
- Inflation rate.

MAXIMUM FOR QUESTION 25: 10 MARKS

MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2023

2 6**Extract C** (lines 18–19) states: 'It remains to be seen whether very low interest rates are good for the economy.'*Use the extracts and your knowledge of economics to assess the view that very low interest rates are good for the UK economy.***[25 marks]****Areas for discussion include:**

- explanation of interest rates/Bank Rate/monetary policy
- UK economy/macroeconomic performance
- the impact of low(er) interest rates on consumption/savings/investment/AD
- the beneficial impact on economic growth/unemployment/achieving target rate of inflation
- the role as an economic stimulus during recession/recovery
- the beneficial impact on the costs of government borrowing
- possible multiplier/accelerator effects
- the adverse impact on inflation
- the impact on savers
- potential for future instability due to too-high levels of consumer debt
- the possibility of poor investment decisions
- discussion of the extent of spare capacity in the economy
- short-run versus long-run impact
- the seriousness of the economic crisis/confidence
- discussion of the overall economic policy approach, fiscal/monetary/supply-side
- an overall assessment of the view that very low interest rates are good for the economy.

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

Use the levels mark scheme on page 5 to award students marks for this question.

MAXIMUM FOR QUESTION 26: 25 MARKS