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AQA AS ECONOMICS: QUESTIONS BY TOPIC

Fiscal Policy and Supply-Side Policies

AQA AS Economics 7135 — Topic 4.2.5

31 questions · 125 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. Q05	AS Paper 2, Section A (MCQ) June 2017	1	5
3. Q14	AS Paper 2, Section A (MCQ) June 2017	1	6
4. Q19	AS Paper 2, Section A (MCQ) June 2017	1	7
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17. Q21	AS Paper 2, Context 1 June 2018	3	20
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QUESTIONS

31 questions · 125 marks · 2 sub-topics



SUB-TOPIC 4.2.5.1

FISCAL POLICY

Sub-topic 4.2.5.1 · 27 questions · 118 marks · lowest tariff first



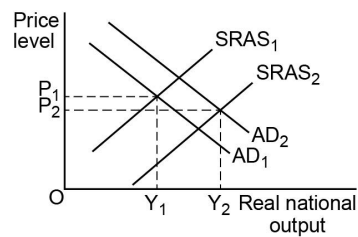
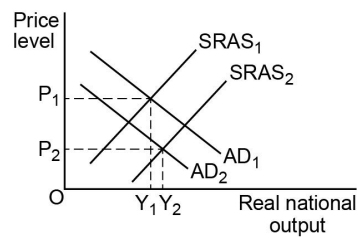
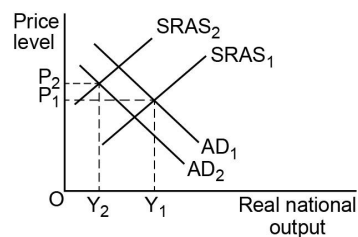
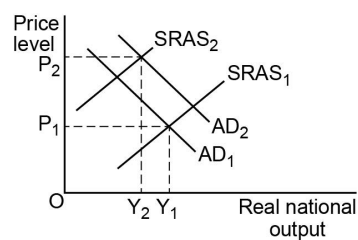
3

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0 2

The diagrams below show the aggregate demand (AD) and short run aggregate supply (SRAS) curves for an economy. AD_1 and $SRAS_1$ show the initial positions of the curves and AD_2 and $SRAS_2$ the new positions.

Which one of the following diagrams, **A**, **B**, **C** or **D**, illustrates a fall in world commodity prices as well as a fall in government spending?

A☐**B**☐**C**☐**D**☐**[1 mark]**

0 3

Turn over ►

IB/G/Jun17/7135/2

5

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Which one of the following would be most likely to generate growth in an economy without producing an increase in inflation?

A A decrease in the exchange rate

☐

B An increase in labour productivity

☐

C An increase in the budget surplus

☐

D An increase in the rate of interest

☐**[1 mark]****0 6**

Which one of the following is an objective of UK government macroeconomic policy?

A A fall in the supply of money

☐

B A stable labour force

☐

C An increase in real GDP per head

☐

D Low interest rates

☐**[1 mark]**

Turn over for the next question



0 5

Turn over ►

IB/G/Jun17/7135/2

9

*Do not write
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Which one of the following policy changes represents a contractionary fiscal policy?

A A decrease in income tax

☐

B A decrease in the budget deficit

☐

C An increase in government spending

☐

D An increase in the rate of interest

☐**[1 mark]****1 5**

Changes are regularly made to the weights used in the UK's Consumer Prices Index. This means that the index takes account of changes in

A month on month increases in the general price level.

☐

B spending patterns throughout the economy.

☐

C the growth of real output in the economy.

☐

D total spending on all domestic goods and services.

☐**[1 mark]**

Turn over for the next question



0 9

Turn over ►

IB/G/Jun17/7135/2

11

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1 8

Which one of the following is most likely to reduce cyclical unemployment in the UK?

A A cut in the UK budget deficit

☐

B An increase in the pound sterling exchange rate

☐

C An increase in the UK retirement age

☐

D Higher economic growth in the Eurozone

☐

[1 mark]

1 9

All other things remaining the same, which one of the following events would directly increase the size of the UK's national debt? An increase in

A mortgage borrowing from UK banks.

☐

B overseas lending to UK firms.

☐

C the UK's current account deficit.

☐

D the UK government's budget deficit.

☐

[1 mark]

2 0

Which one of the following is most likely to improve the supply-side performance of an economy? An increase in

A government spending on welfare benefits.

☐

B growth in the rest of the world.

☐

C labour productivity.

☐

D the basic rate of income tax.

☐

[1 mark]

**QUESTION 20 IS THE LAST
QUESTION IN SECTION A.**



1 1

Turn over ►

IB/G/Jun17/7135/2

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 indicates a contractionary monetary policy?**A** A fall in the budget deficit☐**B** A rise in the money supply☐**C** An increase in the national debt☐**D** Appreciation of the exchange rate☐**[1 mark]**

0 2

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.

☐

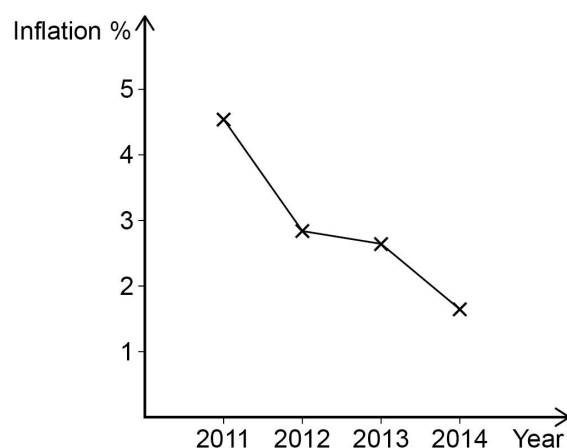
C show a potential conflict between macroeconomic policy objectives.

☐

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

8

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1 | 3

An economy is in macroeconomic equilibrium with total expenditure and total income each equal to £407 billion. This means that the current value of total output will be

A £407 billion plus the annual rate of economic growth.

☐

B £814 billion after adjusting for the multiplier effect.

☐

C the same as total expenditure and total income.

☐

D the same as total income after adjusting for inflation.

☐

[1 mark]

1 | 4

A government wanting to reduce unemployment in the short run, through the use of fiscal policy, is most likely to

A attempt to increase the size of its budget surplus.

☐

B reduce indirect taxes on consumption.

☐

C reduce interest rates to stimulate investment.

☐

D take measures to reduce the size of its budget deficit.

☐

[1 mark]

1 | 5

World oil prices rise by 30%. On an AD/AS diagram the main effects are shown by a shift left in

A both the aggregate demand curve and the short-run aggregate supply curve.

☐

B the aggregate demand curve as consumers face higher prices for petrol.

☐

C the long-run aggregate supply curve as firms reduce their investment in renewable energy.

☐

D the short-run aggregate supply curve as firms face higher costs.

☐

[1 mark]



0 8

IB/M/Jun19/7135/2

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]

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0 6

IB/M/Jun22/7135/2

9

- 1 4** Which one of the following is an example of expansionary fiscal policy?
A reduction in the

A budget deficit.

☐

B budget surplus.

☐

C trade deficit.

☐

D trade surplus.

☐

[1 mark]

- 1 5** **Table 2** shows the components of aggregate demand in an economy which is in equilibrium.

Table 2

	£ billion
Consumer expenditure	1000
Investment	200
Government expenditure	350
Exports	150
Imports	200

If imports increase to £230 billion and the multiplier is 1.5, then the new level of national income would be

A £1155 billion

☐

B £1455 billion

☐

C £1545 billion

☐

D £1845 billion

☐

[1 mark]

Turn over for the next question

Turn over ►



0 9

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

8

1 0

Table 3 shows the planned change in government spending, the size of the output gap and the size of the multiplier in four economies, W, X, Y and Z.

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Table 3

	Change in government spending (£bn)	Output gap (£bn)	Multiplier
W	–80	+100	1.25
X	–150	–225	1.5
Y	+200	+350	1.75
Z	–300	+150	2

All other things being equal, in which one of the economies, W, X, Y or Z, will the planned change in government spending eliminate the economy's output gap?

[1 mark]**A** W☐**B** X☐**C** Y☐**D** Z☐

1 1

A government wishing to reduce inflation through the use of fiscal policy could

[1 mark]**A** cut government borrowing.☐**B** decrease income tax.☐**C** raise interest rates.☐**D** reduce the budget surplus.☐

0 8

IB/M/Jun23/7135/2

9

1 2

Table 4 shows the percentage change in real GDP in an economy in the four years 2016 to 2019.

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Table 4

Year	Change in real GDP (%)
2016	4.2
2017	3.1
2018	2.6
2019	1.1

Over the period 2016 to 2019, which one of the following can be concluded from **Table 4**?
[1 mark]

- A** Aggregate demand decreased ☐
- B** Real national income increased ☐
- C** Structural unemployment increased ☐
- D** The inflation rate decreased ☐

1 3

The national debt is the sum of all past and current borrowing, less repayments, undertaken by

[1 mark]

- A** firms and government. ☐
- B** firms, government and households. ☐
- C** government. ☐
- D** households and firms. ☐

Turn over ►



IB/M/Jun23/7135/2

10

Do not write
outside the
box**1 4** Which one of the following is most likely to be an instrument of industrial policy?**[1 mark]****A** An increase in manufacturing productivity☐**B** Government grants for firms with growth potential☐**C** Higher investment by firms in research and development☐**D** Investment by firms in artificial intelligence☐**1 5** An economy experiences a low trend rate of economic growth, no output gap and a fall in total hours worked. In these circumstances, which one of the following combinations of events is most likely to occur?**[1 mark]**

	National output	Cyclical unemployment	Labour productivity
A	Falling	Absent	Increasing
B	Falling	Present	Decreasing
C	Rising	Absent	Increasing
D	Rising	Present	Decreasing

☐☐☐☐**1 6** The UK economy experiences a change in its foreign exchange rate from £1 = \$1.60 to £1 = \$1.75.

Which one of the following is the most likely effect on the UK economy?

[1 mark]**A** A decrease in employment☐**B** A fall in the budget deficit☐**C** A reduction in productivity☐**D** Higher raw material prices☐

1 0

IB/M/Jun23/7135/2

11

1 | 7

An economy is experiencing deflation and high employment.

The most likely cause of this situation is a

[1 mark]

A deficit on the balance of payments.

☐

B government budget surplus.

☐

C negative demand-side shock.

☐

D positive supply-side shock.

☐**1 | 8**

Which one of the following is an example of a contractionary fiscal policy designed to reduce inflation while, at the same time, minimising the negative impact on the economy's potential for long-run economic growth?

[1 mark]

A A decrease in the budget deficit and replacement of a sugar tax with a tax on savings

☐

B An increase in interest rates and replacement of food subsidies with subsidies for innovation

☐

C An increase in the budget surplus and a switch from spending on pensions to spending on new airports

☐

D Restrictions on bank lending and a switch from spending on arts degrees to spending on apprenticeships

☐

Turn over for the next question

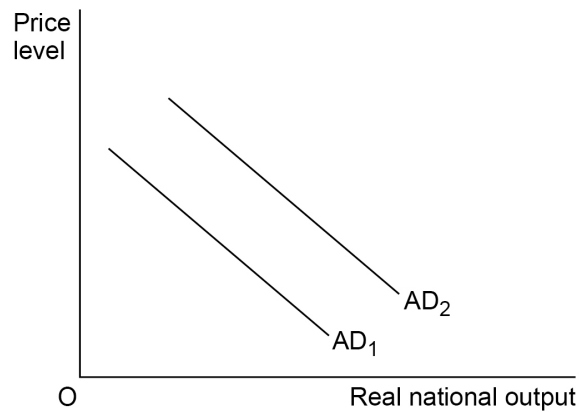
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IB/M/Jun23/7135/2

3

0 3

Figure 1 shows aggregate demand (AD) curves for an economy.Do not write
outside the
box**Figure 1**

Which **one** of the following is most likely to cause the aggregate demand curve to shift from AD_1 to AD_2 ?

- A A fall in imports
- B A fall in the price level
- C A reduction in the budget deficit
- D A rise in the exchange rate

☐☐☐☐**[1 mark]**

0 4

Which **one** of the following statements about the consumer price index (CPI) is correct?

- A A fall in the CPI means that the real value of money is falling
- B An increase in the CPI means that the rate of inflation is rising
- C The CPI measures changes in the prices of goods and services bought by households
- D The weights used in the CPI reflect changes in the quality of goods and services

☐☐☐☐**[1 mark]****Turn over ►**

IB/M/Jun20/7135/2

6

0 9

A government wishes to reduce the surplus on the current account of the balance of payments. Which **one** of the following sets of policies is likely to be the most successful?

	Change in the exchange rate	Change in the budget surplus
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

☐☐☐☐

[1 mark]

1 0

In which **one** of the following situations is there most likely to be cyclical unemployment in an economy?

A Absence of an output gap

☐

B Generous unemployment benefits

☐

C Many firms with excess capacity

☐

D Widespread investment in labour-saving equipment

☐

[1 mark]

1 1

At the start of the year, the national debt for an economy was £920 billion. In the previous year, the budget deficit was £60 billion. In the current year, government spending is projected to fall by £20 billion and tax revenues to increase by £10 billion from last year's levels.

Other things remaining equal, the expected size of the national debt at the end of the current year is

A £890 billion.

☐

B £950 billion.

☐

C £960 billion.

☐

D £980 billion.

☐

[1 mark]

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IB/M/Jun20/7135/2

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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.

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

Context01○

Context02○

WRONG METHODS

CORRECT METHOD

EITHER

Context 1

Total for this context: 50 marks

ECONOMIC SHOCKS AND 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.

21

Define 'budget surplus' **Extract B** (line 12).

[3 marks]

Extra space

Turn over ►



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 7 Define '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 ►

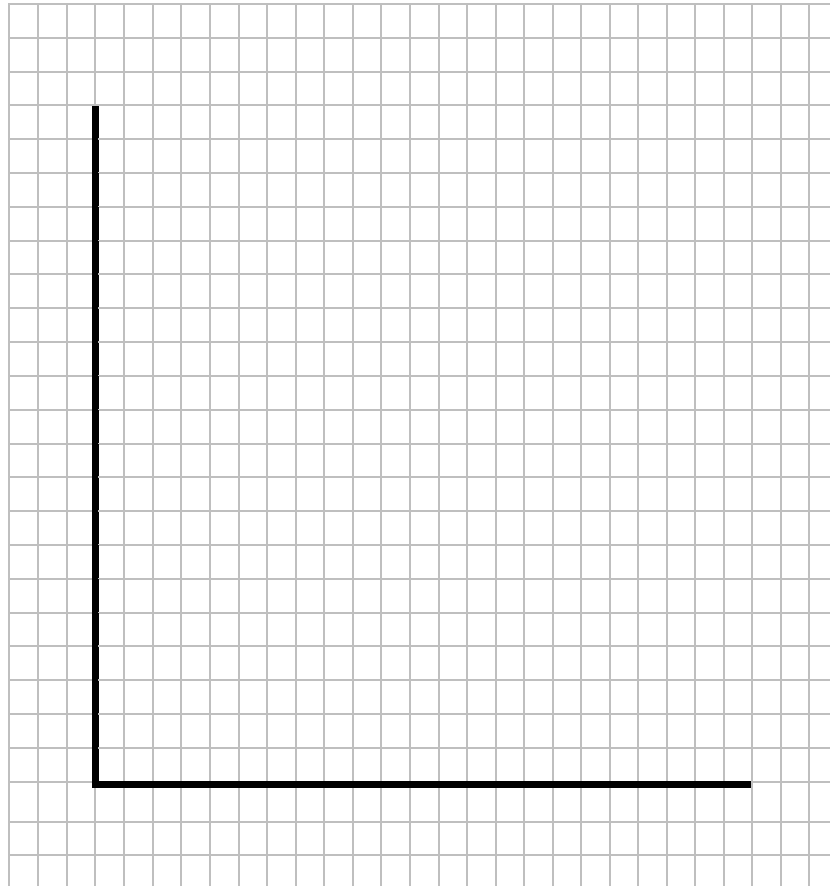
IB/M/Jun20/7135/2

25

3	0
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Extract F (lines 8–9) states ‘This makes it even more difficult to achieve increases in productivity.’

Draw an AD/AS diagram to show the effects of **both** short-run **and** long-run productivity gains on macroeconomic equilibrium.

[4 marks]

Turn over for the next question

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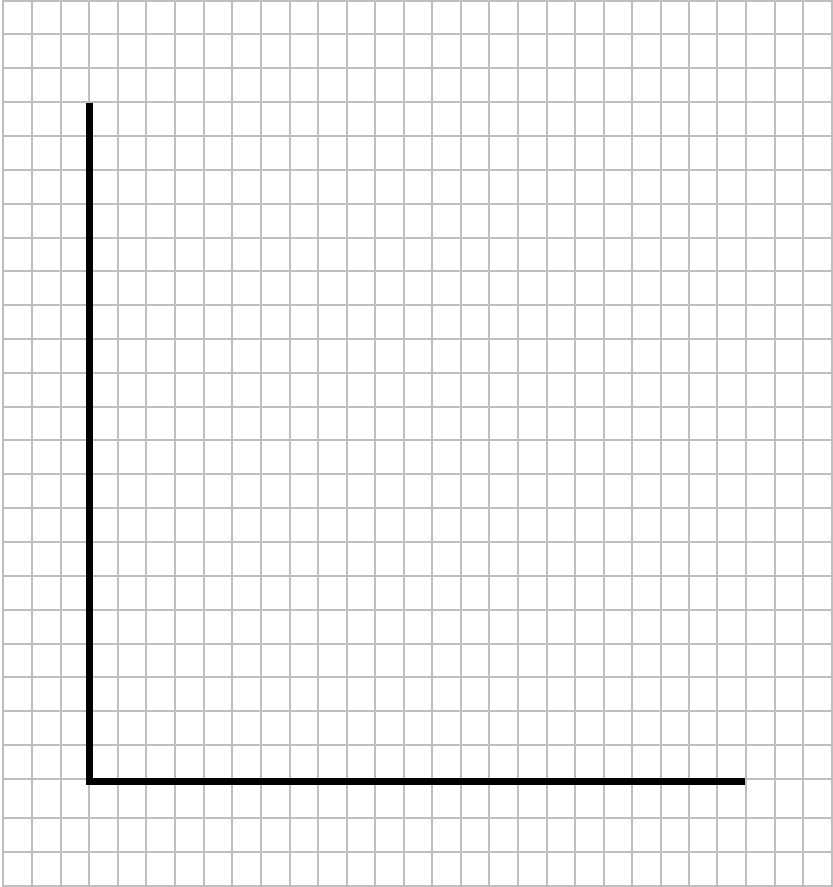


IB/M/Jun18/7135/2

24

Use **Extract A** to construct a bar chart to show employment in the **four** industries with the highest percentage of jobs under threat from automation in 2017.

[4 marks]



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Turn over ►



23

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

Context 2

Total for this context: 50 marks

GOVERNMENT SPENDING AND TAXATION

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 'unemployment rate' **Extract E** (line 18).

[3 marks]

2 8 If the government allocated £275 billion to social security spending in 2018–19, use **Extract D** to calculate, to the **nearest billion**, the total amount of government spending in 2018–19.

[4 marks]

Turn over ►

IB/M/Jun22/7135/2

23

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

Context 2

Total for this context: 50 marks

GOVERNMENT SPENDING AND TAXATION

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 'unemployment rate' **Extract E** (line 18).

[3 marks]

2 8 If the government allocated £275 billion to social security spending in 2018–19, use **Extract D** to calculate, to the **nearest billion**, the total amount of government spending in 2018–19.

[4 marks]

Turn over ►

IB/M/Jun22/7135/2

29

Use **Extract D** to identify **two** significant points of comparison regarding the composition of government spending between 1997–98 and 2018–19.

[4 marks]

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Comparison 1 _____

Extra space _____

Comparison 2 _____

Extra space _____



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[10 marks]

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28

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32

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31

Extract F (lines 1–2 and 8) states: ‘As part of fiscal policy, government spending can be used to allocate resources to different regions and sectors of the economy and consequently, change the pattern of economic activity...Taxation also has a role to play in affecting the pattern of activity’.

Explain ways in which a government can use fiscal policy to affect the **pattern** of economic activity.

[10 marks]

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IB/M/Jun22/7135/2

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26

Extract C (lines 13–15) states ‘A tighter fiscal policy was adopted to reduce the budget deficit. Meanwhile, loose monetary policy was used to bring about a recovery of the UK economy.’

Use the extracts and your knowledge of economics to assess the contribution that fiscal policy **and** monetary policy can make in sustaining the recovery of an economy, such as the UK.

[25 marks]



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40

19

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42

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[illegible]

IB/G/Jun17/7135/2

22

Do not write
outside the
boxDo **NOT** answer Context 2 if you have answered Context 1.**OR****Context 2****Total for this Context: 50 marks****UK WAGES AND COMPETITIVENESS**

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 the term 'deficit on the balance of trade in goods and services' **Extract E** (line 14).

[3 marks]

Extra space

2 8

Use **Extract E** to calculate, to **two** decimal places, the percentage change in the median real wage between 2004 and 2015.

[4 marks]



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30

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IB/M/Jun22/7135/2

32

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50

END OF QUESTIONS



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ANSWER IN THE SPACES PROVIDED

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Question number	Additional page, if required. Write the question numbers in the left-hand margin.



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SUB-TOPIC 4.2.5.2

SUPPLY-SIDE POLICIES

Sub-topic 4.2.5.2 · 4 questions · 7 marks · lowest tariff first



11

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1 8

Which one of the following is most likely to reduce cyclical unemployment in the UK?

A A cut in the UK budget deficit

☐

B An increase in the pound sterling exchange rate

☐

C An increase in the UK retirement age

☐

D Higher economic growth in the Eurozone

☐

[1 mark]

1 9

All other things remaining the same, which one of the following events would directly increase the size of the UK's national debt? An increase in

A mortgage borrowing from UK banks.

☐

B overseas lending to UK firms.

☐

C the UK's current account deficit.

☐

D the UK government's budget deficit.

☐

[1 mark]

2 0

Which one of the following is most likely to improve the supply-side performance of an economy? An increase in

A government spending on welfare benefits.

☐

B growth in the rest of the world.

☐

C labour productivity.

☐

D the basic rate of income tax.

☐

[1 mark]

**QUESTION 20 IS THE LAST
QUESTION IN SECTION A.**



1 1

Turn over ►

IB/G/Jun17/7135/2

3

0 2

The following table shows the planned changes to injections into and withdrawals from the circular flow of income for one year.

	£bn
Exports	19
Government expenditure	29
Imports	20
Investment	35
Savings	26
Taxation	32

Other things remaining the same, these changes would cause

- A** consumer expenditure to decrease.
- B** national income to increase.
- C** the balance of trade deficit to decrease.
- D** the budget deficit to rise.

☐☐☐☐**[1 mark]****0 3**

A government wants to increase the economy's rate of long-run economic growth by implementing a supply-side policy. Which one of the following is a government policy aimed at stimulating the supply side of the economy?

- A** A new scheme to help young people buy their own homes
- B** Greater provision of care homes for the elderly
- C** Measures to promote competition between businesses
- D** More generous welfare benefits for unemployed workers

☐☐☐☐**[1 mark]**

Turn over for the next question

Turn over ►



0 3

IB/M/Jun18/7135/2

10

*Do not write
outside the
box***1 | 6**

A government cuts the rate of corporation tax from 30% to 15%.
This policy is most likely intended to

- A** decrease the level of savings.
- B** improve labour mobility.
- C** reduce investment from overseas companies.
- D** stimulate supply-side improvements.

☐☐☐☐**[1 mark]****1 | 7**

An economy has a deficit on the current account of its balance of payments.
Which one of the following sets of circumstances is most likely to cause the deficit
to increase?

- A** A depreciating exchange rate and lower unemployment
- B** Better supply-side policies and lower interest rates
- C** Expansionary fiscal policy and a stronger exchange rate
- D** Increased labour productivity and lower interest rates

☐☐☐☐**[1 mark]****1 | 8**

An economy experiencing a high rate of short-run economic growth is likely to have an
increase in

- A** firms' spare capacity.
- B** job vacancies.
- C** spending on unemployment benefits.
- D** the real value of money.

☐☐☐☐**[1 mark]**

1 0

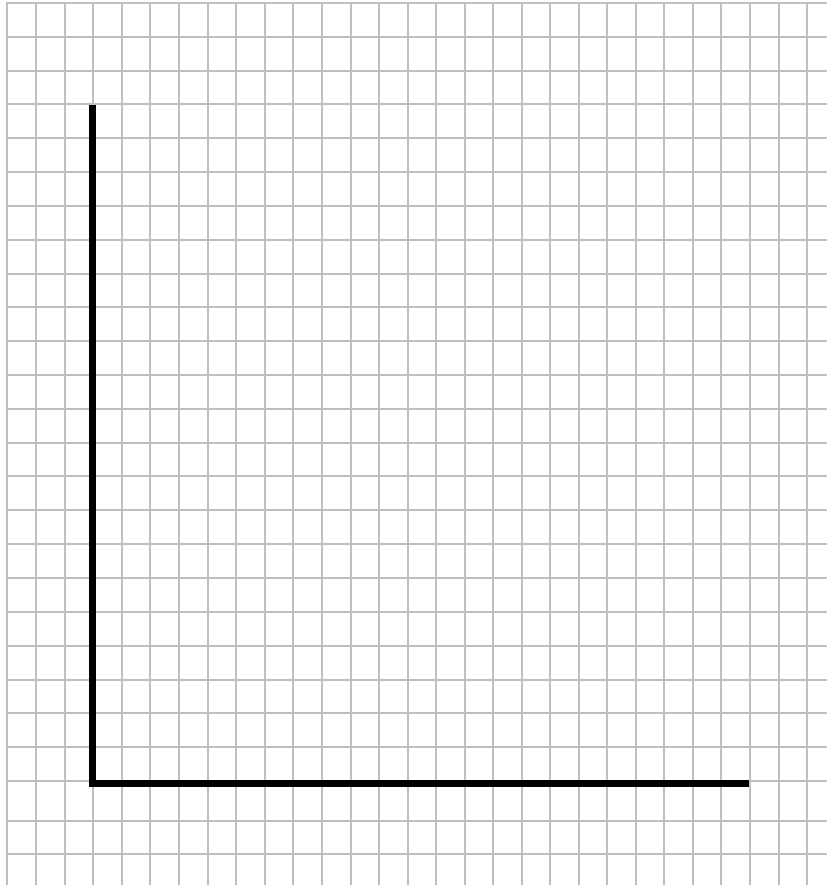
IB/M/Jun22/7135/2

15

2 4

Extract C (lines 7–9) states ‘During late 2016 the Government gave the go-ahead to the construction of the third runway at Heathrow airport in London.’

Draw an AD/AS diagram to show **both** the short-run **and** long-run effects ‘on macroeconomic equilibrium’ of investment in a large infrastructure project such as this.

[4 marks]**Turn over for the next question**

*Do not write
outside the
box*

Turn over ►

IB/M/Jun18/7135/2

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 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 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

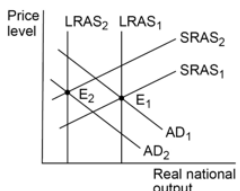
A 4
 B 7
 C 5
 D 4

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

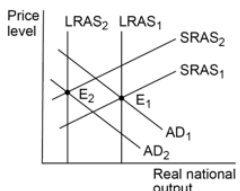
A 4
B 5
C 5
D 6

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

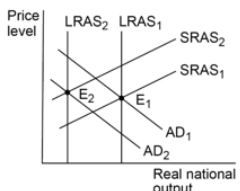
A 4
B 5
C 5
D 6

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 
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9	A (Decrease, Decrease, Increase)	19	D (unemployment)
10	C (the action of the accelerator)	20	A (exchange rate)

Totals

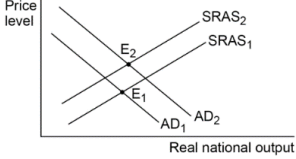
A 4
B 5
C 5
D 6

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

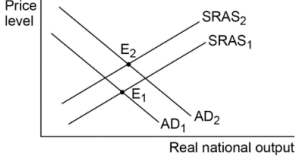
A 6
B 3
C 8
D 3

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.)
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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

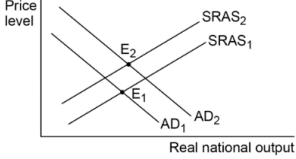
A 6
B 3
C 8
D 3

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

SECTION A

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

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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)
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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

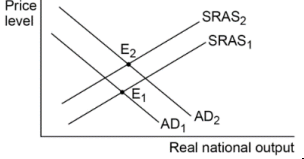
A 6
B 3
C 8
D 3

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)
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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 2018

SECTION B

Context 1 **ECONOMIC SHOCKS AND
THE UK ECONOMY****Total for this context: 50 marks****21** Define 'budget surplus' **Extract B** (line 12).**[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 amount of revenue received from taxation is greater than the amount of government spending in a time period, eg one year.
- when there is a positive budget balance so there is no borrowing requirement for the current year.

Examples of a definition worth 2 marks:

- when tax receipts are greater than government spending.
- when a government does not have to borrow money.

Examples of a definition worth 1 mark:

- fiscal policy includes taxation, government spending, and the budget position
- contractionary policy.
- when tax receipts are greater than government spending resulting in exports exceeding imports.

Notes:

- If a student mistakes a budget surplus for a current account trade surplus, this should be awarded zero marks.
- If a candidate shows understanding of a budget surplus but also goes on to refer to a current account trade surplus, this should be awarded a maximum of 1 mark.

MAXIMUM FOR QUESTION 21: 3 MARKS

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

Context 2 CONFLICTING ECONOMIC OBJECTIVES**Total for this context: 50 marks****2 7** Define 'growing budget deficit' in **Extract F** (lines 15–16).**[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 government's borrowing requirement increases over a period of time.
- when government spending is greater than tax revenues in a financial year, and the difference between the two increases from one year to the next.

Examples of a definition worth 2 marks:

- when government spending is greater than tax revenues
- when the government's borrowing requirement *grows* – ie no alternative to 'growing'.

Examples of a definition worth 1 mark:

- increasing spending and lower taxes
- part of fiscal policy.

MAXIMUM FOR QUESTION 27: 3 MARKS

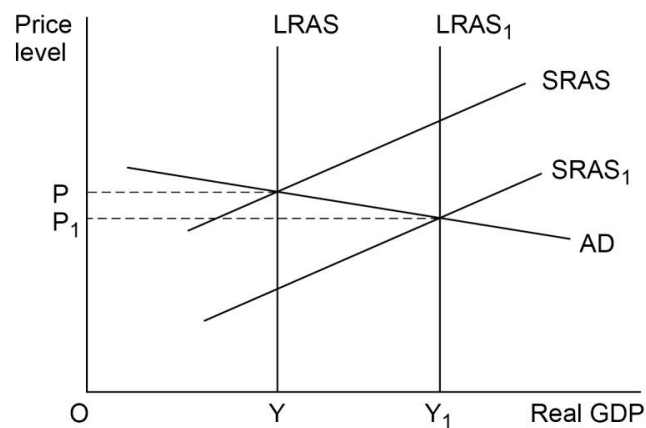
MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2018

30 *Extract F (lines 8–9) states ‘This makes it even more difficult to achieve increases in productivity.’*

*Draw an AD/AS diagram to show the effects of **both** short-run **and** long-run productivity gains on macroeconomic equilibrium.*

[4 marks]

The correct diagram involves an AD/AS diagram illustrating both a shift to the right in the SRAS curve and a shift to the right in the LRAS curve.



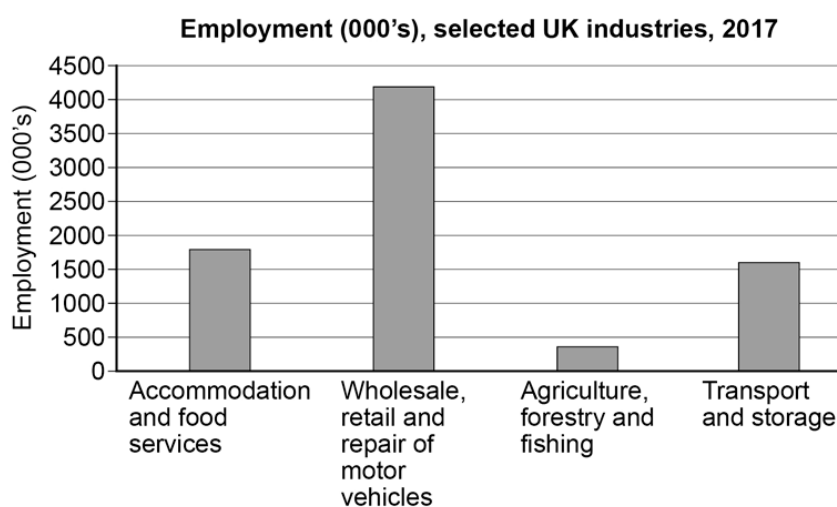
MARK SCHEME – AS ECONOMICS – 7135/2 – JUNE 2019

- 2** **4** Use **Extract A** to construct a bar chart to show employment in the **four** industries with the highest percentage of jobs under threat from automation in 2017.

[4 marks]

The correct diagram involves four bars, with the correct height and labels (**and/or** a key):

- o accommodation and food services: 1 784 000
- o wholesale, retail and repair of motor vehicles: 4 195 000
- o agriculture, forestry and fishing: 351 000
- o transport and storage: 1 602 000



Response	Max 4 marks
Accurately drawn and fully labelled bar chart, i.e. labelled vertical axis, with all four bars correct plus a clear indication of which bar is which.	4 marks
Accurately drawn bar chart with vertical axis label missing/incorrect OR Accurately labelled bar chart but with one bar out of tolerance or incorrect.	3 marks
Bar chart with vertical axis label missing/incorrect and one bar out of tolerance OR Accurately labelled bar chart but with two bars out of tolerance or incorrect.	2 marks
Bar chart with one bar in tolerance but missing/incorrect labelling OR All bars labelled including the vertical axis/key but all bars out of tolerance or incorrect. OR Accurately drawn and fully labelled bar chart, i.e. labelled vertical axis, with all four bars correct plus a clear indication of which bar is which, but for the percentage of jobs with the potential for automation or total number of jobs that could be lost as a result of automation.	1 mark

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

- 2 8** If the government allocated £275 billion to social security spending in 2018–19, use **Extract D** to calculate, to the **nearest billion**, the total amount of government spending in 2018–19.

[4 marks]

Calculation:

$$£275/(17+18) \times 100 = 275/35 \times 100 = £785.714286 \text{ bn} = £786 \text{ bn to the nearest billion}$$

Response	Max 4 marks
For the correct answer: £786 bn	4 marks
For an answer not rounded to the nearest billion: eg £785.71 billion or £785 billion OR For the correct answer without units £ or billion: eg 786 billion or £786	3 marks
For the correct answer without units £ and billion: 786 OR For an answer not rounded to the nearest billion and without £ units: eg 785.71 billion OR For an answer not rounded to the nearest billion and without billion units: eg £785.71	2 marks
For identifying the correct method for the calculation: eg $275/(17+18) \times 100$ OR For an answer not rounded to the nearest billion and without units £ and billion: eg 785.71	1 mark

MAXIMUM FOR QUESTION 28: 4 MARKS

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

2 9

Use **Extract D** to identify **two** significant points of comparison regarding the composition of government spending between 1997–98 and 2018–19.

[4 marks]

Award up to 2 marks for **each** significant point of comparison made.

Response	Max 4 marks
Identifies a significant point of comparison. Makes accurate use of the data to support the point identified. Unit of measurement given accurately.	2 marks
Identifies a significant point of comparison 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. OR Identifies a significant feature of one data series with accurate use of the data (including the unit of measurement) but no comparison is made.	1 mark

If a student identifies more than 2 significant points of comparison, reward the best two.

Significant points include:

- social security spending as a whole accounted for the greatest proportion of government spending in both 1997-98, with a share of 37%, and 2018-19, with a share of 35%
- of the areas of spending shown, old-age-related spending, health spending and education spending have increased as a proportion of government spending, old-age related spending increased from 14% in 1997-98 to 17% in 2018-19, health spending increased from 14% in 1997-98 to 20% in 2018-19 and education spending increased from 12% in 1997-98 to 13% in 2018-19
- of the areas of spending shown, debt interest accounted for the lowest proportion of government spending in both 1997-98, with a share of 9%, and 2018-19, with a share of 5%
- within social security spending as a whole, old-age-related spending increased by 3% points, from 14% in 1997-98 to 17% in 2018-19, whereas other social security spending fell by 5% points from 23% in 1997-98 to 18% in 2018-19
- Only other spending as a proportion of government spending was the same at the start of the period in 1997-98 at 27%, as it was at the end, in 2018-19
- of the areas of spending shown, education spending as a proportion of government spending changed by the smallest amount, by 1% point, from 12% in 1997-98 to 13% in 2018-19.

MAXIMUM FOR QUESTION 29: 4 MARKS

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

2 **5** **Extract B** (line 12) states ‘The average debt per household, including mortgages was £53 904 in December 2015.’

Explain **two** factors that influence the willingness of UK households to borrow.

[10 marks]

Level of response	Response	Max 10 marks
3	- is well organised and develops one or more of the key issues that are relevant to each of the two factors - 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 borrowing, wealth or any relevant term
- consumer confidence
- cost of borrowing
- level of existing debt
- income
- age, young households will tend to have more debt relative to assets and income
- general attitudes towards debt
- ease/difficulty of obtaining credit/loans.

MAXIMUM FOR QUESTION 25: 10 MARKS

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

2 5 **Extract C** (lines 10–11) states ‘It has announced increased government spending on technological education and training.’

Explain how an increase in government spending could affect the national debt.

[10 marks]

Level of response	An answer that:	Max 10 marks
Level 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
Level 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
Level 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:

- meaning of government spending/fiscal policy/budget balance/national debt
- relationship between national debt and the budget position
- impact of increased government spending on the national debt, assuming no corresponding increase in taxation
- impact of increased government spending on the national debt, assuming a corresponding increase in taxation
- consideration of multiplier effects
- short-term/long-term effects.

MAXIMUM FOR QUESTION 25: 10 MARKS

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

- 3 1** **Extract F** (lines 1–2 and 8) states: ‘As part of fiscal policy, government spending can be used to allocate resources to different regions and sectors of the economy and consequently, change the pattern of economic activity...Taxation also has a role to play in affecting the pattern of activity’.

Explain ways in which a government can use fiscal policy to affect the **pattern** of economic activity.

[10 marks]

Level of response	An answer that:	Max 10 marks
Level 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
Level 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
Level 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:

- meaning of fiscal policy/government spending/taxation
- the pattern of economic activity – some areas of the economy will expand others may contract
- direct impact of government spending - if, for example, the government spends more on the NHS more factors of production will be devoted to providing health care
- subsidies – for example, in the context of regional policy/renewable energy/the development of new technologies
- direct taxation – for example, its role in the creation of incentives to carry out R and D/innovation
- indirect taxation – for example, used to discourage the consumption of demerit goods.

MAXIMUM FOR QUESTION 31: 10 MARKS

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

2 6 *Extract C (lines 13 to 15) states 'A tighter fiscal policy was adopted to reduce the budget deficit. Meanwhile, loose monetary policy was used to bring about a recovery of the UK economy.'*

*Use the extracts and your knowledge of economics to assess the contribution that fiscal policy **and** monetary policy can make in sustaining the recovery of an economy, such as the UK.*

[25 marks]

Areas for discussion include:

- monetary, fiscal policy and recovery, or other relevant terms
- loose monetary policy and/or tightening fiscal policy
- examples of fiscal and monetary policy measures
- key indicators of a recovery
- the transmission mechanisms of monetary and fiscal policy
- an appreciation of direct and indirect taxation
- awareness of confidence of both consumer and business spending
- implications of a rate rise given levels of debt
- availability and cost of credit
- impact of policies on key performance indicators
- assessment of policies on different groups within society and their significance for a recovery of the economy
- time lags
- reference to negative interest rates
- application to recent changes and the current state of the UK economy
- consumption-led recovery financed by debt v. export-led or discussion of structural rebalancing
- influence of external factors such as commodity prices, performance of major trading partners.
- references to and discussion of supply-side policies, long term investment, savings etc
- students' evaluation is likely to focus on the effectiveness of the policies and the impact on the current economic situation but may also consider equity of the policies, winners and losers

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

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

MAXIMUM FOR QUESTION 26: 25 MARKS

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

3 2 **Extract E** (lines 4–6) states: ‘...the report suggested that significant increases in spending would be required to help improve the wellbeing of the UK population’.

Use the extracts and your knowledge of economics to assess the view that a long-term, significant increase in government spending would be beneficial for the UK economy.

[25 marks]

Areas for discussion include:

- government spending/fiscal policy
- ‘wellbeing of the UK population’
- beneficial to the ‘UK economy’/macroeconomic policy objectives
- impact on economic growth
- impact on unemployment/employment
- impact on inflation
- impact on the balance of payments current account
- consideration of the extent of spare capacity
- consideration of ‘where’ the money is spent, for example, energy improvements/arts industry
- demand-side versus supply-side influence
- consideration of ‘significant increase’
- impact on investment
- multiplier/accelerator effects
- consideration of the budget deficit/national debt
- consideration of possible increases in taxation
- consideration of the economic cycle
- the importance of confidence/uncertainty
- the importance of external influences.

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

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

MAXIMUM FOR QUESTION 32: 25 MARKS

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

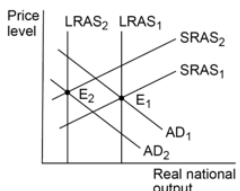
1	D	11	B
2	B	12	C
3	C	13	A
4	A	14	C
5	C	15	B
6	B	16	C
7	B	17	B
8	D	18	B
9	D	19	C
10	B	20	B

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

24 **Extract C** (lines 7–9) states ‘During late 2016 the Government gave the go-ahead to the construction of the third runway at Heathrow Airport in London.’

Draw an AD/AS diagram to show **both** the short-run **and** long-run effects ‘on macroeconomic equilibrium’ of investment in a large infrastructure project such as this.

[4 marks]

The correct diagram involves an AD/AS diagram illustrating both a shift to the right in the AD curve and a shift to the right in the LRAS curve. It is not necessary to include the SRAS curve. The use of the Keynesian model is acceptable and should be rewarded.

