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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Measures of Economic Performance (2.1)

A Level Economics Theme 2

136 questions · 634 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest mark tariff to the highest within each one.
Click any row below to jump straight to that sub-topic or question.
On every question page, click ANSWER in the top-right corner to jump to its mark scheme.
Diagrams, graphs, tables and data are printed exactly as they appeared in the original papers.

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QUESTIONS

136 questions · 634 marks · 4 sub-topics

SUB-TOPIC 2.1.1

ECONOMIC GROWTH

Sub-topic 2.1.1 · 55 questions · 206 marks · lowest tariff first

2 The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	GDP per capita (US$, at PPPs, 2013, rounded)
UK	38 500
Spain	33 000
Italy	35 500

(Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD)

(b) The Office for National Statistics estimates that the UK population was 64 million in 2013. Using the data, what was the UK's total GDP in 2013?

(1)

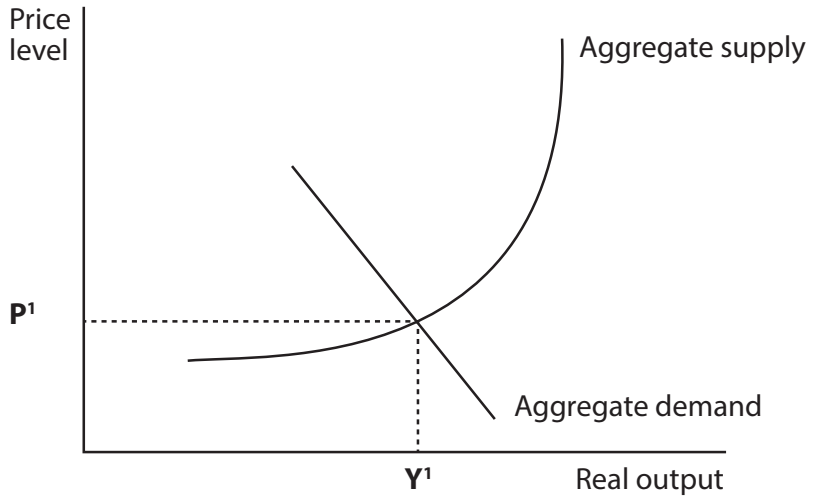
- ☒ **A** $2 464 000 million
- ☒ **B** $2 272 000 million
- ☒ **C** $1 662 000 million
- ☒ **D** $2 112 000 million

(Total for Question 2(b) = 1 mark)

(c) Diagram A shows the aggregate demand and aggregate supply for a country.
Illustrate actual economic growth on Diagram A.

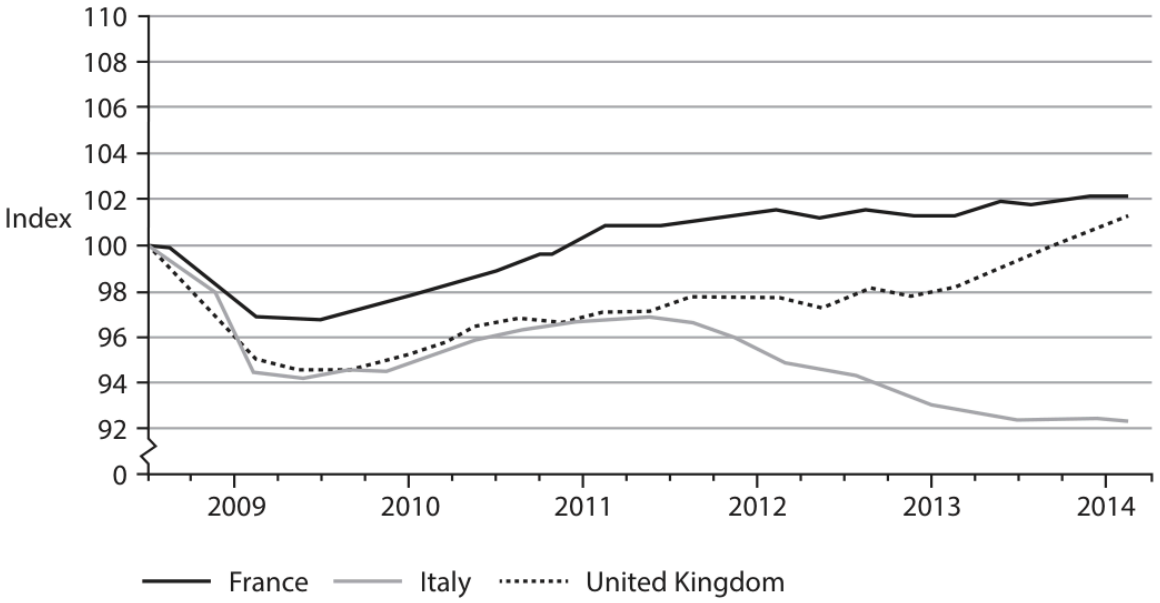
(1)

Diagram A



(Total for Question 2 = 4 marks)

3 Real GDP in selected economies (the base year 2008=100)



(Source: http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014--may-gdp-update/sty-gdp-g7-economies.html?format=print)

(a) Which **one** of the following can be inferred from the chart?

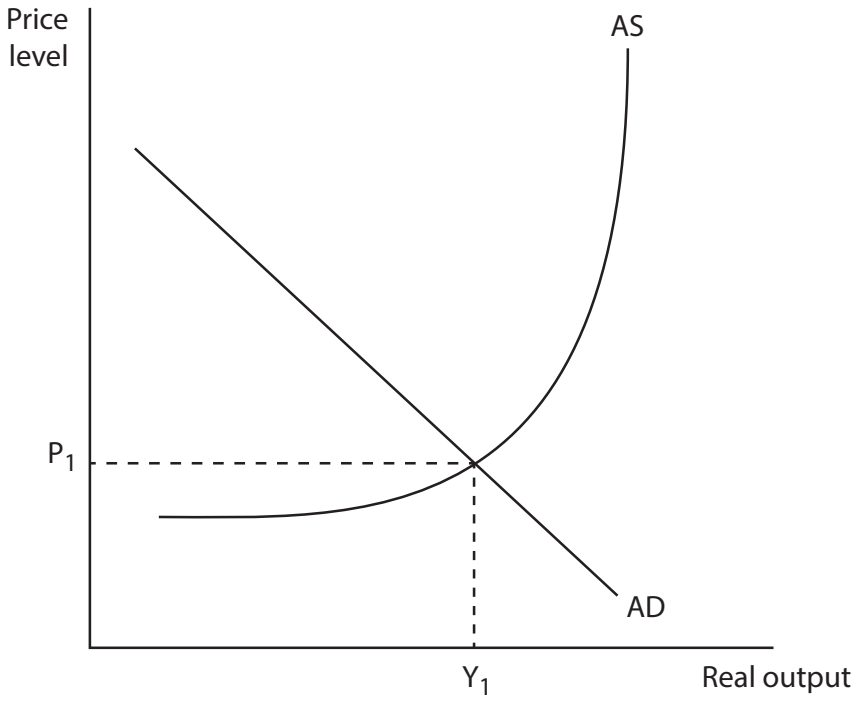
(1)

- ☒ **A** The UK's real GDP is smaller in 2014 than it was in 2008
- ☒ **B** Between 2008 and 2014 France's real GDP growth rate was higher than Italy's
- ☒ **C** Between 2008 and 2014 inflation was lower in France than in the UK
- ☒ **D** France experienced a greater fall in real GDP than the UK in 2014

(Total for Question 3(a) = 1 mark)

(c) Illustrate a negative output gap on the diagram below.

(1)



(Total for Question 3 = 4 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The table below shows the UK Gross Domestic Product (GDP) and population, 2013 to 2015.

Year	GDP (£ millions)	Population (millions)
2013	1 739 563	64.1
2014	1 822 480	64.6
2015	1 872 714	65.1

(Source: ONS, https://www.ons.gov.uk/)

(a) Define the term 'Gross Domestic Product'.

(1)

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(Total for Question 1(a) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

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2013	1 739 563	64.1
2014	1 822 480	64.6
2015	1 872 714	65.1

(Source: ONS, https://www.ons.gov.uk/)

(c) Which **one** of the following is the most likely effect of an increase in real GDP per capita?

(1)

- ☒ **A** Increase in living standards
- ☒ **B** Increase in unemployment
- ☒ **C** Lower consumer confidence
- ☒ **D** Lower purchasing power

(Total for Question 1(c) = 1 mark)

5 The table below shows the UK's Gross National Income (GNI) between 2014 and 2017.

Year	Gross National Income (£ million)
2014	1 806 468
2015	1 852 845
2016	1 920 116
2017	2 008 593

(Source: adapted from www.ons.gov.uk/economy/ © Crown Copyright)

(a) Define the term 'Gross National Income'.

(1)

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(Total for Question 5(a) = 1 mark)

5 The table below shows the UK's Gross National Income (GNI) between 2014 and 2017.

Year	Gross National Income (£ million)
2014	1 806 468
2015	1 852 845
2016	1 920 116
2017	2 008 593

(Source: adapted from www.ons.gov.uk/economy/ © Crown Copyright)

(b) Which **one** of the following represents the ratio of Gross National Income in 2015 to Gross National Income in 2017?

(1)

- ☒ **A** 1 : 1.03
- ☒ **B** 1 : 1.05
- ☒ **C** 1 : 1.08
- ☒ **D** 1 : 1.11

(Total for Question 5(b) = 1 mark)

2 The table below shows the UK's nominal Gross Domestic Product (GDP) and population, 2016 to 2018.

Year	GDP (£ millions)	Population (millions)
2016	1 995 478	65.6
2017	2 033 234	66.0
2018	2 061 408	66.4

(Source: ONS, https://www.ons.gov.uk/)

(a) Define the term 'nominal'.

(1)

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(Total for Question 2(a) = 1 mark)

2 The table below shows the UK's nominal Gross Domestic Product (GDP) and population, 2016 to 2018.

Year	GDP (£ millions)	Population (millions)
2016	1 995 478	65.6
2017	2 033 234	66.0
2018	2 061 408	66.4

(Source: ONS, https://www.ons.gov.uk/)

(b) Using the above GDP data, which **one** of the following represents the index number for 2016, if 2017 is the base year?

(1)

☒ **A** 96.8

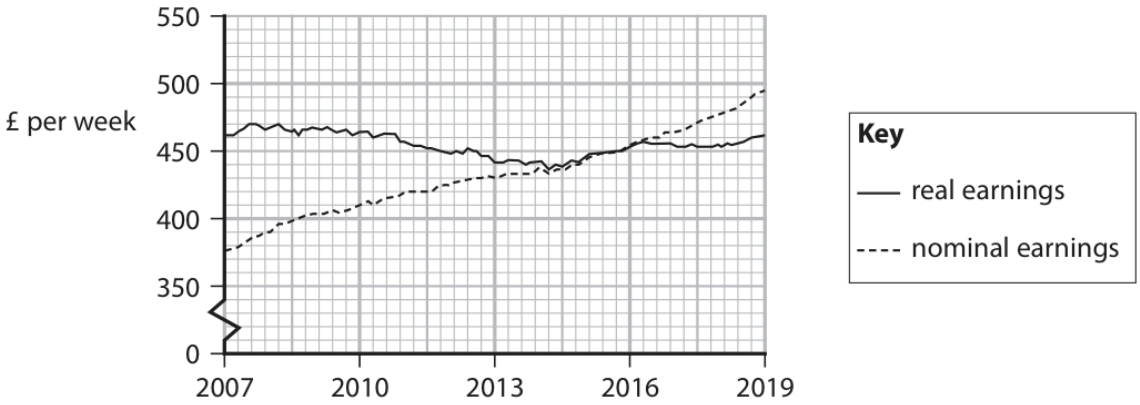
☒ **B** 98.1

☒ **C** 101.9

☒ **D** 103.3

(Total for Question 2(b) = 1 mark)

3 UK average weekly earnings, January 2007 to January 2019



(Source adapted from: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/march2019)

(a) Which **one** of the following can be inferred from the above chart?
Between 2007 and 2019,

(1)

- ☒ **A** earnings adjusted for interest rates were lower than earnings not adjusted for interest rates
- ☒ **B** nominal earnings increased by nearly 125 percentage points
- ☒ **C** the increase in earnings not adjusted for inflation was greater than earnings adjusted for inflation
- ☒ **D** there were significant increases in real earnings each year

(Total for Question 3(a) = 1 mark)

2 The table below shows the UK's real GDP per capita, in US dollars, measured at Purchasing Power Parities, 2018 to 2020.

Year	GDP per capita, US$
2018	46 853
2019	47 369
2020	42 536

(Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=GB)

(a) Define the term 'GDP per capita'.

(1)

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(Total for Question 2(a) = 1 mark)

2 The table below shows the UK's real GDP per capita, in US dollars, measured at Purchasing Power Parities, 2018 to 2020.

Year	GDP per capita, US$
2018	46 853
2019	47 369
2020	42 536

(Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=GB)

(b) Which **one** of the following is the most likely effect of the change in real GDP per capita between 2019 and 2020?

(1)

- ☒ **A** Decrease in living standards
- ☒ **B** Decrease in unemployment
- ☒ **C** Higher consumer confidence
- ☒ **D** Higher price level

(Total for Question 2(b) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 In 2019 the average annual percentage increase in real Gross Domestic Product (GDP) was 1.7% in developed countries and it was 4.6% in developing countries.

(Source: adapted from IMF, World Economic Outlook 2019)

(a) Which **one** of the following best describes an increase in real GDP?

(1)

- ☒ **A** Actual economic growth
- ☒ **B** Negative output gap
- ☒ **C** Positive output gap
- ☒ **D** Potential economic growth

(Total for Question 1(a) = 1 mark)

5 The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

☒ **A** Average incomes are higher in India than in Vietnam.

☒ **B** Levels of absolute poverty are higher in Vietnam.

☒ **C** Life expectancy is higher in India than in Vietnam.

☒ **D** Provision of healthcare and education is less effective in Vietnam than in India.

(Total for Question 5(a) = 1 mark)

SECTION A

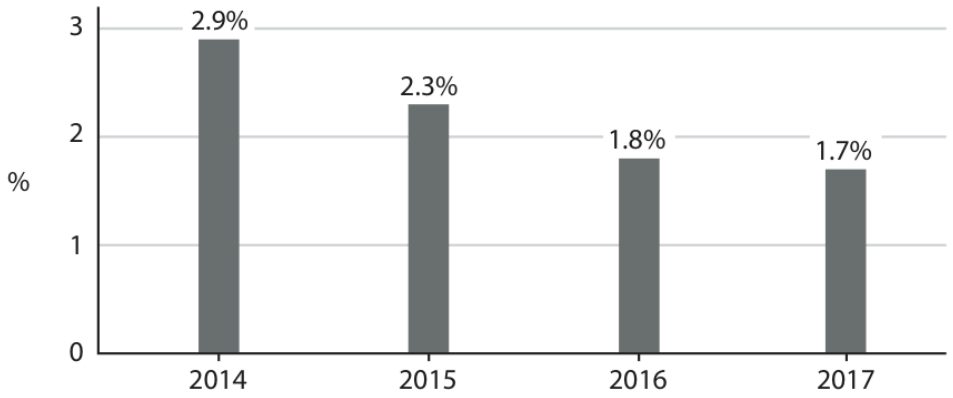
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK real Gross Domestic Product (GDP), annual percentage change 2014–2017



(Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna)

(c) With reference to the chart on page 2, which **one** of the following is correct over the period shown?

(1)

☒ **A** GDP per capita was highest in 2014

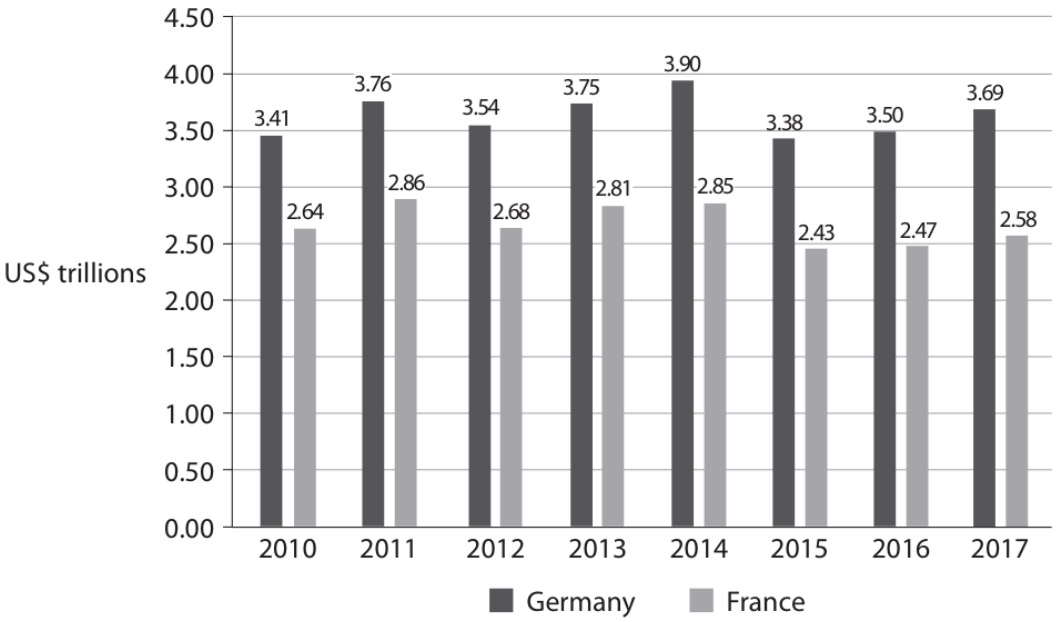
☒ **B** Inflation rose in 2015

☒ **C** The UK economy grew at the fastest rate in 2014

☒ **D** The UK economy was in recession in 2015

(Total for Question 1(c) = 1 mark)

5 GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010–2017.



(Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=DE&start=1970&view=chart)

(a) From the data in the graph above, which **one** of the following may be deduced?

(1)

- ☒ **A** France's rate of inflation was lower than Germany's in 2017
- ☒ **B** Germany's GDP is smaller than France's in every year shown
- ☒ **C** In every year that France's GDP fell compared to the previous year, Germany's GDP did too
- ☒ **D** The GDP of both Germany and France fell between 2015 and 2016

(Total for Question 5(a) = 1 mark)

3 UK real GDP, 2020–2022

	Annual percentage change on previous year	Total (£ millions)
2020	–9.9%	2 045 091
2021	7.5%	2 198 473
2022*	3.5%	

*2022 figures are forecast

(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp)

(c) Which **one** of the following is most likely to lead to an increase in potential economic growth?

(1)

An increase in:

- ☒ **A** consumption
- ☒ **B** costs of raw materials and energy
- ☒ **C** income tax
- ☒ **D** technological advances

(Total for Question 3(c) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

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You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Selected economic data on Morocco and Pakistan, 2021, constant values.

	Human development index (HDI)	Gross national income (GNI) per capita (2017 PPP US$)	Gross domestic product (GDP) per capita (US$)
Morocco	0.683	7 303	3 290.6
Pakistan	0.544	4 624	1 473.9

(Source adapted from: https://hdr.undp.org)

(a) With reference to the table above, which **one** of the following is correct?

(1)

- ☒ **A** Average incomes are lower in Morocco than in Pakistan
- ☒ **B** Economic development, as measured by the HDI, is higher in Morocco than in Pakistan
- ☒ **C** Life expectancy in Morocco is 68.3 years
- ☒ **D** Total output in Morocco is higher than in Pakistan

(Total for Question 1(a) = 1 mark)

2 The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	GDP per capita (US$, at PPPs, 2013, rounded)
UK	38 500
Spain	33 000
Italy	35 500

(Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD)

(a) Define the term 'purchasing power parities'.

(2)

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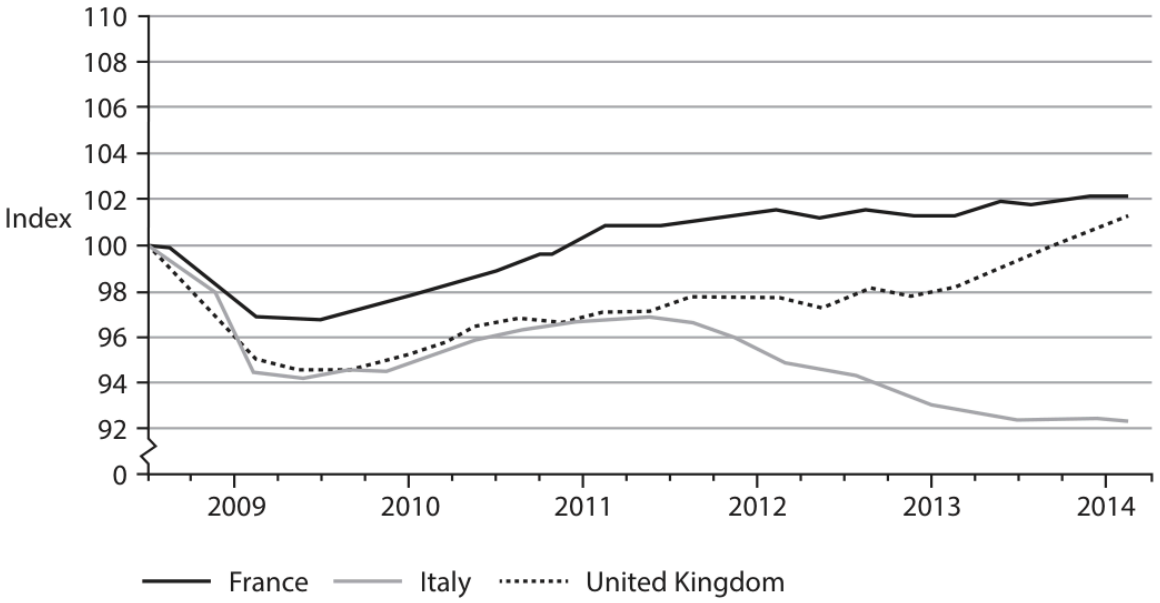
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(Total for Question 2(a) = 2 marks)

3 Real GDP in selected economies (the base year 2008=100)



(Source: http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014--may-gdp-update/sty-gdp-g7-economies.html?format=print)

(b) Define the term 'real GDP'.

(2)

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(Total for Question 3(b) = 2 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The table below shows the UK Gross Domestic Product (GDP) and population, 2013 to 2015.

Year	GDP (£ millions)	Population (millions)
2013	1 739 563	64.1
2014	1 822 480	64.6
2015	1 872 714	65.1

(Source: ONS, https://www.ons.gov.uk/)

(b) Calculate the UK's GDP per capita in 2015. You are advised to show your working.

(2)

(Total for Question 1(b) = 2 marks)

5 The table below shows the UK's Gross National Income (GNI) between 2014 and 2017.

Year	Gross National Income (£ million)
2014	1 806 468
2015	1 852 845
2016	1 920 116
2017	2 008 593

(Source: adapted from www.ons.gov.uk/economy/ © Crown Copyright)

(c) Using 2014 as the base year, calculate the index number for 2016. You are advised to show your working.

(2)

(Total for Question 5(c) = 2 marks)

2 The table below shows the UK's nominal Gross Domestic Product (GDP) and population, 2016 to 2018.

Year	GDP (£ millions)	Population (millions)
2016	1 995 478	65.6
2017	2 033 234	66.0
2018	2 061 408	66.4

(Source: ONS, https://www.ons.gov.uk/)

(c) Calculate the UK's nominal GDP per capita in 2018. You are advised to show your working.

(2)

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(Total for Question 2(c) = 2 marks)

4 The UK exchange rate changed from £1 = $1.53 in January 2015 to £1 = $1.22 in October 2019.

(a) Define the term 'exchange rate'.

(1)

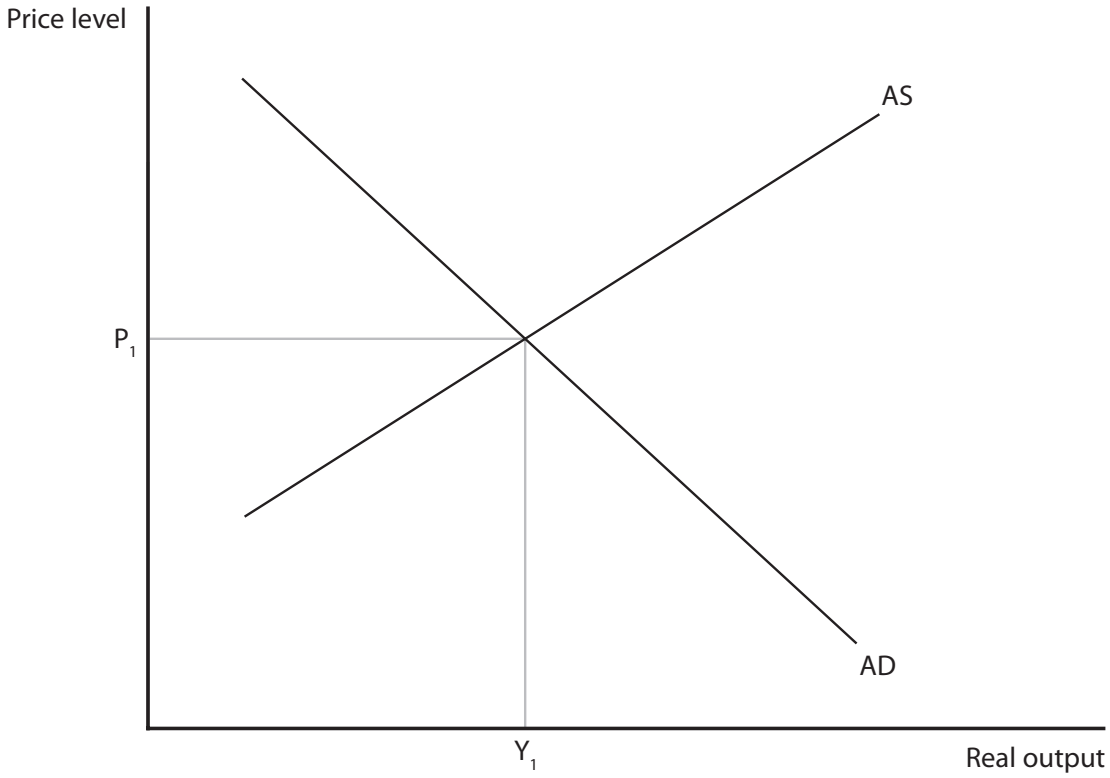
(b) Which **one** of the following represents the percentage change in the £ sterling and US$ exchange rate?

(1)

- ☒ **A** 0.31%
- ☒ **B** 20.26%
- ☒ **C** 25.41%
- ☒ **D** 79.74%

(c) Annotate the aggregate demand (AD) and aggregate supply (AS) diagram below to show the likely impact of an improvement in net trade on the equilibrium level of real output and the price level.

(2)



(Total for Question 4 = 4 marks)

2 The table below shows the UK's real GDP per capita, in US dollars, measured at Purchasing Power Parities, 2018 to 2020.

Year	GDP per capita, US$
2018	46 853
2019	47 369
2020	42 536

(Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=GB)

(c) Explain **one** reason why Purchasing Power Parities (PPPs) are used.

(2)

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(Total for Question 2(c) = 2 marks)

SECTION A

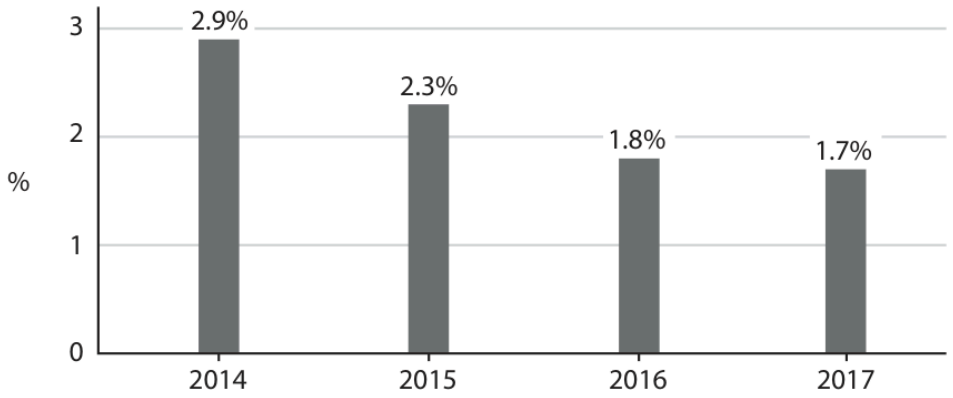
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK real Gross Domestic Product (GDP), annual percentage change 2014–2017



(Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna)

(a) Total real UK GDP in 2016 was £200 000 million. With reference to the chart above, calculate the total real UK GDP for 2017. You are advised to show your working.

(2)

(Total for Question 1(a) = 2 marks)

SECTION A

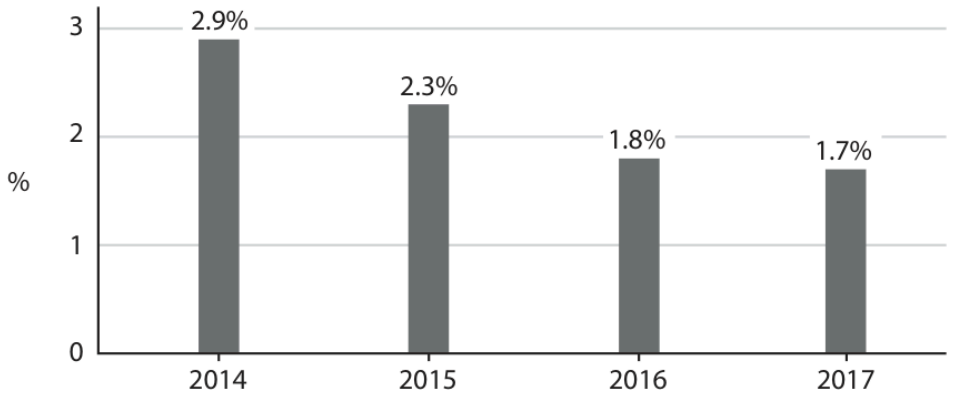
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK real Gross Domestic Product (GDP), annual percentage change 2014–2017



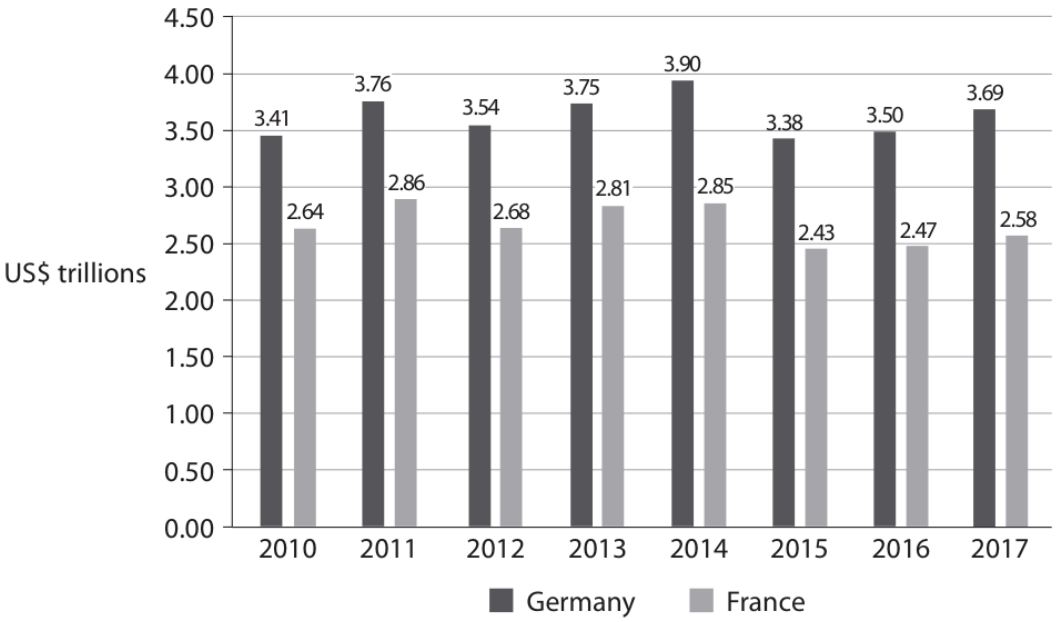
(Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna)

(b) Explain the term 'real gross domestic product'.

(2)

(Total for Question 1(b) = 2 marks)

5 GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010–2017.



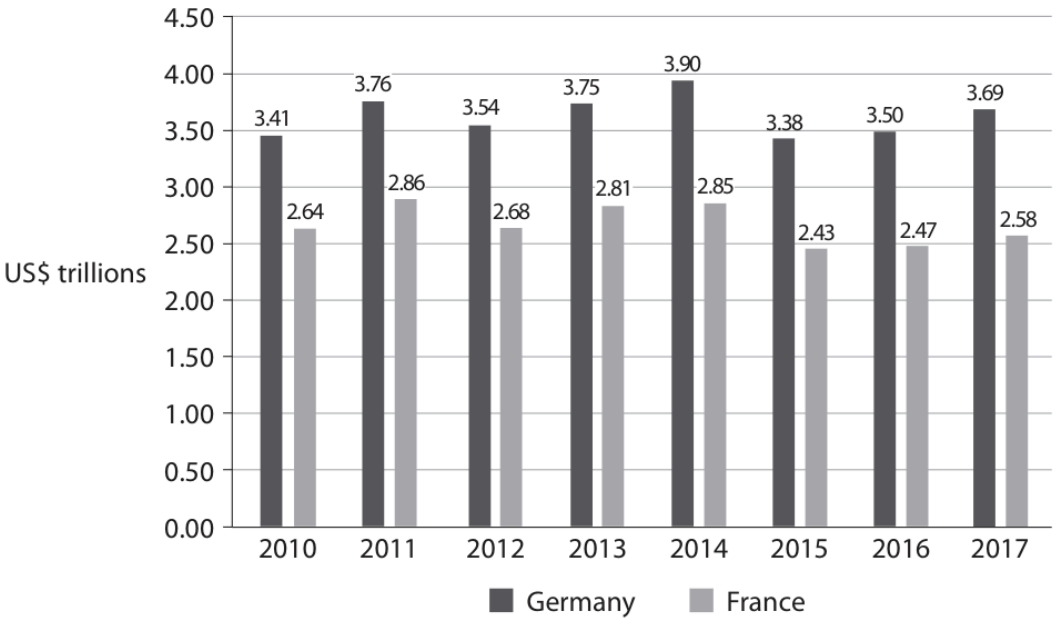
(Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=DE&start=1970&view=chart)

(b) Calculate the percentage change in Germany's nominal GDP from 2016 to 2017.

(2)

(Total for Question 5(b) = 2 marks)

5 GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010–2017.



(Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=DE&start=1970&view=chart)

(c) Explain **one** reason why Purchasing Power Parities are used.

(2)

(Total for Question 5(c) = 2 marks)

3 UK real GDP, 2020–2022

	Annual percentage change on previous year	Total (£ millions)
2020	–9.9%	2 045 091
2021	7.5%	2 198 473
2022*	3.5%	

*2022 figures are forecast

(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp)

(a) Calculate the value of the total forecast GDP in 2022.

(2)

(Total for Question 3(a) = 2 marks)

3 UK real GDP, 2020–2022

	Annual percentage change on previous year	Total (£ millions)
2020	–9.9%	2 045 091
2021	7.5%	2 198 473
2022*	3.5%	

*2022 figures are forecast

(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp)

(b) Explain **one** likely cost of UK real GDP falling by 9.9% in 2020.

(2)

(Total for Question 3(b) = 2 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 In 2019 the average annual percentage increase in real Gross Domestic Product (GDP) was 1.7% in developed countries and it was 4.6% in developing countries.

(Source: adapted from IMF, World Economic Outlook 2019)

(b) Explain **one** limitation of using GDP data to compare living standards between developed and developing countries.

(3)

(Total for Question 1(b) = 3 marks)

2 The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	GDP per capita (US$, at PPPs, 2013, rounded)
UK	38 500
Spain	33 000
Italy	35 500

(Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD)

(a) Define the term 'purchasing power parities'.

(2)

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(b) The Office for National Statistics estimates that the UK population was 64 million in 2013. Using the data, what was the UK's total GDP in 2013?

(1)

☒ **A** $2 464 000 million

☒ **B** $2 272 000 million

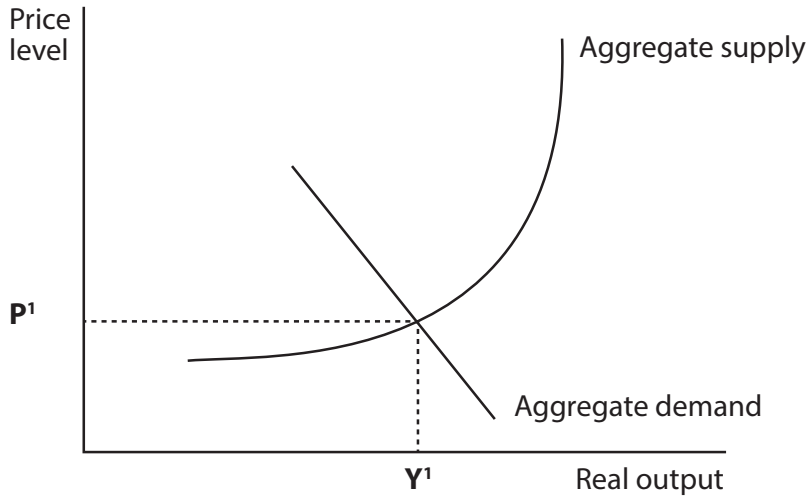
☒ **C** $1 662 000 million

☒ **D** $2 112 000 million

(c) Diagram A shows the aggregate demand and aggregate supply for a country.
Illustrate actual economic growth on Diagram A.

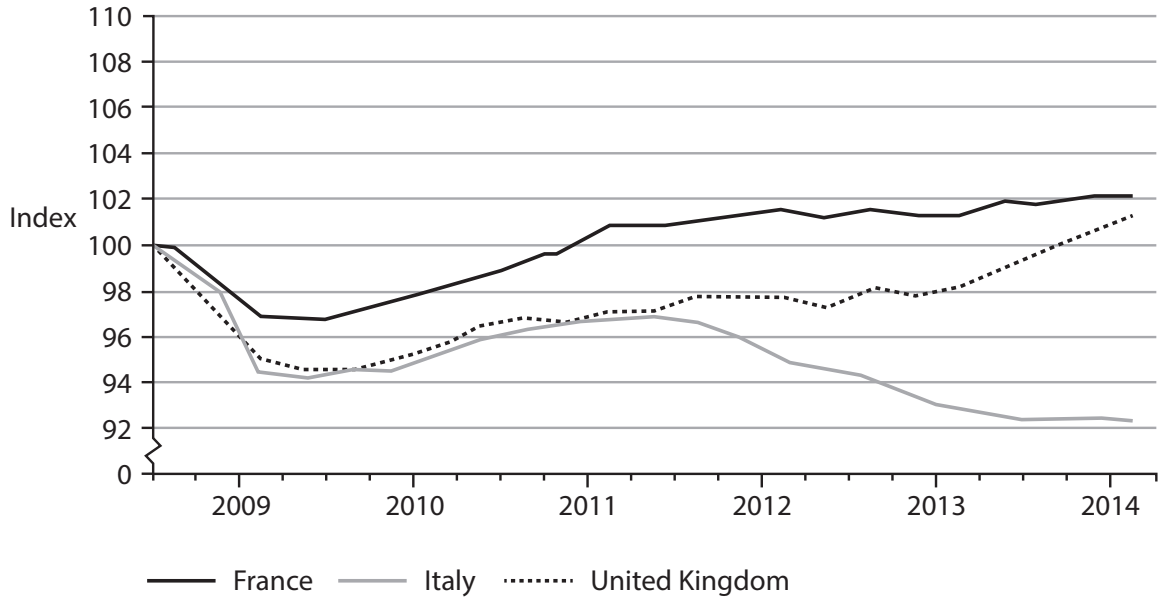
(1)

Diagram A



(Total for Question 2 = 4 marks)

3 Real GDP in selected economies (the base year 2008=100)



(Source: http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014--may-gdp-update/sty-gdp-g7-economies.html?format=print)

(a) Which **one** of the following can be inferred from the chart?

(1)

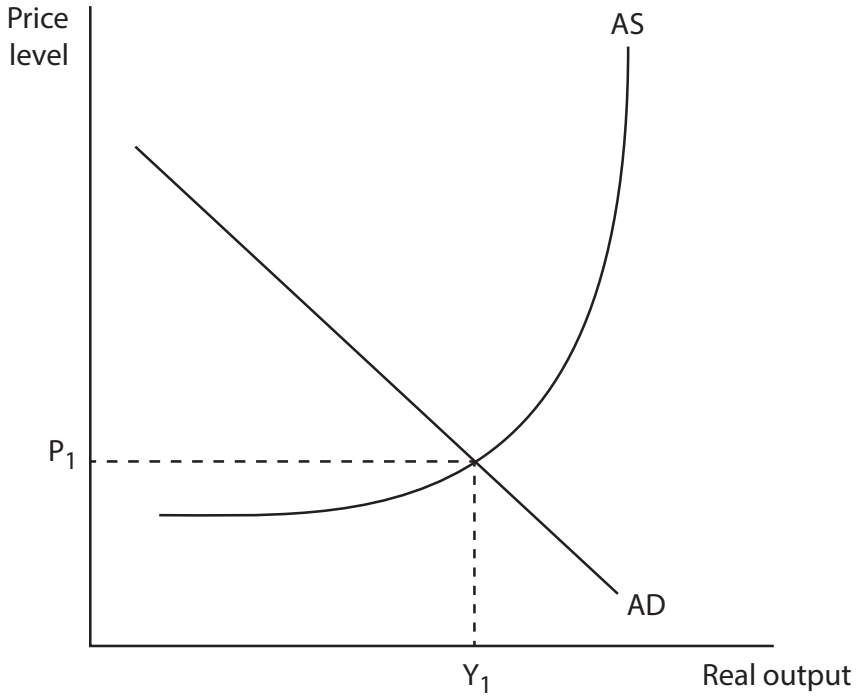
- ☒ **A** The UK's real GDP is smaller in 2014 than it was in 2008
- ☒ **B** Between 2008 and 2014 France's real GDP growth rate was higher than Italy's
- ☒ **C** Between 2008 and 2014 inflation was lower in France than in the UK
- ☒ **D** France experienced a greater fall in real GDP than the UK in 2014

(b) Define the term 'real GDP'.

(2)

(c) Illustrate a negative output gap on the diagram below.

(1)



(Total for Question 3 = 4 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The table below shows the UK Gross Domestic Product (GDP) and population, 2013 to 2015.

Year	GDP (£ millions)	Population (millions)
2013	1 739 563	64.1
2014	1 822 480	64.6
2015	1 872 714	65.1

(Source: ONS, https://www.ons.gov.uk/)

(a) Define the term 'Gross Domestic Product'.

(1)

(b) Calculate the UK's GDP per capita in 2015. You are advised to show your working.

(2)

(c) Which **one** of the following is the most likely effect of an increase in real GDP per capita?

(1)

- ☒ **A** Increase in living standards
- ☒ **B** Increase in unemployment
- ☒ **C** Lower consumer confidence
- ☒ **D** Lower purchasing power

(Total for Question 1 = 4 marks)

5 The table below shows the UK's Gross National Income (GNI) between 2014 and 2017.

Year	Gross National Income (£ million)
2014	1 806 468
2015	1 852 845
2016	1 920 116
2017	2 008 593

(Source: adapted from www.ons.gov.uk/economy/ © Crown Copyright)

(a) Define the term 'Gross National Income'.

(1)

(b) Which **one** of the following represents the ratio of Gross National Income in 2015 to Gross National Income in 2017?

(1)

- ☒ **A** 1 : 1.03
- ☒ **B** 1 : 1.05
- ☒ **C** 1 : 1.08
- ☒ **D** 1 : 1.11

(c) Using 2014 as the base year, calculate the index number for 2016. You are advised to show your working.

(2)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

2 The table below shows the UK's nominal Gross Domestic Product (GDP) and population, 2016 to 2018.

Year	GDP (£ millions)	Population (millions)
2016	1 995 478	65.6
2017	2 033 234	66.0
2018	2 061 408	66.4

(Source: ONS, https://www.ons.gov.uk/)

(a) Define the term 'nominal'.

(1)

(b) Using the above GDP data, which **one** of the following represents the index number for 2016, if 2017 is the base year?

(1)

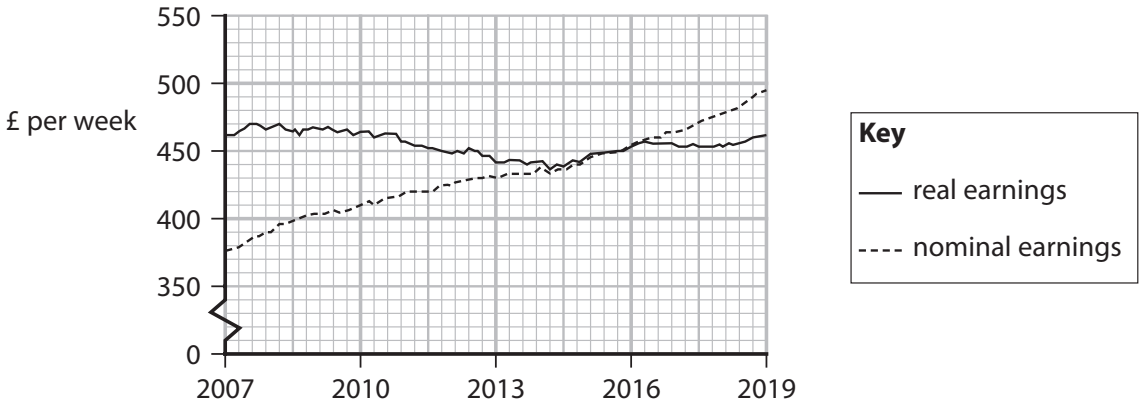
- ☒ **A** 96.8
- ☒ **B** 98.1
- ☒ **C** 101.9
- ☒ **D** 103.3

(c) Calculate the UK's nominal GDP per capita in 2018. You are advised to show your working.

(2)

(Total for Question 2 = 4 marks)

3 UK average weekly earnings, January 2007 to January 2019



(Source adapted from: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/march2019)

(a) Which **one** of the following can be inferred from the above chart?
Between 2007 and 2019,

(1)

- ☒ **A** earnings adjusted for interest rates were lower than earnings not adjusted for interest rates
- ☒ **B** nominal earnings increased by nearly 125 percentage points
- ☒ **C** the increase in earnings not adjusted for inflation was greater than earnings adjusted for inflation
- ☒ **D** there were significant increases in real earnings each year

(b) With reference to the chart, explain the likely relationship between real incomes and subjective happiness.

(3)

(Total for Question 3 = 4 marks)

2 The table below shows the UK's real GDP per capita, in US dollars, measured at Purchasing Power Parities, 2018 to 2020.

Year	GDP per capita, US$
2018	46 853
2019	47 369
2020	42 536

(Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=GB)

(a) Define the term 'GDP per capita'.

(1)

(b) Which **one** of the following is the most likely effect of the change in real GDP per capita between 2019 and 2020?

(1)

- ☒ **A** Decrease in living standards
- ☒ **B** Decrease in unemployment
- ☒ **C** Higher consumer confidence
- ☒ **D** Higher price level

(c) Explain **one** reason why Purchasing Power Parities (PPPs) are used.

(2)

(Total for Question 2 = 4 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 In 2019 the average annual percentage increase in real Gross Domestic Product (GDP) was 1.7% in developed countries and it was 4.6% in developing countries.

(Source: adapted from IMF, World Economic Outlook 2019)

(a) Which **one** of the following best describes an increase in real GDP?

(1)

- ☒ **A** Actual economic growth
- ☒ **B** Negative output gap
- ☒ **C** Positive output gap
- ☒ **D** Potential economic growth

(b) Explain **one** limitation of using GDP data to compare living standards between developed and developing countries.

(3)

(Total for Question 1 = 4 marks)

5 The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

- ☒ **A** Average incomes are higher in India than in Vietnam.
- ☒ **B** Levels of absolute poverty are higher in Vietnam.
- ☒ **C** Life expectancy is higher in India than in Vietnam.
- ☒ **D** Provision of healthcare and education is less effective in Vietnam than in India.

(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time.

(4)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION A

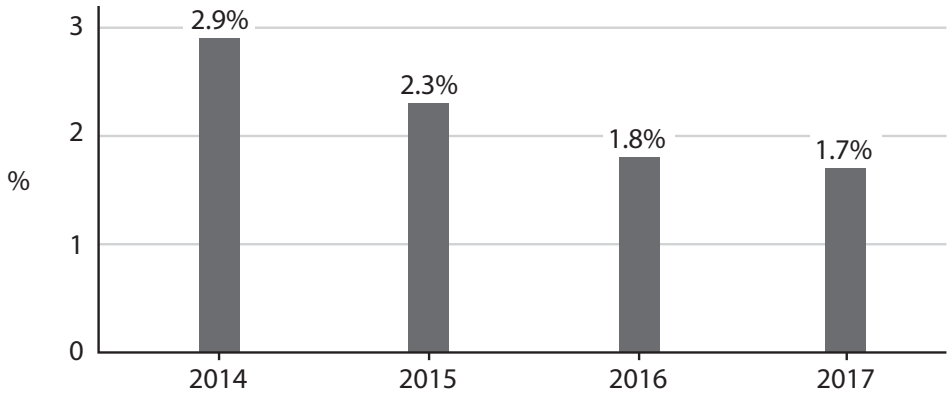
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK real Gross Domestic Product (GDP), annual percentage change 2014–2017



(Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna)

(a) Total real UK GDP in 2016 was £200 000 million. With reference to the chart above, calculate the total real UK GDP for 2017. You are advised to show your working.

(2)

(b) Explain the term 'real gross domestic product'.

(2)

(c) With reference to the chart on page 2, which **one** of the following is correct over the period shown?

(1)

- ☒ **A** GDP per capita was highest in 2014
- ☒ **B** Inflation rose in 2015
- ☒ **C** The UK economy grew at the fastest rate in 2014
- ☒ **D** The UK economy was in recession in 2015

(Total for Question 1 = 5 marks)

SECTION B

Read Figures 3 to 5 and the following extract (D) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

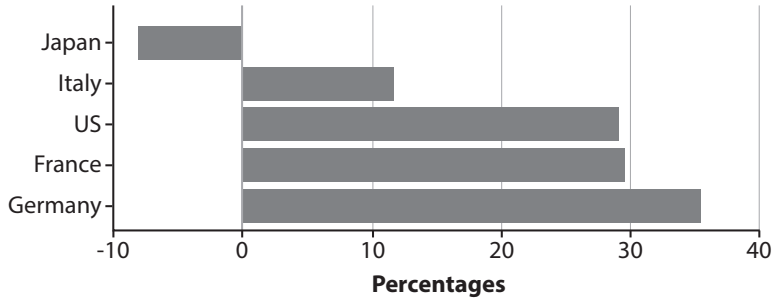
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

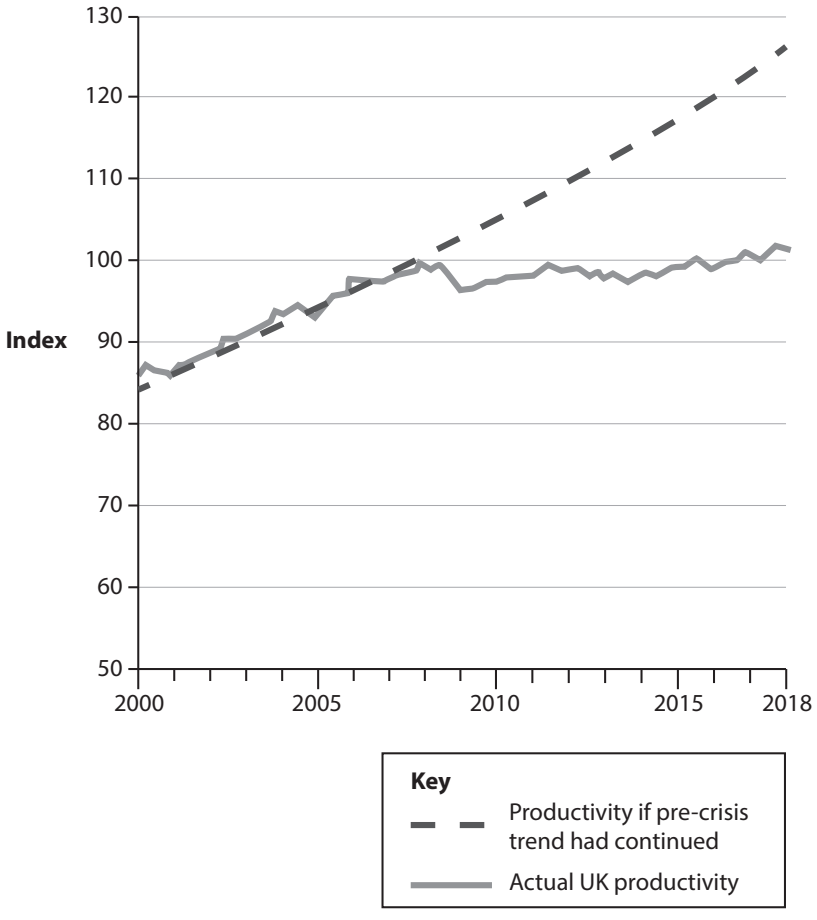
The UK economy

Figure 3: GDP per hour worked, nominal values at PPPs, percentage above or below UK level, 2018



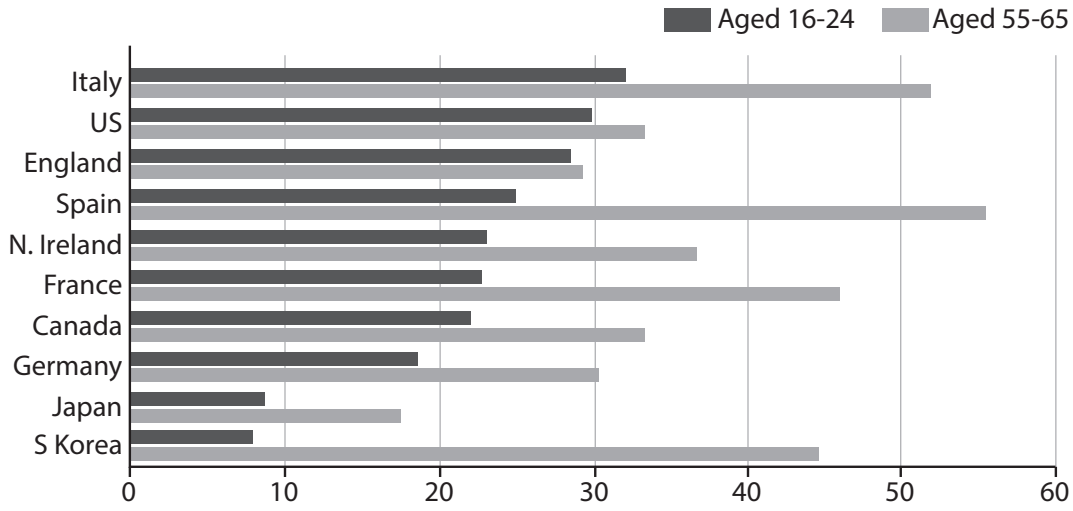
(Source adapted from: ONS.gov.uk)

Figure 4: UK index of output per hour worked, base year 2016 = 100



(Source adapted from: ONS.gov.uk)

Figure 5: Proportion of adults with low literacy and/or numeracy skills, by age, selected countries



(Source adapted from: OECD.org)

(Figures 3, 4 and 5 Source: FT.com 2016 data published https://www.ft.com/content/6ada0002-9a57-11e8-9702-5946bae86e6d 2018)

Extract D

The end of the High Street?

Homebase, the UK's second-largest do-it-yourself (DIY) retailer, made £20–40 million a year profit up to 2016. The Australian conglomerate Wesfarmers bought Homebase for £340 million in 2016, and began to rebrand 24 stores under its own name. It scaled back on curtain, cushion and other homeware sales in favour of power tools and building materials. In 2018 Wesfarmers sold the DIY chain for £1, in the face of "extremely challenging" market conditions and excess store space. The chain was bought by restructuring specialist Hilco, which had also rescued the music chain HMV in 2013, and the stores have gone back to using the Homebase name. Over 70% of Homebase stores are currently losing money and the new owner wants to exit loss-making stores and agree to rent reductions, as sales fell 10% in 2018. Homebase has gone back to popular products and brands dropped by its previous owner Wesfarmers.

The closures will add to the mounting job losses on Britain's high streets. About 25 000 jobs have gone in the first seven months of 2018, according to analysis by an economics thinktank. A further 8 300 jobs are under threat at suppliers, with the multiplier effect meaning that GDP is £1.5 billion less than projected.

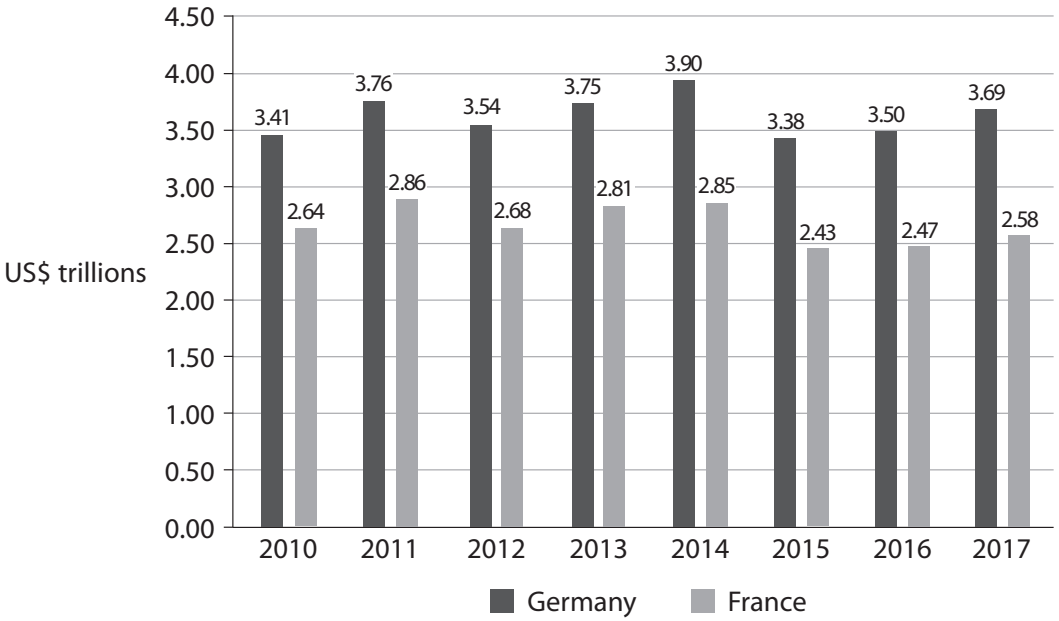
Several Marks & Spencer clothing stores closed their doors for the last time as the high-street chain pushes ahead with a transformation plan. It plans to close 100 stores by 2022. Toys R Us, Poundworld and Maplin have shut down completely, while New Look, Mothercare and Carpetright have plans to close hundreds of stores as losses rise sharply. Increasing rents and higher business rates have occurred at the same time as falling consumer confidence. Meanwhile, House of Fraser employees and pensioners are nervously awaiting more details about their future. The £90 million rescue deal by Sports Direct, the sportswear chain controlled by Mike Ashley, will protect 16 000 jobs for the time being.

(Source adapted from: https://www.ft.com/content/00d0bb9e-a6ee-11e8-8ecf-a7ae1beff35b 24 August 2018 and https://www.theguardian.com/business/2018/aug/13/homebase-close-80-stores-high-street-job-losses-mount Patrick Collinson 13 Aug 2018)

2 (a) With specific reference to Figure 3, explain why productivity is measured by 'GDP per hour worked, nominal values at PPPs'.

(5)

5 GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010–2017.



(Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=DE&start=1970&view=chart)

(a) From the data in the graph above, which **one** of the following may be deduced?

(1)

- ☒ **A** France's rate of inflation was lower than Germany's in 2017
- ☒ **B** Germany's GDP is smaller than France's in every year shown
- ☒ **C** In every year that France's GDP fell compared to the previous year, Germany's GDP did too
- ☒ **D** The GDP of both Germany and France fell between 2015 and 2016

(b) Calculate the percentage change in Germany's nominal GDP from 2016 to 2017.

(2)

(c) Explain **one** reason why Purchasing Power Parities are used.

(2)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

3 UK real GDP, 2020–2022

	Annual percentage change on previous year	Total (£ millions)
2020	–9.9%	2 045 091
2021	7.5%	2 198 473
2022*	3.5%	

*2022 figures are forecast

(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp)

(a) Calculate the value of the total forecast GDP in 2022.

(2)

(b) Explain **one** likely cost of UK real GDP falling by 9.9% in 2020.

(2)

(c) Which **one** of the following is most likely to lead to an increase in potential economic growth?

(1)

An increase in:

- ☒ **A** consumption
- ☒ **B** costs of raw materials and energy
- ☒ **C** income tax
- ☒ **D** technological advances

(Total for Question 3 = 5 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Selected economic data on Morocco and Pakistan, 2021, constant values.

	Human development index (HDI)	Gross national income (GNI) per capita (2017 PPP US$)	Gross domestic product (GDP) per capita (US$)
Morocco	0.683	7 303	3 290.6
Pakistan	0.544	4 624	1 473.9

(Source adapted from: https://hdr.undp.org)

(a) With reference to the table above, which **one** of the following is correct?

(1)

- ☒ **A** Average incomes are lower in Morocco than in Pakistan
- ☒ **B** Economic development, as measured by the HDI, is higher in Morocco than in Pakistan
- ☒ **C** Life expectancy in Morocco is 68.3 years
- ☒ **D** Total output in Morocco is higher than in Pakistan

(b) With reference to the data provided, explain **one** limitation of using GDP to compare living standards between countries.

(4)

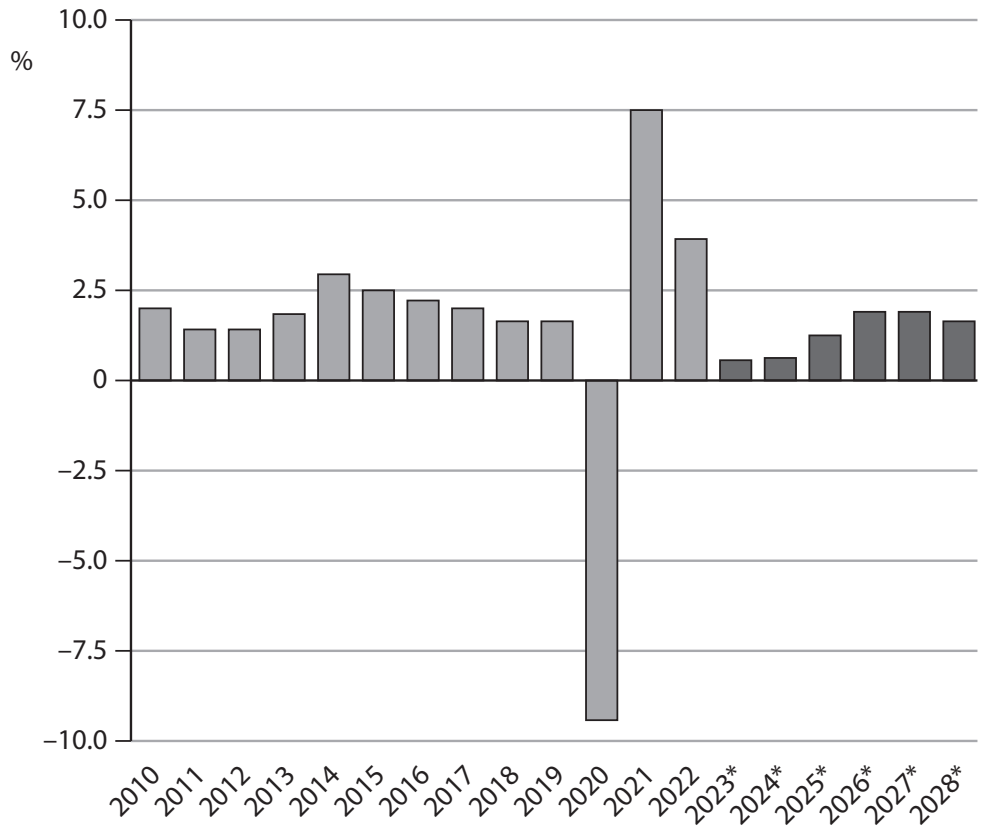
(Total for Question 1 = 5 marks)

Sources for use with SECTION B

Read Figures 1 and 2 and Extract A before answering Question 6.

UK living standards and supply-side policies

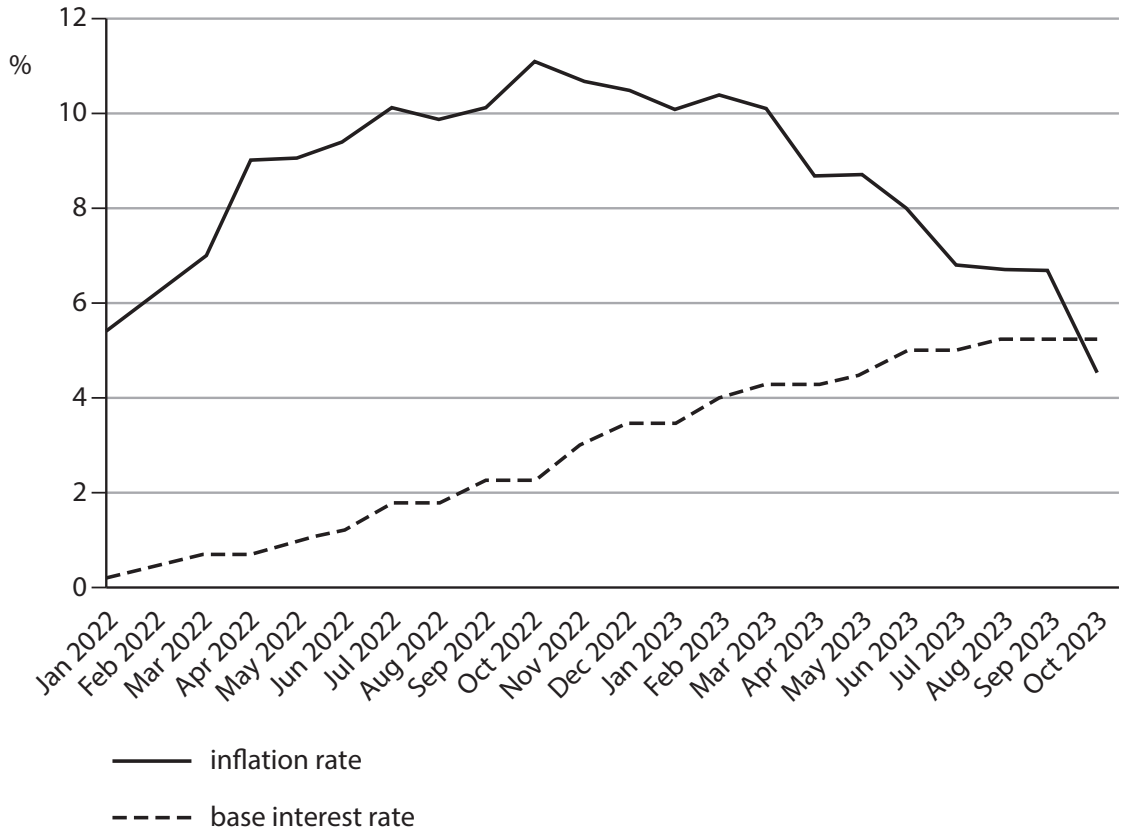
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

(Source: adapted from https://www.statista.com/statistics/375195/gdp-growth-forecast-uk/)

Figure 2: UK inflation rate* and base interest rate, January 2022 to October 2023



*Measured by Consumer Prices Index (CPI). This is the year-on-year inflation rate calculated monthly.

(Source: adapted from www.statista.com and www.tradingeconomics.com)

Extract A

Economic reforms

Economists forecast that the UK will experience a slower rate of economic growth between 2024 and 2028. They also expect a high rate of inflation due to rising import prices of food, fuel and energy, and a strong demand for consumer goods. As a result, real income per household is estimated to decrease by around 0.9% in 2024. This decrease would be the largest reduction in living standards since the Office for National Statistics records began in the 1950s.

However, the UK government argues that there are some limitations of using GDP to compare living standards over time. One main reason is the fact that GDP figures are in nominal terms. The government questions the reliability of inflation data as it believes that the Monetary Policy Committee (MPC) of the Bank of England will keep a high base interest rate to control inflation. The government also claims that the forecast by economists fails to consider the market-based supply-side policies it introduced in November 2023 to improve living standards.

The government's £10.4 billion cut to National Insurance contributions for employees is the most significant policy, expected to increase employment and living standards. It is forecast to bring additional people into work and encourage more people to work longer hours. This is likely to result in an extra 94 000 full-time workers.

The government has also taken measures to encourage more out-of-work benefits claimants into jobs. It introduced stricter benefit rules for people who can work but do not take a job offered to them. This includes stopping people's benefits if they do not actively engage in seeking employment in six months. This is likely to result in a further increase in employment figures. But economists claim that its impact on GDP will be relatively insignificant. This is because most of those affected by this policy will take on work with limited hours and very low pay.

These market-based supply-side policies, combined with measures centred on childcare subsidies for working parents, are expected to increase total employment by 200 000 between 2024 and 2028. The government argues that the expected increase highlights that it is better to "unlock the potential we have at home", rather than encouraging migration. However, several economists suggest that a rise in net migration is contributing more to an increase in the UK's potential economic growth.

Furthermore, the UK government's decision to offer 100% tax relief on investment in capital machinery will increase overall investment by 0.5% by 2028. The benefits of this effective tax cut for firms are estimated to increase over time, as technology advances and productivity improves. However, this tax cut will not prevent business investment falling in the short term, as higher interest rates are making it more expensive for firms to borrow.

Economists suggest that this tax cut can only be funded by decreasing government expenditure on public services in the long run. Government expenditure will need to decrease by a third, as a proportion of GDP, between 2024 and 2028.

(Source: adapted from https://www.ft.com/content/5ff3538b-aed2-4898-b423-f0c61da728ff)

(b) With reference to the first paragraph of Extract A, explain the likely relationship between real incomes and subjective happiness.

(5)

SECTION B

Read Figures 1 and 2 and extract A before answering Question 6.

Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

UK economic recovery

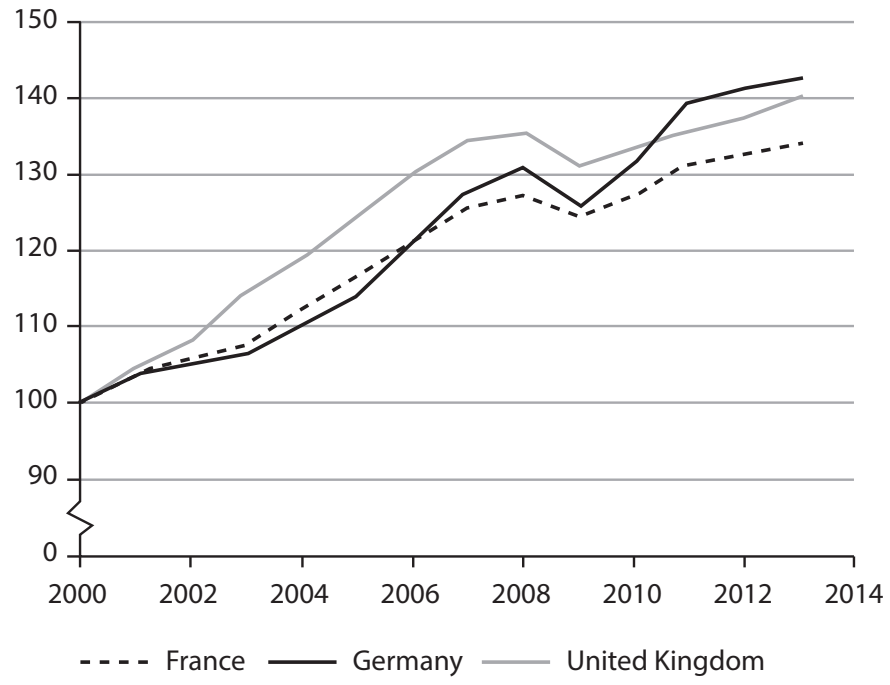
Figure 1: Components of aggregate demand in selected countries 2014

Country	Consumption	Investment	Government spending	Exports - Imports
UK	66%	14%	21%	–2%
Germany	57%	17%	19%	6%
France	57%	20%	25%	–2%
China	34%	49%	14%	3%

NB: Figures may not add up to 100% due to rounding calculations.

(Source: World Bank 2014)

Figure 2: Nominal GDP per capita at Purchasing Power Parities (PPPs) (the base year 2000=100)



(Source: https://www.imf.org)

Extract A

The UK economy – a strange recovery

At the Autumn Statement in November 2015, the Chancellor of the Exchequer had good reason to cheer his economic record. The UK economy appeared to have returned towards its long-term trend in the rate of economic growth.

GDP growth has remained strong, with output rising at the highest rate in the G7 group of seven major industrialised countries. Unemployment continued to drop and business investment grew by 5%.

However, a number of concerns remain, particularly in relation to the UK's current account deficit, which reached a record high of 6% of GDP in the third quarter of 2014. This was primarily a result of a sharp decline in the rate of return on UK investments overseas. Low export growth meant that the UK's trade deficit persisted.

In 2012, the Chancellor had announced a target for the UK to export £1 trillion of goods and services by 2020, which would require an annual growth rate of 8%. However, the annual growth in UK exports had reached just 2.7%. The Office for Budget Responsibility (OBR) forecast that UK exports will only reach £630 billion by 2020 – a third lower than the government's target.

Exports in services continued to grow in 2015, but the UK's goods industries were struggling. It was particularly concerning that data showed output in the UK's construction and manufacturing industries falling. Indeed, the output of the manufacturing sector remained 6.3% below its pre-recession peak.

Households, meanwhile, are set to become even more indebted over the coming years. It is projected that the household gross debt to income ratio will rise by 26 percentage points between 2015 to 2020, returning to levels last seen before the Global Financial Crisis. The economy did not appear to be rebalancing away from consumer driven growth towards export-led growth, making another recession almost inevitable.

Fundamental to this problem is the UK's low productivity, which in 2015 remains around 20 percentage points below the average for the rest of the G7. It is vital that the government tackles this problem, particularly in the sectors that are currently facing difficulties. This will require relaxing the planning system to promote more house-building, the removal of burdens on UK manufacturers such as carbon taxes, finally getting shale gas exploration going, and reforming apprenticeships to rapidly improve skills in construction, manufacturing and technology.

(Source: adapted from http://www.cityam.com/229481/chancellor-beware-uk-not-out-woods-yet, 25 November 2015 by Daniel Mahoney)

(d) With reference to Figure 2 and Extract A, explain **two** likely reasons why the growth of the UK's nominal GDP per capita at PPPs was slower than that of Germany after 2010.

(6)

SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

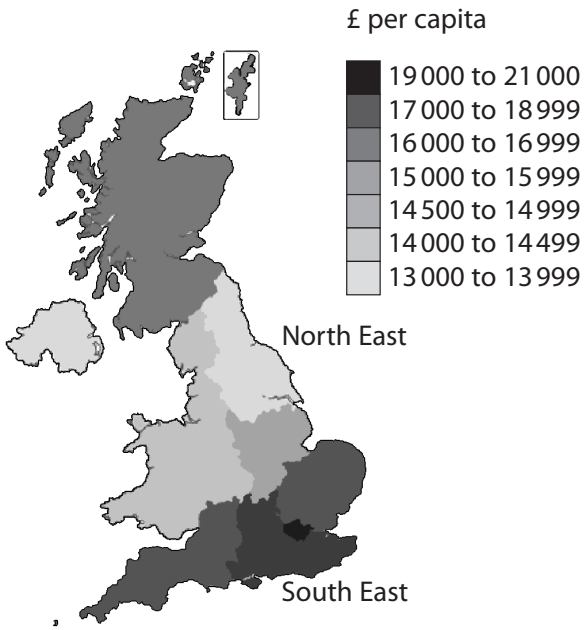
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK Government spending and inequality

Figure 1: UK regional gross disposable household income per capita, 2018



(Source: adapted from University of Sheffield/Office for National Statistics: https://www.sheffield.ac.uk/news/nr/uk-higher-regional-inequality-large-wealthy-country-1.862262)

Figure 2: UK subjective happiness by income, April 2021

Answer to the question: 'On a scale of 1–10, how happy did you feel after yesterday?' (0 = not at all, 10 = completely)

Less than £10 000	£10 000–£20 000	£20 000–£40 000	More than £40 000
7.31	7.02	7.13	7.29

(Source: adapted from https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/datasets/incomegroupsplitestimatesonpersonalandeconomicwellbeingacrosstime)

Extract A

Regional inequality in the UK

Geographically, the UK is highly unequal in incomes. According to research from the University of Sheffield, the estimate of the Gini coefficient is 0.34. There are a number of different reasons for this. First, labour in poor places tend to develop too few skills, with a lack of education holding people back. In Rotherham in the north of England, for example, 21% of disadvantaged 18-year-olds from state schools and colleges go on to higher education compared to 41% in London. Secondly, there is a lack of infrastructure spending in northern cities compared to London. In 2017–18, 28% of public expenditure on transport – and 46% of capital expenditure on railways – was spent in London. The argument for this is that London gets a lot of public money because a lot of people take public transport. This has angered many people in the North.

These problems cannot be solved quickly. They compound each other. Just as people are rarely poor for one reason, regions do not fall behind only because they have poor transport, poor schools or poor policy making, but for all those reasons and more. Ideally, the UK would develop a bold plan for regional development that could be followed by future governments, as Germany did for its eastern part. Tera Allas of McKinsey, a consultancy firm, argues that improving education is crucial, even if the returns are not immediately obvious. It is easier to improve schools than to persuade businesses to move to a poorer part of the country.

(Source: adapted from https://www.economist.com/britain/2020/07/30/why-britain-is-more-geographically-unequal-than-any-other-rich-country)

Extract B

Public sector spending on infrastructure

Economic differences across the UK are large and have grown. The government is looking at reducing this inequality partly through spending on transport infrastructure. Public sector capital spending is due to rise from just over 2% of GDP to 3%. That amounts to around £20 billion of additional spending per year on new capital projects. The government is looking to take advantage of current low interest rates to finance the expansion without worsening its fiscal position.

The government is determined to focus this spending on the north of England, Wales and the Midlands. Planned schemes include a new Trafford Park tram line in Manchester and reopening train lines and stations closed back in the 1960s, including stations in Haxby in Yorkshire and Blyth in Northumberland. Progress has already been made in Wales with the reopening of Bow Street station near Aberystwyth. This project has taken 11 years to become a reality and cost £8m. It is estimated that it will generate a boost to the economy of £24m through boosting local trade, creating new jobs in the local area, and easing pressure on congested roads heading into Aberystwyth.

(Source: adapted from https://www.economist.com/britain/2020/01/09/the-coming-splurge-on-northern-infrastructure and https://www.wales247.co.uk/transport-for-wales-delivers-new-bow-street-station)

Extract C

Options for UK tax rises in the future

There are a number of options for raising additional tax revenue in the future. These include:

- increasing council tax on houses: this annual charge paid to local government is currently based on estimated house prices in 1991 and so is very out of date. This would negatively affect areas where house prices have risen the most since 1991
- a one-off wealth tax: a 5% tax on property and pension wealth of more than £500 000 would raise £260 billion to help pay for the global health crisis in five years, according to proposals from the Wealth Commission
- increasing corporation tax: at the 2021 Budget the Chancellor announced that the top rate of UK corporation tax would be increased to 25% by 2023. This will remain the lowest rate in the G7 group of the world's largest advanced countries, but will raise £17.2 billion in 2025–26.

(Source: adapted from https://www.telegraph.co.uk/tax/income-tax/five-tax-rises-rishi-sunak-considering-chances-happening-budget/, and https://home.kpmg/uk/en/home/insights/2021/03/tmd-corporation-tax-rate-to-increase-to-25-percent.html)

(c) With reference to Figure 2, assess whether an increase in real income improves subjective happiness within the UK.

(10)

SECTION B

Read Figures 1 and 2 below and Extract A before answering Question 6.

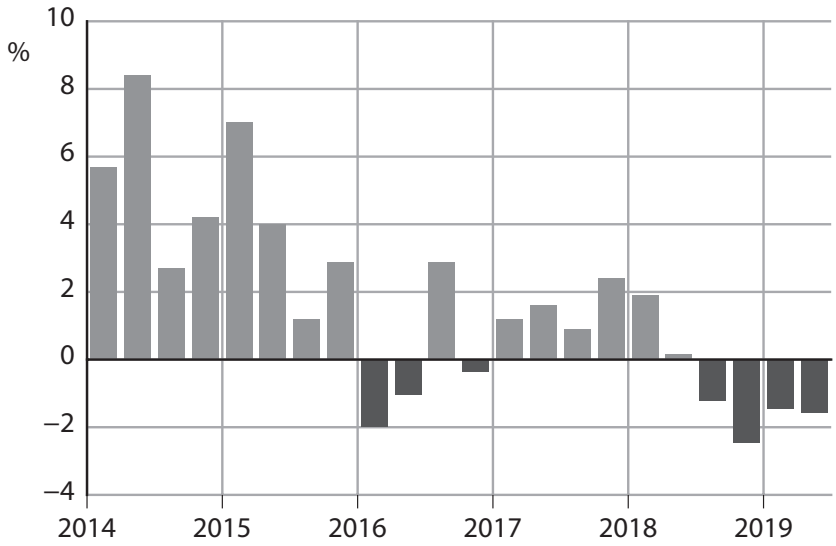
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

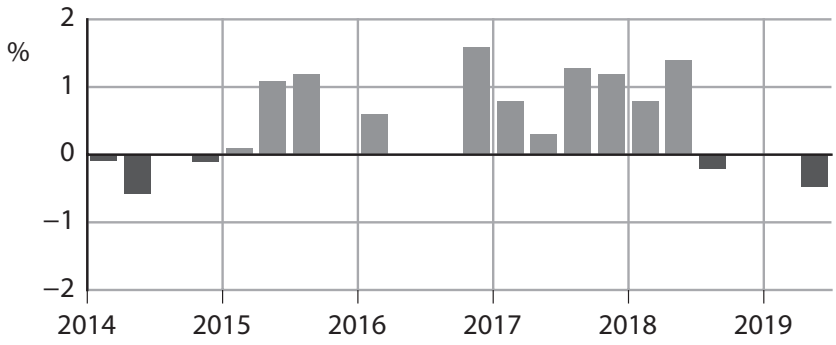
UK investment and productivity

Figure 1: UK investment, annual percentage change, 2014 to 2019



(Source adapted from: https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203)

Figure 2: UK labour productivity, annual percentage change, 2014 to 2019



(Source adapted from: https://www.theguardian.com/business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour)

Extract A

Another recession?

For the first time in nearly seven years, the UK economy contracted by 0.2% in the second quarter of 2019. This was as a result of a significantly weaker than expected performance in almost every part of the UK economy.

Business investment has been weak across the world, but it is particularly low in the UK. Firms are reluctant to commit to capital spending while there is economic uncertainty. Growth in investment, in areas such as transport and machinery, has slowed. Global trade tensions are also affecting investment decisions.

Labour productivity decreased by 0.5% in the second quarter of 2019, the worst performance since mid-2014. Declining productivity is a concern especially as it comes at a time when the unemployment rate has been one of the lowest. The rate of unemployment decreased from 6% in July 2014 to 3.8% in July 2019.

The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting technology. This has decreased the prospects for increases in workers' pay. Without business investment and improvements in productivity, short-term growth in real GDP is likely to slow further and reduce living standards.

However, the UK Government expects the UK economy to perform better than Germany and Italy. These export-focused countries are highly exposed to the slowdown in world trade and the fall in average global incomes.

The UK economy is seeing continued strength in consumer spending. Consumption will support growth, provided there is no sudden shock to the UK labour market. Household incomes are strong, primarily due to high employment. Government expenditure has also been rising since the end of 2018. The UK Government has promised more money for schools and infrastructure improvements.

Despite this, some economists believe that the UK economy is likely to experience another recession. They claim that low income households cannot cope with a new downturn. The overall picture for the UK economy does not look promising because most businesses are reluctant to invest, productivity is low and economic growth relies on continued consumption.

(Source adapted from: 'On the brink: Britain's economy braced for Brexit shock', FT, https://www.ft.com/ content/40c604d2-c01c-11e9-89e2-41e555e96722; 'Recession threat hangs over UK economy ahead of Brexit, FT, https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203; 'UK productivity falls at fastest pace in five years as Brexit dents investment, The Guardian, https://www.theguardian.com/ business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour)

(c) With reference to the fourth paragraph of Extract A, assess the limitations of using GDP to compare living standards over time.

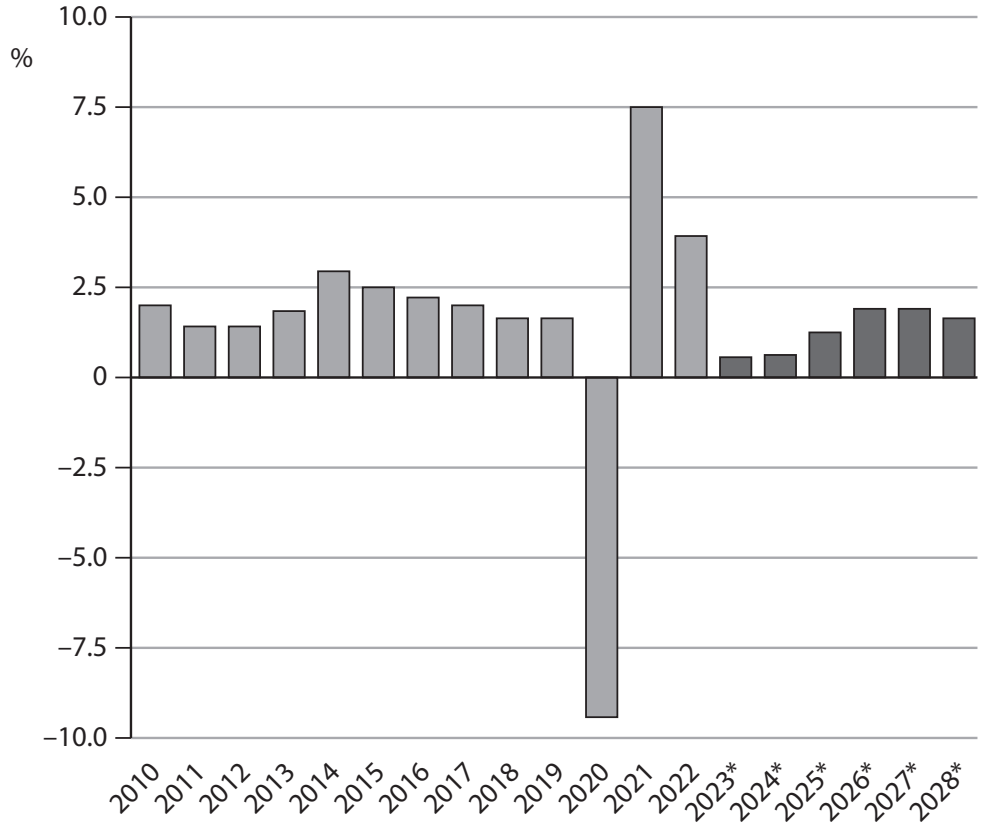
(10)

Sources for use with SECTION B

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UK living standards and supply-side policies

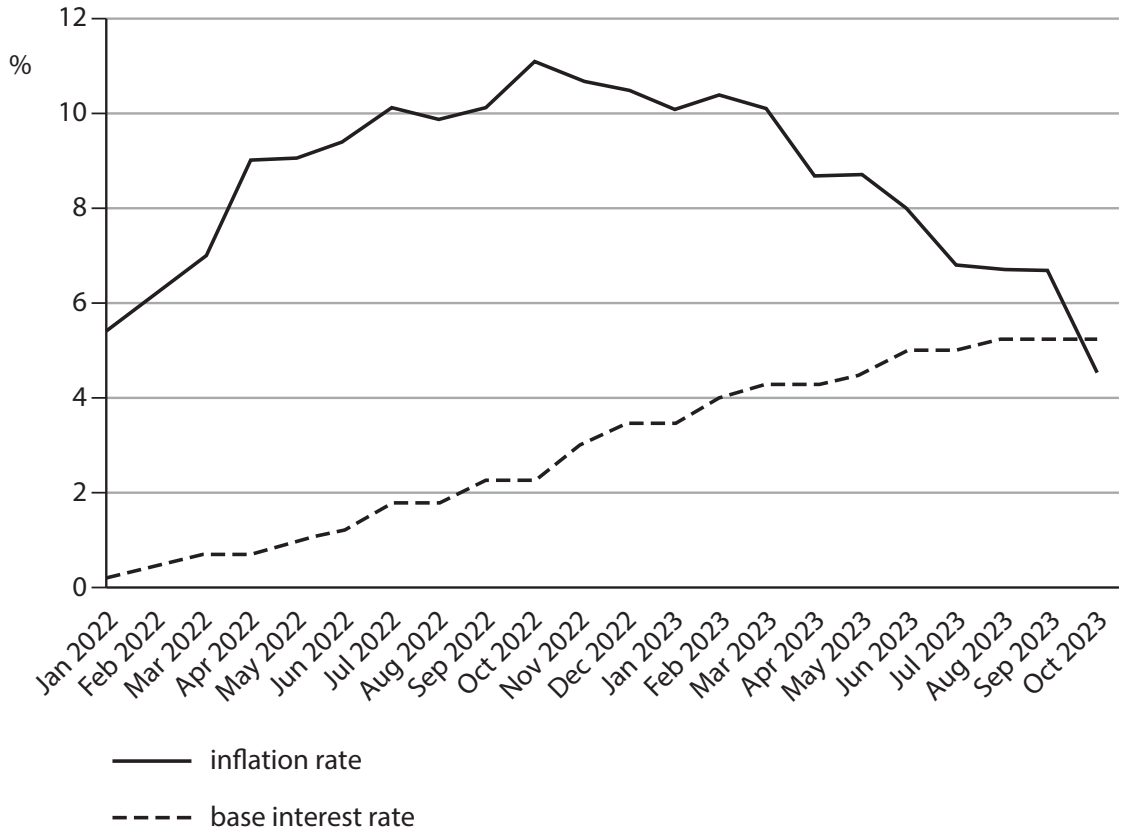
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

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Figure 2: UK inflation rate* and base interest rate, January 2022 to October 2023



*Measured by Consumer Prices Index (CPI). This is the year-on-year inflation rate calculated monthly.

(Source: adapted from www.statista.com and www.tradingeconomics.com)

Extract A

Economic reforms

Economists forecast that the UK will experience a slower rate of economic growth between 2024 and 2028. They also expect a high rate of inflation due to rising import prices of food, fuel and energy, and a strong demand for consumer goods. As a result, real income per household is estimated to decrease by around 0.9% in 2024. This decrease would be the largest reduction in living standards since the Office for National Statistics records began in the 1950s.

However, the UK government argues that there are some limitations of using GDP to compare living standards over time. One main reason is the fact that GDP figures are in nominal terms. The government questions the reliability of inflation data as it believes that the Monetary Policy Committee (MPC) of the Bank of England will keep a high base interest rate to control inflation. The government also claims that the forecast by economists fails to consider the market-based supply-side policies it introduced in November 2023 to improve living standards.

The government's £10.4 billion cut to National Insurance contributions for employees is the most significant policy, expected to increase employment and living standards. It is forecast to bring additional people into work and encourage more people to work longer hours. This is likely to result in an extra 94 000 full-time workers.

The government has also taken measures to encourage more out-of-work benefits claimants into jobs. It introduced stricter benefit rules for people who can work but do not take a job offered to them. This includes stopping people's benefits if they do not actively engage in seeking employment in six months. This is likely to result in a further increase in employment figures. But economists claim that its impact on GDP will be relatively insignificant. This is because most of those affected by this policy will take on work with limited hours and very low pay.

These market-based supply-side policies, combined with measures centred on childcare subsidies for working parents, are expected to increase total employment by 200 000 between 2024 and 2028. The government argues that the expected increase highlights that it is better to "unlock the potential we have at home", rather than encouraging migration. However, several economists suggest that a rise in net migration is contributing more to an increase in the UK's potential economic growth.

Furthermore, the UK government's decision to offer 100% tax relief on investment in capital machinery will increase overall investment by 0.5% by 2028. The benefits of this effective tax cut for firms are estimated to increase over time, as technology advances and productivity improves. However, this tax cut will not prevent business investment falling in the short term, as higher interest rates are making it more expensive for firms to borrow.

Economists suggest that this tax cut can only be funded by decreasing government expenditure on public services in the long run. Government expenditure will need to decrease by a third, as a proportion of GDP, between 2024 and 2028.

(Source: adapted from https://www.ft.com/content/5ff3538b-aed2-4898-b423-f0c61da728ff)

(c) With reference to Extract A and your own knowledge, assess the limitations of using GDP to compare living standards over time.

(10)

SECTION B

Read Figures 1 to 4 and extracts (A and B) before answering Question 6.

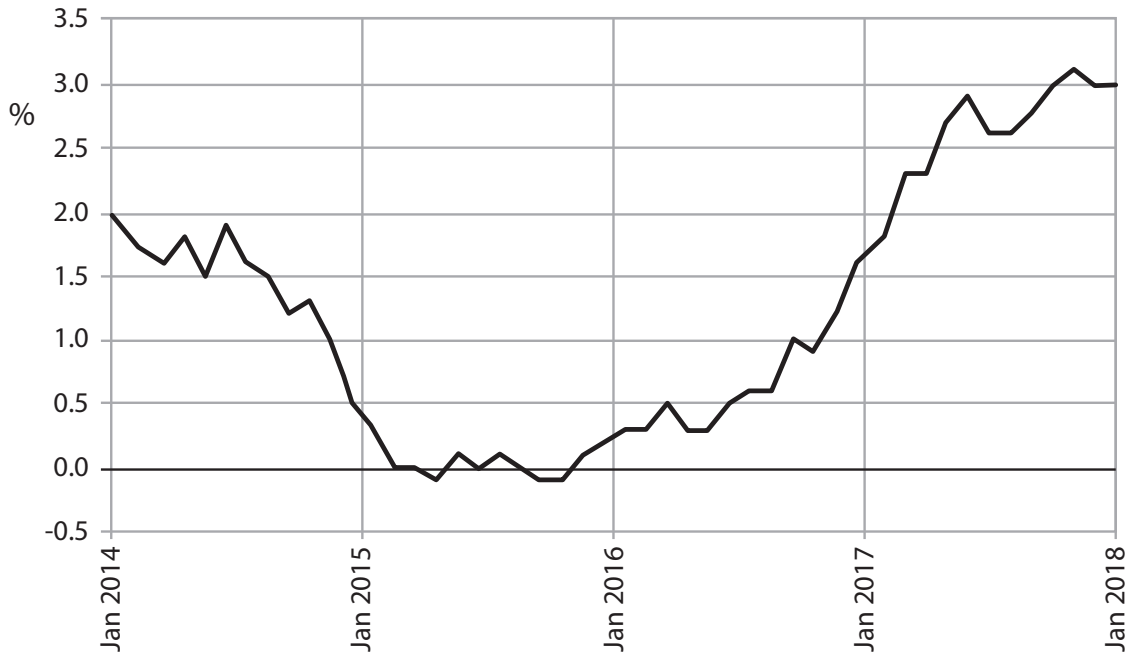
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN	OUT
Non-dairy milk	Apple cider
Jigsaw puzzles	Menthol cigarettes
Child scooters	Child swings
Cycling helmets	Basic mobile phones

(Source: www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets)

Figure 3: UK exports, £ billions per month, January 2014 to January 2018



(Source: Trading Economics, ONS - https://tradingeconomics.com/united-kingdom/exports)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points.

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending.

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households.

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket.

(Source: adapted from 'UK inflation tipped to rise again with wages forecast to stagnate', The Guardian, https://www.theguardian.com/business/2017/aug/13/uk-inflation-tipped-to-rise-again-with-wages-forecast-to-stagnate#img-1)

Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth.

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK.

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, http://www.telegraph.co.uk /business/2017/08/01/growth-accelerate-uk-economy-bounces-back/; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/)

(e) With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

(15)

SECTION B

Read Figures 1 and 2 below and Extract A before answering Question 6.

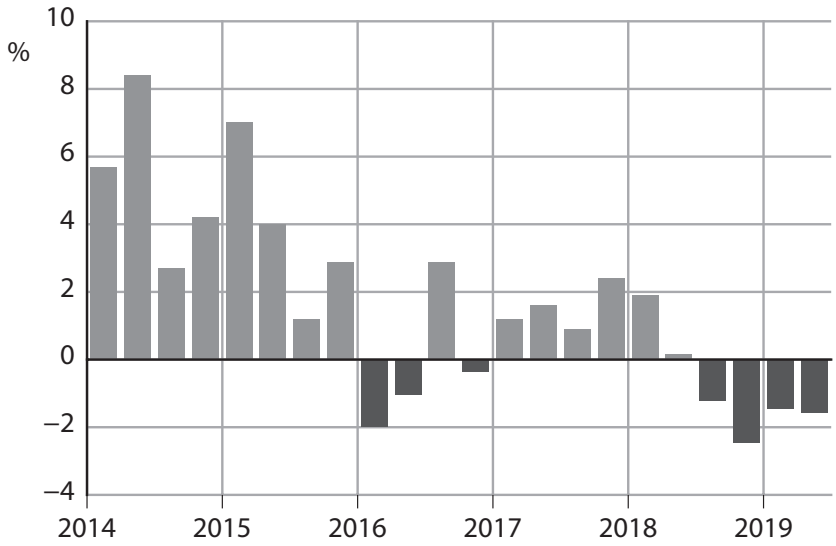
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Question 6

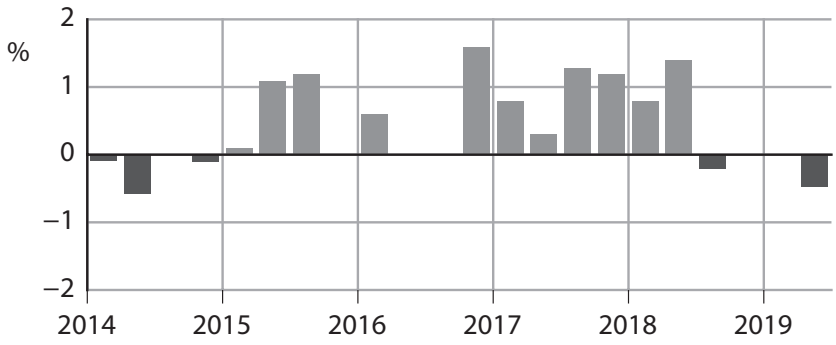
UK investment and productivity

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Extract A

Another recession?

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Business investment has been weak across the world, but it is particularly low in the UK. Firms are reluctant to commit to capital spending while there is economic uncertainty. Growth in investment, in areas such as transport and machinery, has slowed. Global trade tensions are also affecting investment decisions.

Labour productivity decreased by 0.5% in the second quarter of 2019, the worst performance since mid-2014. Declining productivity is a concern especially as it comes at a time when the unemployment rate has been one of the lowest. The rate of unemployment decreased from 6% in July 2014 to 3.8% in July 2019.

The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting technology. This has decreased the prospects for increases in workers' pay. Without business investment and improvements in productivity, short-term growth in real GDP is likely to slow further and reduce living standards.

However, the UK Government expects the UK economy to perform better than Germany and Italy. These export-focused countries are highly exposed to the slowdown in world trade and the fall in average global incomes.

The UK economy is seeing continued strength in consumer spending. Consumption will support growth, provided there is no sudden shock to the UK labour market. Household incomes are strong, primarily due to high employment. Government expenditure has also been rising since the end of 2018. The UK Government has promised more money for schools and infrastructure improvements.

Despite this, some economists believe that the UK economy is likely to experience another recession. They claim that low income households cannot cope with a new downturn. The overall picture for the UK economy does not look promising because most businesses are reluctant to invest, productivity is low and economic growth relies on continued consumption.

(Source adapted from: 'On the brink: Britain's economy braced for Brexit shock', FT, https://www.ft.com/ content/40c604d2-c01c-11e9-89e2-41e555e96722; 'Recession threat hangs over UK economy ahead of Brexit, FT, https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203; 'UK productivity falls at fastest pace in five years as Brexit dents investment, The Guardian, https://www.theguardian.com/ business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour)

(e) With reference to the information provided, discuss the likely impact of a recession on the UK economy.

(15)

Q) 8 Global oil prices fell from a 2008 peak of $147 a barrel to $27 in 2016. Evaluate the likely macroeconomic consequences of a significant fall in global oil prices.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 2.1.2

INFLATION

Sub-topic 2.1.2 · 34 questions · 262 marks · lowest tariff first

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK Consumer Prices Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-323657)

(b) Define the term 'deflation'.

(1)

.....

.....

(Total for Question 1(b) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK Consumer Prices Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-323657)

(c) Which **one** of the following is most likely to be a cause of deflation? A fall in:

(1)

☒ **A** oil prices

☒ **B** unemployment

☒ **C** income tax rates

☒ **D** interest rates

(Total for Question 1(c) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 In October 2019 the annual rate of inflation in the UK was 1.5%, as measured by the Consumer Prices Index (CPI), and 2.1%, as measured by the Retail Prices Index (RPI).

(a) Define the term 'inflation'.

(1)

.....

.....

.....

.....

(Total for Question 1(a) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 In October 2019 the annual rate of inflation in the UK was 1.5%, as measured by the Consumer Prices Index (CPI), and 2.1%, as measured by the Retail Prices Index (RPI).

(c) From the above data, it can be deduced that the percentage point difference between CPI and RPI was:

(1)

☒ **A** 0.0

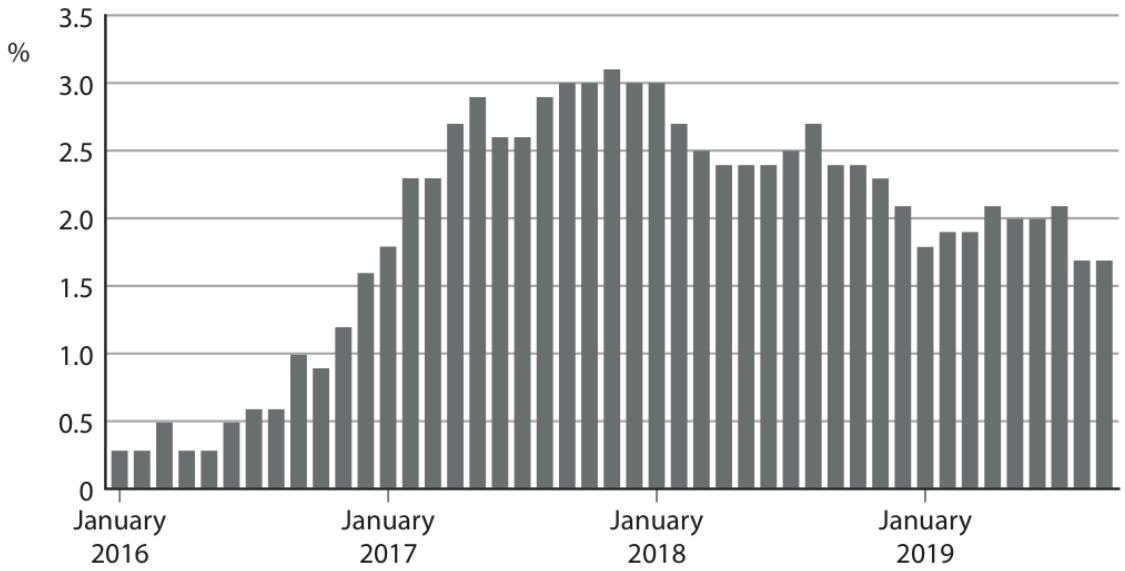
☒ **B** 0.2

☒ **C** 0.4

☒ **D** 0.6

(Total for Question 1(c) = 1 mark)

5 Annual rate of UK inflation, as measured by the Consumer Prices Index (CPI), January 2016 to September 2019.



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

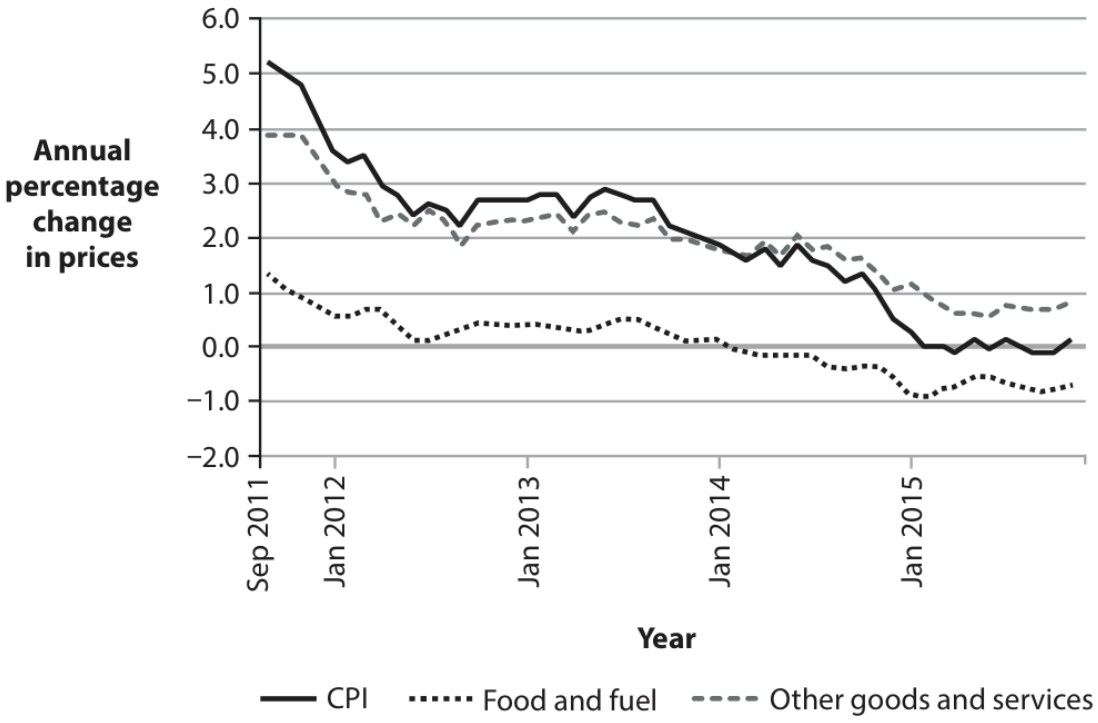
(a) Which **one** of the following can be deduced from the chart?

(1)

- ☒ **A** The average price level was lower in January 2018 than in January 2019
- ☒ **B** The average price level was unchanged between January 2017 and January 2019
- ☒ **C** There was deflation from January 2018 to January 2019
- ☒ **D** There was disinflation from January 2016 to January 2017

(Total for Question 5(a) = 1 mark)

3 The chart below shows UK inflation as measured by the Consumer Prices Index (CPI), 2011 to 2015.



(Source: http://www.ons.gov.uk/ons/dcp171780_427182.pdf)

(a) Which **one** of the following statements is correct about the UK's inflation record between September 2011 and January 2013?

Based on the data shown, the UK experienced:

(1)

- ☒ **A** deflation
- ☒ **B** disinflation
- ☒ **C** falling average prices
- ☒ **D** falling money supply

(Total for Question 3(a) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK Consumer Prices Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-323657)

(a) Calculate the percentage change in the UK Consumer Prices Index from September 2014 to September 2015. You are advised to show your working.

(2)

.....

.....

.....

.....

(Total for Question 1(a) = 2 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

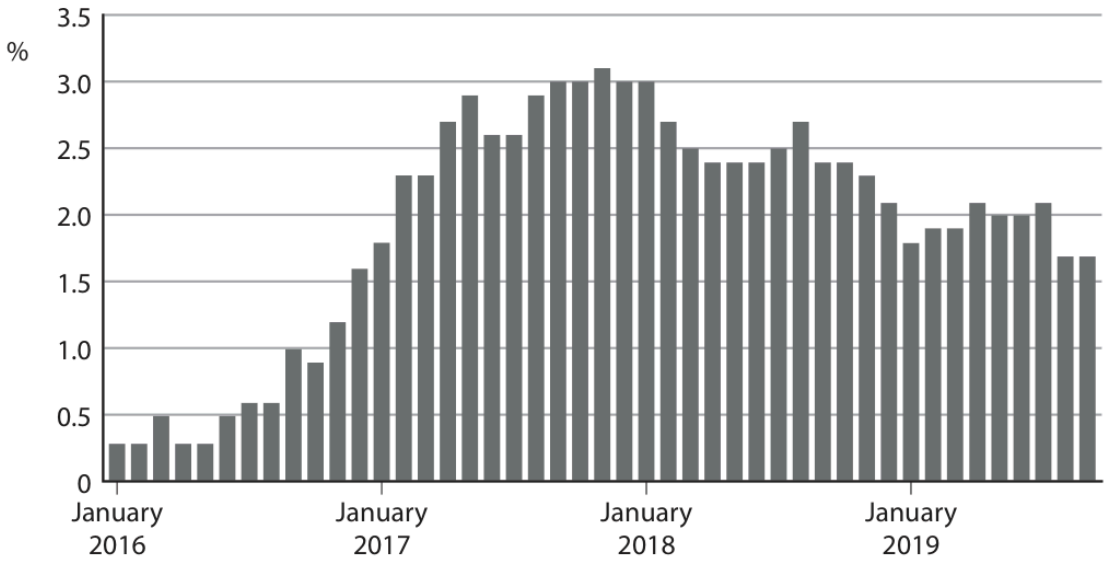
1 In October 2019 the annual rate of inflation in the UK was 1.5%, as measured by the Consumer Prices Index (CPI), and 2.1%, as measured by the Retail Prices Index (RPI).

(b) Explain **one** likely cause of inflation.

(2)

(Total for Question 1(b) = 2 marks)

5 Annual rate of UK inflation, as measured by the Consumer Prices Index (CPI), January 2016 to September 2019.



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

(b) Explain **one** limitation of CPI in measuring the rate of inflation.

(3)

(Total for Question 5(b) = 3 marks)

SECTION B

Read Figures 1 and 2 below and read extracts A and B before answering Question 6.

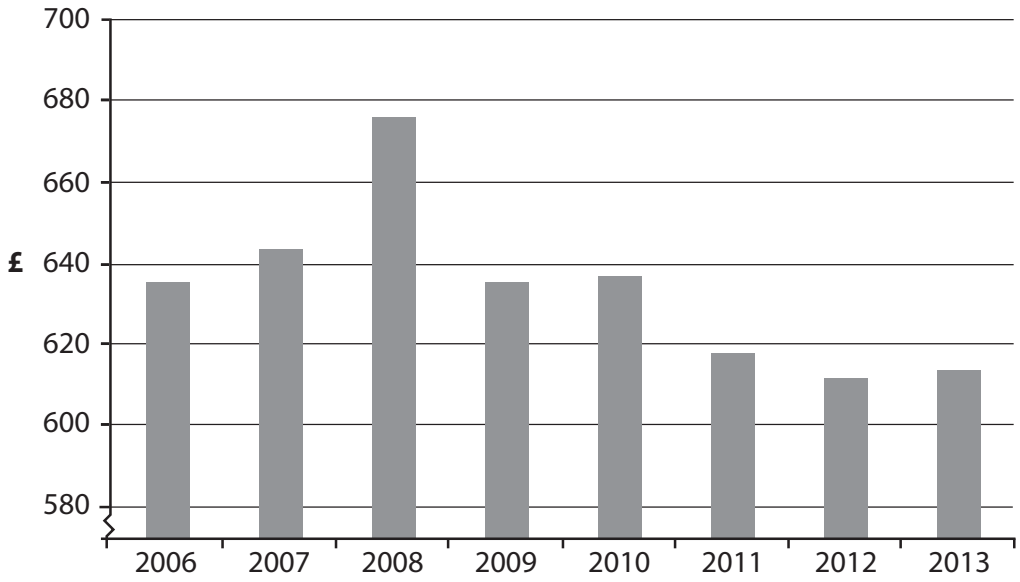
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

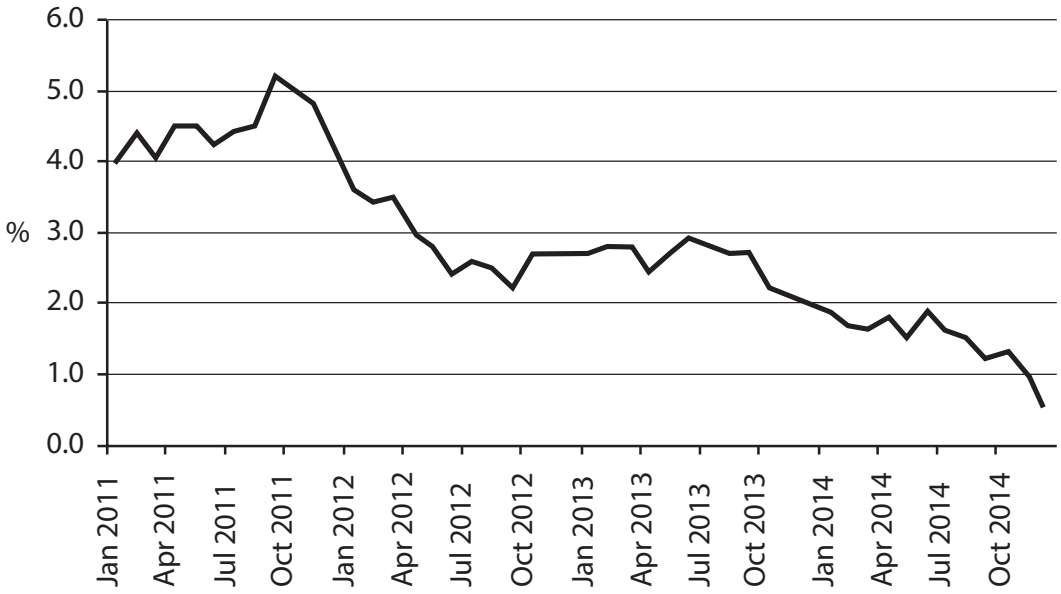
UK incomes, inflation and monetary policy

Figure 1 – UK average weekly household real income



(Source: http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2014-edition/rft-a44-final-2013.xls)

Figure 2 – UK inflation rate as measured by percentage changes in the Consumer Price Index (CPI)



(Source: http://www.bankofengland.co.uk/publications/Pages/inflationreport/2015/feb.aspx)

Extract A

Britons should not fear rise in interest rates

The Monetary Policy Committee (MPC) of the Bank of England is prepared to raise interest rates "in the near future" if inflation increases, one of its senior policymakers has warned.

Kristin Forbes, a member of the MPC, said a rise in borrowing costs would also be necessary should household debt reach unhealthy levels. However, she stressed that this was not yet a cause for concern.

With the UK's base rate of interest at 0.5% and inflation at a record low and expected to be negative, the MPC is currently under no pressure to raise interest rates, despite Britain's economic recovery.

UK inflation is being driven lower by the slump in global oil prices, which have roughly halved since summer 2014, and the Bank's governor Mark Carney warned earlier this month that a strong domestic economy would translate into higher UK inflation over the medium term. "The most likely next move in monetary policy is an increase in interest rates. The message is clear," Carney said.

Forbes said that "even the more lagged effects of the rise in the value of the pound will likely peak in the first part of this year and also gradually fade. Inflation will then most likely bounce back.

"Since interest rates take well over a year to be fully effective, they should be adjusted to respond to inflationary risks at that time horizon – when all of these effects have diminished – rather than respond to today's inflation."

(Source: adapted from http://www.theguardian.com/money/2015/feb/24/britons-should-not-fear-rise-in-interest-rates- when-they-come-says-boe-member)

Extract B

Deflation is bad news

The problem with deflation is that once you have it you can't get rid of it. Central banks know what to do about inflation but they do not have the policy tools to deal with deflation when interest rates are almost as low as they can go. Just look at Japan, which had deflation in nine separate years from 1999-2012, with two additional years at zero, averaging minus 0.3%. The highest in any single year was minus 1.3% in 2013.

In the European Union (EU) in 2008, at the start of the financial crisis, there were fears of deflation but at that time central banks had the ability to cut interest rates by nearly 5 percentage points. Those fears may now be coming true, with the EU experiencing deflation of 0.5% in 2015.

This was driven primarily by declines in energy prices, but there was also deflation in non-energy industrial goods and telecommunications. The collapse in the cost of shipping goods potentially suggests something deeper is going on and may lead to a more persistent form of deflation than Mark Carney has currently claimed.

(Source: adapted from http://www.independent.co.uk/news/business/comment/david-blanchflower/david-blanchflower-deflation-is-bad-news--and-britain-is-likely-to-be-next-to-get-it-10078832.html)

6 (a) With reference to Figure 1, explain the term 'real income'.

(4)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 UK Consumer Prices Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-323657)

(a) Calculate the percentage change in the UK Consumer Prices Index from September 2014 to September 2015. You are advised to show your working.

(2)

(b) Define the term 'deflation'.

(1)

(c) Which **one** of the following is most likely to be a cause of deflation? A fall in:

(1)

- ☒ **A** oil prices
- ☒ **B** unemployment
- ☒ **C** income tax rates
- ☒ **D** interest rates

(Total for Question 1 = 4 marks)

SECTION B

Read Figures 1 to 4 and extracts (A and B) before answering Question 6.

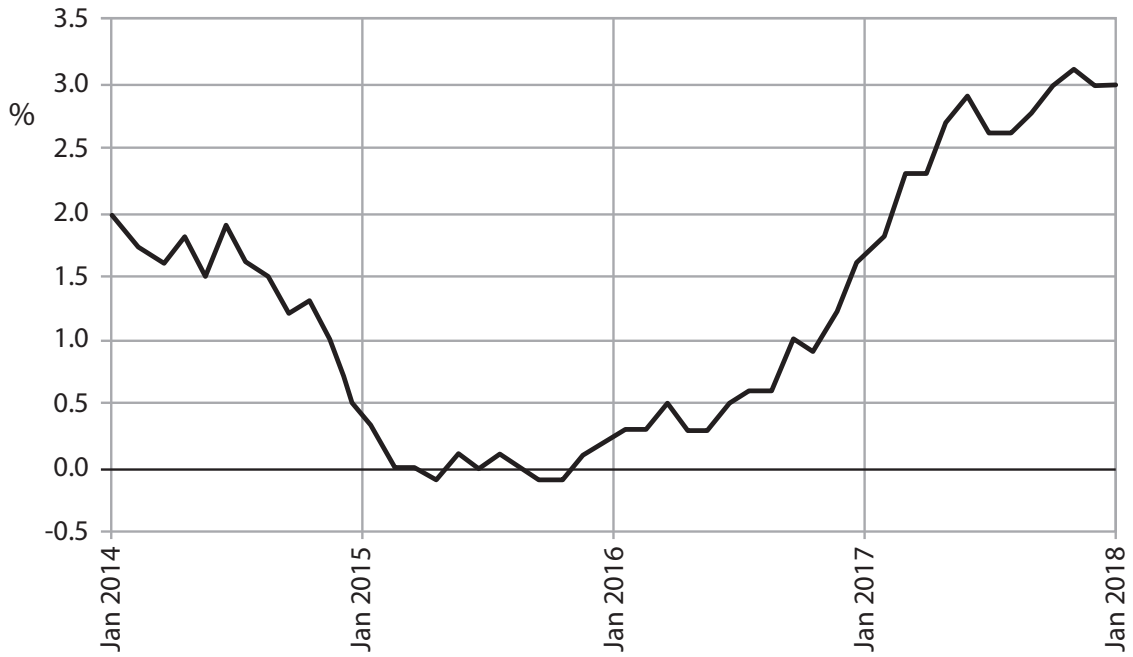
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN	OUT
Non-dairy milk	Apple cider
Jigsaw puzzles	Menthol cigarettes
Child scooters	Child swings
Cycling helmets	Basic mobile phones

(Source: www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets)

Figure 3: UK exports, £ billions per month, January 2014 to January 2018



(Source: Trading Economics, ONS - https://tradingeconomics.com/united-kingdom/exports)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points.

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending.

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households.

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket.

(Source: adapted from 'UK inflation tipped to rise again with wages forecast to stagnate', The Guardian, https://www.theguardian.com/business/2017/aug/13/uk-inflation-tipped-to-rise-again-with-wages-forecast-to-stagnate#img-1)

Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth.

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK.

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, http://www.telegraph.co.uk /business/2017/08/01/growth-accelerate-uk-economy-bounces-back/; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/)

6 (a) With reference to the first paragraph of Extract A and Figure 1, explain how the change in the exchange rate of the pound has 'contributed to rising inflation' (Extract A, line 4).

(4)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 In October 2019 the annual rate of inflation in the UK was 1.5%, as measured by the Consumer Prices Index (CPI), and 2.1%, as measured by the Retail Prices Index (RPI).

(a) Define the term 'inflation'.

(1)

(b) Explain **one** likely cause of inflation.

(2)

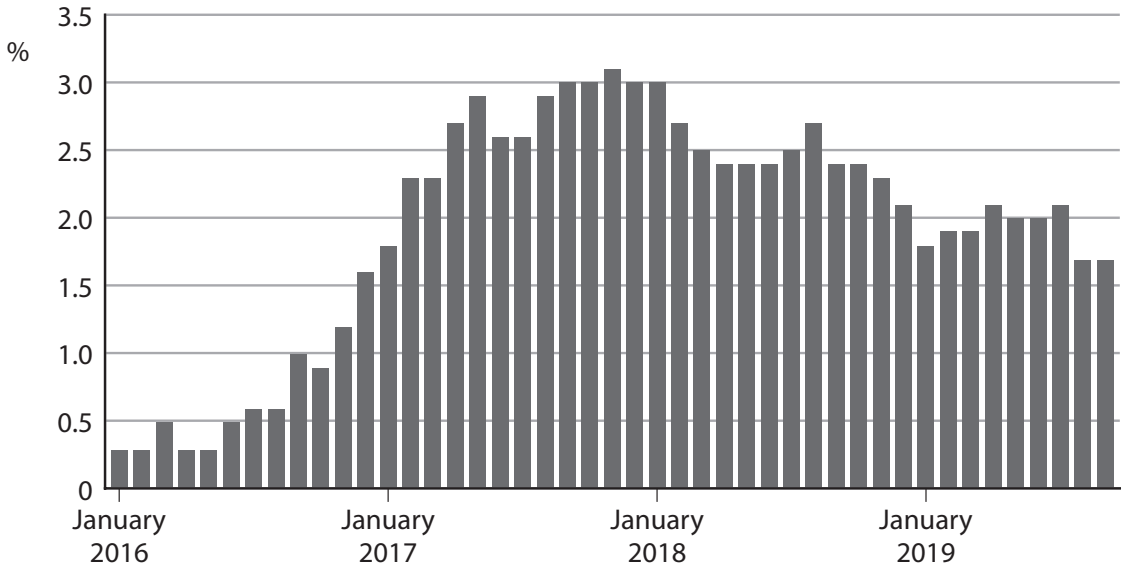
(c) From the above data, it can be deduced that the percentage point difference between CPI and RPI was:

(1)

- ☒ **A** 0.0
- ☒ **B** 0.2
- ☒ **C** 0.4
- ☒ **D** 0.6

(Total for Question 1 = 4 marks)

5 Annual rate of UK inflation, as measured by the Consumer Prices Index (CPI), January 2016 to September 2019.



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

(a) Which **one** of the following can be deduced from the chart?

(1)

- ☒ **A** The average price level was lower in January 2018 than in January 2019
- ☒ **B** The average price level was unchanged between January 2017 and January 2019
- ☒ **C** There was deflation from January 2018 to January 2019
- ☒ **D** There was disinflation from January 2016 to January 2017

(b) Explain **one** limitation of CPI in measuring the rate of inflation.

(3)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

SECTION B

Read Figures 1 and 2 and Extract A before answering Question 6.

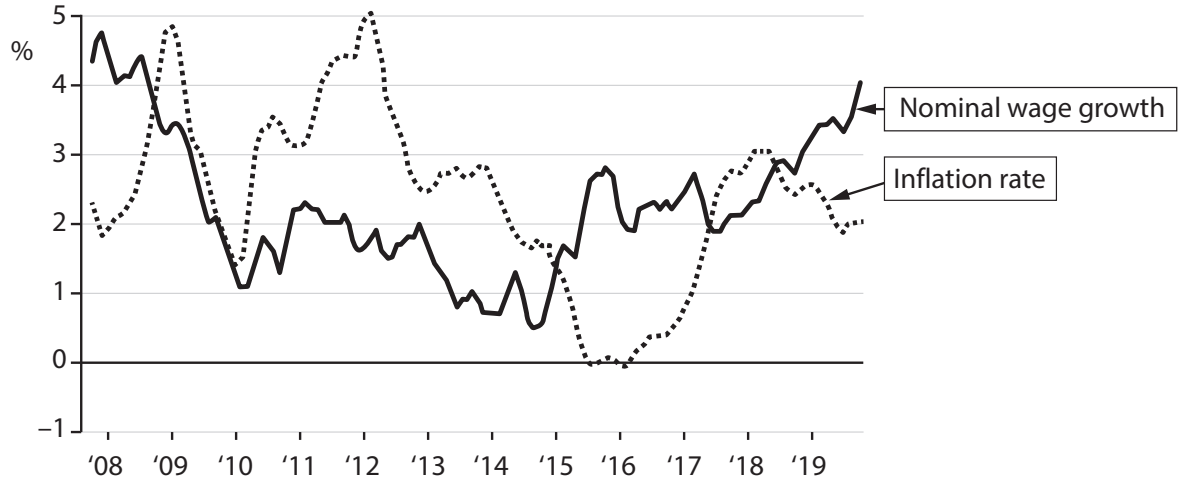
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

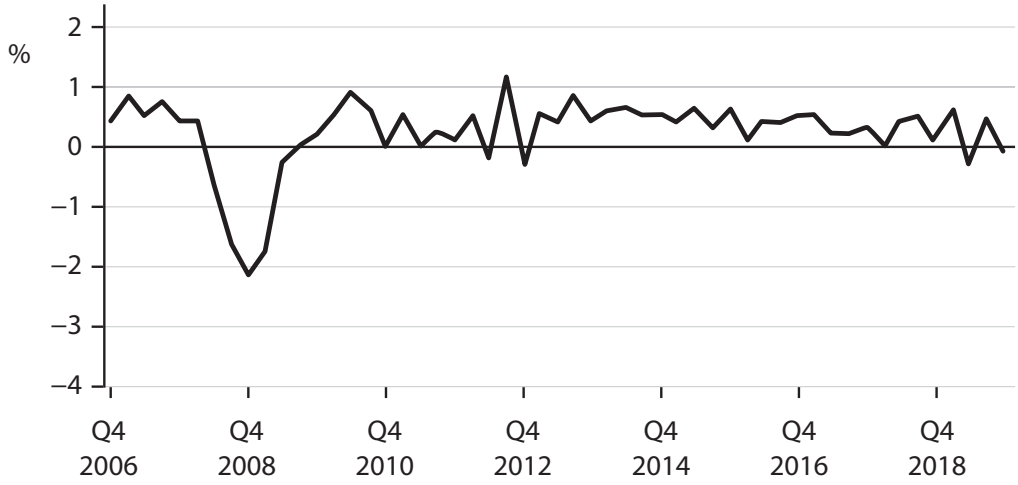
UK monetary policy since the Global Financial Crisis of 2008

Figure 1: UK inflation rate (as measured by the Consumer Prices Index) and UK nominal wage growth, annual percentage change, 2008 to 2019



(Source: adapted from ONS)

Figure 2: UK real GDP, annual percentage change, Q4 2006 to Q4 2019



(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyq/qna)

Extract A

Has monetary policy worked?

Between 2008 and 2009, financial markets around the world were crashing and many UK banks were adversely affected by the collapse of the housing market. This reduced access to credit for UK households and businesses.

Faced with these large risks, the Monetary Policy Committee (MPC) of the Bank of England reduced the base interest rate from 5.25% in February 2008 to 0.5% in March 2009.

The MPC had known that reducing the base interest rate was not enough alone. It drafted the use of a new idea: quantitative easing (QE). It had bought assets worth £200 billion by November 2009. This QE was later implemented by the USA's Federal Reserve, and was claimed to be a success. In July 2012 the total spent on QE in the UK amounted to £375 billion.

This decision has been credited with preventing the recession, caused by the Global Financial Crisis of 2008, turning into another Great Depression. The UK's unemployment rate peaked at 8.5% in 2009 but had fallen to 4% in 2019, the lowest since the mid-1970s.

In 2016 the MPC further expanded its QE programme by £60 billion and reduced the base interest rate to 0.25%. Households with mortgages benefitted from the low interest rate, enabling them to continue consumption and therefore helping economic recovery. Nevertheless, this has resulted in a rise in household debts. Borrowing on credit cards and personal loans has increased above the levels seen before 2008.

Inflation caused by the fall in the exchange rate of the British pound, higher employment levels and nominal wage growth has since directed the MPC to increase base interest rates. It increased the base interest rate to 0.5% in November 2017, and then to 0.75% in March 2018. However, the uncertainty around the UK's future trade relationship with the EU has meant that increases in the base interest rate were only marginal.

Many economists believe that if the UK and the EU are unable to form a trade agreement, base interest rates would need to be decreased again and QE expanded. Conversely, a few economists have argued that QE is no longer effective as a monetary policy instrument. They indicated that the base interest rate was usually reduced by as much as 5% during previous recessions. This is more than the UK can currently manage. Therefore it would also require the government to implement a fiscal policy to deal with any future economic downturn.

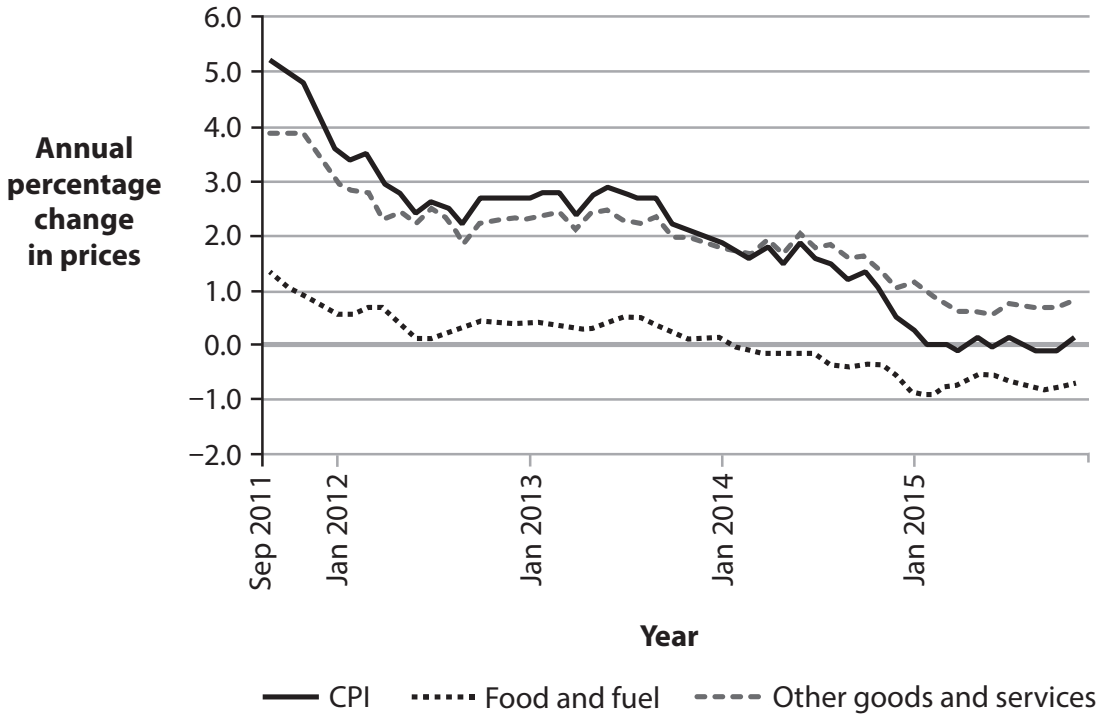
The Bank of England is, nonetheless, preparing for the worst-case scenario of a recession deeper than the downturn after the Global Financial Crisis of 2008.

(Source: adapted from 'The verdict on 10 years of quantitative easing', Richard Partington, The Guardian, https://www.theguardian.com/business/2019/mar/08/the-verdict-on-10-years-of-quantitative-easing)

6 (a) With reference to Figure 1, explain the term 'inflation rate'.

(4)

3 The chart below shows UK inflation as measured by the Consumer Prices Index (CPI), 2011 to 2015.



(Source: http://www.ons.gov.uk/ons/dcp171780_427182.pdf)

(a) Which **one** of the following statements is correct about the UK's inflation record between September 2011 and January 2013?

Based on the data shown, the UK experienced:

(1)

- ☒ **A** deflation
- ☒ **B** disinflation
- ☒ **C** falling average prices
- ☒ **D** falling money supply

(b) With reference to the data provided, explain the process of calculating the rate of inflation in the UK using the Consumer Prices Index. Refer to the concept of weights in your answer.

(4)

(Total for Question 3 = 5 marks)

SECTION B

Read Figures 1 to 4 and extracts (A and B) before answering Question 6.

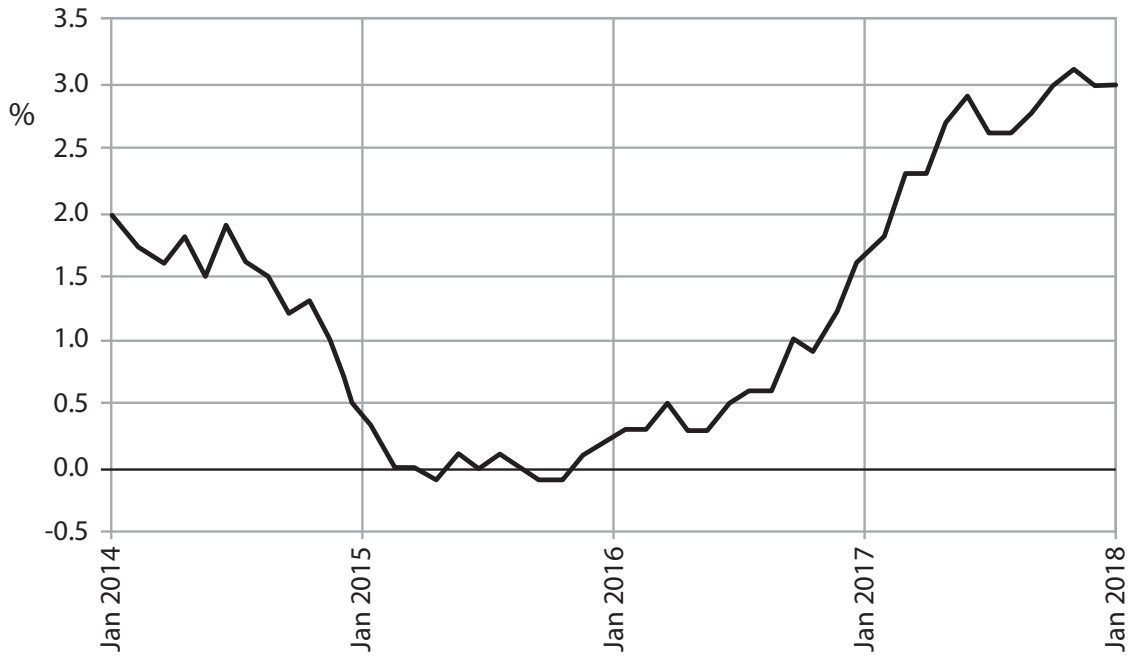
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN	OUT
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Jigsaw puzzles	Menthol cigarettes
Child scooters	Child swings
Cycling helmets	Basic mobile phones

(Source: www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets)

Figure 3: UK exports, £ billions per month, January 2014 to January 2018



(Source: Trading Economics, ONS - https://tradingeconomics.com/united-kingdom/exports)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points.

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending.

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households.

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket.

(Source: adapted from 'UK inflation tipped to rise again with wages forecast to stagnate', The Guardian, https://www.theguardian.com/business/2017/aug/13/uk-inflation-tipped-to-rise-again-with-wages-forecast-to-stagnate#img-1)

Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth.

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK.

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, http://www.telegraph.co.uk /business/2017/08/01/growth-accelerate-uk-economy-bounces-back/; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/)

(c) With reference to the last paragraph of Extract A and Figure 2, explain **one** reason why it is necessary to regularly update the CPI basket of goods and services.

(5)

SECTION B

Read Figures 1 and 2 below and Extracts A and B before answering Question 6.

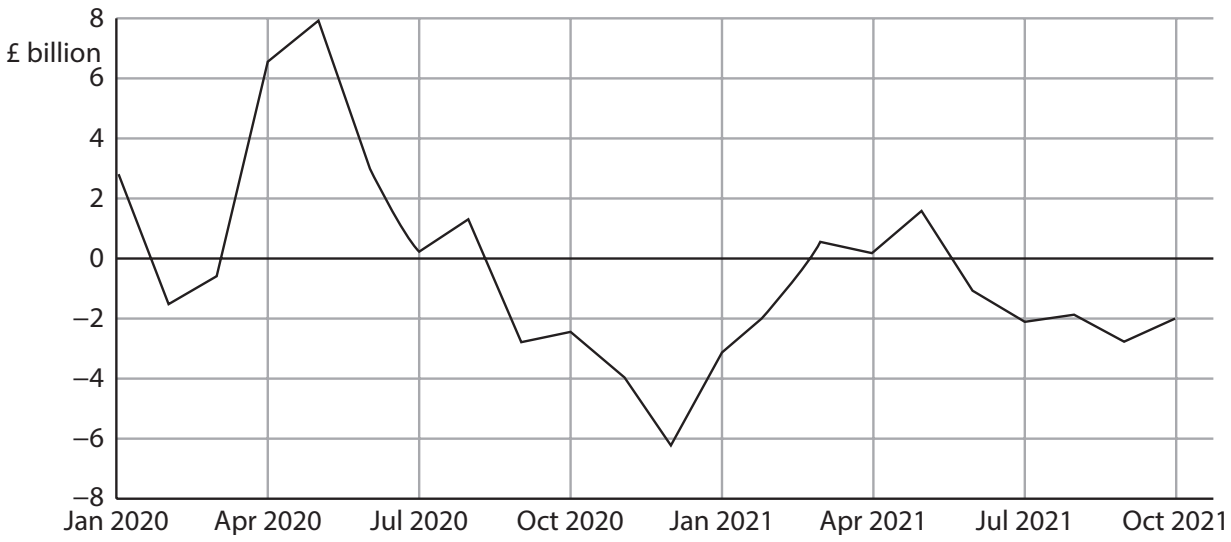
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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Question 6

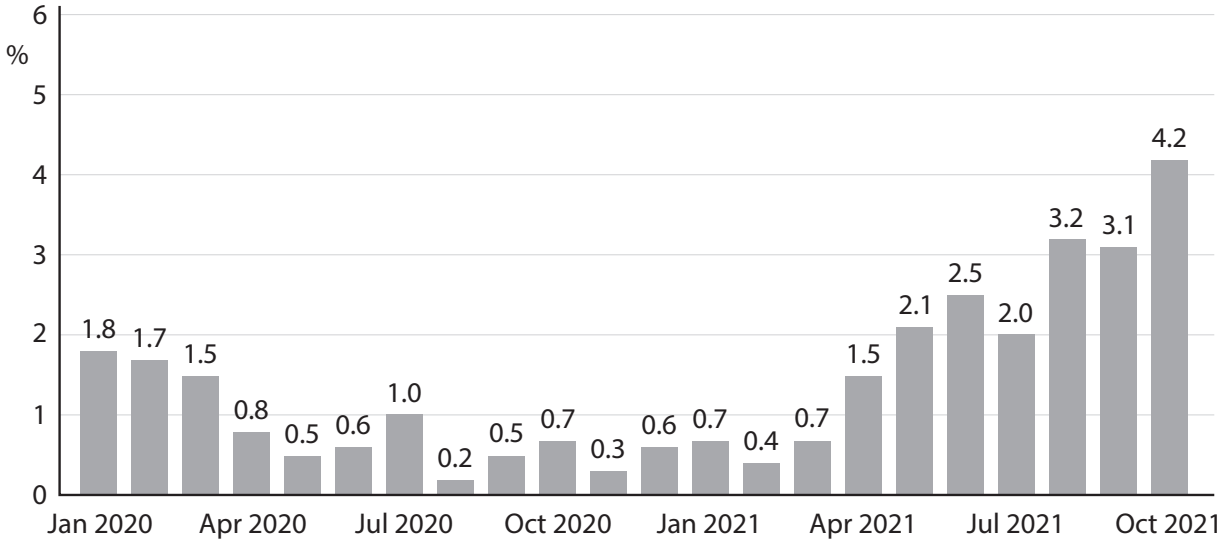
UK balance of trade and inflation

Figure 1: UK balance of trade in goods and services, January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/balance-of-trade)

Figure 2: UK inflation rate as measured by annual percentage changes in the Consumer Prices Index (CPI), January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

Extract A

Balance of trade in goods and services

Rising imports from non-EU countries have increased the UK's trade deficit in the third quarter of 2021. This was as a result of the UK strengthening its trading relationships with countries outside the EU. An 11.2% increase in imports from non-EU countries has increased the UK's trade deficit to nearly £7 billion. Moreover, exports to non-EU countries were £0.8 billion lower than exports to EU countries.

Despite the overall trade balance being in deficit, the UK services trade balance is in surplus, reflecting the economy's heavy reliance on services. The trade in services surplus increased by £2.2 billion to £35.6 billion. This was mostly as a result of an increase in the export of financial services.

(Source: adapted from https://www.cityam.com/swelling-non-eu-imports-widens-uk-trade-deficit)

Extract B

Inflation

In December 2021 the rate of inflation in the UK rose to 5.4%, its highest rate in 30 years. The speed of increase has taken economists by surprise. The Bank of England expected inflation to peak at this rate, but not until April 2022. The rate was more than two-and-a-half times its 2% inflation target.

Transport costs were the biggest contributor to rising inflation, with petrol prices increasing by over 5%. Moreover, supply chain bottlenecks constrained access to raw materials and limited the number of new products being sold in the market. At the same time, economists warned that the demand for goods and services in the UK economy was quickly increasing. This was a result of the easing of the restrictions associated with the global health crisis.

The high rate of inflation would normally be enough to prompt a significant increase in the base rate of interest by the Bank of England's Monetary Policy Committee (MPC). Despite the lower rates of economic growth, the MPC increased the base interest rate from 0.1% to 0.5% in February 2022.

(Source: adapted from 'UK inflation hits highest level in a decade', FT, https://www.ft.com/content/dd5edcd1-2e70-4910-b642-269574b4bcdd; 'What does the UK's soaring inflation rate mean for you?', The Guardian, https://www.theguardian.com/business/2021/dec/15/what-does-uk-soaring-inflation-rate-mean)

(b) With reference to Figure 2, explain how the CPI inflation rate is measured. Refer to the concept of weights in your answer.

(5)

SECTION B

Read Figures 1 and 2 and Extract A before answering Question 6.

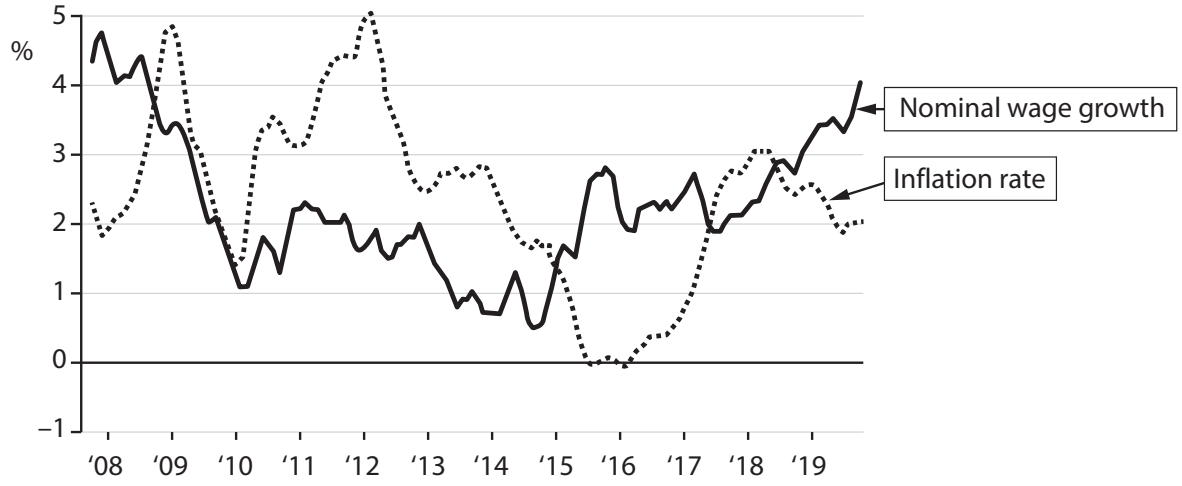
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

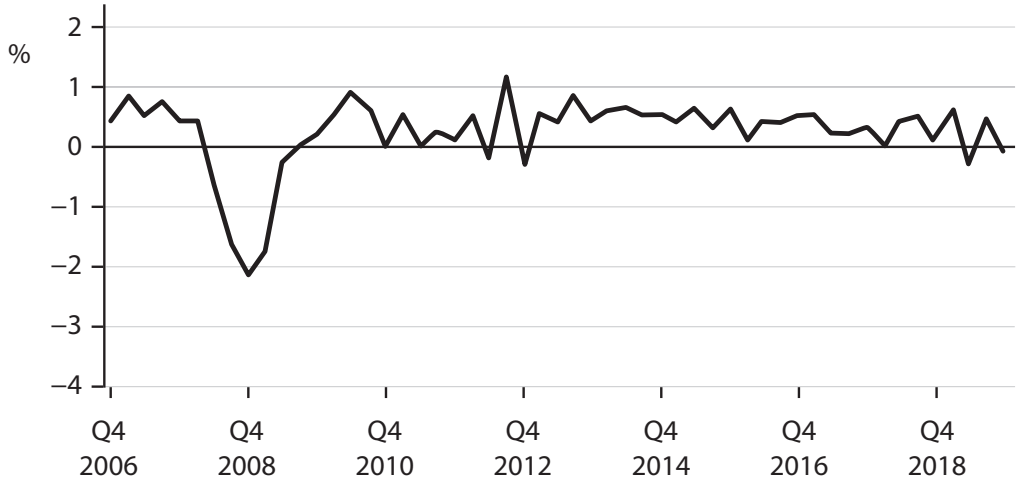
UK monetary policy since the Global Financial Crisis of 2008

Figure 1: UK inflation rate (as measured by the Consumer Prices Index) and UK nominal wage growth, annual percentage change, 2008 to 2019



(Source: adapted from ONS)

Figure 2: UK real GDP, annual percentage change, Q4 2006 to Q4 2019



(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyq/qna)

Extract A

Has monetary policy worked?

Between 2008 and 2009, financial markets around the world were crashing and many UK banks were adversely affected by the collapse of the housing market. This reduced access to credit for UK households and businesses.

Faced with these large risks, the Monetary Policy Committee (MPC) of the Bank of England reduced the base interest rate from 5.25% in February 2008 to 0.5% in March 2009.

The MPC had known that reducing the base interest rate was not enough alone. It drafted the use of a new idea: quantitative easing (QE). It had bought assets worth £200 billion by November 2009. This QE was later implemented by the USA's Federal Reserve, and was claimed to be a success. In July 2012 the total spent on QE in the UK amounted to £375 billion.

This decision has been credited with preventing the recession, caused by the Global Financial Crisis of 2008, turning into another Great Depression. The UK's unemployment rate peaked at 8.5% in 2009 but had fallen to 4% in 2019, the lowest since the mid-1970s.

In 2016 the MPC further expanded its QE programme by £60 billion and reduced the base interest rate to 0.25%. Households with mortgages benefitted from the low interest rate, enabling them to continue consumption and therefore helping economic recovery. Nevertheless, this has resulted in a rise in household debts. Borrowing on credit cards and personal loans has increased above the levels seen before 2008.

Inflation caused by the fall in the exchange rate of the British pound, higher employment levels and nominal wage growth has since directed the MPC to increase base interest rates. It increased the base interest rate to 0.5% in November 2017, and then to 0.75% in March 2018. However, the uncertainty around the UK's future trade relationship with the EU has meant that increases in the base interest rate were only marginal.

Many economists believe that if the UK and the EU are unable to form a trade agreement, base interest rates would need to be decreased again and QE expanded. Conversely, a few economists have argued that QE is no longer effective as a monetary policy instrument. They indicated that the base interest rate was usually reduced by as much as 5% during previous recessions. This is more than the UK can currently manage. Therefore it would also require the government to implement a fiscal policy to deal with any future economic downturn.

The Bank of England is, nonetheless, preparing for the worst-case scenario of a recession deeper than the downturn after the Global Financial Crisis of 2008.

(Source: adapted from 'The verdict on 10 years of quantitative easing', Richard Partington, The Guardian, https://www.theguardian.com/business/2019/mar/08/the-verdict-on-10-years-of-quantitative-easing)

(d) Explain **one** reason why 'the fall in the exchange rate of the British pound' (Extract A, line 21) is likely to increase inflation.

(5)

SECTION B

Read Figures 1 and 2 below and read extracts A and B before answering Question 6.

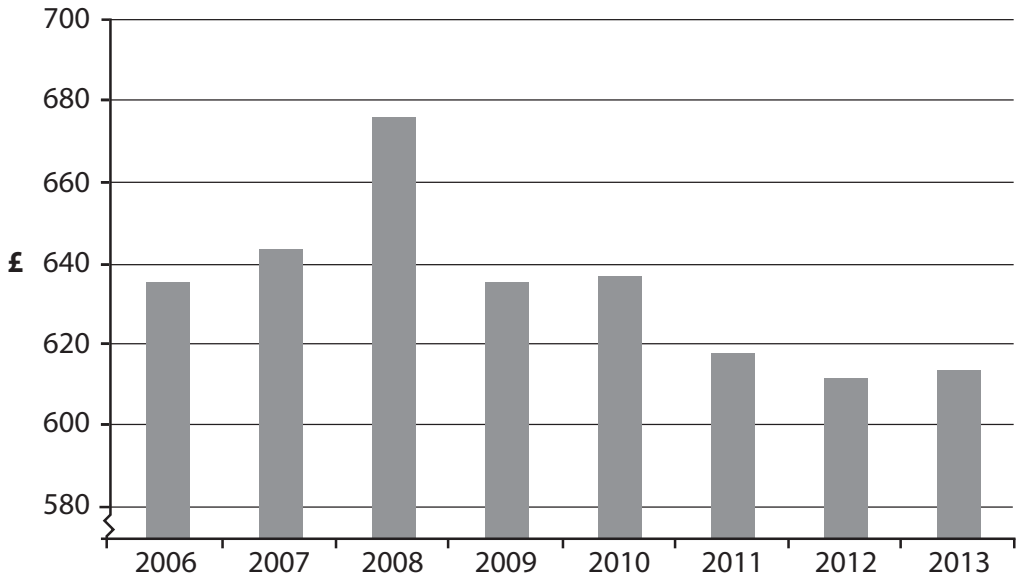
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

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Question 6

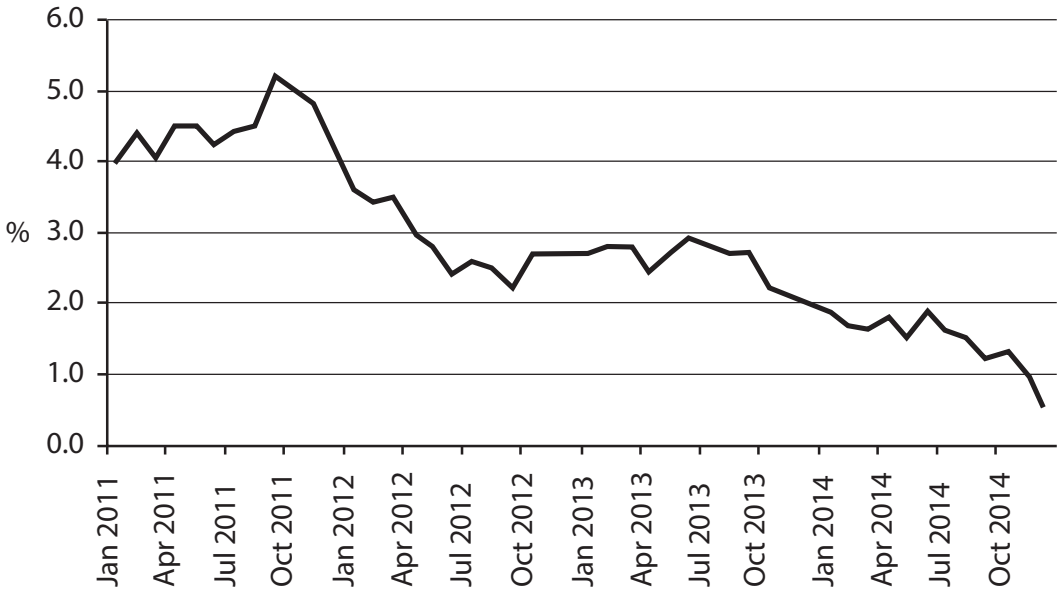
UK incomes, inflation and monetary policy

Figure 1 – UK average weekly household real income



(Source: http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2014-edition/rft-a44-final-2013.xls)

Figure 2 – UK inflation rate as measured by percentage changes in the Consumer Price Index (CPI)



(Source: http://www.bankofengland.co.uk/publications/Pages/inflationreport/2015/feb.aspx)

Extract A

Britons should not fear rise in interest rates

The Monetary Policy Committee (MPC) of the Bank of England is prepared to raise interest rates "in the near future" if inflation increases, one of its senior policymakers has warned.

Kristin Forbes, a member of the MPC, said a rise in borrowing costs would also be necessary should household debt reach unhealthy levels. However, she stressed that this was not yet a cause for concern.

With the UK's base rate of interest at 0.5% and inflation at a record low and expected to be negative, the MPC is currently under no pressure to raise interest rates, despite Britain's economic recovery.

UK inflation is being driven lower by the slump in global oil prices, which have roughly halved since summer 2014, and the Bank's governor Mark Carney warned earlier this month that a strong domestic economy would translate into higher UK inflation over the medium term. "The most likely next move in monetary policy is an increase in interest rates. The message is clear," Carney said.

Forbes said that "even the more lagged effects of the rise in the value of the pound will likely peak in the first part of this year and also gradually fade. Inflation will then most likely bounce back.

"Since interest rates take well over a year to be fully effective, they should be adjusted to respond to inflationary risks at that time horizon – when all of these effects have diminished – rather than respond to today's inflation."

(Source: adapted from http://www.theguardian.com/money/2015/feb/24/britons-should-not-fear-rise-in-interest-rates- when-they-come-says-boe-member)

Extract B

Deflation is bad news

The problem with deflation is that once you have it you can't get rid of it. Central banks know what to do about inflation but they do not have the policy tools to deal with deflation when interest rates are almost as low as they can go. Just look at Japan, which had deflation in nine separate years from 1999-2012, with two additional years at zero, averaging minus 0.3%. The highest in any single year was minus 1.3% in 2013.

In the European Union (EU) in 2008, at the start of the financial crisis, there were fears of deflation but at that time central banks had the ability to cut interest rates by nearly 5 percentage points. Those fears may now be coming true, with the EU experiencing deflation of 0.5% in 2015.

This was driven primarily by declines in energy prices, but there was also deflation in non-energy industrial goods and telecommunications. The collapse in the cost of shipping goods potentially suggests something deeper is going on and may lead to a more persistent form of deflation than Mark Carney has currently claimed.

(Source: adapted from http://www.independent.co.uk/news/business/comment/david-blanchflower/david-blanchflower-deflation-is-bad-news--and-britain-is-likely-to-be-next-to-get-it-10078832.html)

(d) With reference to the data, explain **two** likely reasons for the UK's falling inflation rate.

(6)

SECTION B

Read Figures 1 to 4 and extracts (A and B) before answering Question 6.

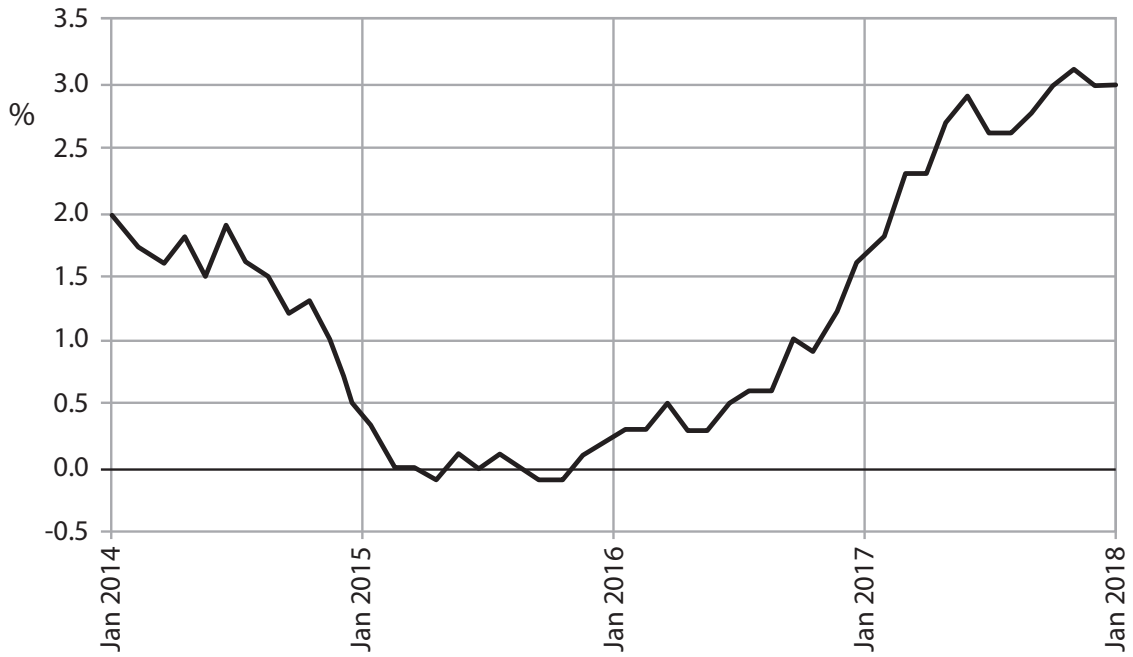
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN	OUT
Non-dairy milk	Apple cider
Jigsaw puzzles	Menthol cigarettes
Child scooters	Child swings
Cycling helmets	Basic mobile phones

(Source: www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets)

Figure 3: UK exports, £ billions per month, January 2014 to January 2018



(Source: Trading Economics, ONS - https://tradingeconomics.com/united-kingdom/exports)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points.

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending.

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households.

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket.

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Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth.

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK.

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, http://www.telegraph.co.uk /business/2017/08/01/growth-accelerate-uk-economy-bounces-back/; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/)

(b) With reference to Extract A, explain **two** likely economic effects of the higher rate of UK inflation.

(6)

SECTION B

Read Figures 1 and 2 below and Extracts A and B before answering Question 6.

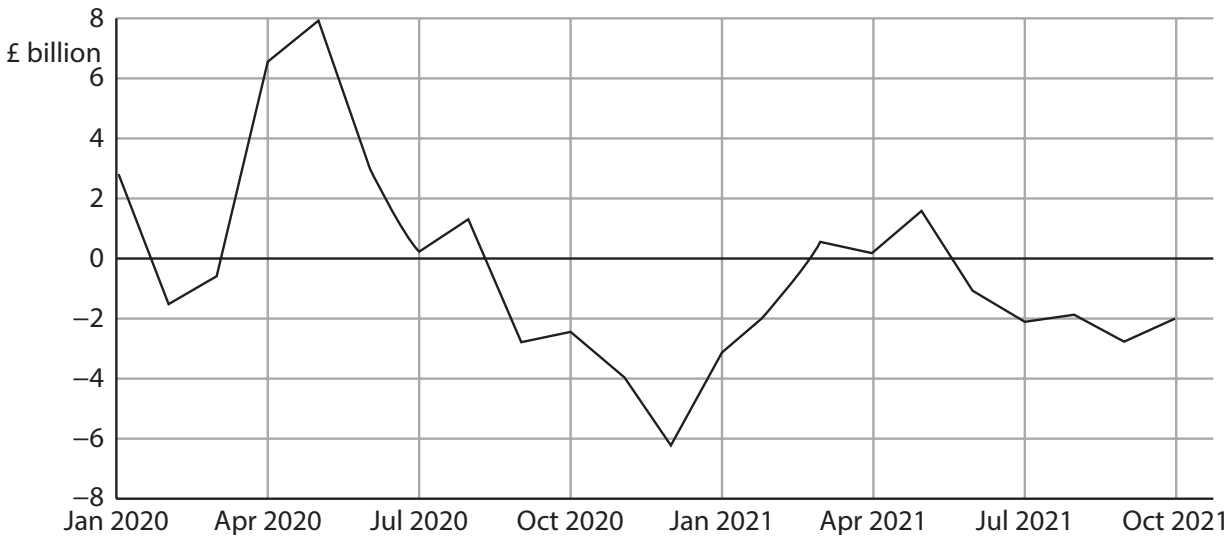
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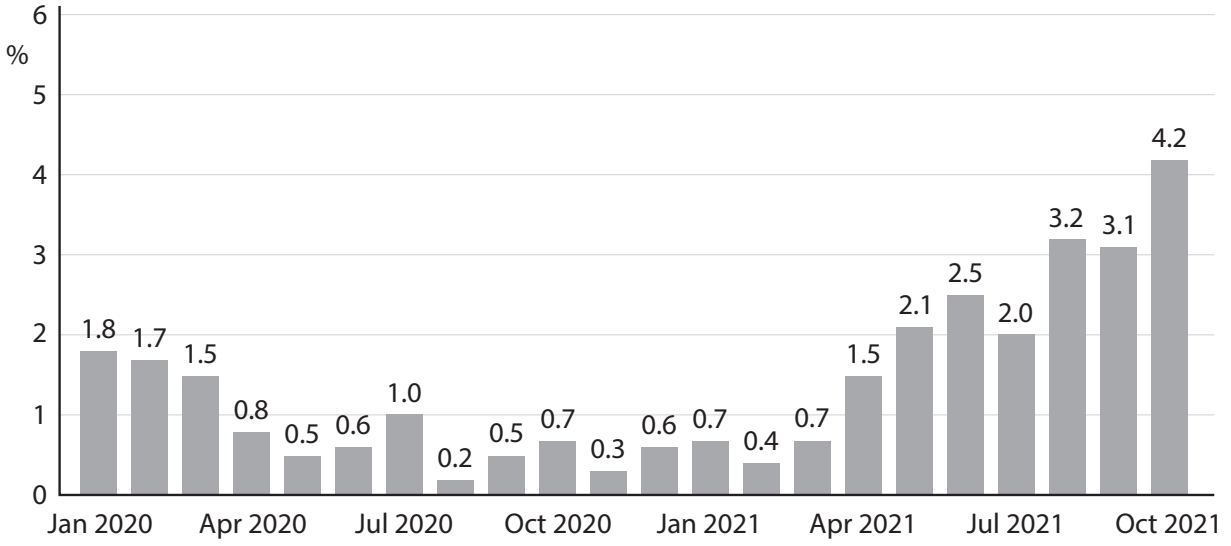
UK balance of trade and inflation

Figure 1: UK balance of trade in goods and services, January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/balance-of-trade)

Figure 2: UK inflation rate as measured by annual percentage changes in the Consumer Prices Index (CPI), January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

Extract A

Balance of trade in goods and services

Rising imports from non-EU countries have increased the UK's trade deficit in the third quarter of 2021. This was as a result of the UK strengthening its trading relationships with countries outside the EU. An 11.2% increase in imports from non-EU countries has increased the UK's trade deficit to nearly £7 billion. Moreover, exports to non-EU countries were £0.8 billion lower than exports to EU countries.

Despite the overall trade balance being in deficit, the UK services trade balance is in surplus, reflecting the economy's heavy reliance on services. The trade in services surplus increased by £2.2 billion to £35.6 billion. This was mostly as a result of an increase in the export of financial services.

(Source: adapted from https://www.cityam.com/swelling-non-eu-imports-widens-uk-trade-deficit)

Extract B

Inflation

In December 2021 the rate of inflation in the UK rose to 5.4%, its highest rate in 30 years. The speed of increase has taken economists by surprise. The Bank of England expected inflation to peak at this rate, but not until April 2022. The rate was more than two-and-a-half times its 2% inflation target.

Transport costs were the biggest contributor to rising inflation, with petrol prices increasing by over 5%. Moreover, supply chain bottlenecks constrained access to raw materials and limited the number of new products being sold in the market. At the same time, economists warned that the demand for goods and services in the UK economy was quickly increasing. This was a result of the easing of the restrictions associated with the global health crisis.

The high rate of inflation would normally be enough to prompt a significant increase in the base rate of interest by the Bank of England's Monetary Policy Committee (MPC). Despite the lower rates of economic growth, the MPC increased the base interest rate from 0.1% to 0.5% in February 2022.

(Source: adapted from 'UK inflation hits highest level in a decade', FT, https://www.ft.com/content/dd5edcd1-2e70-4910-b642-269574b4bcdd; 'What does the UK's soaring inflation rate mean for you?', The Guardian, https://www.theguardian.com/business/2021/dec/15/what-does-uk-soaring-inflation-rate-mean)

(d) With reference to Extract B, explain **two** reasons for the increase in the rate of UK inflation.

(6)

SECTION B

Read Figures 1 and 2 and Extract A before answering Question 6.

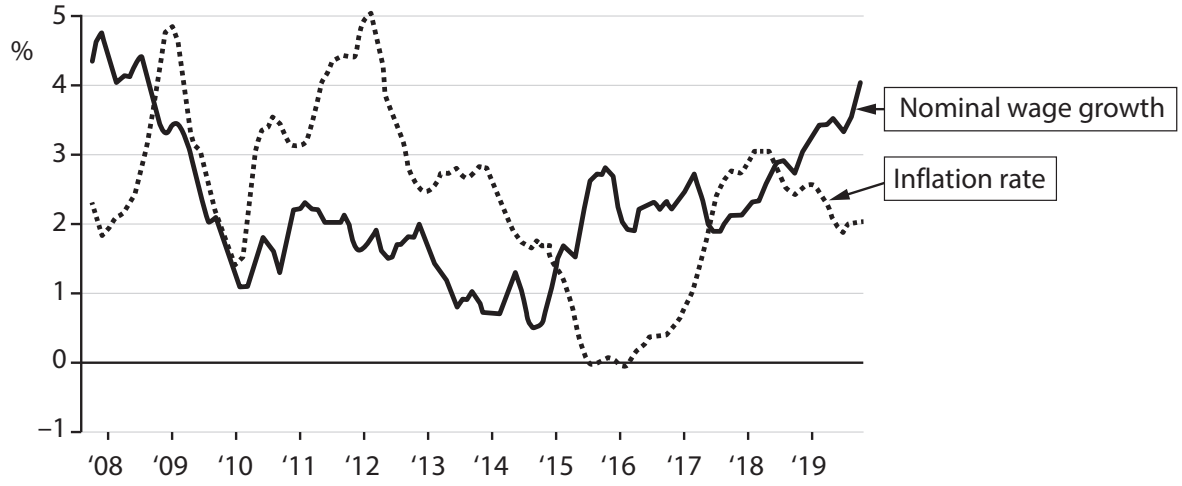
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Question 6

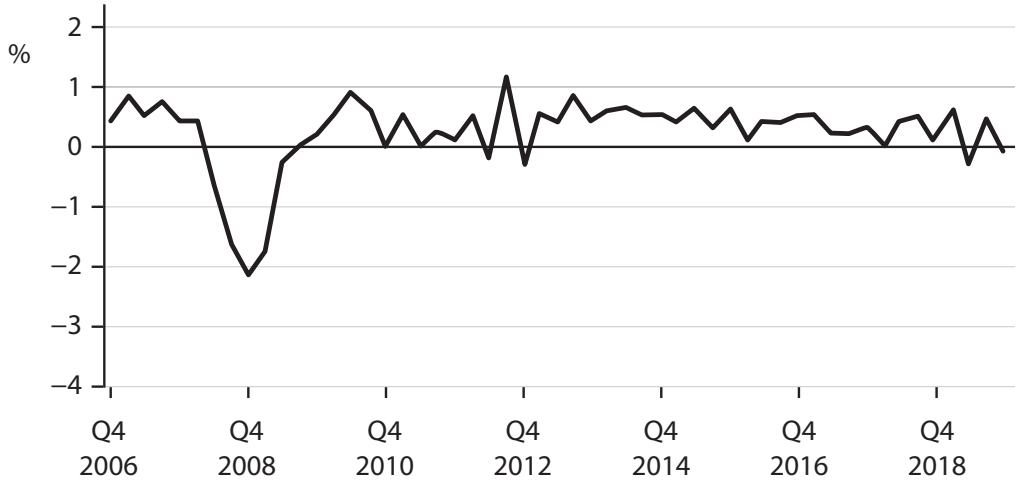
UK monetary policy since the Global Financial Crisis of 2008

Figure 1: UK inflation rate (as measured by the Consumer Prices Index) and UK nominal wage growth, annual percentage change, 2008 to 2019



(Source: adapted from ONS)

Figure 2: UK real GDP, annual percentage change, Q4 2006 to Q4 2019



(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyq/qna)

Extract A

Has monetary policy worked?

Between 2008 and 2009, financial markets around the world were crashing and many UK banks were adversely affected by the collapse of the housing market. This reduced access to credit for UK households and businesses.

Faced with these large risks, the Monetary Policy Committee (MPC) of the Bank of England reduced the base interest rate from 5.25% in February 2008 to 0.5% in March 2009.

The MPC had known that reducing the base interest rate was not enough alone. It drafted the use of a new idea: quantitative easing (QE). It had bought assets worth £200 billion by November 2009. This QE was later implemented by the USA's Federal Reserve, and was claimed to be a success. In July 2012 the total spent on QE in the UK amounted to £375 billion.

This decision has been credited with preventing the recession, caused by the Global Financial Crisis of 2008, turning into another Great Depression. The UK's unemployment rate peaked at 8.5% in 2009 but had fallen to 4% in 2019, the lowest since the mid-1970s.

In 2016 the MPC further expanded its QE programme by £60 billion and reduced the base interest rate to 0.25%. Households with mortgages benefitted from the low interest rate, enabling them to continue consumption and therefore helping economic recovery. Nevertheless, this has resulted in a rise in household debts. Borrowing on credit cards and personal loans has increased above the levels seen before 2008.

Inflation caused by the fall in the exchange rate of the British pound, higher employment levels and nominal wage growth has since directed the MPC to increase base interest rates. It increased the base interest rate to 0.5% in November 2017, and then to 0.75% in March 2018. However, the uncertainty around the UK's future trade relationship with the EU has meant that increases in the base interest rate were only marginal.

Many economists believe that if the UK and the EU are unable to form a trade agreement, base interest rates would need to be decreased again and QE expanded. Conversely, a few economists have argued that QE is no longer effective as a monetary policy instrument. They indicated that the base interest rate was usually reduced by as much as 5% during previous recessions. This is more than the UK can currently manage. Therefore it would also require the government to implement a fiscal policy to deal with any future economic downturn.

The Bank of England is, nonetheless, preparing for the worst-case scenario of a recession deeper than the downturn after the Global Financial Crisis of 2008.

(Source: adapted from 'The verdict on 10 years of quantitative easing', Richard Partington, The Guardian, https://www.theguardian.com/business/2019/mar/08/the-verdict-on-10-years-of-quantitative-easing)

(c) With reference to the information provided, explain **two** characteristics of a recession.

(6)

SECTION B

Read Figures 1 and 2 and extract (A) before answering Question 6.

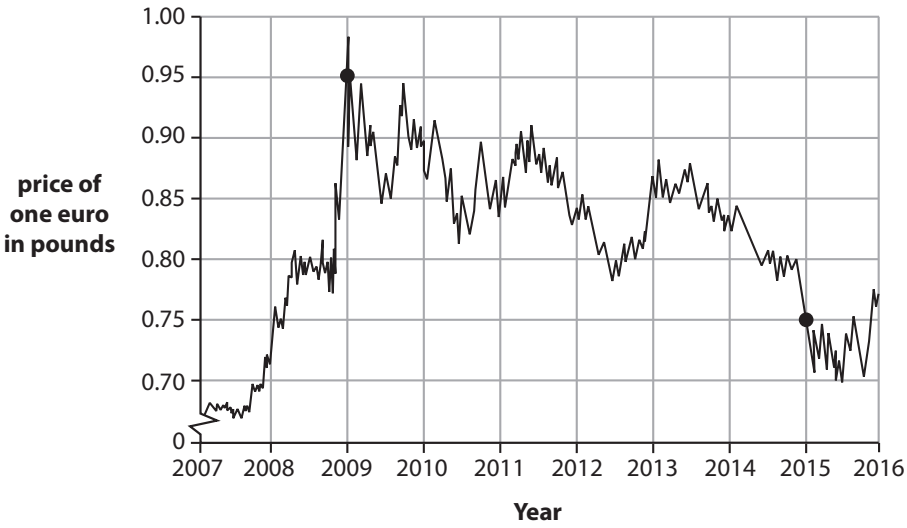
Write your answers in the spaces provided.

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Question 6

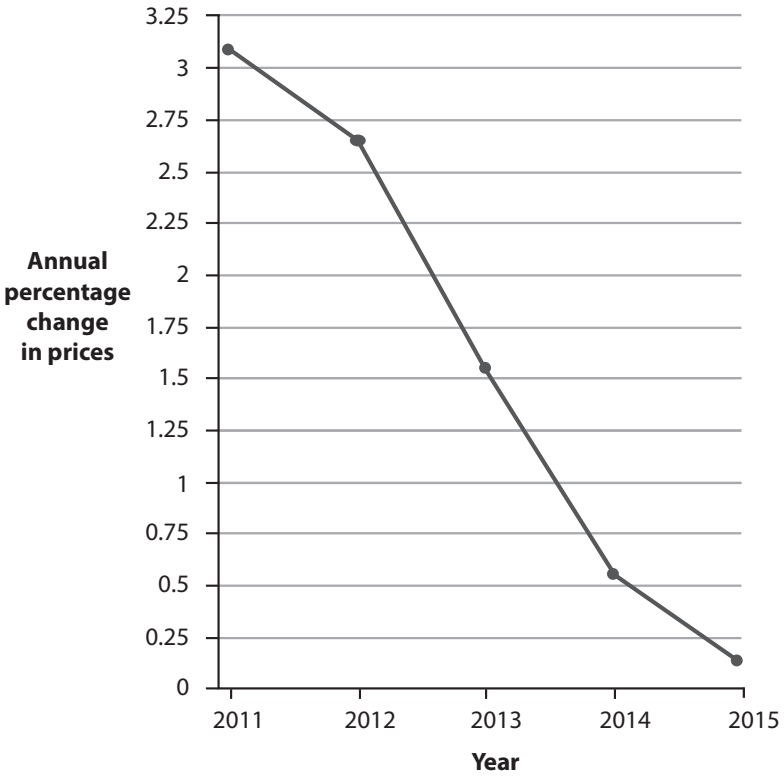
The Eurozone economy

Figure 1: Exchange rate of the euro (€) to the British pound (£)



(Source: https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html#)

Figure 2: Eurozone inflation rate as measured by the Consumer Prices Index (CPI)



(Source: adapted from http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx)

Extract A

European Central Bank disappoints markets with weaker than expected stimulus

Mario Draghi, president of the European Central Bank (ECB), surprised financial markets in November 2015 with a less ambitious package of monetary stimulus than many had anticipated.

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016.

"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively.

The euro rose almost 3% against the dollar to $1.08 after the announcement. Italian and Spanish bond yields both jumped by 0.27% to 1.62% and 1.72% respectively.

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%.

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said.

(Source: http://www.independent.co.uk/news/business/news/ecb-disappoints-traders-with-weaker-than-expected-stimulus-a6759786.html, 4th December 2015)

(b) With reference to the information provided and your own knowledge, examine **two** factors which might explain the change in the rate of Eurozone inflation as shown in Figure 2.

(8)

SECTION A

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

The UK economy

Figure 1: UK gas prices in pence per therm, August 2002 to August 2022

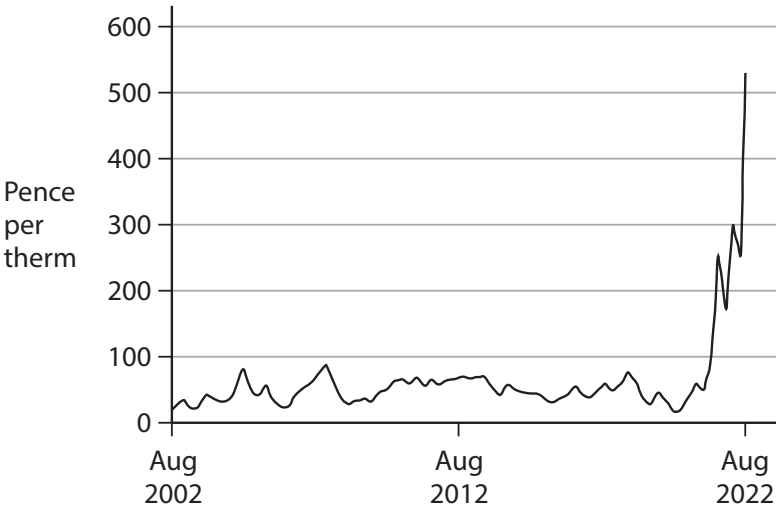
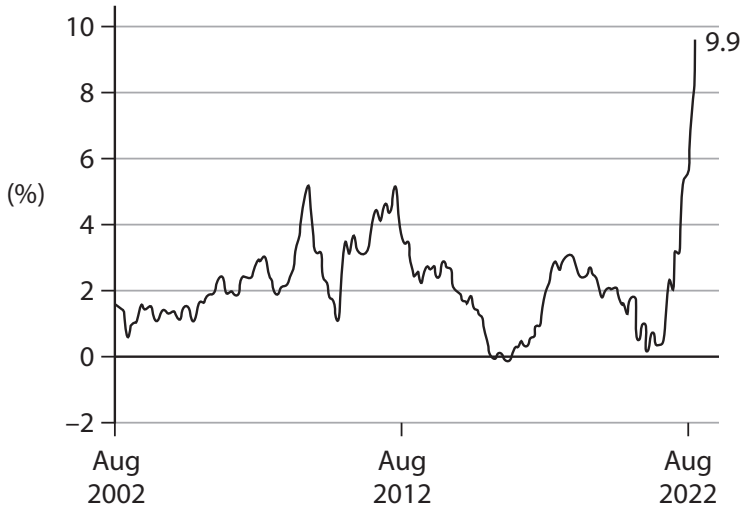


Figure 2: UK inflation, CPI, August 2002 to August 2022



Extract A

Fiscal policy changes in the UK, Autumn 2022

After many changes in policy, people earning above £150 000 will now no longer benefit from the tax cut in the September 2022 mini-budget, which proposed the removal of the 45% tax band. The proposed change in the main 20% standard rate of income tax moving to 19% has been postponed.

In April 2022, a 1.25% rise in national insurance contributions was implemented, labelled as a health and social care levy. It was cancelled in Autumn 2022. Britain's poorest households would have lost £7.56 a year from the national insurance rise. The richest 10% of households, earning an average of £108 000, would have lost £1 800.

Another measure in the Truss Government's £30 billion tax cut proposals that would have benefitted the rich, was the removal of the 2023 planned rise in corporation tax from 19% to 25%. The former chancellor wanted to cut the tax to 15% but this was the wrong time to do this. The former chancellor also removed the 2014 cap on bankers' bonuses, clearly an unfair decision at the time when public sector workers were told to accept pay caps to keep inflation under control.

The reflationary fiscal policy triggered warnings that the Monetary Policy Committee of the Bank of England would raise interest rates further – having already raised them from 0.1% in 2021 to 2.25% in September 2022. This meant an end to the fiscal rules set by the government in the recent past: debt to be falling as a share of national income by 2024 and no borrowing for day-to-day spending.

(Source: adapted from 'Tax cuts benefit high income earners the most' R Merrick The Independent: 19 September 2022 and FT Source: adapted from Sebastian Payne and Chris Giles in London 29 August 2022)

Extract B

Inequality to rise in the UK

The rising cost of living is expected to affect low-income families the most. Inflation in Autumn 2022 is expected to hit 14% for families in the poorest tenth of the income distribution, compared with 8% for families in the richest tenth, driven in large part by rising energy costs and food prices. Around half of the food consumed in the UK is imported, and the 20% fall in the value of the pound in 2022 has affected lower income groups more because food is a higher proportion of their spending. The government's decision to freeze benefits, rather than allowing them to rise in line with current inflation, means that the support provided is a real terms cut for families currently receiving high levels of benefits. A two-year freeze on energy price caps will now only last until April 2023, which would have kept the average energy bill at £2 500 rather than £3 500.

(Source: adapted from IFS Report: Living standards, poverty and inequality in the UK: July 2022 and https://www.ft.com/content/6de5b52e-64c8-4997-8939-e1c59172daa7?shareType=nongift)

(b) Examine **two** reasons for the rise in inflation in the UK. Refer to the information provided in your answer.

(8)

SECTION B

Read Figures 1 and 2 below and read extracts A and B before answering Question 6.

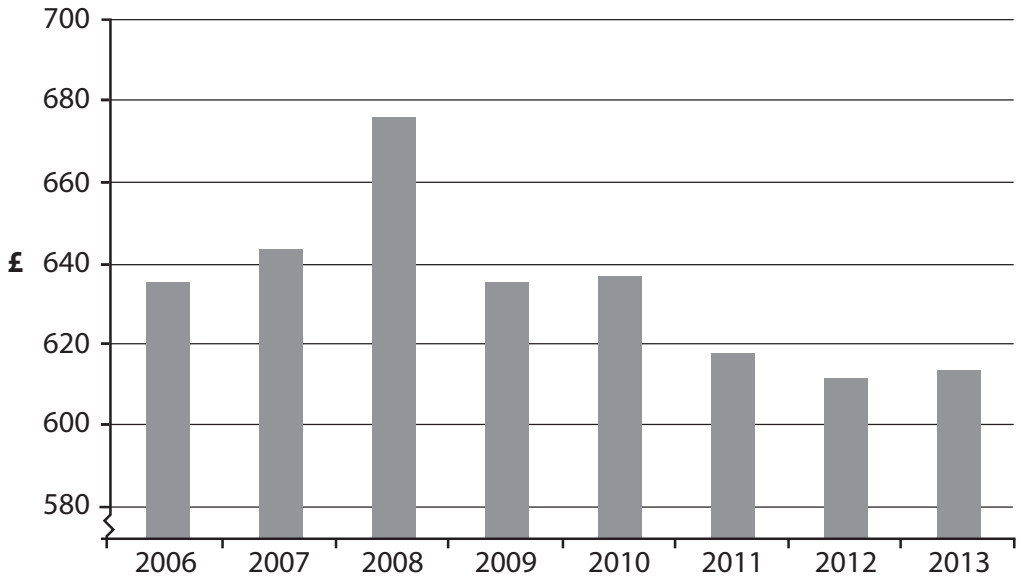
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

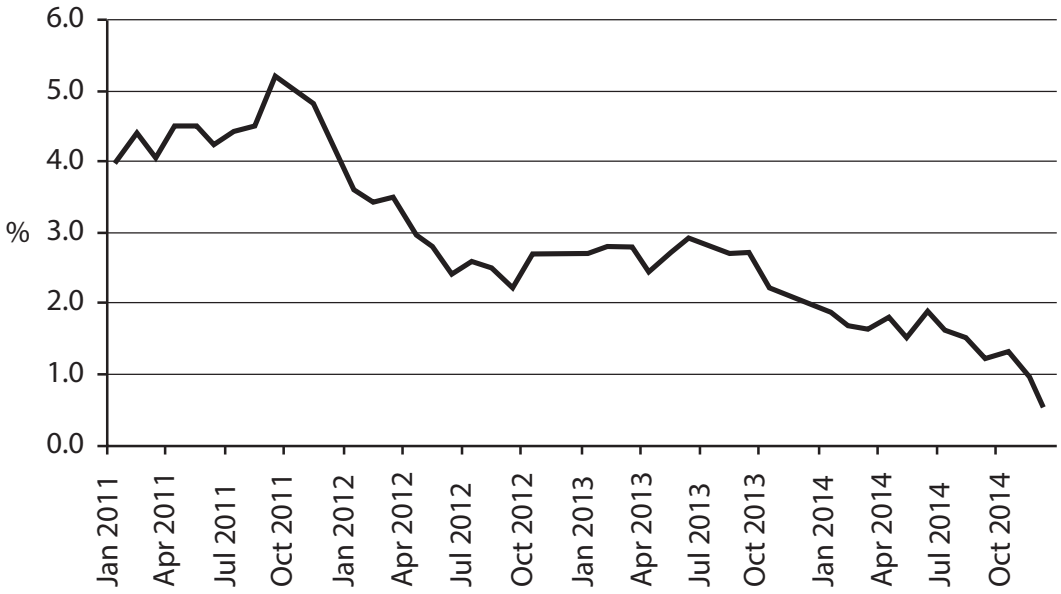
UK incomes, inflation and monetary policy

Figure 1 – UK average weekly household real income



(Source: http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2014-edition/rft-a44-final-2013.xls)

Figure 2 – UK inflation rate as measured by percentage changes in the Consumer Price Index (CPI)



(Source: http://www.bankofengland.co.uk/publications/Pages/inflationreport/2015/feb.aspx)

Extract A

Britons should not fear rise in interest rates

The Monetary Policy Committee (MPC) of the Bank of England is prepared to raise interest rates "in the near future" if inflation increases, one of its senior policymakers has warned.

Kristin Forbes, a member of the MPC, said a rise in borrowing costs would also be necessary should household debt reach unhealthy levels. However, she stressed that this was not yet a cause for concern.

With the UK's base rate of interest at 0.5% and inflation at a record low and expected to be negative, the MPC is currently under no pressure to raise interest rates, despite Britain's economic recovery.

UK inflation is being driven lower by the slump in global oil prices, which have roughly halved since summer 2014, and the Bank's governor Mark Carney warned earlier this month that a strong domestic economy would translate into higher UK inflation over the medium term. "The most likely next move in monetary policy is an increase in interest rates. The message is clear," Carney said.

Forbes said that "even the more lagged effects of the rise in the value of the pound will likely peak in the first part of this year and also gradually fade. Inflation will then most likely bounce back.

"Since interest rates take well over a year to be fully effective, they should be adjusted to respond to inflationary risks at that time horizon – when all of these effects have diminished – rather than respond to today's inflation."

(Source: adapted from http://www.theguardian.com/money/2015/feb/24/britons-should-not-fear-rise-in-interest-rates- when-they-come-says-boe-member)

Extract B

Deflation is bad news

The problem with deflation is that once you have it you can't get rid of it. Central banks know what to do about inflation but they do not have the policy tools to deal with deflation when interest rates are almost as low as they can go. Just look at Japan, which had deflation in nine separate years from 1999-2012, with two additional years at zero, averaging minus 0.3%. The highest in any single year was minus 1.3% in 2013.

In the European Union (EU) in 2008, at the start of the financial crisis, there were fears of deflation but at that time central banks had the ability to cut interest rates by nearly 5 percentage points. Those fears may now be coming true, with the EU experiencing deflation of 0.5% in 2015.

This was driven primarily by declines in energy prices, but there was also deflation in non-energy industrial goods and telecommunications. The collapse in the cost of shipping goods potentially suggests something deeper is going on and may lead to a more persistent form of deflation than Mark Carney has currently claimed.

(Source: adapted from http://www.independent.co.uk/news/business/comment/david-blanchflower/david-blanchflower-deflation-is-bad-news--and-britain-is-likely-to-be-next-to-get-it-10078832.html)

(b) Assess the likely impact of falling real incomes on UK consumers.

(10)

SECTION B

Read Figure 1 and the following extracts (A to C) before answering Question 6.

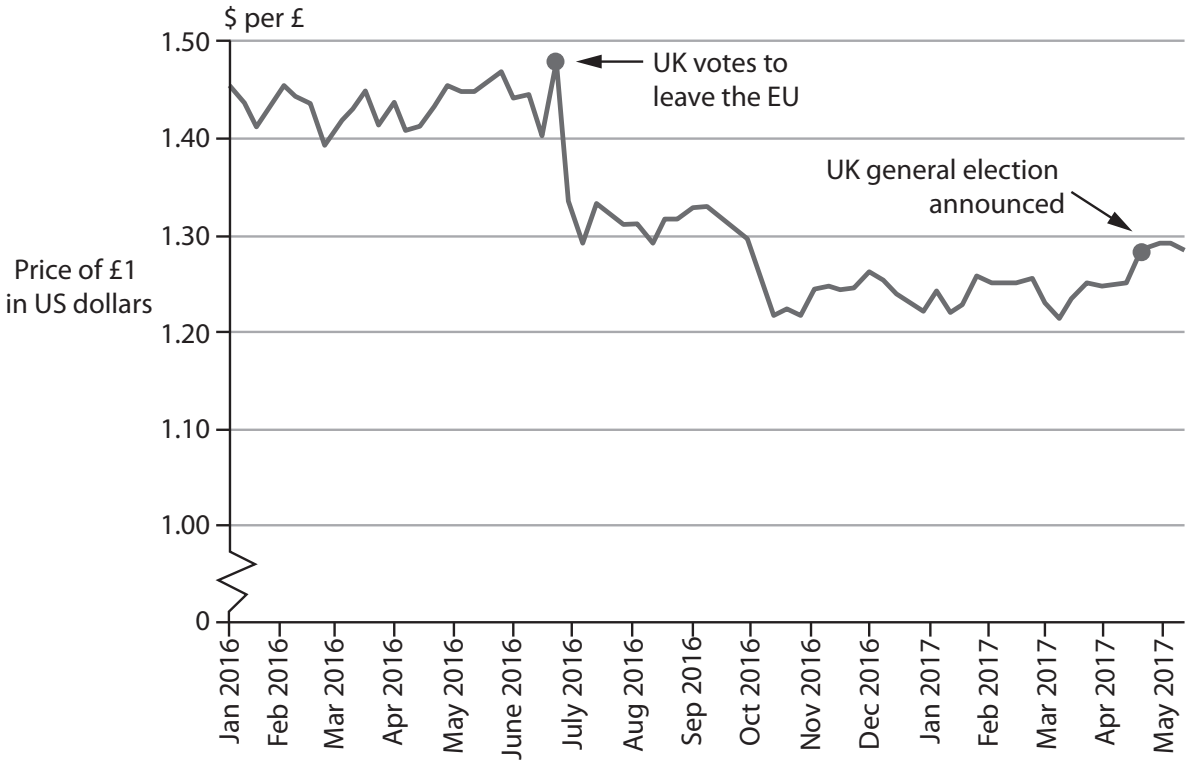
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The UK economy since the financial crisis

Figure 1: Pound sterling to US$ exchange rate, 2016-17



(Source: adapted from https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract A

UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts', by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds and 'Lloyds bank bailout repaid in full, Philip Hammond claims', by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims)

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b)

6 (a) With reference to Extract A, explain the role of forward markets in currencies.

(5)

(b) With reference to Extract A and Figure 1, examine the likely impact of the change in the sterling exchange rate on the UK economy.

(8)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

(d) With reference to Extract C, discuss the potential conflicts between macroeconomic objectives when the central bank attempts to control inflation.

(12)

(e) Discuss whether providing substantial government financial support to banks is the best policy response during a financial crisis.

(15)

(c) With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

(10)

SECTION B

Read Figures 1 and 2 below and read extracts A and B before answering Question 6.

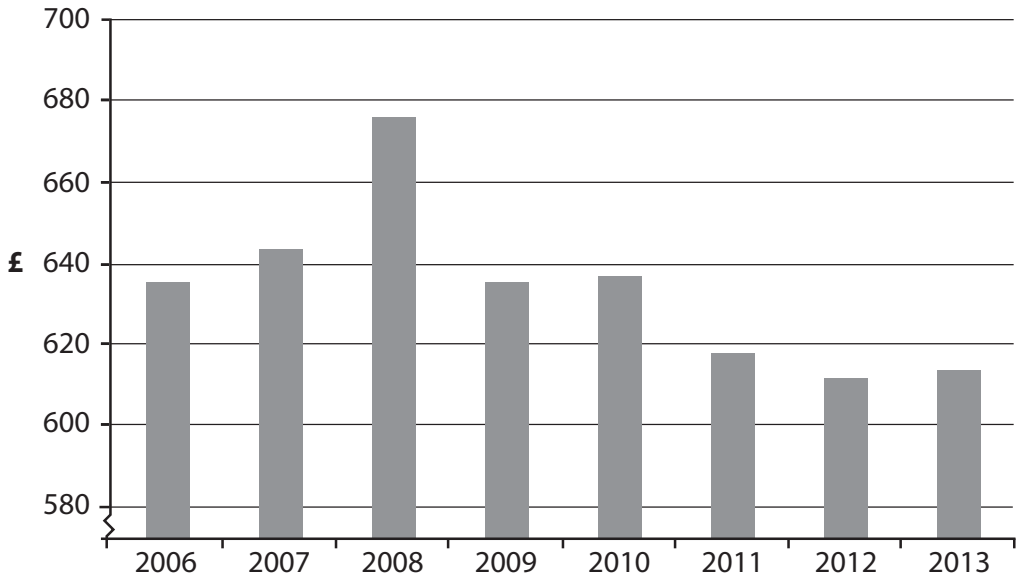
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

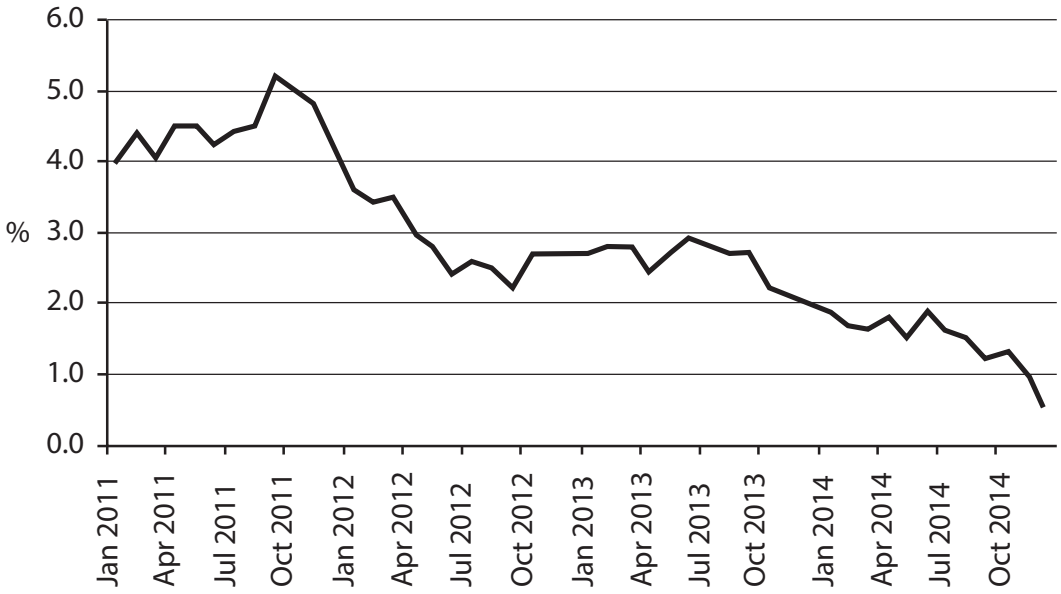
UK incomes, inflation and monetary policy

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Extract A

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UK inflation is being driven lower by the slump in global oil prices, which have roughly halved since summer 2014, and the Bank's governor Mark Carney warned earlier this month that a strong domestic economy would translate into higher UK inflation over the medium term. "The most likely next move in monetary policy is an increase in interest rates. The message is clear," Carney said.

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Extract B

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(e) With reference to Extracts A and B and your own knowledge, discuss whether the MPC should be concerned about the risk of deflation in the UK economy.

(15)

SECTION B

Read Figures 1 and 2 below and Extracts A and B before answering Question 6.

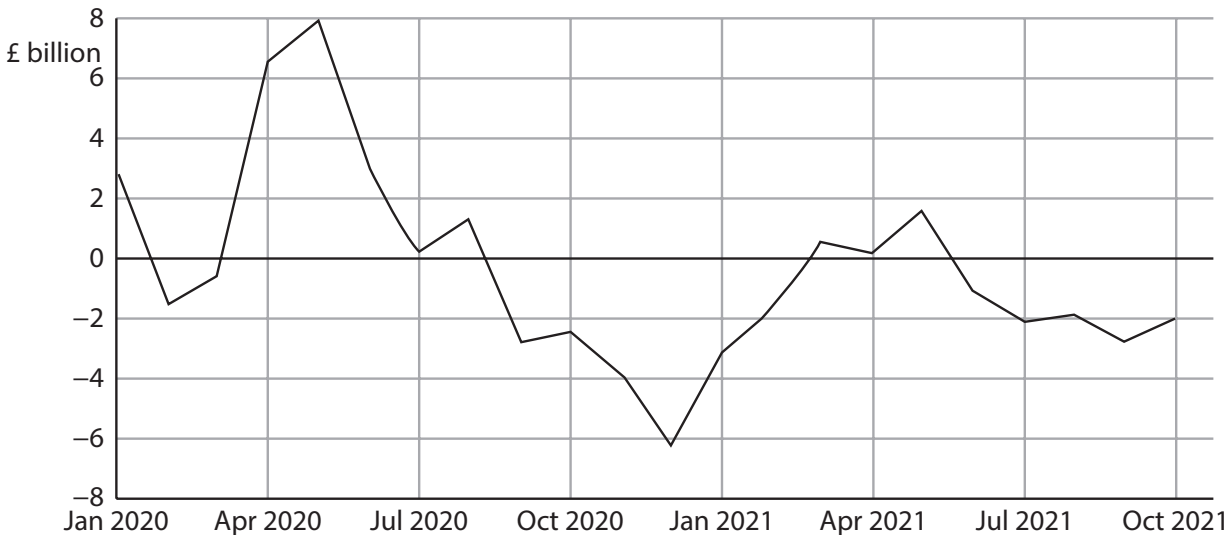
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Question 6

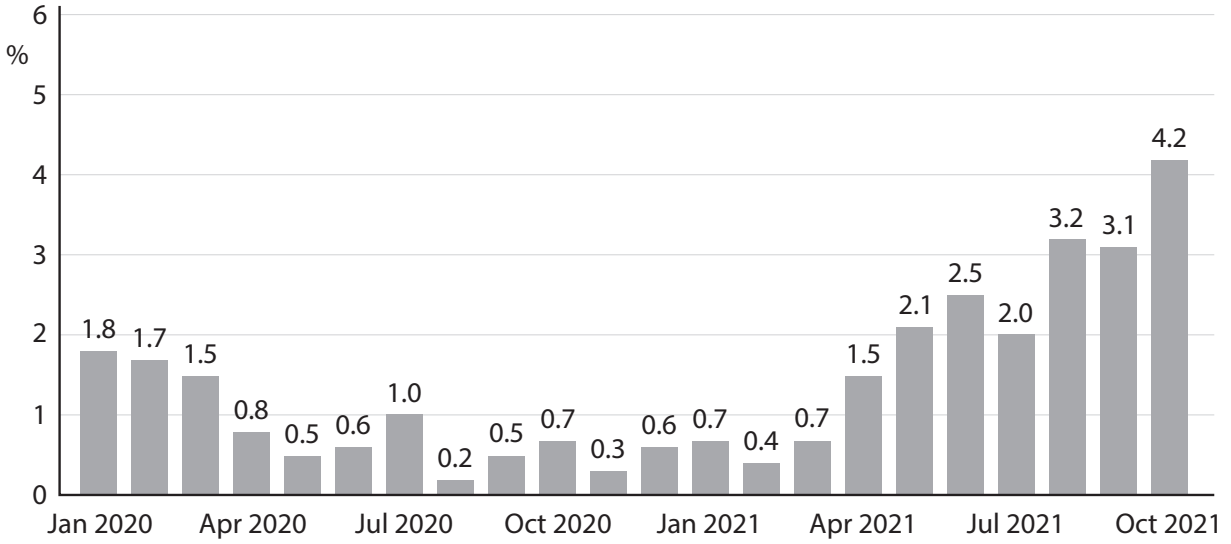
UK balance of trade and inflation

Figure 1: UK balance of trade in goods and services, January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/balance-of-trade)

Figure 2: UK inflation rate as measured by annual percentage changes in the Consumer Prices Index (CPI), January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

Extract A

Balance of trade in goods and services

Rising imports from non-EU countries have increased the UK's trade deficit in the third quarter of 2021. This was as a result of the UK strengthening its trading relationships with countries outside the EU. An 11.2% increase in imports from non-EU countries has increased the UK's trade deficit to nearly £7 billion. Moreover, exports to non-EU countries were £0.8 billion lower than exports to EU countries.

Despite the overall trade balance being in deficit, the UK services trade balance is in surplus, reflecting the economy's heavy reliance on services. The trade in services surplus increased by £2.2 billion to £35.6 billion. This was mostly as a result of an increase in the export of financial services.

(Source: adapted from https://www.cityam.com/swelling-non-eu-imports-widens-uk-trade-deficit)

Extract B

Inflation

In December 2021 the rate of inflation in the UK rose to 5.4%, its highest rate in 30 years. The speed of increase has taken economists by surprise. The Bank of England expected inflation to peak at this rate, but not until April 2022. The rate was more than two-and-a-half times its 2% inflation target.

Transport costs were the biggest contributor to rising inflation, with petrol prices increasing by over 5%. Moreover, supply chain bottlenecks constrained access to raw materials and limited the number of new products being sold in the market. At the same time, economists warned that the demand for goods and services in the UK economy was quickly increasing. This was a result of the easing of the restrictions associated with the global health crisis.

The high rate of inflation would normally be enough to prompt a significant increase in the base rate of interest by the Bank of England's Monetary Policy Committee (MPC). Despite the lower rates of economic growth, the MPC increased the base interest rate from 0.1% to 0.5% in February 2022.

(Source: adapted from 'UK inflation hits highest level in a decade', FT, https://www.ft.com/content/dd5edcd1-2e70-4910-b642-269574b4bcdd; 'What does the UK's soaring inflation rate mean for you?', The Guardian, https://www.theguardian.com/business/2021/dec/15/what-does-uk-soaring-inflation-rate-mean)

(e) Discuss the likely economic effects of the high rate of UK inflation on consumers **and** workers.

(15)

SECTION B

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

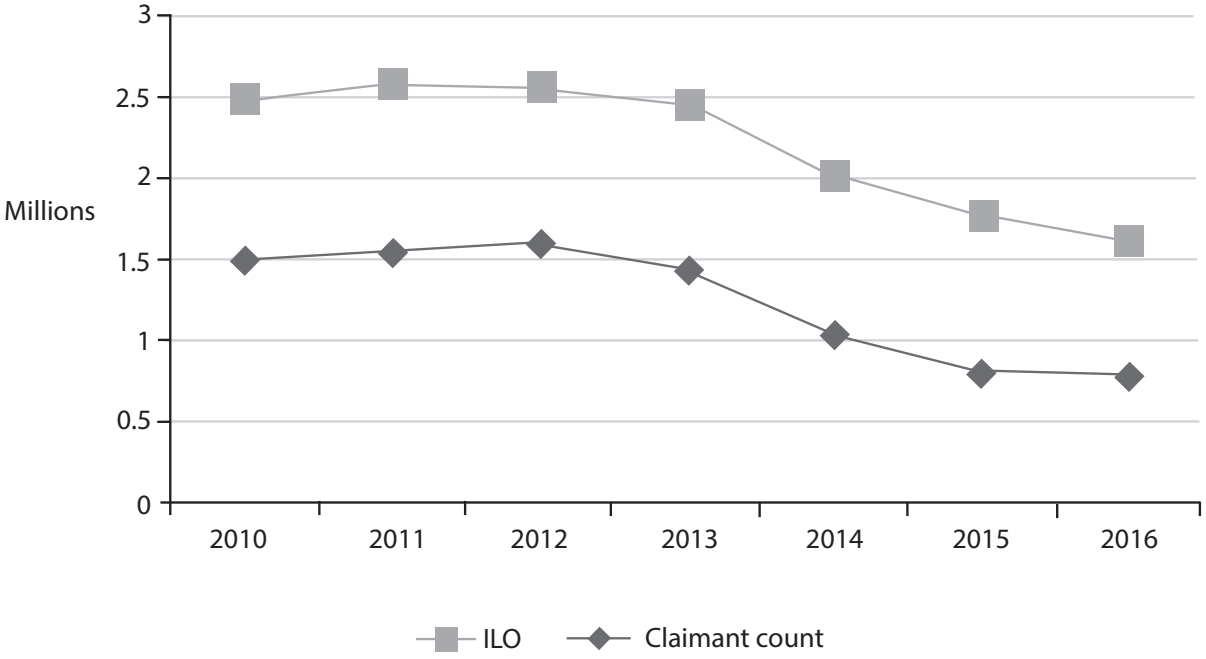
Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

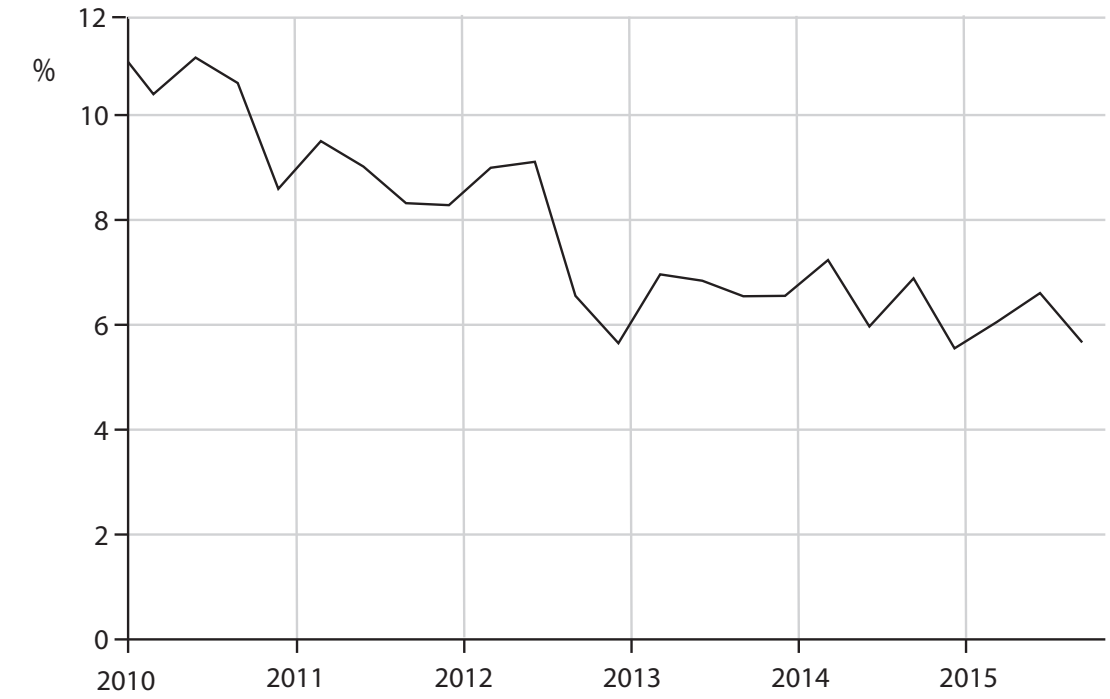
The UK economy

Figure 1: Unemployment – International Labour Organisation (ILO) and the claimant count, millions, 2010-2016



(Source: ONS Datasets, https://www.ons.gov.uk/)

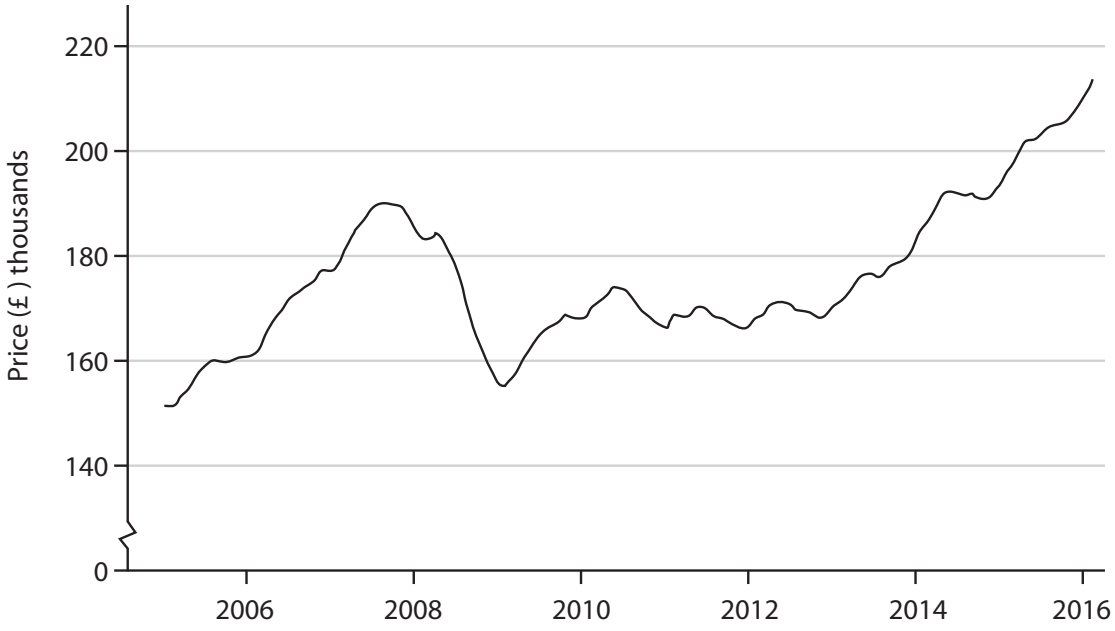
Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

(Source: http://www.tradingeconomics.com/united-kingdom/personal-savings)

Figure 3: UK average house prices, 2005–2016



(Source: http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/)

Extract A

Soaring house prices

House prices are still rising rapidly. The average UK house price was £214 000 in June 2016, according to the Office for National Statistics (ONS). This is £24 000 more than it was at its peak in September 2007, just before the economic downturn. First-time buyers have experienced the largest rise in house prices.

Even the loss of consumer confidence over Britain's vote to leave the EU did not stop house prices from rising – annual growth increased from 5.2% in July 2016 to 5.6% in August 2016. House price growth was the strongest in London, with annual average prices rising by 9.6%. However, in Wales average house prices actually fell by 0.5% during the same period. In its first post-Brexit referendum forecast, estate agency Countrywide said that house prices will fall by 1% across the UK in 2017, before rising by 2% in 2018.

Real household income in the UK fell by 10.4% in the years following the financial crisis. This increased the difference between real income and house prices. In 1997, a house cost little more than twice the average income. By early 2015, the average price of a house was five times the average annual income.

The rate of home ownership for 25 to 34-year-olds has fallen to 35.8% over the last twenty-five years as houses became less affordable. First-time buyers have to wait longer to save up for a house deposit. Conversely, home ownership has risen to 78.6% among those aged 65 to 74.

(Source: adapted from 'The state of the UK housing market in five charts', The Telegraph, http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/; 'UK house price growth slows as demand cools after Brexit vote', The Guardian, https://www.theguardian.com/business/2016/sep/30/uk-house-price-growth-slows-demand-cools-brexit-vote-nationwide)

Extract B

UK migration trends in the year ending June 2016

Inward migration levels are among the highest ever recorded with an estimated 650 000 people moving to the UK. This is an increase of around 11 000 from the previous year.

Employment remains the most common reason for long-term migration (312 000) to the UK, with around 182 000 of these coming with a definite job and 130 000 looking for work.

Long-term migration to the UK for study was estimated to be 163 000. In addition, 80 000 long-term migrants arrived in the UK to accompany their families. There were 41 280 refugees applying for asylum, including dependants, of which 10 547 people were granted asylum. Asylum applicants cannot usually accept offers of employment while their case is being processed.

(Source: adapted from 'Migration Statistics Quarterly Report: December 2016', ONS, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/dec2016)

Q) 6 (g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(20)

(Total for this part = 20 marks)

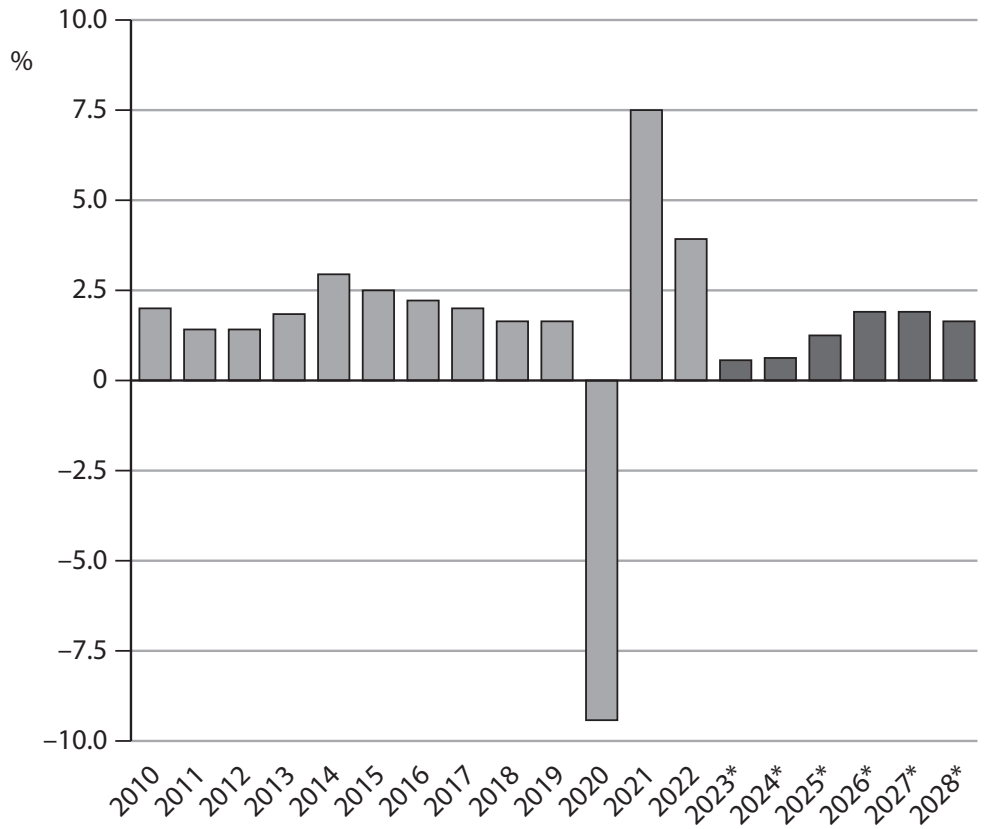
Continue on separate paper if required.

Sources for use with SECTION B

Read Figures 1 and 2 and Extract A before answering Question 6.

UK living standards and supply-side policies

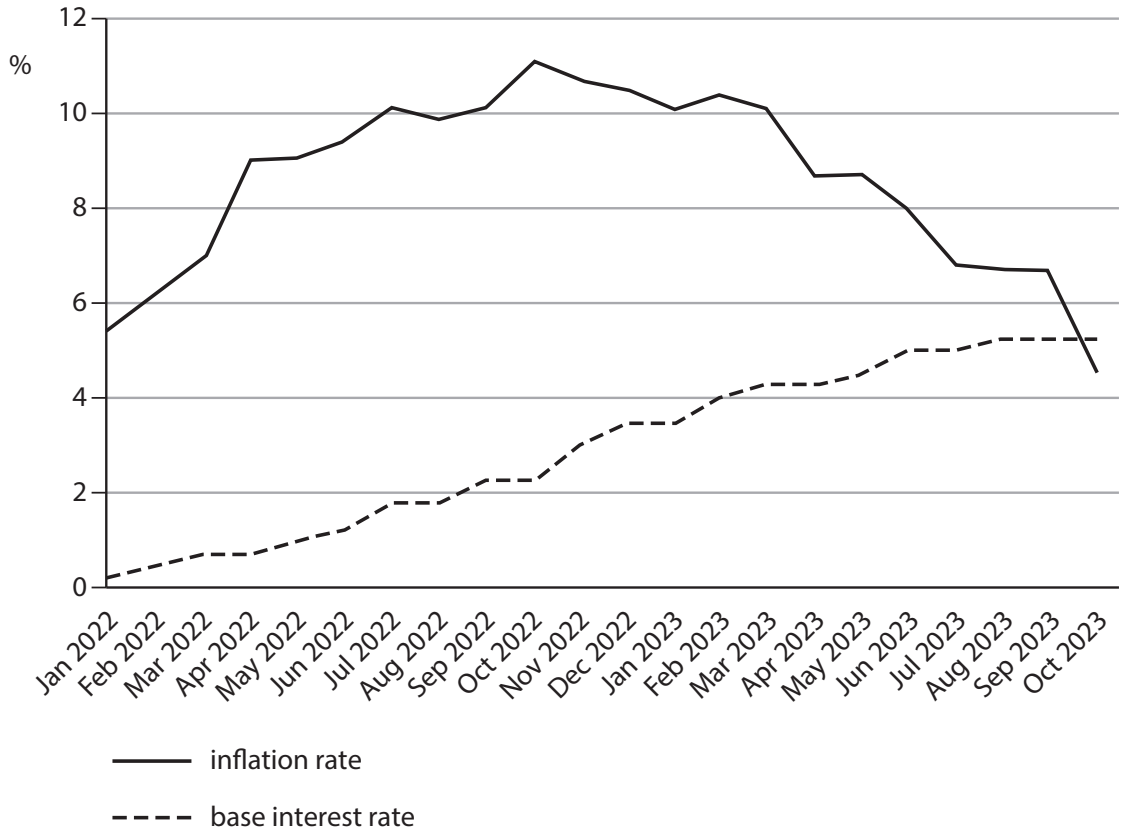
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

(Source: adapted from https://www.statista.com/statistics/375195/gdp-growth-forecast-uk/)

Figure 2: UK inflation rate* and base interest rate, January 2022 to October 2023



*Measured by Consumer Prices Index (CPI). This is the year-on-year inflation rate calculated monthly.

(Source: adapted from www.statista.com and www.tradingeconomics.com)

Extract A

Economic reforms

Economists forecast that the UK will experience a slower rate of economic growth between 2024 and 2028. They also expect a high rate of inflation due to rising import prices of food, fuel and energy, and a strong demand for consumer goods. As a result, real income per household is estimated to decrease by around 0.9% in 2024. This decrease would be the largest reduction in living standards since the Office for National Statistics records began in the 1950s.

However, the UK government argues that there are some limitations of using GDP to compare living standards over time. One main reason is the fact that GDP figures are in nominal terms. The government questions the reliability of inflation data as it believes that the Monetary Policy Committee (MPC) of the Bank of England will keep a high base interest rate to control inflation. The government also claims that the forecast by economists fails to consider the market-based supply-side policies it introduced in November 2023 to improve living standards.

The government's £10.4 billion cut to National Insurance contributions for employees is the most significant policy, expected to increase employment and living standards. It is forecast to bring additional people into work and encourage more people to work longer hours. This is likely to result in an extra 94 000 full-time workers.

The government has also taken measures to encourage more out-of-work benefits claimants into jobs. It introduced stricter benefit rules for people who can work but do not take a job offered to them. This includes stopping people's benefits if they do not actively engage in seeking employment in six months. This is likely to result in a further increase in employment figures. But economists claim that its impact on GDP will be relatively insignificant. This is because most of those affected by this policy will take on work with limited hours and very low pay.

These market-based supply-side policies, combined with measures centred on childcare subsidies for working parents, are expected to increase total employment by 200 000 between 2024 and 2028. The government argues that the expected increase highlights that it is better to "unlock the potential we have at home", rather than encouraging migration. However, several economists suggest that a rise in net migration is contributing more to an increase in the UK's potential economic growth.

Furthermore, the UK government's decision to offer 100% tax relief on investment in capital machinery will increase overall investment by 0.5% by 2028. The benefits of this effective tax cut for firms are estimated to increase over time, as technology advances and productivity improves. However, this tax cut will not prevent business investment falling in the short term, as higher interest rates are making it more expensive for firms to borrow.

Economists suggest that this tax cut can only be funded by decreasing government expenditure on public services in the long run. Government expenditure will need to decrease by a third, as a proportion of GDP, between 2024 and 2028.

(Source: adapted from https://www.ft.com/content/5ff3538b-aed2-4898-b423-f0c61da728ff)

Q) 6 (f) Evaluate the possible causes of inflation in the UK.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

Read Figures 2, 3 and the following extracts (D to F) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	**21.75%**	**18.0%**
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399)

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line.

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1.

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability.

(Source: adapted from http://www.africaneconomicoutlook.org/en/country-notes/mozambiqua and https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test 6 October 2017 Dr Alex Vines OBE)

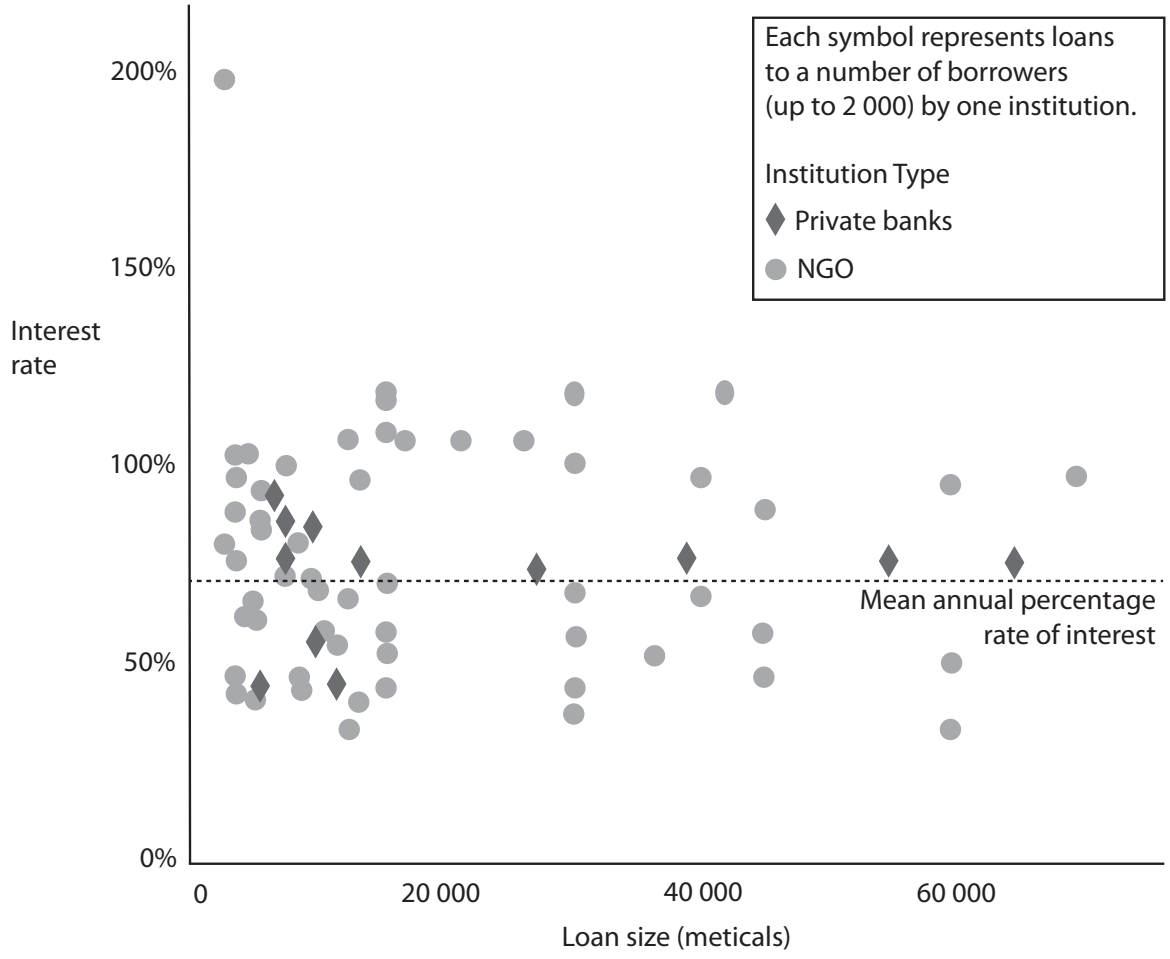
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

(Source: adapted from http://www.mftransparency.org/microfinance-pricing/mozambique/)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance-pricing/mozambique/)

Q) 2 (e) Evaluate the likely microeconomic and macroeconomic effects of relatively high inflation rates in many African countries.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

8 UK inflation, as measured by the CPI, rose to 10.1% in the 12 months to July 2022, compared to 2.0% in the 12 months to July 2021.
(Source: adapted from https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2022)

Q) Evaluate macroeconomic policies, apart from monetary policy, the UK government could use to reduce inflation.

(25)

(Total for this part = 25 marks)

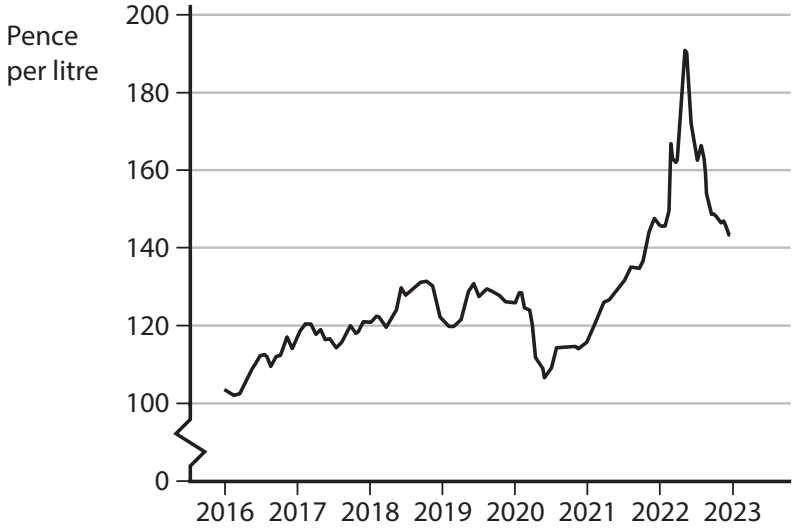
Continue on separate paper if required.

Sources for use with SECTION A

Read Figures 1 and 2 and the following Extracts A, B, C and D before answering Question 1.

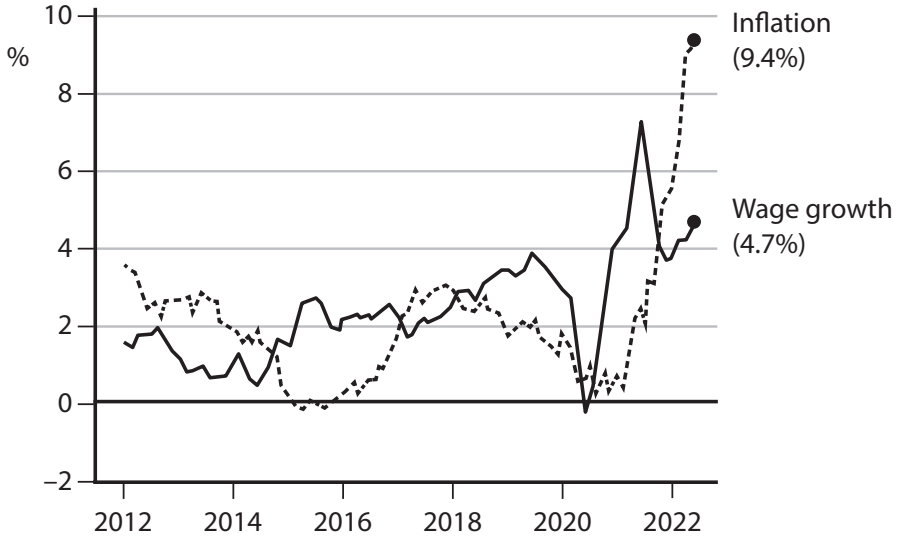
The cost of living in the UK

Figure 1: The price per litre of unleaded petrol in the UK, in pence, 2016–2023



(Source adapted from: RAC)

Figure 2: UK inflation, as measured by CPI, and wage growth (excluding bonuses), 3-month averages, 2012–2022



(Source adapted from: ONS)

Extract A

Supermarket restrictions on multibuy deals and advertising

Government rules limiting the location of unhealthy foods in shops began in 2022. Less healthy products are no longer promoted in key locations, such as checkouts, store entrances, aisle ends and their online equivalents. Rules banning multibuy deals on foods and drinks high in fat, salt or sugar (HFSS) – including buy one get one free (BOGOF), '3 for 2', and restrictions on free refills for soft drinks – were due in October 2023. The restrictions banning HFSS adverts on TV before 9pm and paid-for adverts online were set for January 2024.

(Source adapted from: https://www.gov.uk/government/news/government-delays-restrictions-on-multibuy-deals-and-advertising-on-tv-and-online)

Extract B

Supermarket pay in 2023

Supermarkets have been increasing their hourly pay rates and most now pay significantly more than the National Minimum Wage, which was set at £10.42 in April 2023.

Tesco made its biggest ever investment in employee pay in 2023, spending £230 million to finance an increase in its basic hourly rate of pay, to £11.02 per hour, rising to £11.95 in London.

The pay increase is the latest boost in employment benefits as supermarkets continue to compete for in-store workers, with Sainsbury's and Asda both increasing pay to above £11 per hour in July 2023, while Aldi pays £11.40 an hour.

Supermarkets have found themselves facing criticism over pay that did not rise in line with inflation. Some workers are taking industrial action, such as strikes, working closely with trade unions.

(Source adapted from: https://www.grocerygazette.co.uk/2023/02/22/supermarket-pay-rate-2023/)

Extract C

Supermarket petrol pricing

In 2023 David Potts, the boss of Morrisons, admitted that supermarkets increased profits at the petrol pumps as he was questioned in a parliamentary committee alongside executives from Tesco, Sainsbury's and Asda who denied they were making more profit from keeping petrol prices high.

A Competition and Markets Authority (CMA) report indicates that supermarkets' profits have doubled to 8% on fuel since 2017. It is expected to recommend that supermarkets must share local fuel prices on a comparison website in order to increase transparency and help bring down prices – a strategy tried successfully in Northern Ireland. All the supermarkets said they would welcome such a move.

In 2023, the RAC motoring group said that a price checker would be welcome but blamed high prices on the domination of petrol retailing in the UK by a few large supermarkets. "When the wholesale price of diesel fell this spring, we saw average retailer margin reach 22p a litre which was more than three times the long-term margin of 7p. This cannot be allowed to continue when households are having to contend with a cost of living crisis," an RAC spokesperson said.

At the committee, one politician, Jane Hunt, said: "In 1978 there were many more supermarkets. Now there are very few…are you in fact a cartel?"

(Source adapted from: https://www.theguardian.com/business/2023/jun/27/morrisons-boss-admits-supermarket-chains-have-hiked-profits-on-petrol)

Extract D

EU trade relations with the UK

The Trade and Cooperation Agreement 2021 between the EU and the UK means that there are no tariffs or quotas on goods moving between the EU and UK, provided those goods meet the 'rules of origin' of a good, based on where the products or materials used in their production come from. They prevent goods manufactured in outside countries being transported through the UK (or the EU) to avoid paying tariffs.

To benefit from the zero tariff, businesses must show the origin of their goods. A product qualifies as 'originating' if it is 'wholly obtained' in the UK and EU or has been substantially transformed in one or both markets. That is why UK businesses that re-export goods from outside countries with little or no further processing, may still face tariffs when trading with EU member states.

'Rules of origin' can be time consuming and complex. Some businesses cannot or do not wish to claim zero tariff because of the excessive administrative costs to firms.

(Source adapted from: https://commonslibrary.parliament.uk/new-customs-rules-for-trade-with-the-eu/)

Q) 1 (d) Evaluate the microeconomic and macroeconomic effects of high levels of inflation. Refer to the UK or any other developed economy in your answer.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 2.1.3

EMPLOYMENT AND UNEMPLOYMENT

Sub-topic 2.1.3 · 32 questions · 102 marks · lowest tariff first

3 The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

(Source: http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=)

(a) Define the term 'claimant count'.

(1)

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(Total for Question 3(a) = 1 mark)

3 The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

(Source: http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=)

(c) Which **one** of the following is likely to cause a reduction in the claimant count?

(1)

- ☒ **A** An increase in the weekly payment for claimants
- ☒ **B** A compulsory weekly interview for every claimant
- ☒ **C** An increase in the size of the workforce
- ☒ **D** A fall in employment

(Total for Question 3(c) = 1 mark)

2 Between 2008 and 2014 the number of people in the UK looking to work longer hours and therefore receive more total pay increased from 76 482 to 142 788. Over the same period the unemployment rate fell to 5.7%.

(Sources: https://www.gov.uk/government/statistics/numbers-of-part-timers-seeking-full-time-employment and http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Unemployment+Rates#tab-data-tables)

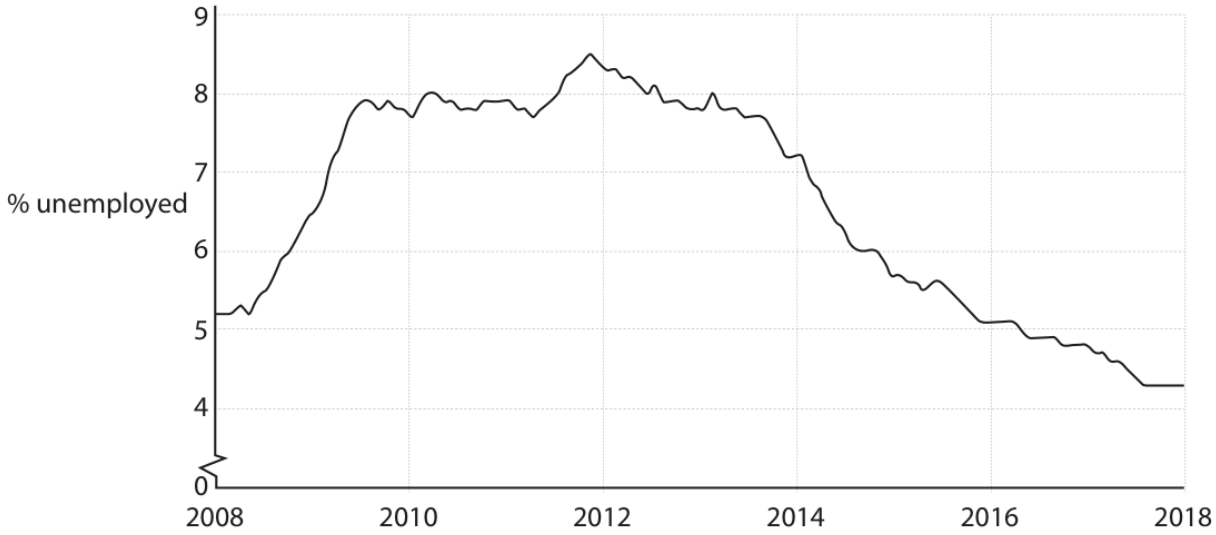
(b) Which **one** of the following is the most likely reason for a fall in the unemployment rate?

(1)

- ☒ **A** Increasing unemployment benefit payments
- ☒ **B** Decreasing real GDP
- ☒ **C** Decreasing funding for apprenticeships
- ☒ **D** Increasing consumer spending

(Total for Question 2(b) = 1 mark)

3 UK unemployment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



(Source: adapted from https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/ unemployment/timeseries/mgsx Crown Copyright)

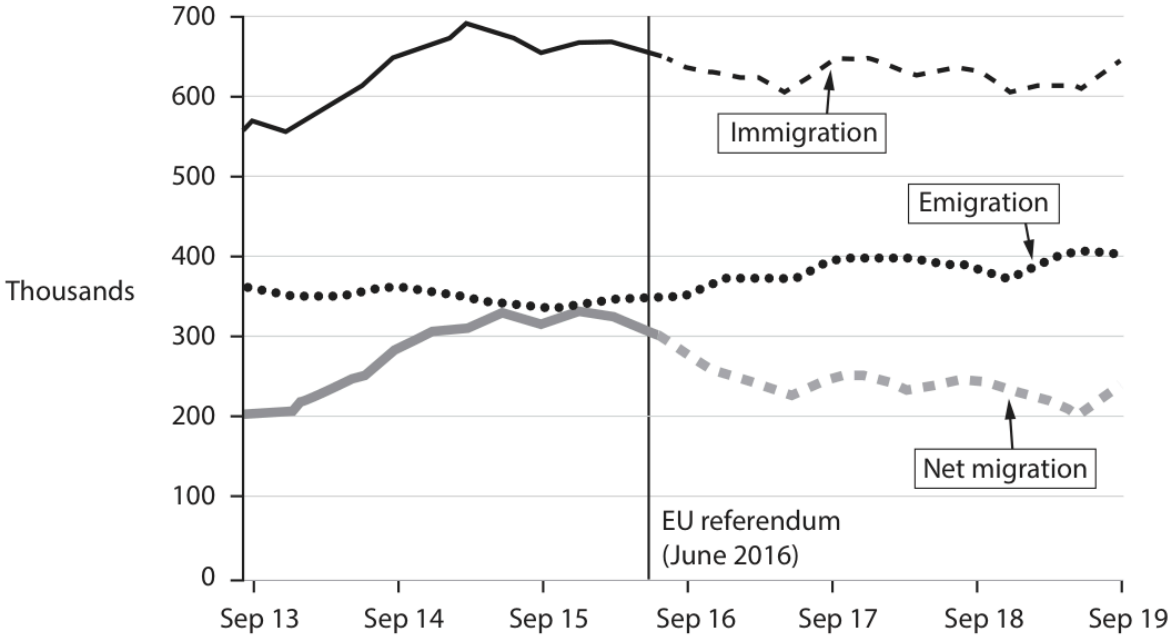
(b) Which **one** of the following policies is most likely to reduce the unemployment rate in the UK?

(1)

- ☒ **A** A decrease in direct taxes on company profits
- ☒ **B** A decrease in quantitative easing
- ☒ **C** An increase in government payments to the unemployed
- ☒ **D** An increase in the UK base interest rate

(Total for Question 3(b) = 1 mark)

3 The graph below shows UK long-term migration trends, September 2013 to September 2019. Immigration refers to the number of people entering the country to live there and emigration refers to the number of people leaving the country.



(Source: adapted from https://www.ons.gov.uk)

(a) Which **one** of the following can be inferred from the above chart?

(1)

- ☒ **A** Between September 2013 and September 2016, there were nearly 100 000 more people leaving the UK than entering the UK
- ☒ **B** Immigration to the UK is likely to decrease the short-run AS curve
- ☒ **C** Since the EU referendum, net migration has fallen by around 80 000
- ☒ **D** There has been a significant decrease in emigration throughout the given period

(Total for Question 3(a) = 1 mark)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 Between January 2020 and December 2020, the rate of unemployment in the UK increased from 3.9% to 5.2%. This was as a result of the UK economy experiencing a recession.

(a) Which **one** of the following best describes this cause of unemployment?

(1)

☒ **A** Cyclical

☒ **B** Frictional

☒ **C** Seasonal

☒ **D** Structural

(Total for Question 1(a) = 1 mark)

SECTION A

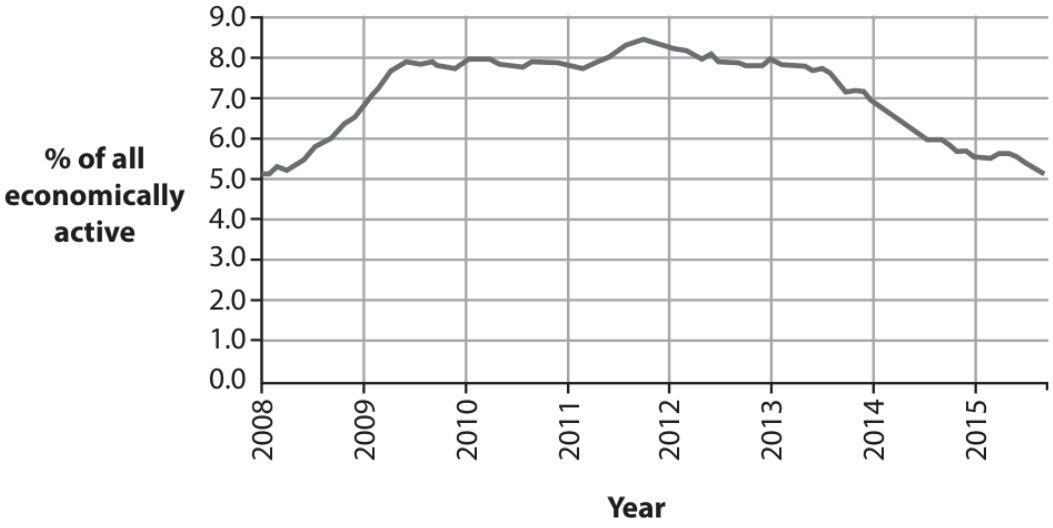
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The chart below shows the UK unemployment rate, seasonally adjusted, from 2008 to 2015



(Source: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2015/statistical-bulletin.html#tab-8--Unemployment)

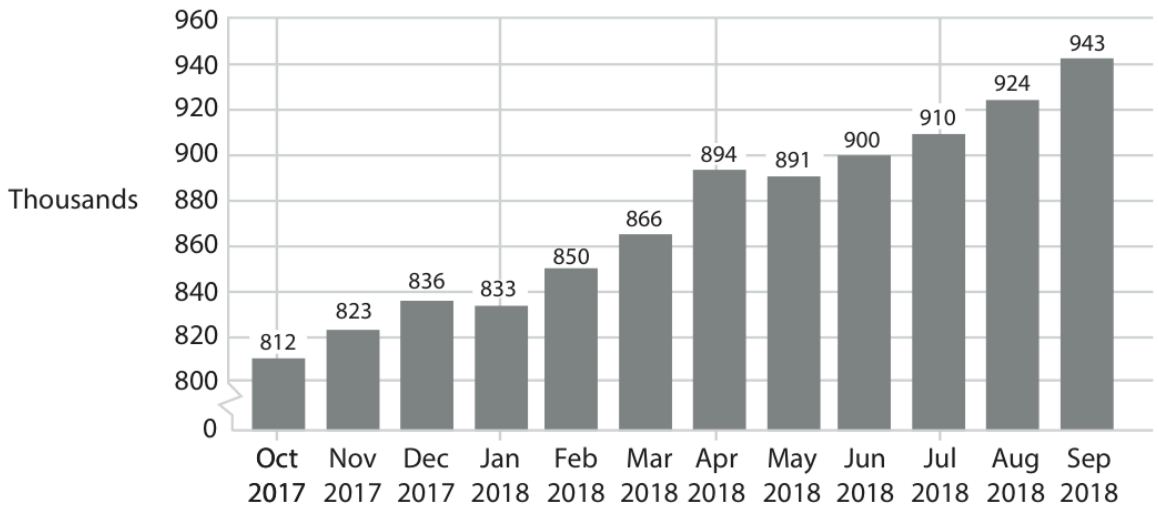
(a) Which **one** of the following types of unemployment best explains the change in the data between 2008 and 2010?

(1)

- ☒ **A** Cyclical
- ☒ **B** Frictional
- ☒ **C** Seasonal
- ☒ **D** Voluntary

(Total for Question 1(a) = 1 mark)

4 Number of unemployed persons, UK, as measured by the claimant count, thousands



(Source: https://tradingeconomics.com/united-kingdom/unemployed-persons)

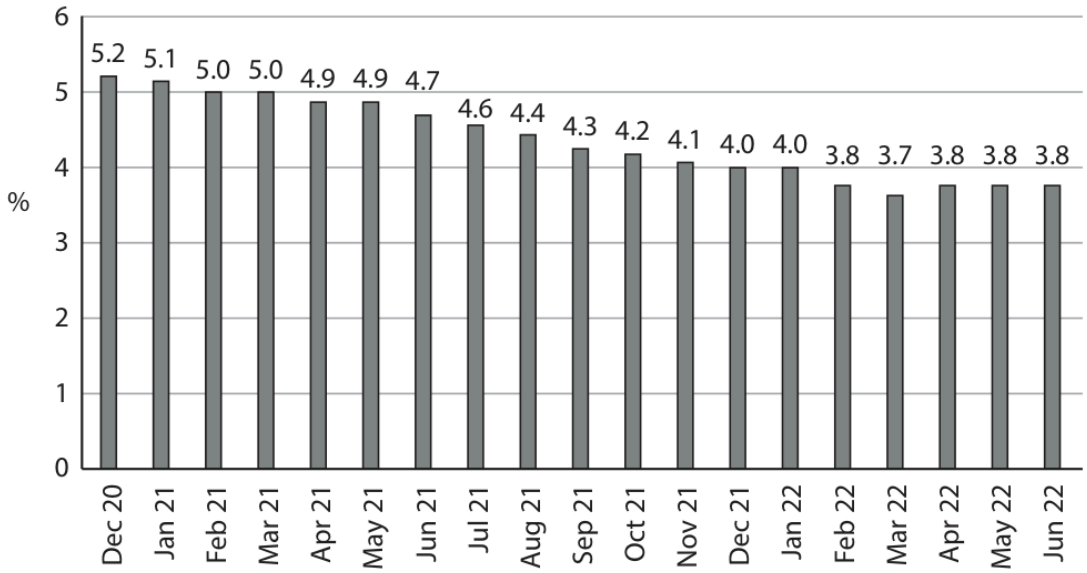
(c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry?

(1)

- ☒ **A** Cyclical
- ☒ **B** Real wage
- ☒ **C** Seasonal
- ☒ **D** Structural

(Total for Question 4(c) = 1 mark)

2 UK unemployment rate (%), December 2020 – June 2022



(Source: adapted from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/august2022)

(a) With reference to the chart, which **one** of the following is true?

(1)

The unemployment rate:

- ☒ **A** fell by 1.4% between December 2020 and April 2022
- ☒ **B** fell by one percentage point between February 2021 and December 2021
- ☒ **C** was highest in March 2022 and lowest in December 2020
- ☒ **D** will continue to rise but at a slower rate

(Total for Question 2(a) = 1 mark)

5 The UK's labour force inactivity rate was 20.2% in January 2020 and increased to 21.5% in January 2022.

After an increase in the early stages of the global health crisis, most developed countries have recorded a decrease in the inactivity rate back to, and below, levels in 2019. This is not the case in the UK.

(Source adapted from: https://www.theguardian.com/business/2023/apr/13/uk-worst-performer-g7-workforce-participation-since-covid; tradingeconomics.com)

(c) Which **one** of the following would be the most likely result of an increase in the rate of **employment**?

(1)

- ☒ **A** Deflation
- ☒ **B** Improvement in living standards
- ☒ **C** Increase in absolute poverty
- ☒ **D** Recession

(Total for Question 5(c) = 1 mark)

3 The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

(Source: http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=)

(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

(2)

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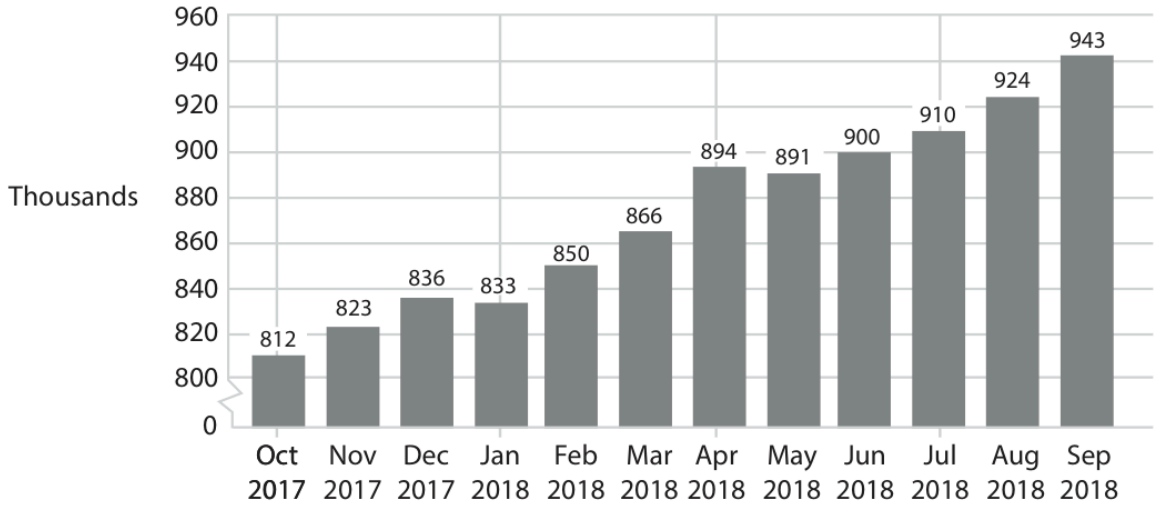
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(Total for Question 3(b) = 2 marks)

4 Number of unemployed persons, UK, as measured by the claimant count, thousands



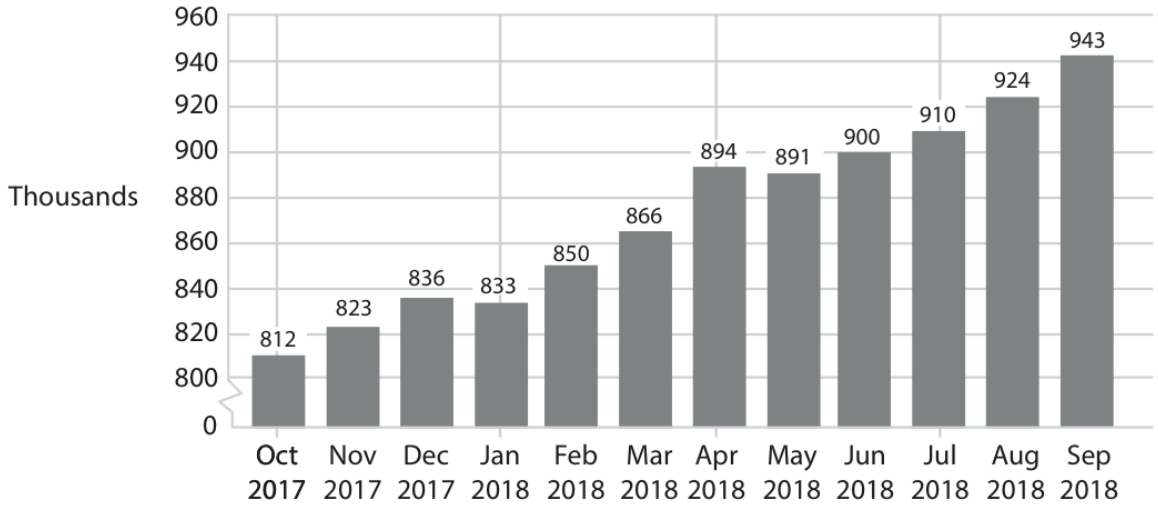
(Source: https://tradingeconomics.com/united-kingdom/unemployed-persons)

(a) Calculate the percentage change in the number of UK unemployed persons between April and July 2018. You are advised to show your working.

(2)

(Total for Question 4(a) = 2 marks)

4 Number of unemployed persons, UK, as measured by the claimant count, thousands



(Source: https://tradingeconomics.com/united-kingdom/unemployed-persons)

(b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown.

(2)

(Total for Question 4(b) = 2 marks)

5 The UK's labour force inactivity rate was 20.2% in January 2020 and increased to 21.5% in January 2022.

After an increase in the early stages of the global health crisis, most developed countries have recorded a decrease in the inactivity rate back to, and below, levels in 2019. This is not the case in the UK.

(Source adapted from: https://www.theguardian.com/business/2023/apr/13/uk-worst-performer-g7-workforce-participation-since-covid; tradingeconomics.com)

(a) The total UK labour force in January 2022 was 34.5 million. With reference to the information above, calculate the total number of inactive people in the UK labour force in January 2022.

(2)

(Total for Question 5(a) = 2 marks)

5 The UK's labour force inactivity rate was 20.2% in January 2020 and increased to 21.5% in January 2022.

After an increase in the early stages of the global health crisis, most developed countries have recorded a decrease in the inactivity rate back to, and below, levels in 2019. This is not the case in the UK.

(Source adapted from: https://www.theguardian.com/business/2023/apr/13/uk-worst-performer-g7-workforce-participation-since-covid; tradingeconomics.com)

(b) Explain **one** likely reason for the high levels of inactivity in the UK labour force.

(2)

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(Total for Question 5(b) = 2 marks)

2 Between 2008 and 2014 the number of people in the UK looking to work longer hours and therefore receive more total pay increased from 76 482 to 142 788. Over the same period the unemployment rate fell to 5.7%.

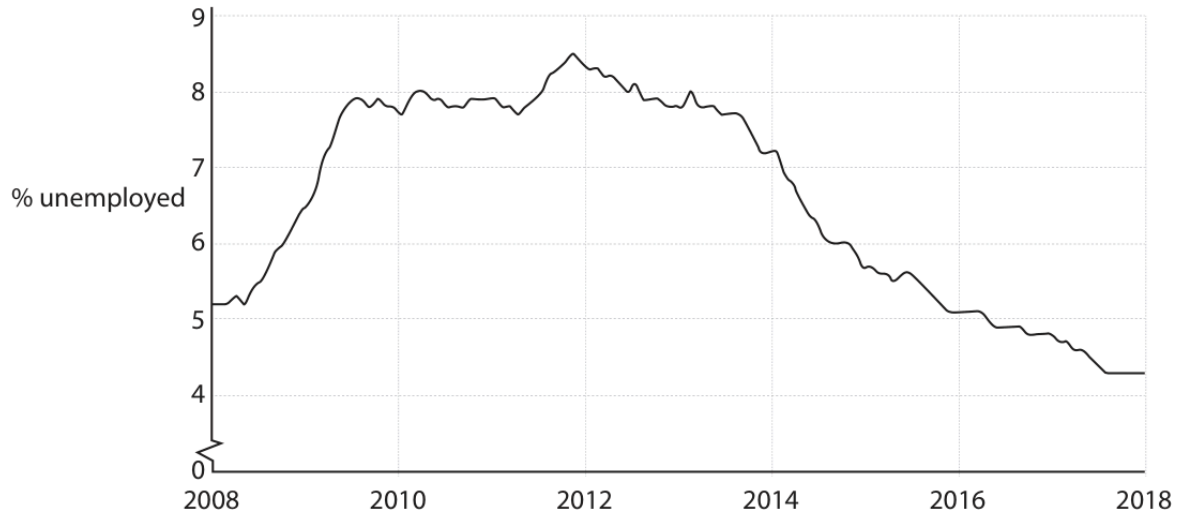
(Sources: https://www.gov.uk/government/statistics/numbers-of-part-timers-seeking-full-time-employment and http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Unemployment+Rates#tab-data-tables)

(a) With reference to the statement above, explain the term 'under-employment'.

(3)

(Total for Question 2(a) = 3 marks)

3 UK unemployment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



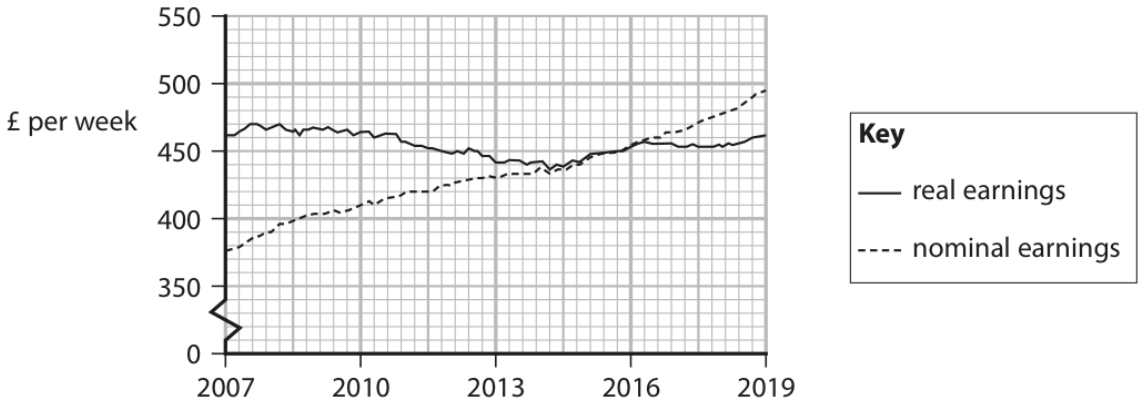
(Source: adapted from https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/ unemployment/timeseries/mgsx Crown Copyright)

(a) With reference to the chart above, explain **one** likely economic effect of the change in the UK unemployment rate between 2012 and 2018.

(3)

(Total for Question 3(a) = 3 marks)

3 UK average weekly earnings, January 2007 to January 2019



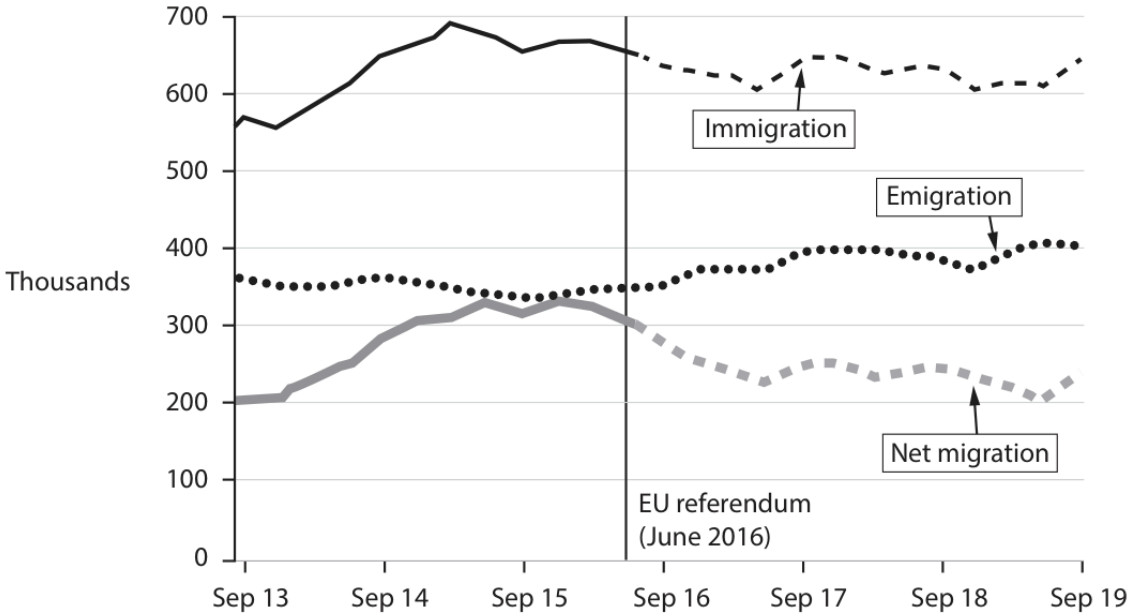
(Source adapted from: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/march2019)

(b) With reference to the chart, explain the likely relationship between real incomes and subjective happiness.

(3)

(Total for Question 3(b) = 3 marks)

3 The graph below shows UK long-term migration trends, September 2013 to September 2019. Immigration refers to the number of people entering the country to live there and emigration refers to the number of people leaving the country.



(Source: adapted from https://www.ons.gov.uk)

(b) With reference to the above chart, explain **one** likely effect of migration on employment in the UK.

(3)

(Total for Question 3(b) = 3 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 Between January 2020 and December 2020, the rate of unemployment in the UK increased from 3.9% to 5.2%. This was as a result of the UK economy experiencing a recession.

(b) With reference to the information above, explain **one** possible effect of the increase in the rate of unemployment on the UK government budget.

(3)

(Total for Question 1(b) = 3 marks)

3 The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

(Source: http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=)

(a) Define the term 'claimant count'.

(1)

(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

(2)

(c) Which **one** of the following is likely to cause a reduction in the claimant count?

(1)

- ☒ **A** An increase in the weekly payment for claimants
- ☒ **B** A compulsory weekly interview for every claimant
- ☒ **C** An increase in the size of the workforce
- ☒ **D** A fall in employment

(Total for Question 3 = 4 marks)

2 Between 2008 and 2014 the number of people in the UK looking to work longer hours and therefore receive more total pay increased from 76 482 to 142 788. Over the same period the unemployment rate fell to 5.7%.

(Sources: https://www.gov.uk/government/statistics/numbers-of-part-timers-seeking-full-time-employment and http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Unemployment+Rates#tab-data-tables)

(a) With reference to the statement above, explain the term 'under-employment'.

(3)

(b) Which **one** of the following is the most likely reason for a fall in the unemployment rate?

(1)

- ☒ **A** Increasing unemployment benefit payments
- ☒ **B** Decreasing real GDP
- ☒ **C** Decreasing funding for apprenticeships
- ☒ **D** Increasing consumer spending

(Total for Question 2 = 4 marks)

SECTION B

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

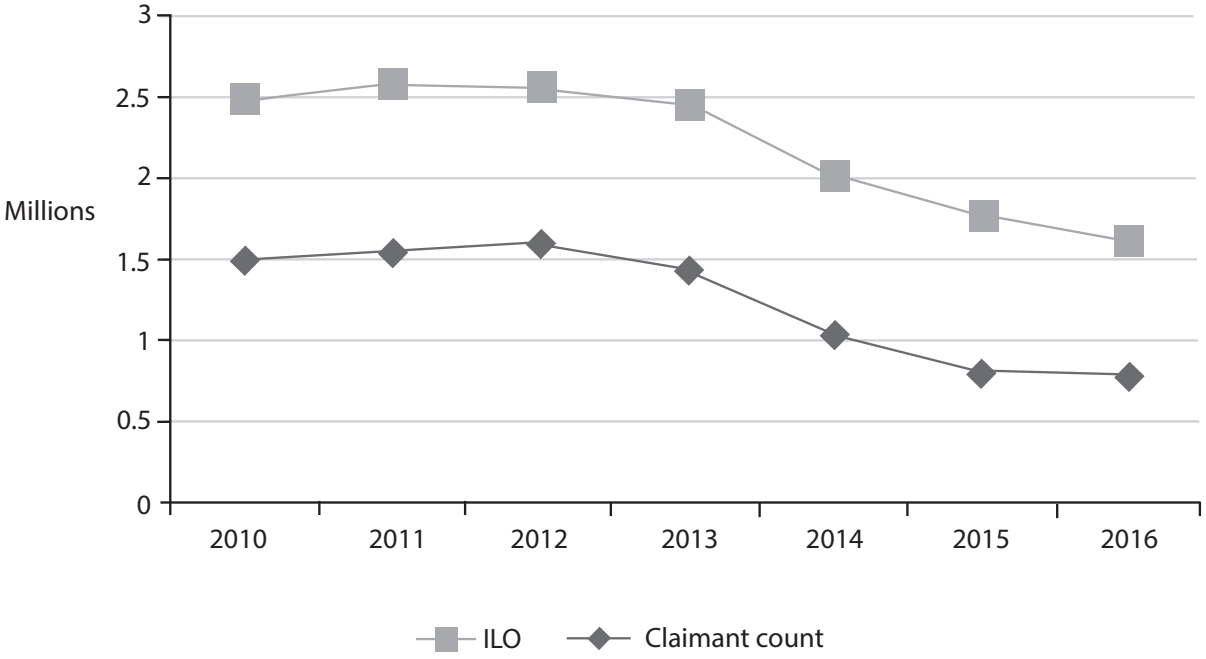
Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

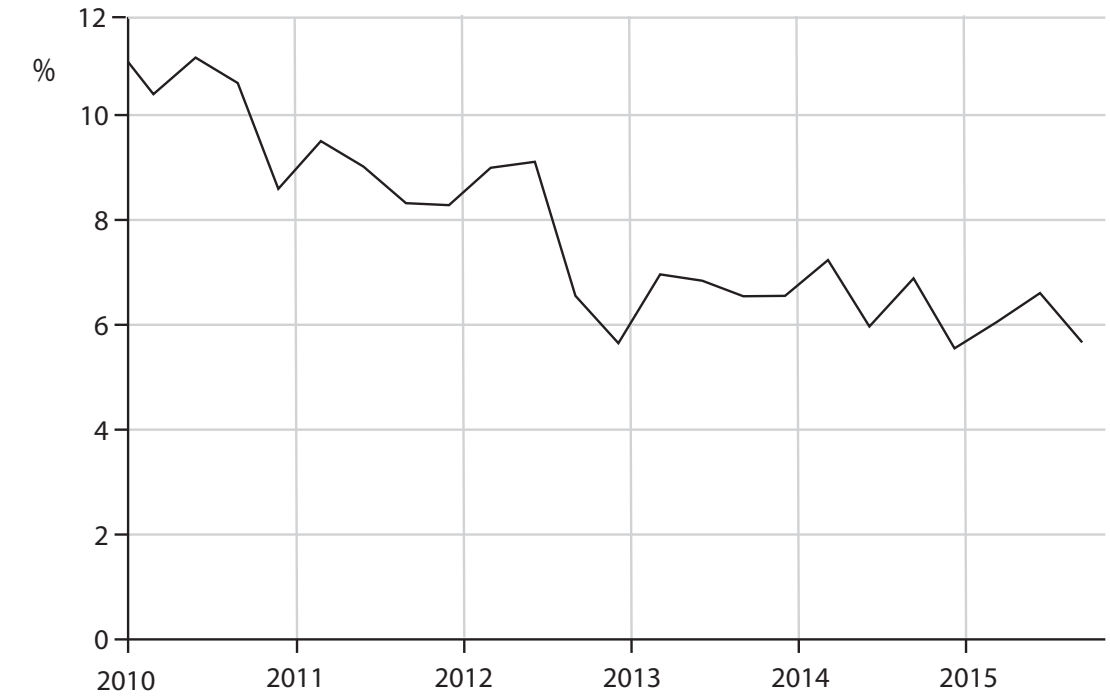
The UK economy

Figure 1: Unemployment – International Labour Organisation (ILO) and the claimant count, millions, 2010-2016



(Source: ONS Datasets, https://www.ons.gov.uk/)

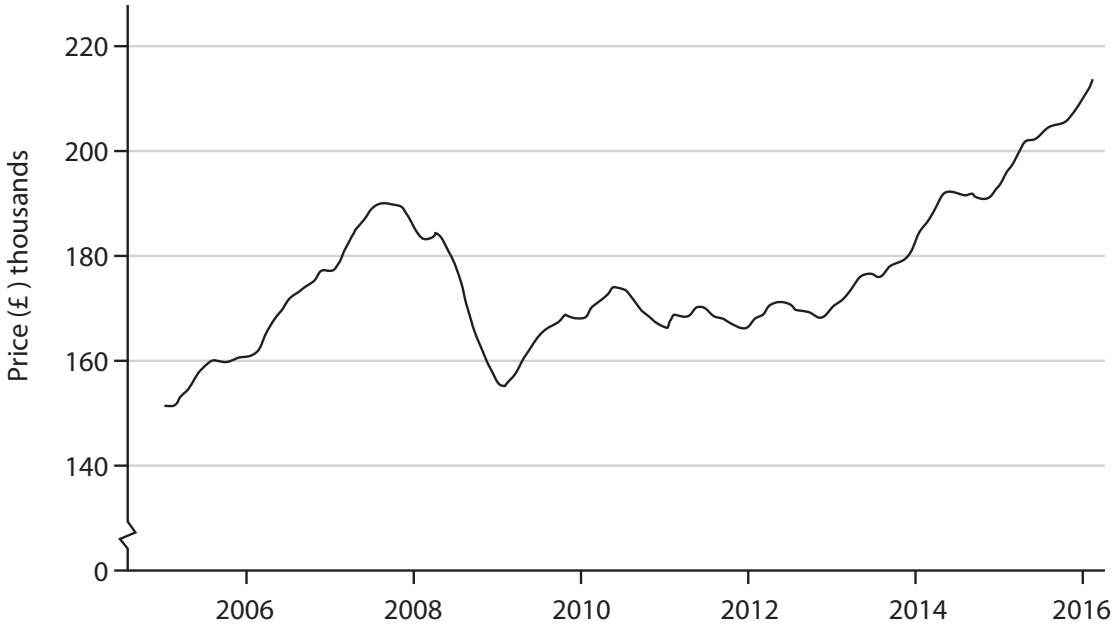
Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

(Source: http://www.tradingeconomics.com/united-kingdom/personal-savings)

Figure 3: UK average house prices, 2005–2016



(Source: http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/)

Extract A

Soaring house prices

House prices are still rising rapidly. The average UK house price was £214 000 in June 2016, according to the Office for National Statistics (ONS). This is £24 000 more than it was at its peak in September 2007, just before the economic downturn. First-time buyers have experienced the largest rise in house prices.

Even the loss of consumer confidence over Britain's vote to leave the EU did not stop house prices from rising – annual growth increased from 5.2% in July 2016 to 5.6% in August 2016. House price growth was the strongest in London, with annual average prices rising by 9.6%. However, in Wales average house prices actually fell by 0.5% during the same period. In its first post-Brexit referendum forecast, estate agency Countrywide said that house prices will fall by 1% across the UK in 2017, before rising by 2% in 2018.

Real household income in the UK fell by 10.4% in the years following the financial crisis. This increased the difference between real income and house prices. In 1997, a house cost little more than twice the average income. By early 2015, the average price of a house was five times the average annual income.

The rate of home ownership for 25 to 34-year-olds has fallen to 35.8% over the last twenty-five years as houses became less affordable. First-time buyers have to wait longer to save up for a house deposit. Conversely, home ownership has risen to 78.6% among those aged 65 to 74.

(Source: adapted from 'The state of the UK housing market in five charts', The Telegraph, http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/; 'UK house price growth slows as demand cools after Brexit vote', The Guardian, https://www.theguardian.com/business/2016/sep/30/uk-house-price-growth-slows-demand-cools-brexit-vote-nationwide)

Extract B

UK migration trends in the year ending June 2016

Inward migration levels are among the highest ever recorded with an estimated 650 000 people moving to the UK. This is an increase of around 11 000 from the previous year.

Employment remains the most common reason for long-term migration (312 000) to the UK, with around 182 000 of these coming with a definite job and 130 000 looking for work.

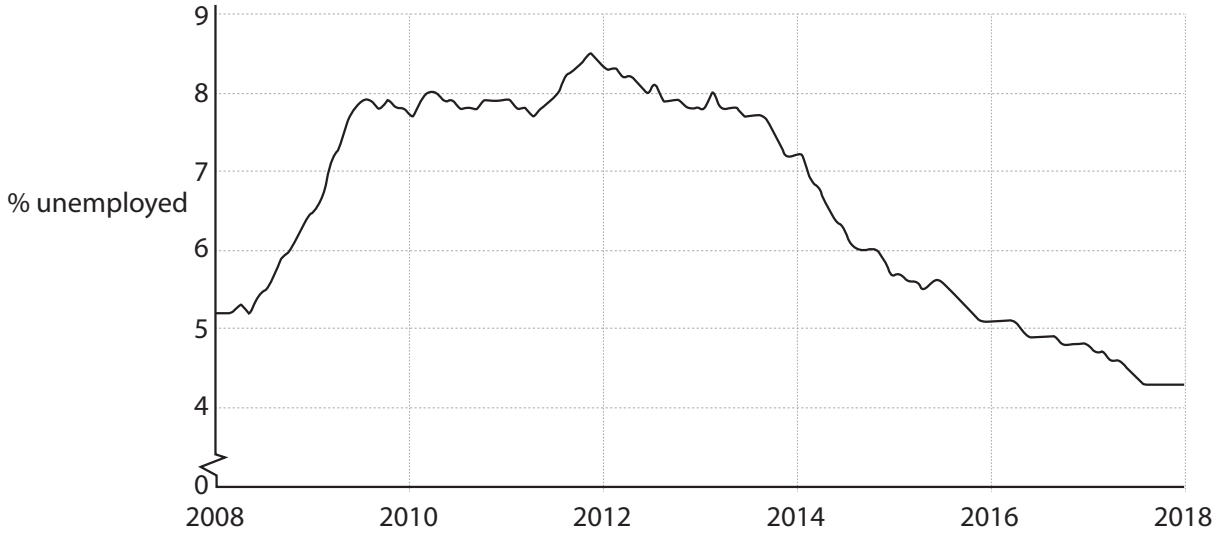
Long-term migration to the UK for study was estimated to be 163 000. In addition, 80 000 long-term migrants arrived in the UK to accompany their families. There were 41 280 refugees applying for asylum, including dependants, of which 10 547 people were granted asylum. Asylum applicants cannot usually accept offers of employment while their case is being processed.

(Source: adapted from 'Migration Statistics Quarterly Report: December 2016', ONS, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/dec2016)

6 (a) With reference to Figure 1, explain **one** reason why the claimant count and the ILO measure of unemployment differ.

(4)

3 UK unemployment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



(Source: adapted from https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/ unemployment/timeseries/mgsx Crown Copyright)

(a) With reference to the chart above, explain **one** likely economic effect of the change in the UK unemployment rate between 2012 and 2018.

(3)

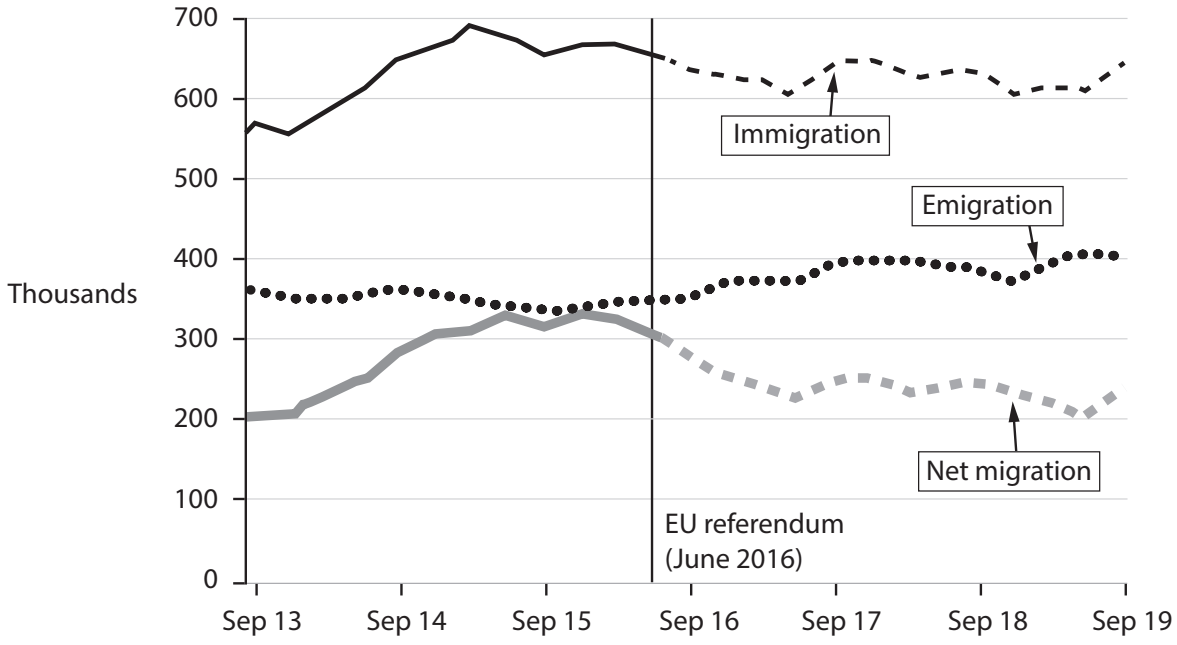
(b) Which **one** of the following policies is most likely to reduce the unemployment rate in the UK?

(1)

- ☒ **A** A decrease in direct taxes on company profits
- ☒ **B** A decrease in quantitative easing
- ☒ **C** An increase in government payments to the unemployed
- ☒ **D** An increase in the UK base interest rate

(Total for Question 3 = 4 marks)

3 The graph below shows UK long-term migration trends, September 2013 to September 2019. Immigration refers to the number of people entering the country to live there and emigration refers to the number of people leaving the country.



(Source: adapted from https://www.ons.gov.uk)

(a) Which **one** of the following can be inferred from the above chart?

(1)

- ☒ **A** Between September 2013 and September 2016, there were nearly 100 000 more people leaving the UK than entering the UK
- ☒ **B** Immigration to the UK is likely to decrease the short-run AS curve
- ☒ **C** Since the EU referendum, net migration has fallen by around 80 000
- ☒ **D** There has been a significant decrease in emigration throughout the given period

(b) With reference to the above chart, explain **one** likely effect of migration on employment in the UK.

(3)

(Total for Question 3 = 4 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 Between January 2020 and December 2020, the rate of unemployment in the UK increased from 3.9% to 5.2%. This was as a result of the UK economy experiencing a recession.

(a) Which **one** of the following best describes this cause of unemployment?

(1)

☒ **A** Cyclical

☒ **B** Frictional

☒ **C** Seasonal

☒ **D** Structural

(b) With reference to the information above, explain **one** possible effect of the increase in the rate of unemployment on the UK government budget.

(3)

(Total for Question 1 = 4 marks)

SECTION A

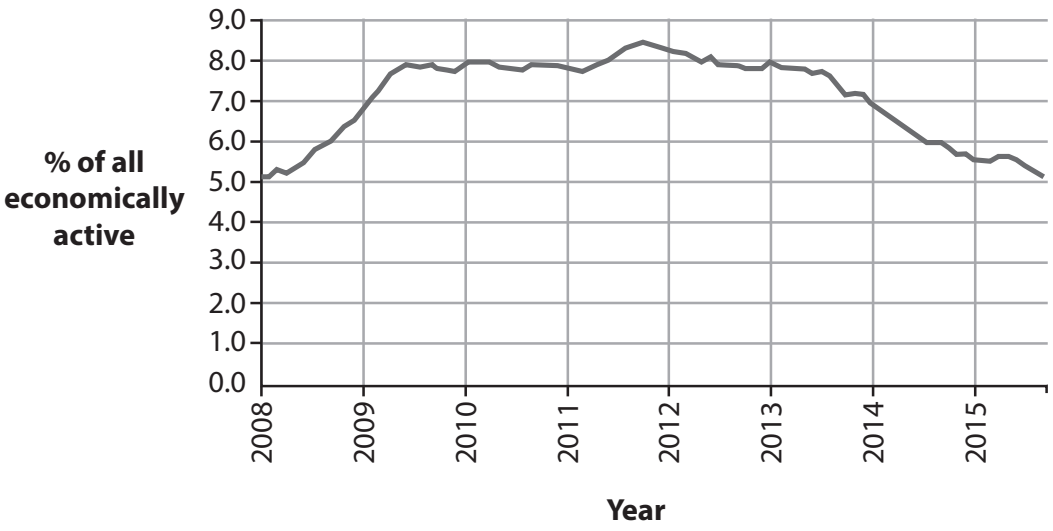
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The chart below shows the UK unemployment rate, seasonally adjusted, from 2008 to 2015



(Source: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2015/statistical-bulletin.html#tab-8--Unemployment)

(a) Which **one** of the following types of unemployment best explains the change in the data between 2008 and 2010?

(1)

☒ **A** Cyclical

☒ **B** Frictional

☒ **C** Seasonal

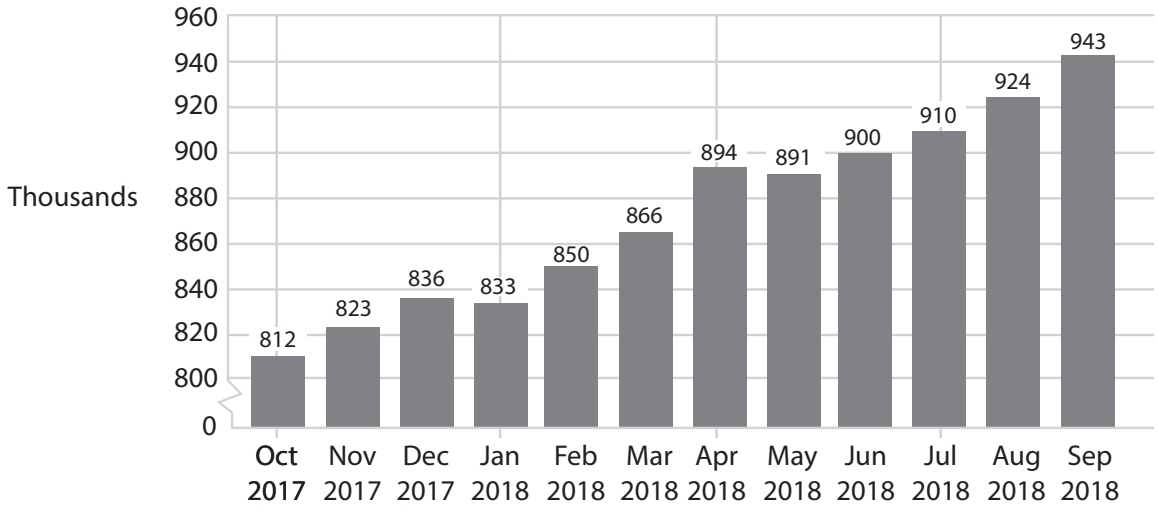
☒ **D** Voluntary

(b) Explain the likely effects on the circular flow of income of the change in unemployment between 2013 and 2015.

(4)

(Total for Question 1 = 5 marks)

4 Number of unemployed persons, UK, as measured by the claimant count, thousands



(Source: https://tradingeconomics.com/united-kingdom/unemployed-persons)

(a) Calculate the percentage change in the number of UK unemployed persons between April and July 2018. You are advised to show your working.

(2)

(b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown.

(2)

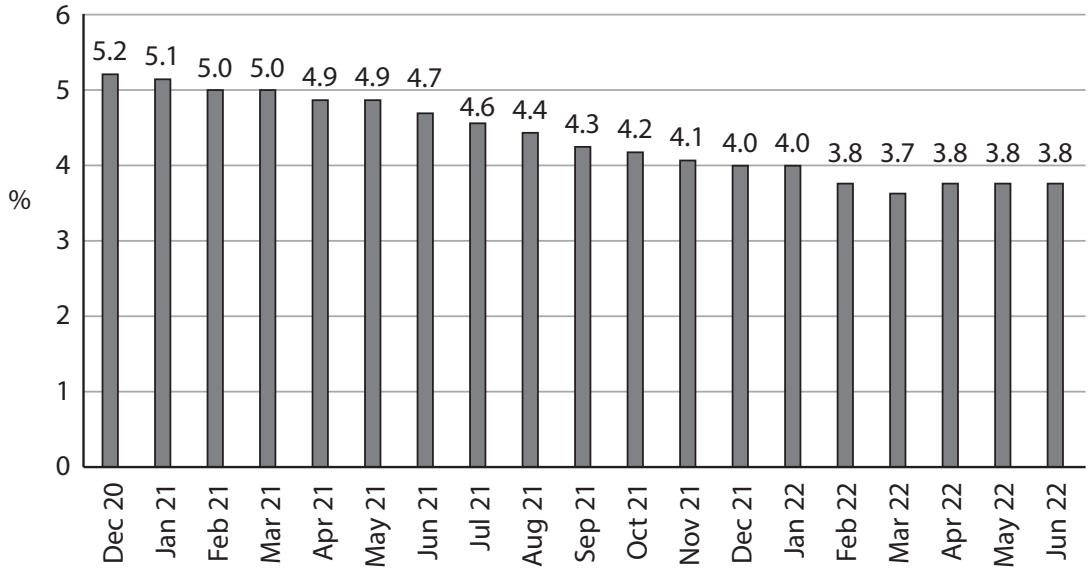
(c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry?

(1)

- ☒ **A** Cyclical
- ☒ **B** Real wage
- ☒ **C** Seasonal
- ☒ **D** Structural

(Total for Question 4 = 5 marks)

2 UK unemployment rate (%), December 2020 – June 2022



(Source: adapted from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/august2022)

(a) With reference to the chart, which **one** of the following is true?

(1)

The unemployment rate:

- ☒ **A** fell by 1.4% between December 2020 and April 2022
- ☒ **B** fell by one percentage point between February 2021 and December 2021
- ☒ **C** was highest in March 2022 and lowest in December 2020
- ☒ **D** will continue to rise but at a slower rate

(b) With reference to the chart on the previous page, explain **one** likely reason for the change in the UK's rate of unemployment.

(4)

(Total for Question 2 = 5 marks)

5 The UK's labour force inactivity rate was 20.2% in January 2020 and increased to 21.5% in January 2022.

After an increase in the early stages of the global health crisis, most developed countries have recorded a decrease in the inactivity rate back to, and below, levels in 2019. This is not the case in the UK.

(Source adapted from: https://www.theguardian.com/business/2023/apr/13/uk-worst-performer-g7-workforce-participation-since-covid; tradingeconomics.com)

(a) The total UK labour force in January 2022 was 34.5 million. With reference to the information above, calculate the total number of inactive people in the UK labour force in January 2022.

(2)

(b) Explain **one** likely reason for the high levels of inactivity in the UK labour force.

(2)

(c) Which **one** of the following would be the most likely result of an increase in the rate of **employment**?

(1)

- ☒ **A** Deflation
- ☒ **B** Improvement in living standards
- ☒ **C** Increase in absolute poverty
- ☒ **D** Recession

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION B

Read Figures 1 to 4 and extracts C and D before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

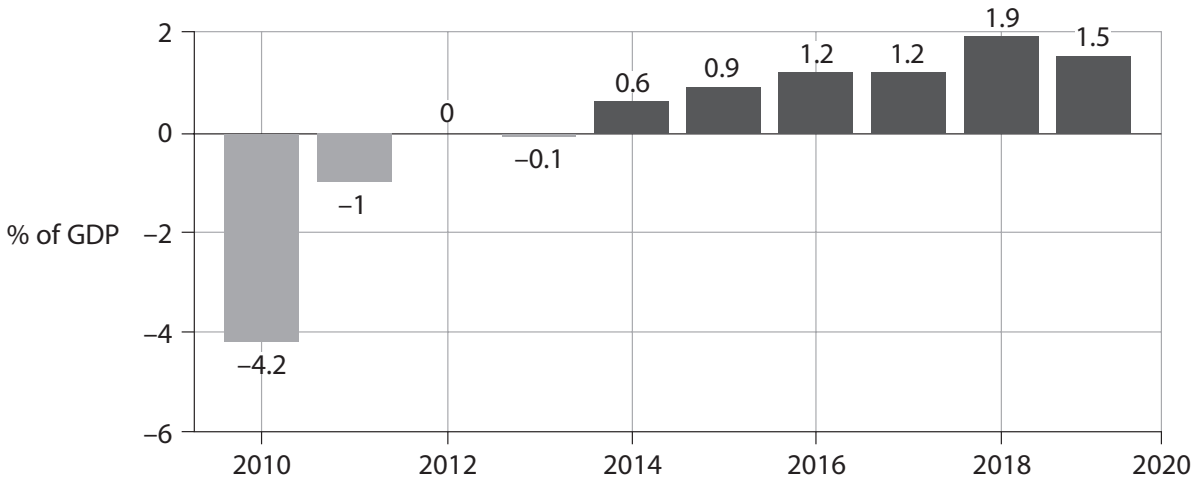
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

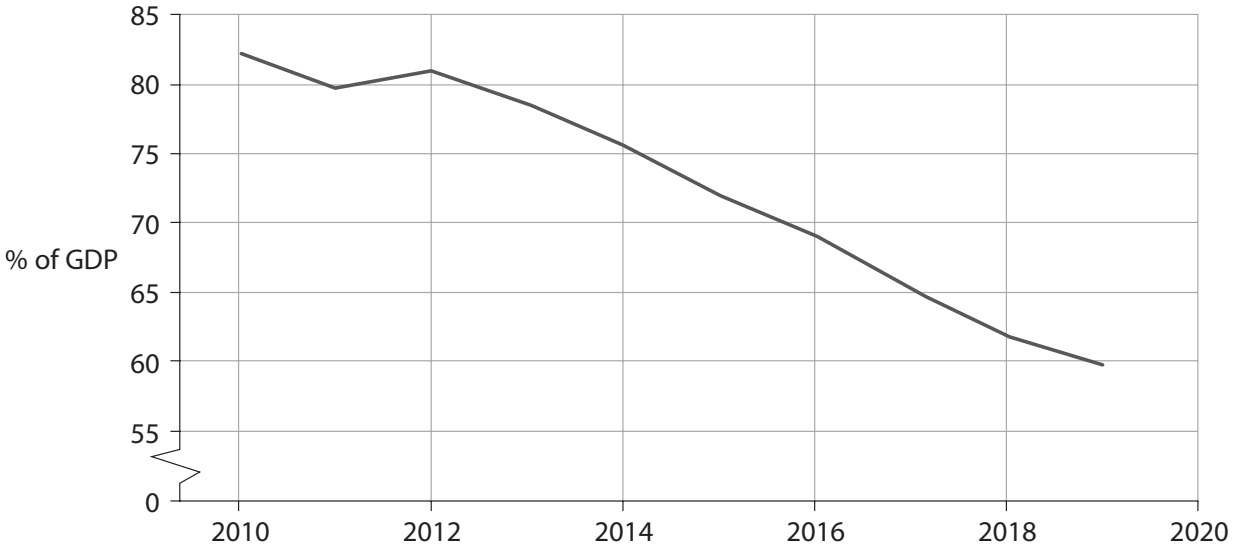
The German economy

Figure 1: German government budget balance, percentage of GDP, 2010 to 2019



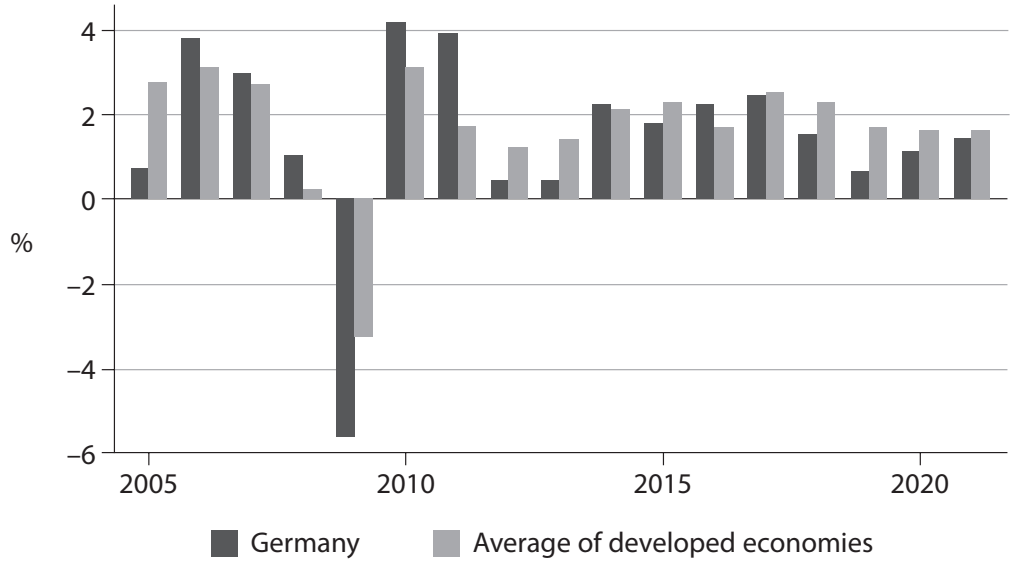
(Source adapted from: The Economist Nov 14th 2019)

Figure 2: German national debt, percentage of GDP, 2010 to 2019



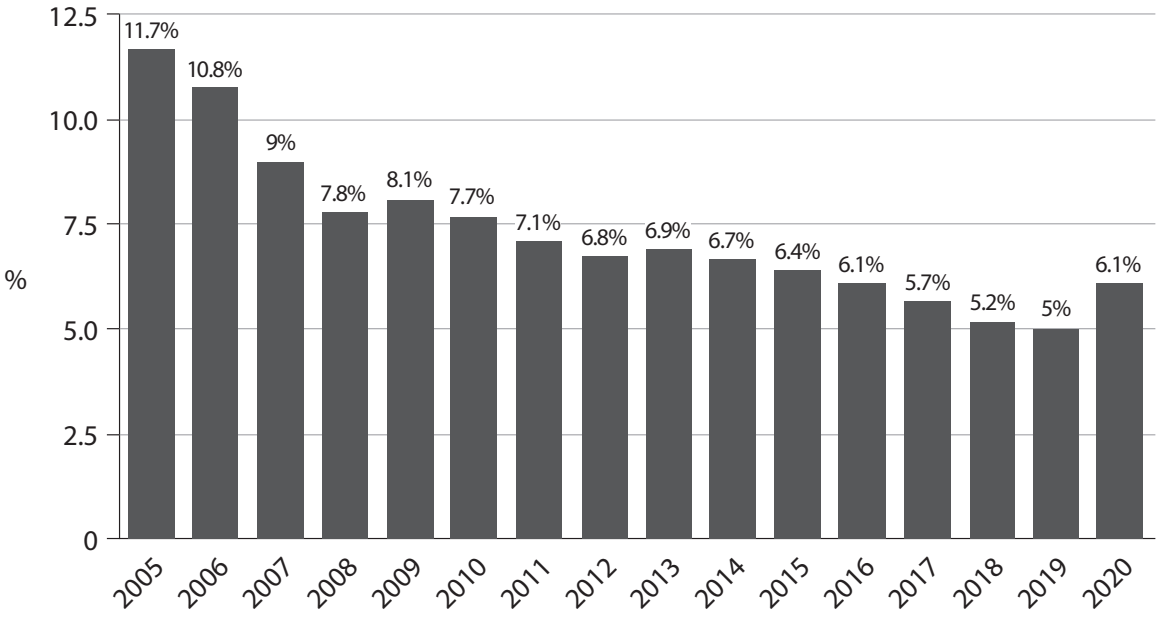
(Source adapted from: The Economist Nov 14th 2019)

Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)



(Source adapted from: IMF and German Federal Statistical Office)

Figure 4: Unemployment rate in Germany, percentage of labour force, 2005 to 2020 (2020 figure is forecasted)



(Source adapted from: bundesagentur für arbeit.de and https://www.ft.com/content/5486b247-c73e-4887-a2b2-528b23e301a6)

Extract C

Why Germany keeps to budget rules despite a slowdown in growth

Germany's economic boom is over, as it has entered recession. During the last ten years of economic growth well over 4 million jobs were created.

The fear of recession has revived a debate in Germany: should the government spend more to stimulate growth? It is written into the German constitution that the fiscal deficit cannot be greater than 0.35% of GDP, once the effects of the economic cycle have been removed. Germany's budget has been in surplus since 2014 and the government is always reluctant to increase spending which would create a deficit. In 2018, aided by booming employment and low interest costs on existing debt, the budget ran to a surplus 1.9% of GDP.

Germany's main trading partners have long been angered by German fiscal policy. The French President criticised Germany's budget and current account surpluses that "always occur at the expense of others".

Large parts of Germany's infrastructure need significant investment. As the economy has slowed, a decision to run a balanced-budget policy has become harder to defend. In wealthy regions of Germany, crumbling schools have been closed for fear of collapse, and information and mobile technology on a wide scale needs to be modernised. The World Economic Forum reported that accessibility of fibre optic broadband also "remains the privilege of the few". However, private sector firms, such as major motor manufacturers, are still willing to invest in new technology and the profitability of some of these firms, in the long run, benefits as a result.

The state development bank puts Germany's investment shortfall at €138 billion (£120 billion). Arguments for a much more expansionary fiscal policy have failed to influence government policy. Big government programmes, such as a recent package to reduce Germany's carbon emissions, are only implemented when they satisfy fiscal rules.

(Source adapted from: The Economist Nov 14th 2019 and https://www.ft.com/content/3cec4908-d164-11e9-8367-807ebd53ab77 7th September 2019 and https://www.ft.com/content/198f072e-4e42-11ea-95a0-43d18ec715f5 and https://www.ft.com/content/d89d9404-c586-11e9-a8e9-296ca66511c9 and https://www.ft.com/content/8f87c03c-93dc-11e8-b67b-b8205561c3fe)

Extract D

Germany drops to number 7 in the Global Competitiveness Index

Despite being the largest economy in the European Union, Germany's competitiveness is declining, according to the World Economic Forum (WEF). Germany dropped four places in the WEF's Global Competitiveness Index, coming in as the seventh-most competitive economy. Out of the 103 indicators used in the report, Germany received lower scores in 53 areas in 2019.

(Source: https://www.dw.com/en/germany-falls-in-global-competitiveness-ranking/a-50745071 8 October 2019)

(b) Examine **two** likely effects of the forecast change in the rate of unemployment between 2019 to 2020, on firms in Germany. Refer to Figure 4 in your answer.

(8)

SECTION B

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

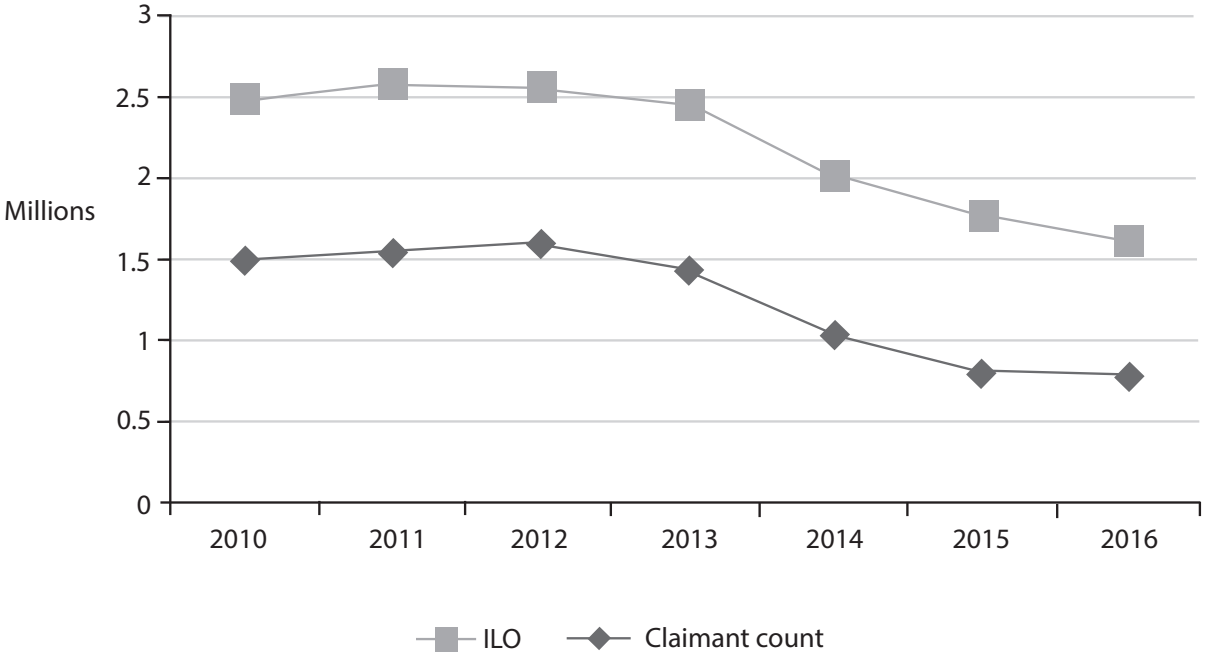
Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

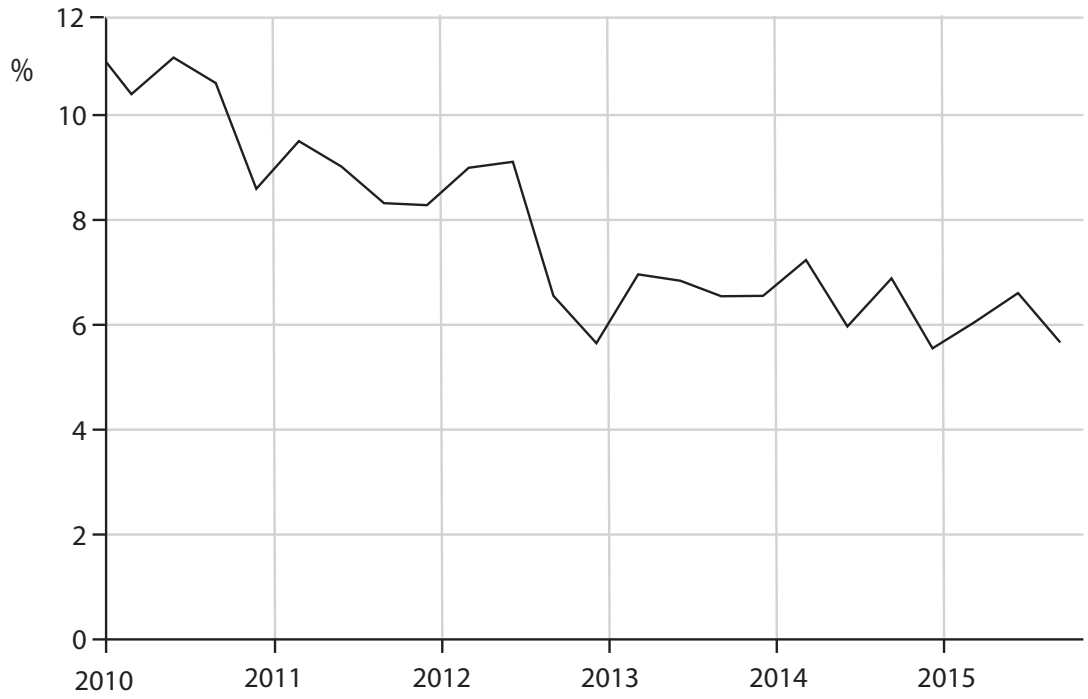
The UK economy

Figure 1: Unemployment – International Labour Organisation (ILO) and the claimant count, millions, 2010-2016



(Source: ONS Datasets, https://www.ons.gov.uk/)

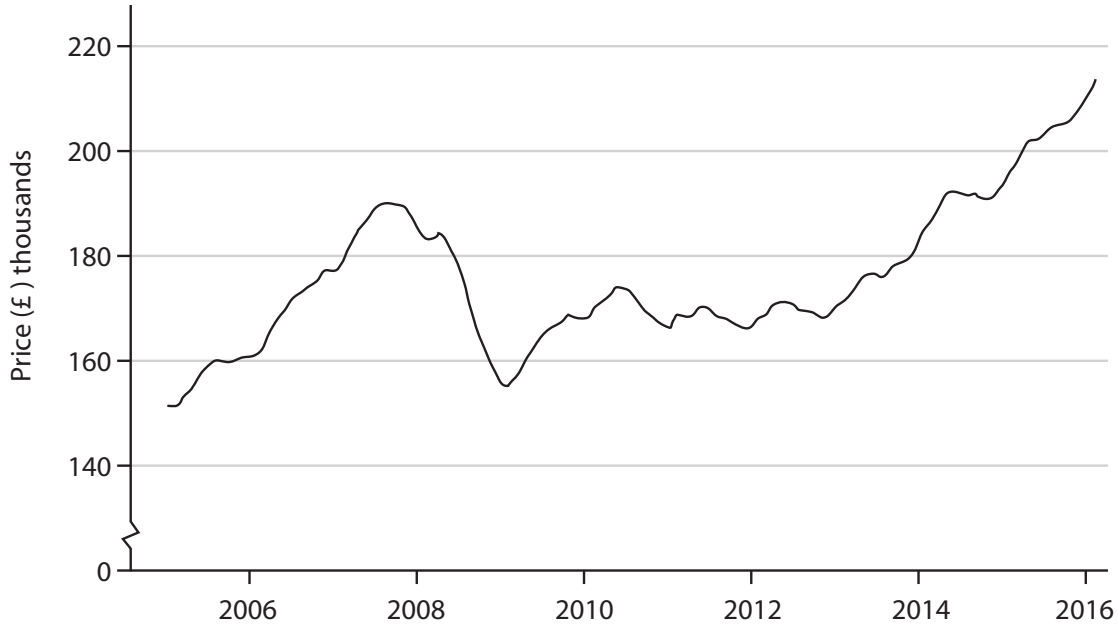
Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

(Source: http://www.tradingeconomics.com/united-kingdom/personal-savings)

Figure 3: UK average house prices, 2005–2016



(Source: http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/)

Extract A

Soaring house prices

House prices are still rising rapidly. The average UK house price was £214 000 in June 2016, according to the Office for National Statistics (ONS). This is £24 000 more than it was at its peak in September 2007, just before the economic downturn. First-time buyers have experienced the largest rise in house prices.

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(Source: adapted from 'The state of the UK housing market in five charts', The Telegraph, http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/; 'UK house price growth slows as demand cools after Brexit vote', The Guardian, https://www.theguardian.com/business/2016/sep/30/uk-house-price-growth-slows-demand-cools-brexit-vote-nationwide)

Extract B

UK migration trends in the year ending June 2016

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Employment remains the most common reason for long-term migration (312 000) to the UK, with around 182 000 of these coming with a definite job and 130 000 looking for work.

Long-term migration to the UK for study was estimated to be 163 000. In addition, 80 000 long-term migrants arrived in the UK to accompany their families. There were 41 280 refugees applying for asylum, including dependants, of which 10 547 people were granted asylum. Asylum applicants cannot usually accept offers of employment while their case is being processed.

(Source: adapted from 'Migration Statistics Quarterly Report: December 2016', ONS, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/dec2016)

(e) With reference to Extract B and Figure 1, discuss the likely impact of migration on employment **and** unemployment in the UK.

(15)

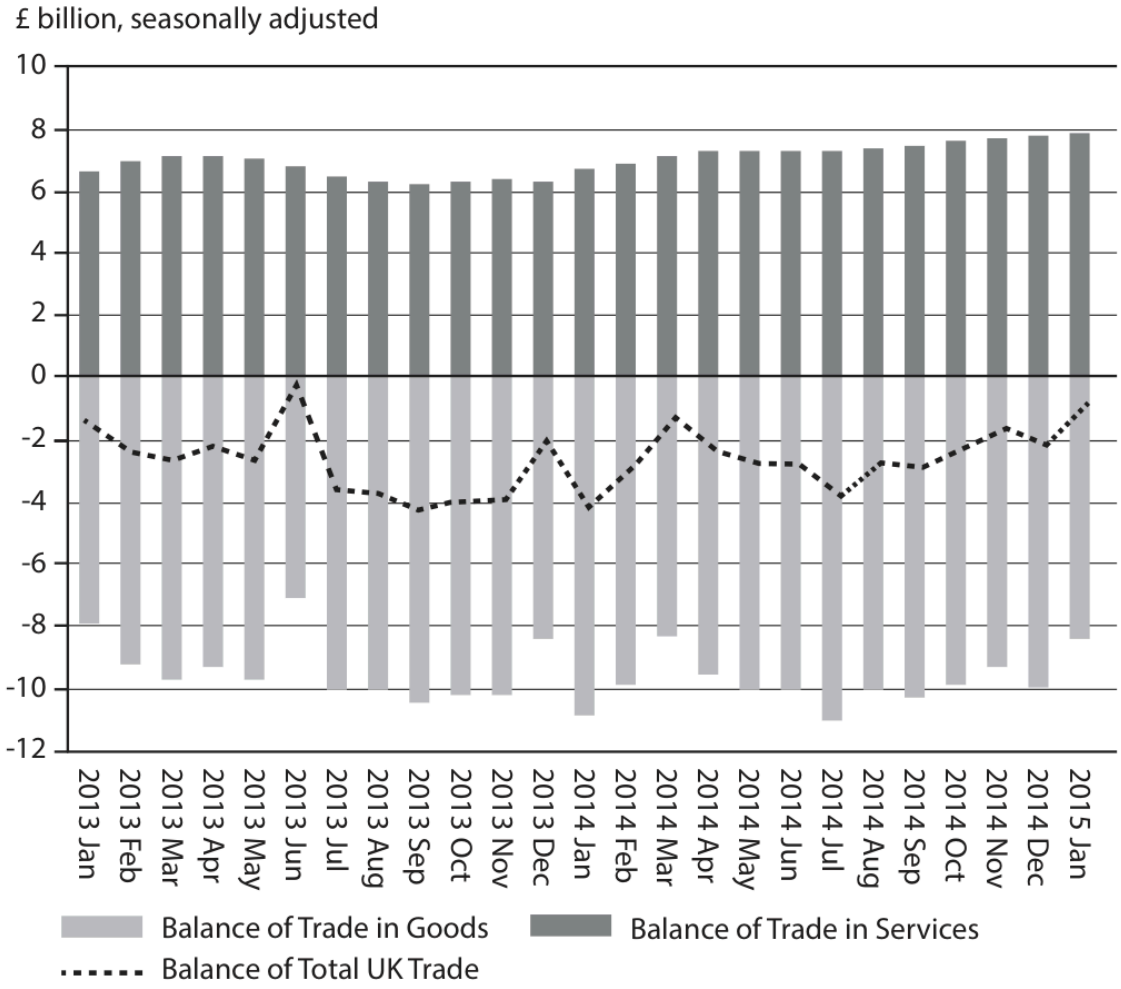
SUB-TOPIC 2.1.4

BALANCE OF PAYMENTS

Sub-topic 2.1.4 · 15 questions · 64 marks · lowest tariff first

4 Figure 1 shows data on the UK's balance of trade.

Figure 1 – UK's balance of trade January 2013 to January 2015



(Source: http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/january-2015/summ-uk-trade--january-2015.html)

(a) Which **one** of the following can be inferred from Figure 1 in the period shown?

(1)

- ☒ **A** The total UK trade deficit was the largest in June 2013
- ☒ **B** The trade in goods was always in surplus between January 2013 and January 2015
- ☒ **C** The total UK trade deficit was the smallest in January 2014
- ☒ **D** The trade in goods deficit was the smallest in June 2013

(Total for Question 4(a) = 1 mark)

3 The UK's net monthly balance of trade in goods and services, by value, January 2014 to January 2018, is shown in the chart below.



(Source: adapted from https://tradingeconomics.com/united-kingdom/balance-of-trade)

(a) Which **one** of the following can be inferred from the above chart over the period shown?

(1)

- ☒ **A** The government was spending more than it received in taxation
- ☒ **B** The UK's balance of trade, by value, was always in equilibrium
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** The value of inflows was greater than the value of outflows

(Total for Question 3(a) = 1 mark)

4 The UK exchange rate changed from £1 = $1.53 in January 2015 to £1 = $1.22 in October 2019.

(a) Define the term 'exchange rate'.

(1)

.....

.....

.....

.....

(Total for Question 4(a) = 1 mark)

4 The UK exchange rate changed from £1 = $1.53 in January 2015 to £1 = $1.22 in October 2019.

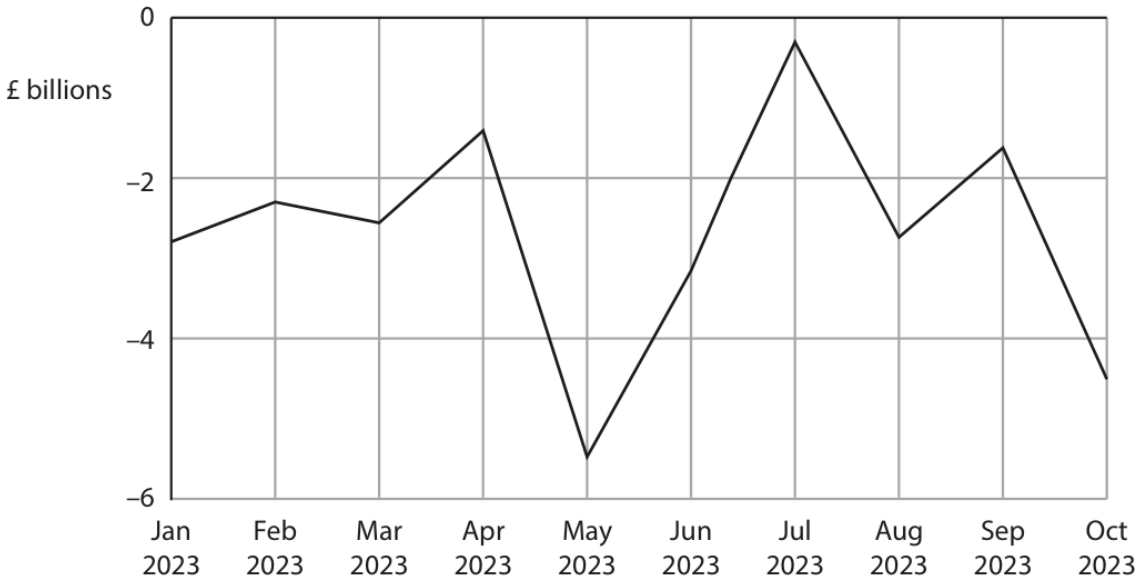
(b) Which **one** of the following represents the percentage change in the £ sterling and US$ exchange rate?

(1)

- ☒ **A** 0.31%
- ☒ **B** 20.26%
- ☒ **C** 25.41%
- ☒ **D** 79.74%

(Total for Question 4(b) = 1 mark)

5 The UK net monthly balance of trade in goods and services, by value, January 2023 to October 2023, is shown in the chart below.



(Source: adapted from https://tradingeconomics.com/united-kingdom/balance-of-trade)

(a) Which **one** of the following can be deduced from the chart?

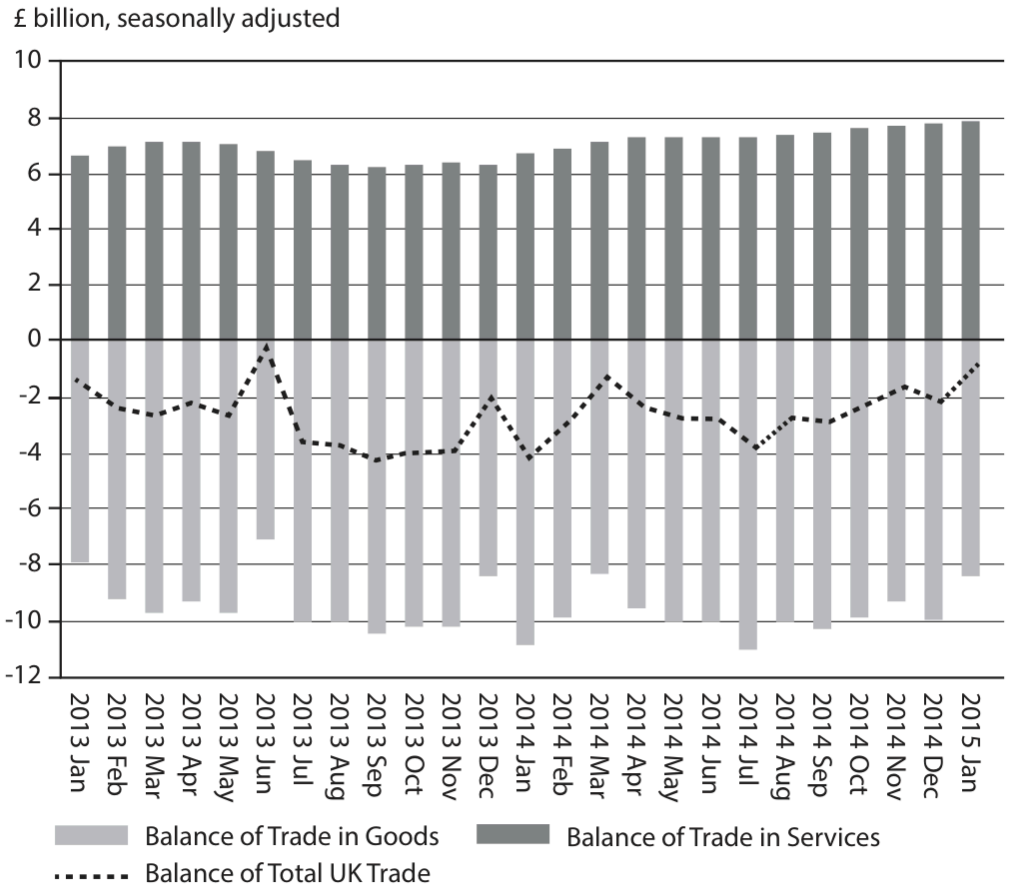
(1)

- ☒ **A** The government was spending less than it received in taxation
- ☒ **B** The government was spending more than it received in taxation
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** The value of imports was smaller than the value of exports

(Total for Question 5(a) = 1 mark)

4 Figure 1 shows data on the UK's balance of trade.

Figure 1 – UK's balance of trade January 2013 to January 2015



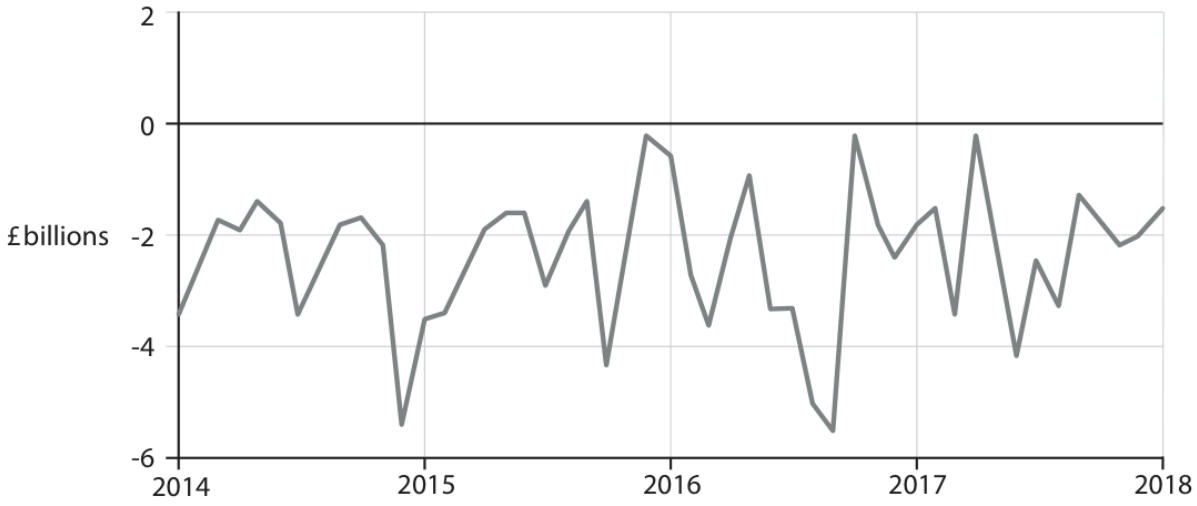
(Source: http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/january-2015/summ-uk-trade--january-2015.html)

(b) Explain **one** likely reason for the reduction in the total UK trade deficit in January 2015.

(3)

(Total for Question 4(b) = 3 marks)

3 The UK's net monthly balance of trade in goods and services, by value, January 2014 to January 2018, is shown in the chart below.



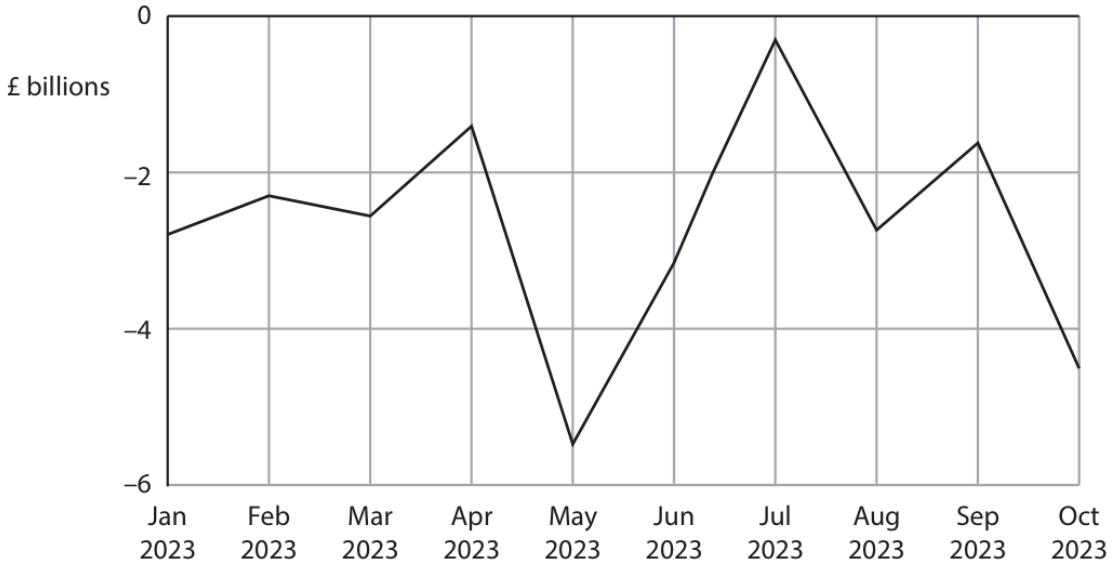
(Source: adapted from https://tradingeconomics.com/united-kingdom/balance-of-trade)

(b) Explain **one** likely reason for the UK's balance of trade in goods and services over the period shown. Refer to the chart on page 6 in your answer.

(3)

(Total for Question 3(b) = 3 marks)

5 The UK net monthly balance of trade in goods and services, by value, January 2023 to October 2023, is shown in the chart below.



(Source: adapted from https://tradingeconomics.com/united-kingdom/balance-of-trade)

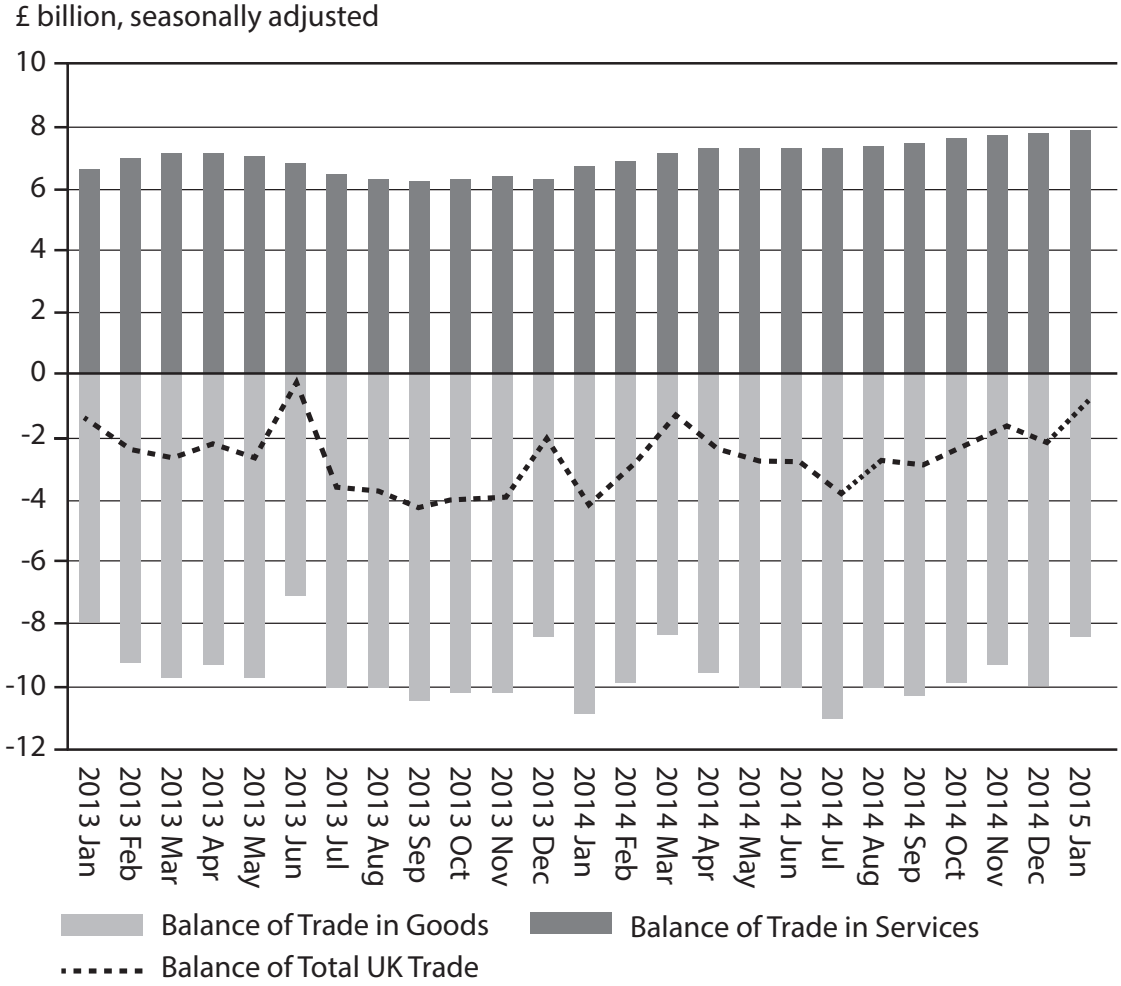
(b) Explain **one** likely reason for the deficit in the UK balance of trade in goods and services. Refer to the chart on **page 10** in your answer.

(3)

(Total for Question 5(b) = 3 marks)

4 Figure 1 shows data on the UK's balance of trade.

Figure 1 – UK's balance of trade January 2013 to January 2015



(Source: http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/january-2015/summ-uk-trade--january-2015.html)

(a) Which **one** of the following can be inferred from Figure 1 in the period shown?

(1)

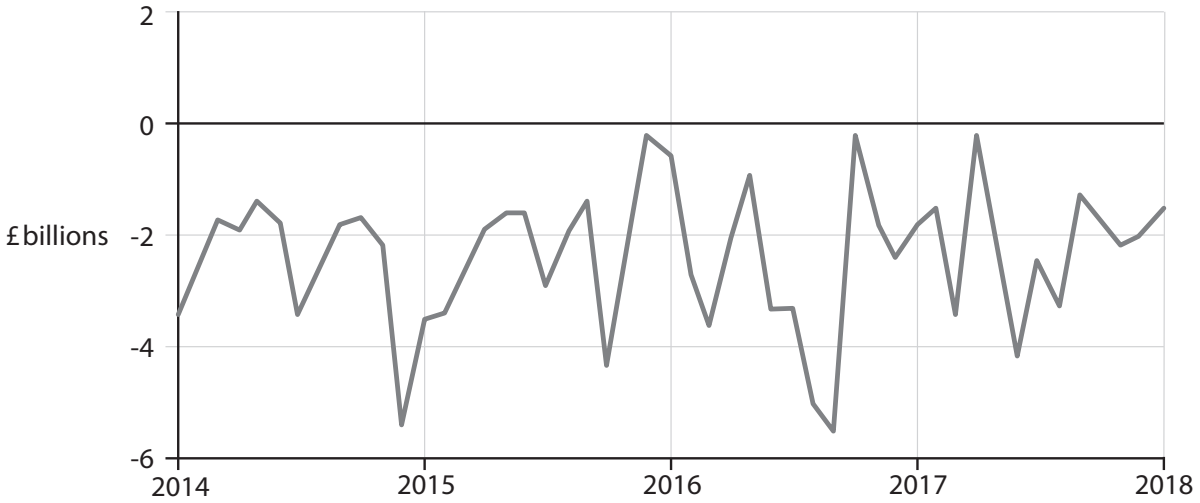
- ☒ **A** The total UK trade deficit was the largest in June 2013
- ☒ **B** The trade in goods was always in surplus between January 2013 and January 2015
- ☒ **C** The total UK trade deficit was the smallest in January 2014
- ☒ **D** The trade in goods deficit was the smallest in June 2013

(b) Explain **one** likely reason for the reduction in the total UK trade deficit in January 2015.

(3)

(Total for Question 4 = 4 marks)

3 The UK's net monthly balance of trade in goods and services, by value, January 2014 to January 2018, is shown in the chart below.



(Source: adapted from https://tradingeconomics.com/united-kingdom/balance-of-trade)

(a) Which **one** of the following can be inferred from the above chart over the period shown?

(1)

- ☒ **A** The government was spending more than it received in taxation
- ☒ **B** The UK's balance of trade, by value, was always in equilibrium
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** The value of inflows was greater than the value of outflows

(b) Explain **one** likely reason for the UK's balance of trade in goods and services over the period shown. Refer to the chart on page 6 in your answer.

(3)

(Total for Question 3 = 4 marks)

4 The UK exchange rate changed from £1 = $1.53 in January 2015 to £1 = $1.22 in October 2019.

(a) Define the term 'exchange rate'.

(1)

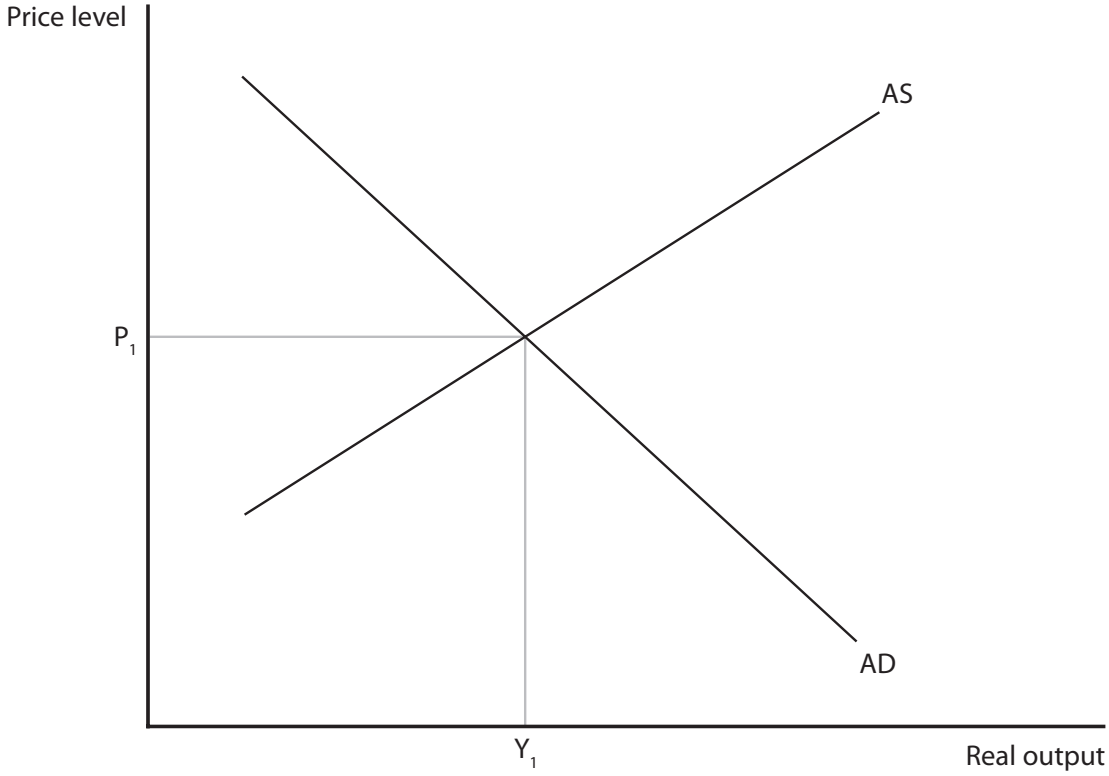
(b) Which **one** of the following represents the percentage change in the £ sterling and US$ exchange rate?

(1)

- ☒ **A** 0.31%
- ☒ **B** 20.26%
- ☒ **C** 25.41%
- ☒ **D** 79.74%

(c) Annotate the aggregate demand (AD) and aggregate supply (AS) diagram below to show the likely impact of an improvement in net trade on the equilibrium level of real output and the price level.

(2)



(Total for Question 4 = 4 marks)

SECTION B

Read Figures 1 and 2 below and Extracts A and B before answering Question 6.

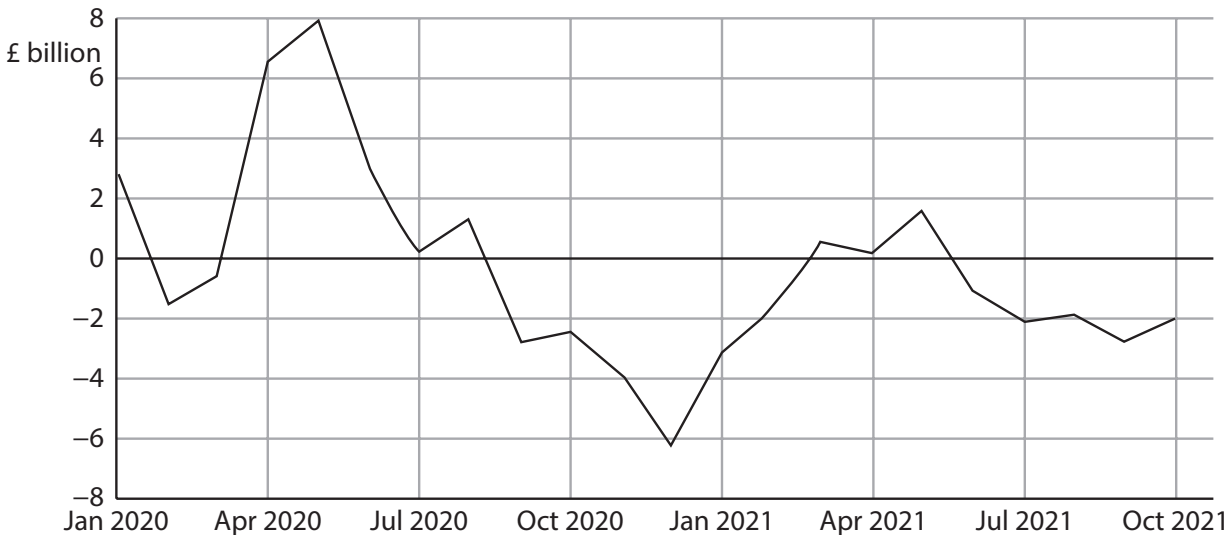
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

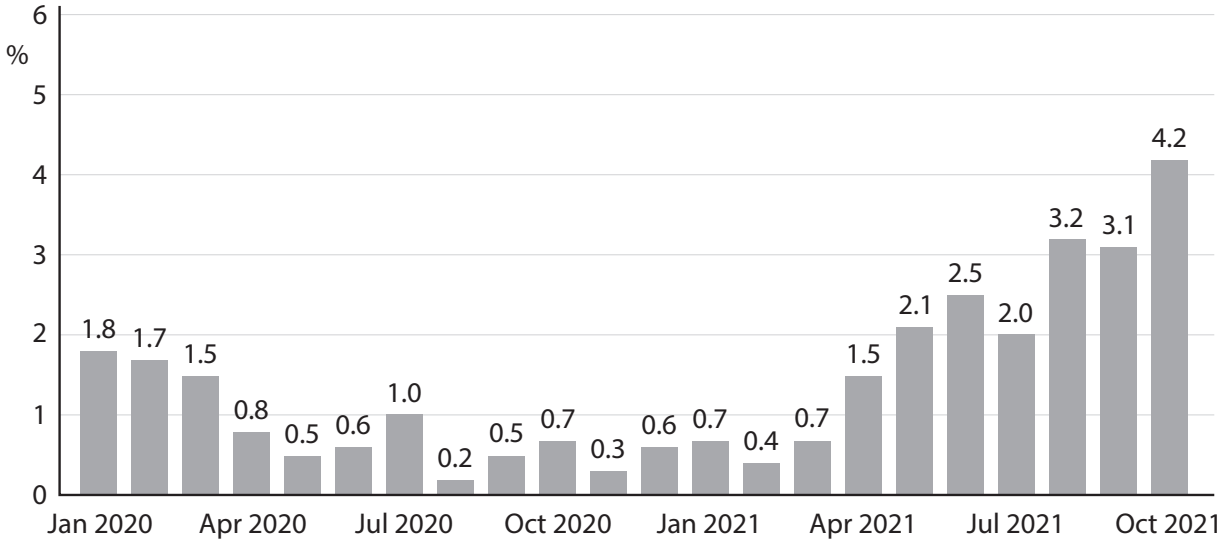
UK balance of trade and inflation

Figure 1: UK balance of trade in goods and services, January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/balance-of-trade)

Figure 2: UK inflation rate as measured by annual percentage changes in the Consumer Prices Index (CPI), January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

Extract A

Balance of trade in goods and services

Rising imports from non-EU countries have increased the UK's trade deficit in the third quarter of 2021. This was as a result of the UK strengthening its trading relationships with countries outside the EU. An 11.2% increase in imports from non-EU countries has increased the UK's trade deficit to nearly £7 billion. Moreover, exports to non-EU countries were £0.8 billion lower than exports to EU countries.

Despite the overall trade balance being in deficit, the UK services trade balance is in surplus, reflecting the economy's heavy reliance on services. The trade in services surplus increased by £2.2 billion to £35.6 billion. This was mostly as a result of an increase in the export of financial services.

(Source: adapted from https://www.cityam.com/swelling-non-eu-imports-widens-uk-trade-deficit)

Extract B

Inflation

In December 2021 the rate of inflation in the UK rose to 5.4%, its highest rate in 30 years. The speed of increase has taken economists by surprise. The Bank of England expected inflation to peak at this rate, but not until April 2022. The rate was more than two-and-a-half times its 2% inflation target.

Transport costs were the biggest contributor to rising inflation, with petrol prices increasing by over 5%. Moreover, supply chain bottlenecks constrained access to raw materials and limited the number of new products being sold in the market. At the same time, economists warned that the demand for goods and services in the UK economy was quickly increasing. This was a result of the easing of the restrictions associated with the global health crisis.

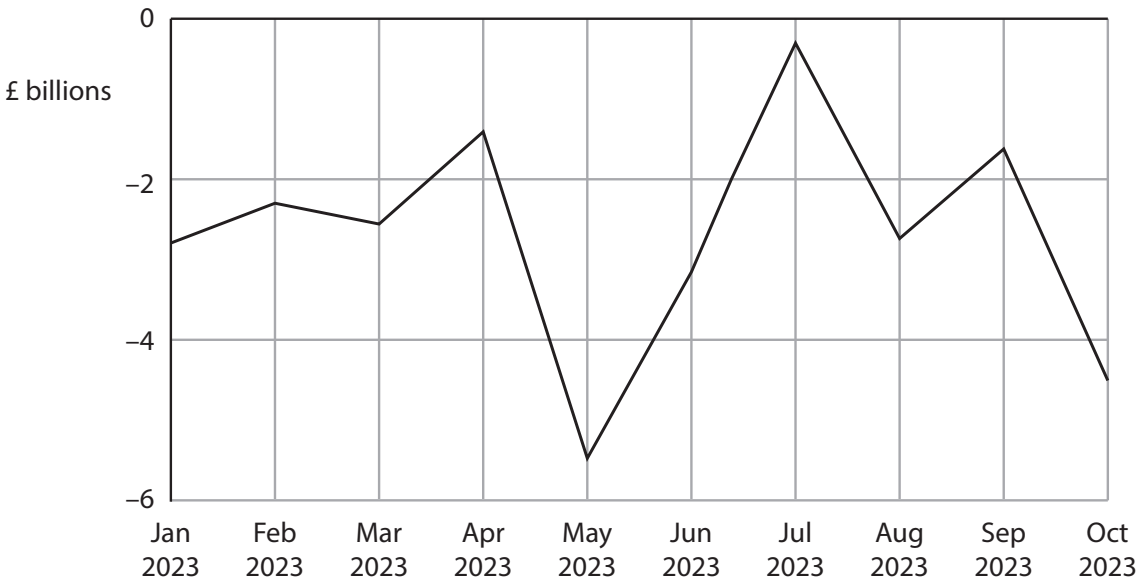
The high rate of inflation would normally be enough to prompt a significant increase in the base rate of interest by the Bank of England's Monetary Policy Committee (MPC). Despite the lower rates of economic growth, the MPC increased the base interest rate from 0.1% to 0.5% in February 2022.

(Source: adapted from 'UK inflation hits highest level in a decade', FT, https://www.ft.com/content/dd5edcd1-2e70-4910-b642-269574b4bcdd; 'What does the UK's soaring inflation rate mean for you?', The Guardian, https://www.theguardian.com/business/2021/dec/15/what-does-uk-soaring-inflation-rate-mean)

(a) With reference to Figure 1, explain the term 'balance of trade in goods and services'.

(4)

5 The UK net monthly balance of trade in goods and services, by value, January 2023 to October 2023, is shown in the chart below.



(Source: adapted from https://tradingeconomics.com/united-kingdom/balance-of-trade)

(a) Which **one** of the following can be deduced from the chart?

(1)

- ☒ **A** The government was spending less than it received in taxation
- ☒ **B** The government was spending more than it received in taxation
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** The value of imports was smaller than the value of exports

(b) Explain **one** likely reason for the deficit in the UK balance of trade in goods and services. Refer to the chart on **page 10** in your answer.

(3)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

SECTION B

Read Figures 1 and 2 and extract A before answering Question 6.

Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

UK economic recovery

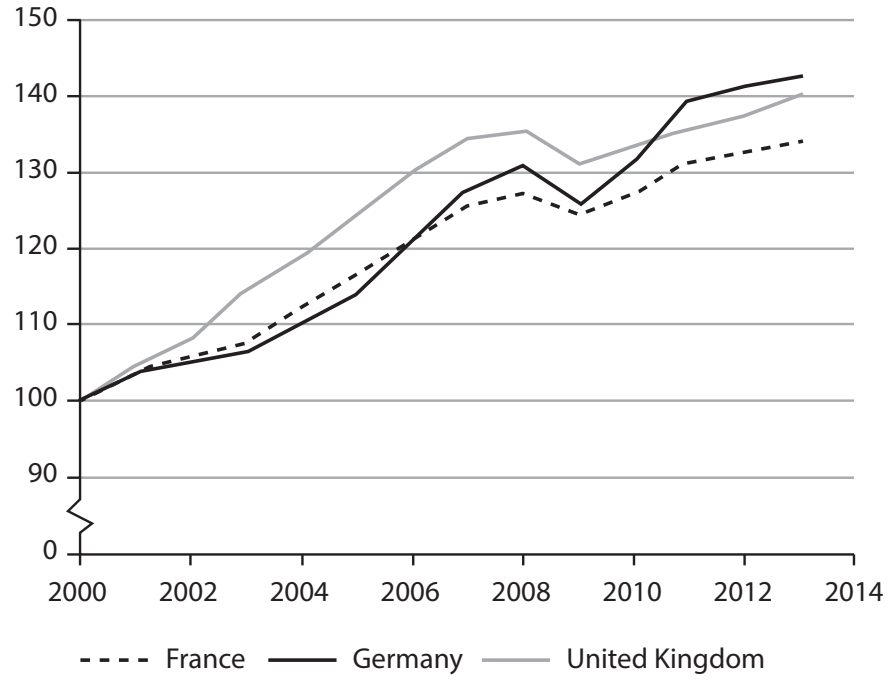
Figure 1: Components of aggregate demand in selected countries 2014

Country	Consumption	Investment	Government spending	Exports - Imports
UK	66%	14%	21%	–2%
Germany	57%	17%	19%	6%
France	57%	20%	25%	–2%
China	34%	49%	14%	3%

NB: Figures may not add up to 100% due to rounding calculations.

(Source: World Bank 2014)

Figure 2: Nominal GDP per capita at Purchasing Power Parities (PPPs) (the base year 2000=100)



(Source: https://www.imf.org)

Extract A

The UK economy – a strange recovery

At the Autumn Statement in November 2015, the Chancellor of the Exchequer had good reason to cheer his economic record. The UK economy appeared to have returned towards its long-term trend in the rate of economic growth.

GDP growth has remained strong, with output rising at the highest rate in the G7 group of seven major industrialised countries. Unemployment continued to drop and business investment grew by 5%.

However, a number of concerns remain, particularly in relation to the UK's current account deficit, which reached a record high of 6% of GDP in the third quarter of 2014. This was primarily a result of a sharp decline in the rate of return on UK investments overseas. Low export growth meant that the UK's trade deficit persisted.

In 2012, the Chancellor had announced a target for the UK to export £1 trillion of goods and services by 2020, which would require an annual growth rate of 8%. However, the annual growth in UK exports had reached just 2.7%. The Office for Budget Responsibility (OBR) forecast that UK exports will only reach £630 billion by 2020 – a third lower than the government's target.

Exports in services continued to grow in 2015, but the UK's goods industries were struggling. It was particularly concerning that data showed output in the UK's construction and manufacturing industries falling. Indeed, the output of the manufacturing sector remained 6.3% below its pre-recession peak.

Households, meanwhile, are set to become even more indebted over the coming years. It is projected that the household gross debt to income ratio will rise by 26 percentage points between 2015 to 2020, returning to levels last seen before the Global Financial Crisis. The economy did not appear to be rebalancing away from consumer driven growth towards export-led growth, making another recession almost inevitable.

Fundamental to this problem is the UK's low productivity, which in 2015 remains around 20 percentage points below the average for the rest of the G7. It is vital that the government tackles this problem, particularly in the sectors that are currently facing difficulties. This will require relaxing the planning system to promote more house-building, the removal of burdens on UK manufacturers such as carbon taxes, finally getting shale gas exploration going, and reforming apprenticeships to rapidly improve skills in construction, manufacturing and technology.

(Source: adapted from http://www.cityam.com/229481/chancellor-beware-uk-not-out-woods-yet, 25 November 2015 by Daniel Mahoney)

(b) With reference to the information provided and your own knowledge, assess the likely causes of the UK's trade deficit.

(10)

SECTION B

Read Figures 1 and 2 below and Extracts A and B before answering Question 6.

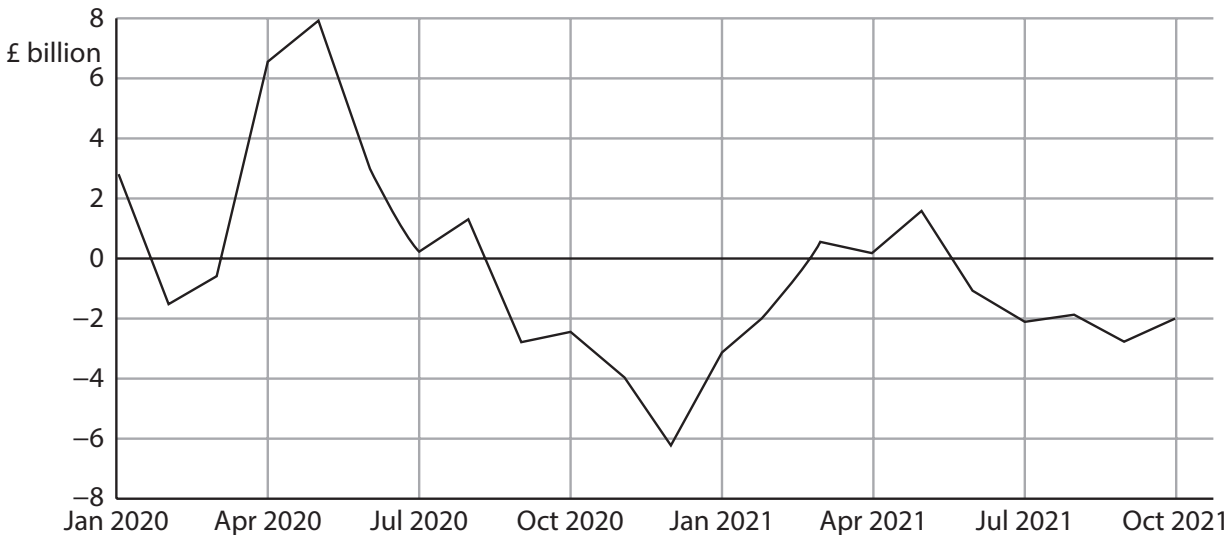
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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Question 6

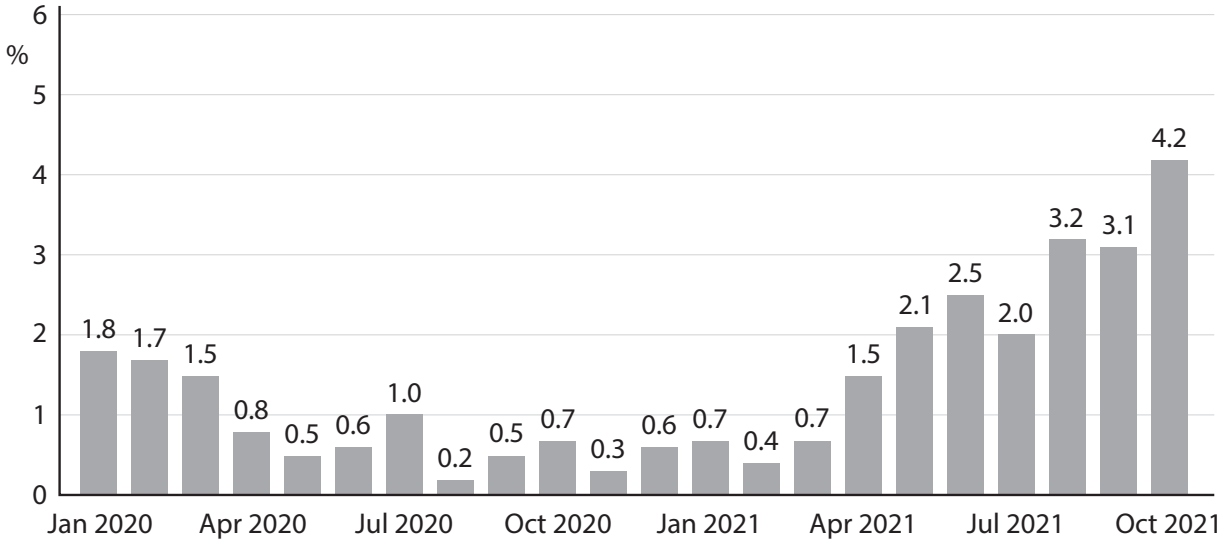
UK balance of trade and inflation

Figure 1: UK balance of trade in goods and services, January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/balance-of-trade)

Figure 2: UK inflation rate as measured by annual percentage changes in the Consumer Prices Index (CPI), January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

Extract A

Balance of trade in goods and services

Rising imports from non-EU countries have increased the UK's trade deficit in the third quarter of 2021. This was as a result of the UK strengthening its trading relationships with countries outside the EU. An 11.2% increase in imports from non-EU countries has increased the UK's trade deficit to nearly £7 billion. Moreover, exports to non-EU countries were £0.8 billion lower than exports to EU countries.

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Extract B

Inflation

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The high rate of inflation would normally be enough to prompt a significant increase in the base rate of interest by the Bank of England's Monetary Policy Committee (MPC). Despite the lower rates of economic growth, the MPC increased the base interest rate from 0.1% to 0.5% in February 2022.

(Source: adapted from 'UK inflation hits highest level in a decade', FT, https://www.ft.com/content/dd5edcd1-2e70-4910-b642-269574b4bcdd; 'What does the UK's soaring inflation rate mean for you?', The Guardian, https://www.theguardian.com/business/2021/dec/15/what-does-uk-soaring-inflation-rate-mean)

Q) 6 (f) Evaluate the main influences on the UK's net trade balance.

(20)

(Total for this part = 20 marks)

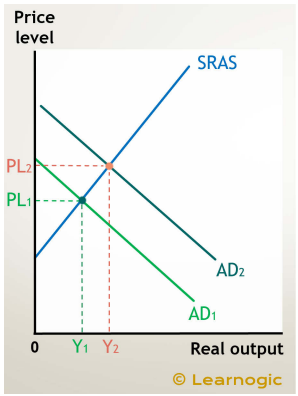
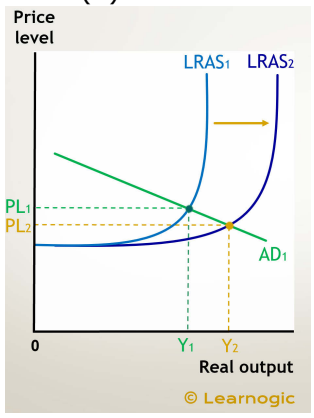
Continue on separate paper if required.

MARK SCHEMES

official mark schemes

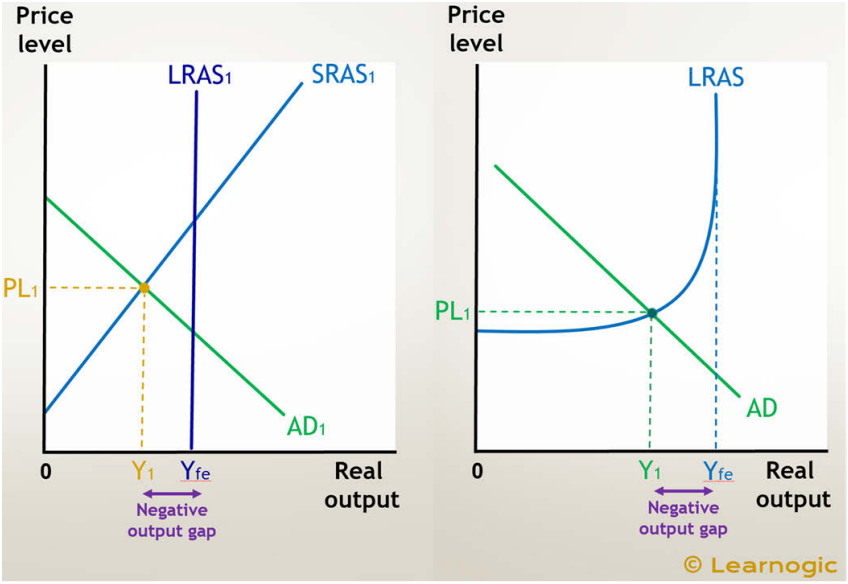
Question Number	Answer	Mark
2 (a)	**Knowledge 2** **Knowledge/understanding** 1 mark for partial definition, e.g. • Making a comparison between countries. 2 marks for full and accurate definition, e.g. • The rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country • Comparison between countries, taking into account different cost of living.	**(2)**

Question Number	Answer	Mark
2 (b)	A	**(1)**

Question Number	Answer	Mark
2 (c)	**Knowledge 1** New AD curve (shifts to the right) and a new equilibrium at Y2 (1)  OR New LRAS curve (shifts to the right) and a new equilibrium is found at Y2 (1)  	**(1)**

Question Number	Answer	Mark
3(a)	B	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 2** **Knowledge/understanding** 1 mark for definition of GDP e.g. • Value of the total output (1) • Accept amount of final goods and services (1) • Total income / total expenditure (1) 1 mark for definition of real e.g. • Taking inflation into account (1) • Adjusted for changes in the price level (1)	**(2)**

Question Number	Answer	Mark
3(c)	**Knowledge 1** Identification of a negative output gap on the diagram, either of those illustrated by the annotations below are acceptable (N.B. only ONE is required) 	**(1)**

Question Number	Answer	Mark
1(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • GDP is the total value of goods and services produced in an economy (1)	**(1)**

Question Number	Answer	Mark
1(b)	**Application 2** **Application** 1 mark for appropriate calculation, e.g. 1 872 714 / 65.1 (1) Answer = **28 766.73** (accept range between £28 766 to £28 767) Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
1(c)	**The only correct answer is A** **B** is not correct because an increase in unemployment will reduce real GDP per capita (this is a cause and not an effect of an increase in real GDP per capita) **C** is not correct because with an increase real GDP per capita, consumer confidence increases and therefore consumption **D** is not correct because with an increase in real GDP per capita, consumers have greater purchasing power and would spend more	**(1)**

Question Number	Answer	Mark
5 (a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • It is GDP **plus** net income paid into the country by other countries for things such as dividends or interest (1) / • Measures income received by a country both domestically and from assets/activities/net property income abroad (1)	**(1)**

Question Number	Answer	Mark
5 (b)	**The only correct answer is C** **A** is incorrect as it is the ratio of Gross National Income in 2014 to Gross National Income in 2015 **B** is incorrect as it is the ratio of Gross National Income in 2016 to Gross National Income in 2017 **D** is incorrect as it is the ratio of Gross National Income in 2014 to Gross National Income in 2017	**(1)**

Question Number	Answer	Mark
5 (c)	**Application 2** **Application:** (1 920 116 / 1 806 468) x 100 (1) Answer = **106.3** (accept 106) Award 1 mark for partially correct calculation/ recognition that 2014 = 100 Award 2 marks for correct answer.	**(2)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge:** 1 mark for definition, e.g. • Not adjusted for inflation (1) • Figures at current prices/market value (1)	**(1)**

Question Number	Answer	Mark
2(b)	**The only correct answer is B** **A** is not correct because this figure is the index number for 2016 using 2018 as the base year **C** is not correct because this figure is the index number for 2017 using 2016 as the base year **D** is not correct because this figure is the index number for 2018 using 2016 as the base year	**(1)**

Question Number	Answer	Mark
2(c)	**Application 2** **Application:** 1 mark for appropriate calculation, e.g. 2 061 408 / 66.4 (1) Answer = **£31 045.30** Allow **31 045** / **£31 000** • Award 2 marks for correct answer (£31 045.30 / £31 045 / £31 000) • If million is given after the answer, then award up to 1 mark	**(2)**

Question Number	Answer	Mark
3(a)	**The only correct answer is C** **A** is not correct because earnings are adjusted for inflation and not interest rates **B** is not correct because between nominal earnings have increased by nearly £125 **D** is not correct because real earnings have remained steady throughout the given period	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for, e.g. • Defining subjective happiness: happiness that may differ between individuals (1) • As real incomes increase, happiness increases (1) **Application:** 1 mark for reference to the chart, for e.g. • Real earnings have been steady throughout the time period given (1) • Real earnings have been constant at approximately £450-£460 per week (1) **Analysis:** 1 mark for linked development, e.g. • Higher earnings increase an individual's ability to afford/buy/spend on more goods and services (1) • As real earnings have not increased, people are unlikely to experience a big improvement in their living standards (1)	**(3)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge:** 1 mark for definition, e.g. • GDP divided by population **(1)** • Output per person **(1)**	**(1)**

Question Number	Answer	Mark
2(b)	**The only correct answer is A** **B** is not correct because a decrease in GDP per capita is likely to increase unemployment **C** is not correct because with a decrease in real GDP per capita, consumer confidence and consumption decreases **D** is not correct because with a decrease in real GDP per capita, consumers will spend less so price level falls	**(1)**

Question Number	Answer	Mark
2(c)	**Knowledge 2** **Knowledge/understanding:** Up to 2 marks for, e.g. • PPP is calculated by comparing price of a basket of comparable goods/services in different countries **(1)** • To improve accuracy when comparing data between countries **(1)** • PPP compares cost of living/buying power between different countries **(1)**	**(2)**

Question Number	Answer	Mark
1(a)	**The only correct answer is A** **B** is not correct because this is when actual economic growth is less than potential economic growth **C** is not correct because this is when actual economic growth is greater than potential economic growth **D** is not correct because this is the increase in productive capacity of the economy	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one limitation, e.g. does not consider • exchange rates (1) • population growth (1) • presence of informal and unpaid economy (1) • subsistence, barter and the hidden economy (1) • income inequality/distribution of income (1) **Application:** 1 mark for reference to the information provided for e.g. • Real GDP increase in developing countries is higher than developed countries (1) / • Difference of 2.9 pp in growth rates (1) • Reference to own example (1) **Analysis:** 1 mark for linked development, e.g. • Exchange rates might not accurately reflect the differences in purchasing power of currencies (1) • Population growth accounts for most of the growth in developing countries (1) • Presence of informal and unpaid economy will imply that some output is unrecorded (1) • Subsistence, barter and the hidden economy will undervalue real output (1) • In some countries, wealth is concentrated in the hands of a few high income households (1)	**(3)**

Question Number	Answer	Mark
4(a)	**Application 3, Analysis 1** **Application**: 3 marks for: e.g. • Gini coefficient/inequality fell (1) from 0.36 in 2007 to 0.34 in 2010 (1) • Global Financial Crisis began in 2008 (1) • Changes in taxation and/or government policies (1) **Analysis:** 1 mark for inferences from data, e.g. • Inequality fell due to falling incomes at top of the distribution (top quintiles) (1) • Inequality fell due to increases in benefits at very bottom (quintile). (1) • Inequality constant due to wage/benefit freezes (1).	**(4)**

Question Number	Answer	Mark
4(b)	A	**(1)**

Question Number	Answer	Mark
5(a)	A	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding**: 1+ 1 for limitations: • ignores qualitative factors, such democracy, quality of education or human rights for example (1) • ignores other measures ranging from gender equity, proportion of workforce in agriculture to environmental biodiversity (1) • ignores income distribution (1) • PPP values change very quickly and are likely to be inaccurate or misleading (1) **Analysis**: 1 mark for linked development. **Application**: 1 mark for reference to the data e.g. Vietnam's HDI 0.666.	**(4)**

Question Number	Answer	Mark
1 (a)	**Application 2** 1.7% growth in 2017 £200 000m X 1.017 (1) = **£203 400m** (1) Award 2 marks for correct answer e.g. 203.4 billion	**(2)**

Question Number	Answer	Mark
1 (b)	**Knowledge 2** **Knowledge/understanding:** 1 mark for explaining 'real', e.g. • Taking inflation into account • Adjusted for inflation • Removing the effects of inflation from the data • Constant prices 1 mark for explaining GDP, e.g. • Total output of the economy • Total income of the country • Total expenditure of the country	**(2)**

Question Number	Answer	Mark
1 (c)	**Application 1** **The only correct answer is C** ***A*** *is not correct because we do not have any data on population* ***B*** *is not correct because we do not have any data on inflation* ***D*** *is not correct because economic growth is positive in 2015*	**(1)**

Question Number	Answer	Mark
5(a)	**The only correct answer is C** ***A*** *is not correct because we do not have any information on inflation* ***B*** *is not correct because Germany's GDP is larger than France's in every year shown* ***D*** *is not correct because the GDP of both countries grew between 2015 and 2016*	**(1)**

Question Number	Answer	Mark
5(b)	**Application 2** 1 mark for correct appropriate calculation, e.g. % change = change/original X 100 = 0.19/3.50 X 100 (1) Answer = **5.4%** or **5.4** Award 2 marks for correct answer Allow range 5-5.43	**(2)**

Question Number	Answer	Mark
5 (c)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of one reason, e.g. • To improve accuracy when comparing data between countries **Analysis:** 1 mark for linked development, e.g. • PPP compares cost of living/buying power between different countries • PPP is calculated by comparing the price of a basket of comparable goods and services in different countries	**(2)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** Calculate 2011 total: 10.29m X $123 = $1 265.67 million (2) Calculate 2012 total: 10.55m X $83 = $875.65 million (2) Change = $1 265.67 million – $875.65 million = -$390.02 million / 390.02 million Award full 5 marks for correct answer Award 4/5 marks for $390.02 **N.B. When interpreting graph:** For 2011 allow range of values: 10.25m - 10.35m For 2012 allow range of values: 10.5m – 10.6m	**(5)**

Question Number	Answer	Mark
3(a)	**Application 2** 2 198 473m X 1.035 (1) = 2 275 420m **Answer= 2 275 420m** NB Award full marks for correct answer Allow range 2 275 419m to 2 280 000m (2) Allow 2.28 trillion (2) If answer given without million units, then maximum 1 mark NB Million units is **not** allowed if answer is written in the table	**(2)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Analysis 1** **Knowledge:** Identification of **one** likely cost for 1 mark, e.g. • Increase in unemployment (1) • Reduction in government tax revenue (1) • Reduction in investment from firms (1) • Fall in living standards (1) **Analysis:** Linked development 1 mark for e.g. • As there is less demand so firms will look to reduce their costs (1) • From consumers working less/firms making less profits (1) • Due to a drop in demand for goods and services (1) • Diagram e.g. showing fall in AD (1)	**(2)**

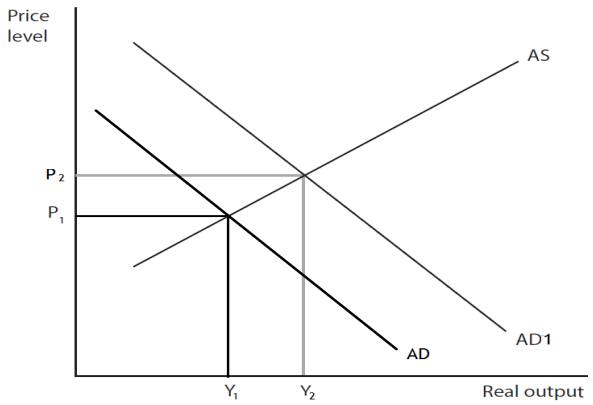
Question Number	Answer	Mark
3(c)	**The only correct answer is D** ***A*** *is not correct because this would cause AD to increase, leading to an increase in actual growth* ***B*** *is not correct because this would cause SRAS to fall* ***C*** *is not correct because this would lead to a reduction in economic growth*	**(1)**

Question Number	Answer	Mark
1(a)	**The only correct answer is B** ***A*** *is not correct because average incomes are higher in Pakistan than Morocco* ***C*** *is not correct because life expectancy is only part of the HDI measure* ***D*** *is not correct because GDP is per capita and not total*	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding (2) e.g.** • Understanding of GDP (1) • Narrow measure (1) e.g. HDI a better measure (1) • Other factors affect living standards (1) such as education/healthcare (1) • Doesn't indicate inequality level in a country (1) so high level of GDP does not mean high living standards (1) • Doesn't consider environmental damage caused by output (1) e.g. pollution (1) • Doesn't take into account size of population (1) e.g. per capita a better measure (1) • Not adjusted for purchasing power (PPP/ Real) (1) e.g. better understanding of cost of living (1) • Ignores informal economy (1) which means GDP inaccurate (1) **Application (1) e.g.** A correct reference to the figure e.g. • Morocco's GDP per capita US$3290.6 (1) • Pakistan's GDP per capita US$1473.9 (1) • Morocco's GDP per capita is larger than Pakistan's(1) • Morocco's HDI is 0.683 (1) • Pakistan's GNI per capita is US$4624 (1) **Analysis (1) e.g.** Linked development 1 mark for e.g. • A country may have a higher GDP but living standards may not be higher (1) • Better healthcare increases wellbeing (1) • Better quality environment increases a person's wellbeing (1) • Income inequality limits access to healthcare and education (1)	**(4)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • The value/price of one currency in terms of another (1) • The rate at which the money of one country can be changed for the money of another country (1)	**(1)**

Question Number	Answer	Mark
4(b)	**The only correct answer is B** **A** is not correct because this is the difference between $1.53 and $1.22 **C** is not correct because this uses the present year to calculate the percentage change **D** is not correct because this is the calculation of an index number taking 2015 as the base year	**(1)**

Question Number	Answer	Mark
4(c)	**Application 2** **Application:** 2 marks for, • Correct rightward shift of AD (1) • Correct new equilibrium point showing higher price level and higher real output (1)  	**(2)**

Question Number	Indicative content	Mark
2 (a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis (3 marks): e.g.** • Productivity must be GDP / input (or per hour worked) to have sense of output relative to input (1) sense of relative efficiency (1) • Nominal values meaning e.g. inflation is included in the figures (1) so useful firms when calculating how much revenue they have earned (1) • PPPs means e.g. that the relative cost of living is taken into account, or the figures are adjusted according to the relative purchasing power (1) • Makes comparison easier across countries (1) and time (1) and meaningful in the same currency (1) **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • US produces 28% more per hour (1) than the UK (1)	**(5)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • It is the percentage **(1)** • increase/change in GDP/real output/total value of goods and services **(1)** **Application** 2 marks for 2 data references from Figure 1 **(1+1),** e.g. • Rate of economic growth was highest in 2021 **(1)** at around 7.5% **(1)** • Rate of economic growth was negative in 2020 **(1)** at -9.9% / due to the Global Health Crisis **(1)** • Reward for reference to two data points **(1+1)**	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for understanding of real incomes, e.g., • Subjective happiness is likely to decrease **(1)** **Application** 2 marks **(1+1),** for e.g. • Real income per household is estimated to decrease by around 0.9% in 2024 **(1)** • Reduction/decrease/fall in living standards **(1)** **Analysis** 2 marks for **(1+1),** e.g. • People spend less on purchasing goods and services / less consumption **(1)** • People have lower purchasing power / may not be able to afford larger repayments on mortgages or loans for durable goods **(1)** • People may be anxious make future payments/about their ability to repay debts / less confidence **(1)** • Lower income may result in less wealth creation, e.g. might not be able to save for future/retirement **(1)**	**(5)**

Question Number	Answer	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two reasons (1+1) • Rising UK population relative to Germany's • Falling productivity in UK • Lack of exports in UK • Increased imports in UK (largely due to increased domestic consumption) • Change in relative cost of living • Different inflation rates in UK and Germany • Changes to PPP method of calculation, e.g. items in basket of goods • Change in value of US Dollar used for PPP calculations **Application** 2 marks for two data references from Figure 2 and/or extract A, or application of a diagram (1+1), e.g. • UK current account deficit 6% of GDP in third quarter 2014 (1) • Identify difference in growth of GDP per capita in Figure 2 e.g. 7 percentage points between 2010 and 2013 for the UK (1) **Analysis** Linked development of reasons (1+1). e.g. • falling UK productivity increases average cost of UK exports, making them more expensive relative to Germany's	**(6)**

Question Number	Indicative Content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2,** • Higher incomes mean people have more money to spend on purchasing goods & services that increase their standard of living • Higher incomes mean people will feel less anxious about their ability to repay debts • People can afford larger repayments on mortgages & loans for durable goods • Higher income may lead to wealth creation, e.g. able to save for future/retirement • People earning over £40 000 are happier than people earning £10 000 to £40 000 (figure 2) **NB Allow the argument that a higher income does not increase happiness as KAA and that it does as EV** **NB:** **To achieve full KAA marks there needs to be at least one reference to Figure 2**	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
6(c) continued	**Evaluation 4** • There are other things that affect subjective happiness apart from money- e.g. family & friends • Amount of leisure time may be more important to people's happiness rather than their level of income • People on higher incomes may be in more stressful jobs • The happiest people are those earning less than £10 000 (figure 2) • Reliability of survey data in determining happiness **NB Allow the argument that a higher income does not increase happiness as KAA and that it does as EV**	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** Understanding of the term GDP / living standards Limitations may include: • Percentage changes are misleading without any reference to total GDP • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income • Differences in distribution of income as growth varies across the country with jobs and wages distributed unevenly • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter, and the hidden economy will undervalue the real output and national income shall not reflect true living standards • Currency values do not effectively calculate an accurate purchasing power parity • Population growth in developing countries may account for most growth in GDP • Spending on investment goods may raise future living standards at the expense of the current • Methods of calculation and reliability of data • Size of the public sector spending which may or may not improve the standard of living Students may consider the limitations of real or nominal GDP	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(c) continued	**Evaluation 4** Points may include: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective, and it cannot be measured effectively and accurately	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** Understanding of the term GDP / living standards Limitations may include: • Nominal data includes inflation which is distorted by high inflation figures • Reliability of data collected – the UK government "questioned the reliability of inflation data" • Percentage changes are misleading without any reference to total GDP • Methods of calculation may not be accurate • Presence of an informal and unpaid economy may imply that some output is unrecorded as it is not bought or sold and there is no resulting income • Differences in distribution of income as growth varies across the UK with jobs/wages distributed unevenly • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter and the hidden economy may undervalue the real output and national income may not reflect true living standards • Population changes over time inflate GDP but living standards remain unchanged • Spending on investment goods may raise future living standards at the expense of the current	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(c) continued	**Evaluation 4** Points may include: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective and it cannot be measured effectively and accurately • It is a combination of the limitations that a more significant impact on reliability of data • Critical judgement of the limitations discussed	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Understanding of the term GDP / living standards Limitations of comparison may include: • Percentage changes are misleading without any reference to total GDP • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income – "size of informal economy of developing countries was nearly five times more than that of the UK" • Differences in distribution of income – "growth varies across the country with jobs and wages distributed unevenly" • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter and the hidden economy will undervalue the real output and national income shall not reflect true living standards • Currency values do not effectively calculate an accurate purchasing power parity / exchange rates might not accurately reflect differences in purchasing power of currencies • Population growth in developing countries may account for most growth in GDP • Spending on investment goods may raise future living standards at the expense of the current • Methods of calculation and reliability of data • Size of the public sector spending which may or may not improve the standard of living Reference to Figure 4 – UK economic growth is lower than developing countries throughout the years / "the quality of economic growth needs to be measured"	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.

Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** Points may include: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective and it cannot be measured effectively and accurately	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Impact (cost) may include: • Consumers will receive lower average incomes and they will not be able to afford more goods/services nor increase their standard of living; poverty rates could potentially rise; house prices depressed • With lower real GDP, firms employ less workers creating unemployment; wages fall and creates greater inequality .. "low income households cannot cope with a new downturn" • Firms are likely to make less profits as consumer spending falls; less production implies lower future investment into R&D/innovation • With lower GDP, fewer resources can be devoted to promoting the use of renewable resources • Reduction in tax revenues and higher government spending on unemployment and welfare benefits; greater borrowing and debt to GDP ratios • High social dislocation/crime/civil unrest/stress issues/high divorce rates; worsens health; lower life expectancy **NB Responses can discuss costs as KAA and benefits as EV (and vice versa)**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** Impact (benefit) may include: • Lower demand may reduce demand-pull and cost-push inflationary pressures; the central bank may decide to lower interest rates to control inflation • Lower external costs due to less output production by firms; less exploitation of finite resources and less depletion of non-renewable resources • Lower spending on imports as marginal propensity to import will fall, causing an improvement in the current account deficit of the balance of payments • Lower inequality: those with assets may witness a proportionally smaller rise in the market value of their income on their wealth • Depressed house prices make houses affordable to non-homeowners • Many problems of crime/excessive consumption of demerit goods are committed by people in work – this is likely to fall • *Other evaluative comments:* just a -0.2% contraction thus the impact will be relatively small/the size of the recession is important in terms of the impact • Recession did not occur in 2019 as there were no two quarters negative growth	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Understanding that oil has a macroeconomic consequence through the effect on the net trade component of AD and/or shifting the costs of production for all firms as SRAS or LRAS shift. Possible macroeconomic consequences may include: • An increase in overall economic activity (real GDP) as the cost of production decreases for businesses, especially for those that are heavily dependent on oil inputs. Application, e.g. a 10% fall in oil prices boosts growth by 0.1 to 0.5 percentage points. • Some sectors such as agriculture, air transport, services involving other travel and oil-intensive manufacturing sectors will benefit as the price of their key input falls. • Benefits for consumers, e.g. real household incomes after essential costs also rise as oil prices fall, which may increase consumer spending, ***but this is not automatically awarded as a factor increasing AD***. The connection involves two possible mechanisms: overall consumer prices fall as cost savings are passed on to households which spend more in domestic markets, and real wages increase as demand for labour rises in fast-expanding sectors. • Oil importing countries e.g. S Korea can stop subsidising energy, enjoy reduced external debt • As a result of growing economic activity, government tax revenues may rise as the tax take from corporate and personal income taxes increase • The fall in the oil price should also have a small impact in narrowing the UK trade deficit. • Application, e.g. prices have fallen by over 75% in 18 months	

	Possible evaluation points include: • Problems for oil producers, with macro effects on employment, tax revenue etc. • The problems in the financial sector – stock markets respond by seeing most prices collapse, especially fuel producers, and stock markets might collapse • Increased external debt for oil exporting countries (and gas, as gas prices are also falling) e.g. Russia, Venezuela • Negative effect on consumer confidence, political instability with impact on markets • Reduced research into new exploration of oil • Reduced investment into new technologies to replace oil ($380 billion) • Externalities might increase or decrease (depending on effect on carbon fuels, fracking firms etc) • Depends on how long the oil prices stays low, and who much further it went/will go • Risks from 'sectoral stagnation' in developed economies or continued problems in the Eurozone e.g. the oil and gas extraction sector is negatively affected by the reduction in the oil price • Government experiences declining tax revenues from the oil and gas sector. **NB For a Level 4 response there must be a logical connection for a change in aggregate demand – do not automatically award an increase/decrease in AD.**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
1(a)	**Application 2** (128.2 – 128.4) / 128.4) X 100 or correct formula (1) = (-)0.15% Accept range (-)0.15 to (-)0.2 NB 2 marks for correct answer.	**(2)**

Question Number	Answer	Mark
1(b)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition of deflation e.g. • A decrease in the general level of prices (1) • Negative change in average prices (1) • Negative inflation / inflation below zero (1)	**(1)**

Question Number	Answer	Mark
1(c)	A	**(1)**

Question Number	Answer	Mark
1 (a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Increase in the average prices/general price level (1) • Fall in purchasing power of money/currency (1)	**(1)**

Question Number	Answer	Mark
1 (b)	**Knowledge 2** **Knowledge/understanding:** 2 marks (1+1) for, e.g. • Demand pull inflation/increase in AD (1) with reason, e.g. due to an increase in injections/ consumption/fall in interest rates/fall in unemployment (1) • Cost push inflation/decrease in SRAS (1) with reason, e.g. due to an increase in cost of raw materials and energy (1) • Increase in money supply (1) for e.g. due to an increase in quantitative easing (1)	**(2)**

Question Number	Answer	Mark
1 (c)	**The only correct answer is D** **A** is not correct because there is a difference in the rate of inflation between RPI and CPI **B** is not correct because this does not show the difference in percentage points **C** is not correct because this is a partial attempt to calculate the percentage change	**(1)**

Question Number	Answer	Mark
5(a)	**The only correct answer is A** **B** is incorrect as although prices rising more slowly, the average price level were still increasing **C** is incorrect as there was disinflation between August 2018 and January 2019 **D** is incorrect as there was inflation between October 2016 and May 2017	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying **one** limitation, e.g. • Does not include housing costs (1) • There are sampling problems (1) • Basket of goods is updated only once a year (1) • Only measures the cost of living for an average household (1) **Application:** 1 mark, for e.g. • Reference to chart (1) • Current inflation rate (1) • CPI target is 2% +/- 1% (1) • Fewer than 60% reply to the survey (1) • New items such as canned pulses included (1) **Analysis:** 1 mark for linked development, e.g. • Monthly rent or mortgage interest repayments form a large part of consumers spending (1) • Not all the people respond to the survey or may not provide with accurate information (1) • Tastes and preferences change very frequently, and the basket may not reflect these new items (1) • The top and bottom 4% of income brackets are not included, and nor are pensioners (1)	**(3)**

Question Number	Answer	Mark
2(a)	**Knowledge 2** **Knowledge/understanding**: 1 mark for identifying one reason; 1 mark for linked development, e.g. • The decrease in the mps reflects a rise in the marginal propensity to consume (1) due to rising consumer confidence (1) • Decrease in mps due to rise in marginal propensity to tax (1) to reduce the budget deficit. (1) • Low interest rates (1) reducing the incentive to save/lower rate of return (1)	**(2)**

Question Number	Answer	Mark
2(b)	**Knowledge 2** **Knowledge/understanding**: 1 mark for identifying the effect on the value of the multiplier; 1 mark for the linked development on the size of the multiplier, e.g. • The value of the multiplier is likely to increase (1), due a decrease in withdrawals (1).	**(2)**

Question Number	Answer	Mark
2(c)	D	**(1)**

Question Number	Answer	Mark
3(a)	B	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 2, Analysis 1, Application 1** **Knowledge/understanding:** 2 marks for identifying how UK inflation is measured by the Consumer Prices Index (CPI); • Inflation rate measures change in average prices in an economy over a year (1) • A representative basket of goods and services used by average households is recorded (1) • A survey of average prices is recorded (1) • Reference to a base year (1) • Reference to Family/Household/Consumer Expenditure Survey (1) **Analysis:** Items are weighted according to proportion of spending on each product (1) **Application:** 1 mark for reference to the chart, e.g. Food and Fuel is dragging inflation downwards For example: A household expenditure survey (1) is completed to decide what goes in to the basket of goods (1). This is used to attach weights to products based on proportion of spending (1). In January 2015 CPI inflation was 0%. (1) **NB: Candidates must refer to weights for the analysis mark.**	**(4)**

Question Number	Answer	Mark
5 (a)	**Knowledge 1, Application 2** **Knowledge** 1 mark for correct multiplier formula, e.g. • Multiplier = 1 / (1-MPC) (1) **Application** 2 marks for use of data in calculation, e.g. • Multiplier = 1 / 0.5 = 2 (1) • £15 billion x 2 = £30 billion (1) If answer given is £30 billion, award 3 marks.	**(3)**

Question Number	Answer	Mark
5 (b)	D	**(1)**

Question Number	Answer	Mark
6 (a)	**Knowledge 2, Application 2** **Knowledge** 2 marks for, e.g. • Income is money received as payment for work (1) • Real means adjusted for inflation/purchasing power of income (1) **Application** 2 marks for, e.g. • Real income has fallen (1) • From approximately £675 in 2008 to £615 in 2013 (1)	**(4)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** Identification of impact (1) with development (1), e.g. • Imports relatively more expensive (1) • Leading to (cost push) inflation (1) • Exports are relatively cheaper (1) • Leading to (demand pull) inflation (1) **Application** 2 marks for two data references (1+1), e.g. • There has been fall in the exchange rate/value of the pound/weaker pound (1) • UK is a net importer of food that has a relatively inelastic demand (1) • Food prices have increased by 3.5 percentage points (1) • Inflation has increased by 1 percentage point since the start of 2017 (1) • CPI has exceeded the 2% target (1)	**(4)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • The percentage (1) change/increase in the average price level of an economy (1) **Application** 2 marks for data references from Figure 1, e.g. • The rate of inflation was increasing (1) between 2016 and 2017 (1) • Between 2016 and 2017, the rate of inflation had increased by nearly two (1) percentage points (1) • Disinflation between 2009 and 2010 (1) where the average price level increased at a slower rate (1) • Highest rate of inflation was in 2012 (1) at 5% (1) • Inflation rate was 0% in 2016 (1)	**(4)**

Question Number	Answer	Mark
6(c)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark for identification, e.g. • To ensure that inflation/cost of living/CPI basket is accurately measured (1) • To ensure that consumption trends/spending are reflected (1) • To adjust the weightings in the CPI basket (1) **Application** 2 marks for 2 relevant data references (1+1), e.g. • Inclusion of non-dairy milk (1) / jigsaw puzzles (1) / child scooters (1) / cycling helmets (1) • Exclusion of menthol cigarettes (1) / apple cider (1) / child swings (1) / basic mobile phones (1) • A move towards health, fitness and gluten-free products (1) **Analysis** Linked development (1+1), e.g. • Technological advancements (1) implies consumers switch to newly developed goods and services (1) • Consumer tastes change frequently (1) but the CPI basket is updated annually (1) • Consumers could have switched away (1) from those goods and services that have increased in price (1)	**(5)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • Value of imports of goods and services **(1)** equals the value of exports of goods and services **(1)** • Net trade/(X-M) **(1)** **Application** 2 marks for 2 data references from Figure 1 **(1+1),** e.g. • Trend has worsened since May 2021 **(1)** • UK had a trade deficit **(1)** since June 2021 **(1)** • UK had a trade surplus **(1)** of £8bn in May 2020 **(1)**	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for understanding of weights, e.g., • Weights are assigned in proportion to the amount of money spent on each item **(1)** **NB: No marks for definition of inflation/inflation rate** **Application** 2 marks **(1+1),** for e.g. • Inflation rate in the UK has been increasing **(1)** from 0.4% in February 2021 to 4.2% in October 2021 **(1)** • There has been disinflation between January 2020 **(1)** and May 2020 **(1)** **Analysis** 2 marks for **(1+1),** e.g. • It uses a basket of goods and services **(1)** • Monthly price surveys are undertaken **(1)** • An annual survey of household spending is used to set the weights/the contents of the basket **(1)** • Within each year, consumer price indices represent the changing cost of a basket of goods and services of fixed composition, quantity and quality **(1)** • In the base year the index number is set at 100 **(1)**	**(5)**

Question Number	Answer	Mark
6(d)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for e.g. • Explanation of inflation (1) • Understanding of exchange rate (1) • AD shifts outwards / SRAS shifts inwards (1) **Application** 2 marks (1+1), for e.g. • Weaker pound due to lack of confidence as a result of the UK's decision to leave the EU (1) • X-M as a component of AD increases (1) • Accurately drawn AD/AS diagram (1) • More injections/less leakages from CFI (1) **Analysis** 2 marks for linked development (1+1), e.g. • Imports become relatively more expensive (1) • Exports become relatively cheaper (1)	**(5)**

Question Number	Answer	Mark
6 (d)	**Knowledge 2, Application 2, Analysis 2** **Knowledge** Identification of two reasons (1+1) • Falling energy prices • Falling telecommunication prices • Falling shipping costs • Falling non-energy industrial goods prices • Slowdown in world economic growth • Slowdown in consumer spending • Slowdown in house construction **Application** 2 relevant pieces of application from Extract B (1+1), e.g. • inflation at 0.3% (1) **Analysis** Linked development of how reasons identified cause falling inflation rate (1+1) e.g. • falling oil prices makes transport of goods cheaper (1) N.B. Falling inflation rate does not necessarily mean prices are falling, so students may talk about reasons for disinflation and/or deflation	**(6)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two effects (1+1) for, e.g. • Real value of personal debt falls • MPC raises base rate of interest • An increase in income inequality • Worsening of the current account • Fall in real wages/purchasing power **Application** 1 mark for each data reference from Extract A or linked application (1+1), e.g. • Increase in size of personal debts as consumers are using credit cards and taking out short-term loan (1) • Base rate of interest increased by 0.25 percentage points to 0.5% in November 2017 (1) • Low fixed income households are left with very little money to spend on relatively more expensive items/ spend more on food (1) • Inflation is expected to rise by 3% (1) and wages are only expected to increase by 1% (1) / wages growth lower than inflation (1) **Analysis** 1 mark for linked development of each effect (1+1) e.g. • Borrowers will benefit as the real value of their loan repayments are reduced over time (1) • Increases the cost of borrowing / reward for saving, hence consumption falls (1) • People on low fixed incomes spend larger proportion of income on necessities (1) • Exports become less internationally competitive (1) • Fall in real wages / purchasing power implies lower confidence, lower consumption and lower standard of living (1) **NB Award up to 4 marks for one effect well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Indicative content	Mark
6(d) continued	**Evaluation 4** • Impact on AD and real output depends on the size of the increase in exports • The data only includes information on exports of services; overall impact depends how high export of goods are relative to export of services • Increase in AD could lead to higher inflation, creates uncertainty for firms, reducing investment – Figure 2 • Consideration of time period, short-run vs long-run: in the long-run, higher inflation may reduce value of goods and services, reducing demand in the long-run • Impact on real output depends on spare capacity/ elasticity of the LRAS curve • Impact will depend upon the size/value of multiplier • Increase in exports of goods may be offset by an increase in imports, leading to trade deficit: "UK's trade deficit to nearly £7 billion"	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark

6(d)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two reasons **(1+1)** for, e.g. • Cost-push inflation **(1)** • Demand-pull inflation **(1)** **Application** 1 mark for each data reference **(1+1),** e.g. • Transport costs were the biggest contributor to rising inflation with, petrol prices increasing by over 5% **(1)** • severe supply chain bottlenecks constrained access to raw materials **(1)** • easing of the restrictions associated with the global health crisis **(1)** **Analysis** Linked development **(1+1)** e.g. • Higher petrol prices/rising cost of raw materials will increase cost of production of firms, shifting SRAS to the left **(1)** • Increasing domestic demand for goods and services will raise the level of consumption, thereby increasing AD **(1)** **NB Analysis marks may be awarded diagrammatically** **NB Award up to 4 marks for one reason well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Indicative content	Mark

Question Number	Answer	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two characteristics (2) for, e.g. • Falling inflation (1) • Rising unemployment (1) • Falling profits/investment of firms (1) • Rising budget deficit/worsening of fiscal position (1) • Reduction in the base interest rate (1) • Loss of consumer/business confidence (1) **Application** 1 mark for each data reference (1+1), e.g. • Figure 1: inflation fell by around 3.3 percentage points between 2009 and 2010 (1) • Figure 2: UK was in recession between Q2 2008 and Q3 2009 (1) • Extract A: unemployment rate peaked at 8.5% in 2009 (1) • Extract A: Bank of England reduced the base interest rate from 5.25% in February 2008 to 0.5% in March 2009 (1) **Analysis** Linked development (1+1) e.g. • Falling inflation due to lower consumer confidence and a reduction in consumer expenditure (1) • Rising unemployment due to lower demand for workers caused by falling real output (1) • Falling profits/investment of firms possibly leading to high level of business failures (1) • Rising budget deficit/worsening of the fiscal position due to a rise in government spending on benefits/a fall in tax revenues (1) • Reduction in the base interest rate will encourage borrowing and consumption/investment (1) **NB Award up to 4 marks for one characteristic well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of two factors (1+1), e.g. • falling oil prices • falling commodity prices • changing relative exchange rates • government fiscal tightening • low consumer or business confidence • increase in savings **Analysis:** 2 marks for linked explanation of how these explain the fall in Eurozone inflation (1+1), e.g. • Falling oil prices in the world economy reduce key costs of production such as transportation, reducing prices of many products in the economy **Application:** 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • From figure 2, Eurozone inflation 0.1% in 2015 (1) • ECB predicts Eurozone inflation to rise 'by just 1 per cent in 2016' (extract A) (1) • Figure 2 shows disinflation occurring (1) • Inflation fell from just over 3% in 2011 (1) to less than 0.25% in 2015 (1) **Evaluation:** 2 marks for evaluation (1+1 / 2) • Inflation likely to rise in the future, with ECB expecting 1.6% in 2017 • Oil prices are very volatile and could easily rise rapidly due to world events such as instability in the Middle East • Rising GDP in the Eurozone may mean more demand-pull inflation in the future • Depends on extent of fiscal tightening by government • Oil prices a significant cost of production for businesses	**(8)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge:** Identification of a cause of inflation (1+1) e.g. • rising consumption • rising investment • rising government spending • rising net exports • rising in production/energy costs or other costs • fall in the exchange rate (imported inflation) **Application:** (1 +1) • 20% fall in the value of the pound • identification of correct inflation rate from Figure 2 • identification of correct gas price figure from Figure 1 • removal of the 2023 planned rise in corporation tax from 19p to 25p • tax cut proposals e.g. £30 billion tax cut, 15% corporation tax • two-year freeze ending / average energy bill from £2500 to £3500 • rising food prices • half of the food we consume is imported **Analysis:** (1+1) development of each reason e.g. • leading to higher aggregate demand (demand pull inflation) • leading to a fall in short run aggregate supply (cost push inflation) • may be shown through diagrammatic analysis of the shifts • further analysis of identified reason / a transmission mechanism **Evaluation:** (2 marks for any relevant point, or two points 1 +1) • short run long run arguments - could change in the future • combination of factors • made worse by external shock • relative significance of points arguments	**(8)**
	• could change following MPC of Bank of England interest rate changes	

Question Number	Indicative content	Mark
6 (b)	**Knowledge 2, Application 2, Analysis 2** • Lower incomes means lower consumption • Consumer confidence falls • Aggregate demand therefore falls • Fall in standard of living • Falling demand for firms means lower profits; rising unemployment • Less ability to save & possible consequences of this, e.g. mortgage deposit; confidence Candidates may illustrate this with an accurate AD/AS diagram showing AD decreasing	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6 (b) continued	**Evaluation 4** • Depends on other factors in the economy, such as government spending or demand for exports • Changes in benefits and/or tax allowances may offset fall in real income • Only short-term fall (Figure 1 shows slight increase in 2013) • Inflation falling recently, improving likelihood of real income rises • Could be due to firms keeping wages low rather than making redundancies, thus people's standard of living higher than it would be if they lost their job	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2,** Likely impacts on subjective happiness: • Consumers have less real income to spend on goods/services that affect their happiness • Consumers may worry more about the state of their personal finances • Consumers may worry about ability to continue paying mortgages/other debts **NB For a level 3 answer there must be context from last paragraph of Extract C e.g. reference to credit cards and personal loan repayments**	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(c) continued	**Evaluation 4** • Other factors affect happiness beside real income, e.g. leisure time, environment, etc. • Record low unemployment likely to lead to rising real incomes in future • Rises in real income may have a different effect on happiness than falls in real income • May be increased borrowing to make up for falling real incomes	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6 (e)	**Knowledge 3, Application 3, Analysis 3** The MPC **should** be concerned because: • Risk of deflationary spiral; hard to 'escape' from such a situation • Example of Japan • Consumer expectations of very low/falling prices become embedded • Limited ability of the MPC to get the economy out of deflation (interest rates already only 0.5%) • Harder for MPC to react to/influence supply-side factors such as falling oil prices Diagrammatic analysis may also be used as part of an answer. NB Candidates may, alternatively, argue that the MPC should **not** be concerned about deflation for KAA and that they **should** for evaluation	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6 (e) continued	**Evaluation 6** MPC **should not** be concerned because: • Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year • Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy • Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy • Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand • May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD NB Candidates may, alternatively, argue that the MPC should **not** be concerned about deflation for KAA and that they **should** for evaluation	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially–developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

6(e)	**Knowledge 3, Application 3, Analysis 3** • Understanding of the term high inflation • Use of Figure 2 and Extract B to show high rate of inflation Consumers, for e.g.: • Reduction in purchasing power and real incomes of UK consumers as price level increases • There will be a fall in living standards and therefore loss of consumer confidence • Real value of savings fall as rate of inflation is higher than the rate of interest – e.g. inflation rate is above the 0.1% interest rate throughout the given period Workers, for e.g.: • Unemployment in the UK may rise through increased levels of inefficiency and stagflation • The self-reinforcing effect on inflation through higher expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes – but it may not happen as UK workforce has low bargaining power **NB Negative effects can be used as KAA and positive effects as Evaluation or vice versa** **NB Award a maximum of level 2 if no reference made to both consumers and workers**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question	Indicative content	Mark

Number		
6(e) continued	**Evaluation 6** • Depends on the cause of inflation – rising petrol prices indicate cost push inflation that cannot be directly controlled • Depends on the magnitude of inflation – between January and November 2021, the inflation rate increased by 4.4 percentage points: therefore, the impact is going to be quite significant • Depends on the duration of inflation – inflation has been rising since February 2021 (Figure 2) • Consumers: those with high level of personal debt will benefit as the real value of debt falls, e.g., the value of a mortgage loan relative to income is likely to decease • Workers: if there is high wage inflation, it is easier to find work as firms are raising wages only because they cannot choose other workers at lower wages	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark

Question Number	Indicative content	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6,** • Implicit or explicit identification of the various UK's macroeconomic objectives • Understanding of inflation • May reduce growth owing to costs of inflation • Reduction in purchasing power and real incomes • Equality e.g. effect on those who have fixed incomes (are not protected by inflation) who are often the poorest • May make the national debt smaller in real terms making it cheaper to finance and pay back • Reduction in competitiveness of British goods which worsens the current account of the balance of payments deficit and reduces international competitiveness • Unemployment may rise through increased levels of inefficiency and stagflation / using a Phillips curve • Higher inflation associated with increasing AD may have detrimental impact on environment • Possible beneficial effect on the environment as economic growth slows • Loss of both business and consumer confidence • The self-reinforcing effect on inflation through expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes **NB KAA can be awarded for positive impacts on the objectives and evaluation as the negative impacts or vice versa**	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(g) continued	**Evaluation 6** • Depends on the cause, (e.g. cost push or demand pull) duration and magnitude of inflation – may be discussed in recent context of the UK / using AD AS diagram • Inflation might not translate through to higher wages and unemployment if the workforce has little power • If growth is low, slightly higher inflation is worth the risk to avoid deflation or depression • Impact depends on the relative inflation rates • Impact of high inflation might depend on policy response - interest rates may have to be raised • Other factors may have a larger effect: exchange rates or other macro objectives (ceteris paribus) • Possible beneficial effect on the environment	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6** • Understanding of inflation • Reference to Figure 2; credit use of AD/AS diagrams Possible causes include: • Increase in AD [demand pull] as a result of - ○ higher consumption: demand for consumer goods ○ higher government expenditure: childcare subsidies ○ higher levels of gross/net investment ○ higher net trade/increase in exports/fall in imports ○ expansionary monetary policy ○ expansionary fiscal policy • Decrease in SRAS (or AS) [cost push] as a result of - ○ rise in costs of raw materials and energy: rising import prices of food, fuel and energy ○ increase in indirect taxes ○ decrease in the external value of the currency making imports relatively more expensive • Decrease in LRAS as a result of - ○ weak competition policy ○ decrease in productivity ○ lack of technological advancements ○ no improvements in education and skills **Evaluation 6** • It is likely to be a combination of factors • Magnitude of the inflation will be dependent on the size of any shifts in AD and/or SRAS/LRAS/AS • Significance of the most important factor is likely to change over time • Demand-pull inflation (an increase in AD) is not often seen as negative as the increase in AD can be more carefully controlled by monetary policy • Cost-push inflation (a decrease in SRAS or AS) is often seen as more of a concern as the central bank has very limited tools to control it • Prices of raw materials and energy are volatile and likely to decrease as global supply increases • If the external value of the currency increases then the relative price of imports will decrease • Supply-side impacts (decrease in LRAS) are likely to have a long-term effect; only causing inflation after a significant time lag • Critical judgement of the above points discussed	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8 Evaluation 9** Microeconomic effects may include: • On people with debt (better off) and savings (worse off) • On people with fixed incomes – may refer to falling real incomes • On firms' profits, e.g. that face rising costs and if they cannot raise prices they will face falling profits, or falling sales as consumers delay purchases. This might be illustrated with cost/revenue diagrams. • On firms' costs if they face rises in interest rates as a policy corollary of high inflation, which might lead to lower profits. This might be illustrated with cost/revenue diagrams. • Opportunity cost, e.g. effects on a government's spending if costs of servicing debts fall • Effect on labour markets e.g. people might work more hours to cover increased cost of living **NB do not award fall in profits or revenue or rise in costs unless a valid chain of reasoning is given** Macroeconomic effects may include: • International competitiveness and balance of payments, between African countries and with the rest of the world. Exports likely to fall and imports likely to rise • Distribution of income and wealth • Confidence and investment in financial markets • Policy responses, e.g. rises in interest rates and effects on AD • Shift in AS and/or AD may be used as part of the analysis • High inflation might deter Investment and FDI **NB do not award rise in unemployment/fall in growth unless a valid chain of reasoning is given** Possible evaluation points include that the effect depends on: • Whether wages rise in line with inflation • The degree of inflation, and the policy and international responses. • The PED of countries buying the African exports • The PED of importing countries as imports become relatively cheap	

	• Whether African countries are trading with each other the effects of inflation may be cancelled out e.g. use of Figure 2 to show neighbouring countries with higher inflation rates • Whether asset prices rise as to the redistributive impact • Depends on whether this is a long-term inflation problem- could be short term e.g. linked to commodity price rises. Only a problem if it is sustained. • The figures are in one month in July 2017 and may not reflect inflation story for full year. Time series data may be more useful. • Depends on the type of inflation – e.g. cost push or demand pull. • Impact on exchange rates e.g. higher inflation may erode the value of the currency. This might cancel out the impact on competitiveness **NB for a Level 4 answer there must be reference to the context of African countries (not just one)** **NB for a Level 4 response there must be micro and macro effect (s). Costs/ shift in PPF/ currency/labour markets/competitiveness etc. can be used as micro or macro.**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Number		
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Policies that could be used to reduce inflation may include: • Increased spending on education to create a more skilled and therefore more productive workforce, shifting out AS • Increased spending on healthcare so the workforce spends less time off sick, increasing AS • Other supply-side policies e.g. deregulation or privatisation • Public-sector pay restraint • Increase in income tax rates/lowering thresholds to reduce consumption and therefore reducing AD • Changes in corporation tax rates e.g. raise to reduce investment and therefore reducing AD, or cut to improve efficiency in firms • Changes in indirect taxes e.g. VAT • Reduction in government spending to reducel AD • Subsidies to energy firms/food suppliers to reduce costs **NB: do not award monetary policy, e.g. interest rate and QE changes by the MPC of the Bank of England** Evaluative comments may include: • Spending on education/healthcare/other supply-side policies is unlikely to solve the current inflation problem as it will take too long to have an impact on AS • Increase in taxes on consumers may lead to an increase in poverty/reduce standard of living • Increase in taxes on firms may discourage firms from wanting to operate in the UK, increasing unemployment • Less government spending may lead to reduction in the quality of public services- e.g. long waiting times for NHS operations • Subsidies will lead to higher government spending and will have to funded either by borrowing (which will have to be paid back in the future) or higher taxes • Change in VAT will only affect inflation for one year • Laffer curve: effect of changes in tax rates • Impact of policies on inequality e.g. changes in tax rates, or other unintended consequences • Monetary policy would be better?	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effect(s) Microeconomic effects of high levels of inflation: • Increases costs for firms reducing profits • Lower revenues for firms as consumers make cutbacks • Use of cost/revenue/profit diagrams to show impact on firms. This could be argued as an increase or decrease in revenue • Erosion of real incomes of consumers/workers • Reduced purchasing power of consumers/workers if real wages/incomes not linked • Reduced investment as future values are lowered • Wage price spirals as expected inflation grows • Changes in wealth e.g. stocks and bonds lose value/ house prices increase in value • Delay in purchasing big ticket items can cause falling sales and trigger a stagflation/recession Macroeconomic effects of high levels of inflation may include: • Reduced foreign direct investment • Loss of confidence in the UK economy • Reduced international competitiveness • Disproportionate impact on lower income consumers cause increases in monthly mortgage repayments • Effects of policy response, e.g. rises in interest rates • Lower debt service costs to governments • Unemployment lower – Phillips curve arguments • Fiscal drag • Use of AD/AS diagrams to show impact on output **NB for Level 4 response there must be at least one micro and macro effect and use of UK or other developed economy reference with reference to inflation. The changes in real income/inequality, labour market issues, investment, competitiveness could be seen as either micro or macro effects.** **NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa**	

	9 marks for evaluation – points might include: • Depends on the magnitude of the increase in inflation • A small positive inflation rate is economically useful e.g. as a buffer against deflation • Depends which inflation rate is used, e.g. RPI, CPI. • Depends on the level of inflation in main competitor countries, e.g. US inflation is 3% • Depends on the proportion of mortgage holders with fixed rate/variable rate mortgages • Depends on the type of inflation e.g. demand-pull v cost-push • Impact on the economy may depends on the position of the AD on the LRAS • Impact on wage bargaining depends on the type of workers the firm employs • Impact on sales of a firm depends on the type of product it sells • Short-run/long-run arguments e.g. inflation has since fallen to within target.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
3 (a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • Number of people claiming unemployment benefit/jobseekers allowance	**(1)**

Question Number	Answer	Mark
3 (b)	**Application 2** 858,344 – 961,149 = -102,805 (-102,805 / 961,149) X 100 (1) = -10.7% (1) 2 marks for -10.7% (or written equivalent- e.g. 'fell by 10.7%') If answer given is between -10.6% and -11%, award 2 marks. If answer given is between 10.6% and 11%, award 1 mark.	**(2)**

Question Number	Answer	Mark
3 (c)	B	**(1)**

Question Number	Answer	Mark
2 (a)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for definition of under-employment, e.g. • When a worker is working fewer hours than they would like to work (1) • When a worker is under-utilised in terms of ability (1) **Application** 1 mark for reference to data provided e.g. • Has nearly doubled from 76 482 to 142 788 (1) • Increased by over 66 000 or 86% (accept 85% - 100%) • Unemployment fell to 5.7% but underemployment increased **Analysis** 1 mark for further development e.g. • Reasons for increase: ○ Recession/lack of demand in the market (1) ○ Increase in zero-hours/part-time/flexible contracts offered by employers (1) ○ Increased mechanisation/use of technology in the workplace (1) • Underemployment makes the unemployment figure look better than it is • Comment on impact of lower pay e.g. standard of living	**(3)**

Question Number	Answer	Mark
2(b)	D	**(1)**

Question Number	Answer	Mark
3(a)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one relevant factor, e.g. • Increased tax revenue/ lower welfare payments (1) • Increase in disposable income (1) • Less potential output will be lost (1) • Increase in consumption/AD/GDP (1) **Application:** 1 mark for reference to the chart, for e.g. • Unemployment rate has fallen (1) • Unemployment rate has decreased from nearly 8.3% in 2012 to around 4.3% in 2018 or has decreased by 4 percentage points (1) **Analysis:** 1 mark for linked development, e.g. • Budget deficit would decrease (1) • Confidence/consumption increase (1) • Less waste of scarce resources / fall in spare capacity (1)	**(3)**

Question Number	Answer	Mark
3(b)	**The only correct answer is A** **B** is not correct because decrease in quantitative easing will reduce AD and increase the unemployment rate **C** is not correct because an increase in the government payments to the unemployed will reduce the incentive to work, reducing AS and increasing the unemployment rate **D** is not correct because an increase in the UK base interest rate will increase the cost of borrowing, thus reducing AD and increasing the unemployment rate	**(1)**

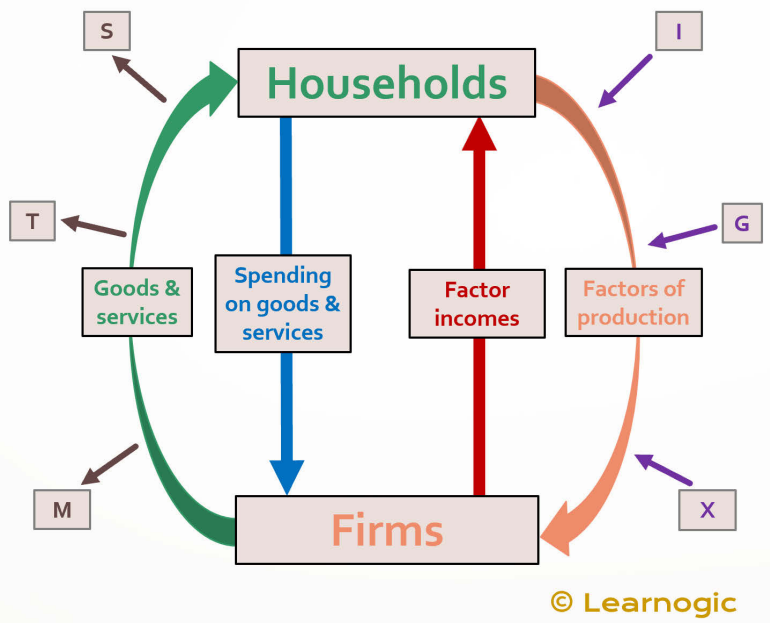
Question Number	Answer	Mark
3(a)	**The only correct answer is C** **A** is not correct because between September 2013 and September 2016, there were over 150 000 more people entering the UK **B** is not correct because immigration to the UK is likely to affect the country's long-run AS curve **D** is not correct because emigration throughout the given period has remained relatively stable	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one likely effect, e.g. • Increase employment (1) • Increased demand for labour (1) • Increased supply of labour (1) **Application:** 1 mark for reference to the chart, for e.g. • Immigration to the UK fell after the financial crisis/ EU referendum (1) / • Immigration increased once the economy started to recover from the financial crisis (1) • Emigration increased from 350 000 to 400 000 between September 2016 and September 2019 (1) **Analysis:** 1 mark for linked development, e.g. • Increased size of population (1) • Increased consumer spending will create more jobs (1) • Increased demand for public services (1) • Immigrants may fill job vacancies that domestic people are unable to fill (1) **NB Accept references made to either the impact of immigration or emigration on employment**	**(3)**

Question Number	Answer	Mark
1(a)	**The only correct answer is A** **B** is not correct as unemployment did not rise as a result of people changing jobs **C** is not correct as unemployment did not rise due to changes in seasons **D** is not correct as unemployment did not rise due to changes in technology/sectors	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for, e.g. • This increase in the rate of unemployment leads to a reduction in the number of people paying income tax **(1)** • This increase in the rate of unemployment leads to a rise in number claiming/receiving unemployment benefits **(1)** **Application:** 1 mark for, for e.g. • Between January 2020 and December 2020 the rate of unemployment in the UK increased from 3.9% / to 5.2% / by 1.3 percentage points **(1)** **Analysis:** 1 mark for linked development, e.g. • Fall in the government tax revenues and thus resulting in a budget deficit/worsening of government budget **(1)** • Increase in government expenditure and thus resulting in a budget deficit/worsening of government budget **(1)**	**(3)**

Question Number	Answer	Mark
1(a)	A	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying an effect on the circular flow of income. 1 mark for any specific reference to injections (I, G, X) and/or withdrawals (S, T, M). 1 mark for any specific reference to flows between households and firms. Candidates may achieve these marks using a diagram. **Application:** 1 mark for reference to the chart, e.g. unemployment has fallen. **Analysis:** 1 mark for linked development, explaining link between unemployment and circular flow. For example: Unemployment fell by three percentage points resulting in rising consumption and investment (1) and further rounds of increases in disposable income (1) however household may also spend more on imports (1).  	**(4)**

Question Number	Answer	Mark
4 (a)	**Application 2** 910 – 894 X 100 (1) = **1.79%** (1) 894 Accept answers between 1.78% and 1.8% Award 2 marks for correct answer e.g. 1.79	**(2)**

Question Number	Answer	Mark
4 (b)	**Knowledge 1, Analysis 1** **Knowledge** 1 mark for one relevant reason e.g. • Uncertainty over the process of leaving the EU (1) • Closure of high street shops (1) • Falling incomes (1) • Increased automation (1) • Slower economic growth (1) • Business expectations (1) **Analysis** 1 mark for linked development e.g. • Uncertainty discourages firms from expanding/investing into their businesses (1) • High street shops employ large numbers of people in the UK and with sales moving online jobs tend to be lost permanently (1) • Lower incomes lead to lower consumption so less demand for labour (1)	**(2)**

Question Number	Answer	Mark
4 (c)	**The only correct answer is D** ***A*** *is not correct because this is not related to a change in technology* ***B*** *is not correct because this is real wage inflexibility* ***C*** *is not correct because this is not related to a change in technology*	**(1)**

Question Number	Answer	Mark
2(a)	**The only correct answer is B** ***A*** *is not correct because this is a decrease in 1.4 percentage points, not percentage* ***C*** *is not correct because the rate of unemployment was lowest in March 2022 and highest in December 2020* ***D*** *is not correct because the chart only shows historical data*	**(1)**

Question Number	Answer	Mark
2(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding (2) e.g.** • Increase in AD (1) leading to an increase in economic growth/production of goods & services (1) • Increase in consumption (1) increasing demand for goods and services in the UK (1) • Increase in government spending (1) creating more demand in the UK (1) • Depreciation of the pound (1) increasing demand for UK exports (1) • Improved transport (1) so workers are more able to access jobs further away (1) **Application (1) e.g.** A correct reference to the figure e.g. • Unemployment fell from 5.2% in December 2020 to 3.8% in June 2022 (1) • Unemployment was at a low of approximately 3.7% in March 2022 (1) • The trend in unemployment during the time period shown is downwards (1) **Analysis (1) e.g.** Linked development 1 mark for e.g. • Firms will need to hire more staff to meet higher demand (1) • Derived demand for labour (1) • Firms that previously struggled to recruit staff are now available to fill those job vacancies (1) • Fall in the output gap (1)	**(4)**

Question Number	Answer	Mark
5(a)	**Application 2** 34.5m X 0.215 (1) = 7.42m (1) **Answer= 7.42m (2)** N.B. Award full marks for correct answer Allow range 7.4m to 7.42m N.B. 1 mark if missing millions **Or** **Answer = 0 (2)** 2 marks for zero as inactive not in labour force. **Or** Labour Force = Economically active. Work out the numerical value of those inactive The numerical value of the 'Labour Force' is 34.5 million, this equates to 100% - 21.5%= 78.5%. Work out what 21.5% is, if 78.5% = 34.5 million (1) To find out what 21.5% is when 78.5% equals 34.5 million 1. Calculate the total population: 34.5/0.785 = 43.95 million 2. Calculate 21.5% of the total population: 43.95 million x 0.215 =**9.45 million (2)** N.B. Allow range 9.4m to 9.5m N.B. 1 mark if missing millions	**(2)**

Question Number	Answer	Mark

5(b)	**Knowledge 1 Analysis 1** **Knowledge/understanding (1):** 1 mark for e.g.: • Increase in number of people waiting for medical treatment (1) • Caring for sick relatives (1) • Long-term sickness (1) • Increase in value attached to leisure time (1) • Early retirement (1) • Expensive childcare cost (1) **Analysis (1) e.g.** Linked development 1 mark for e.g. • Therefore people are unable to work due to illness (1) • Therefore number of people in labour force falls (1) • Therefore stay at home to look after children (1) • Therefore not actively seeking work (1)	**(2)**

Question Number	Answer	Mark
5(c)	**The only correct answer is B** ***A*** *is not correct because an increase in employment would be likely to cause inflation, not deflation* ***C*** *is not correct because an increase in employment would be likely to reduce absolute poverty* ***D*** *is not correct because an increase in employment would be likely to increase economic growth*	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** Identification of one reason (1) with development (1), e.g. • Different reasons for collection/different methods of collection: imply different results • It is becoming much more difficult to claim unemployment related benefits e.g. changes in the level of savings making it difficult to claim unemployment related benefits • Stigma issues when people are unemployed with no stigma for ILO but high stigma for unemployment related benefits • Increase in frictional unemployment which would increase ILO but may show no change in unemployment related benefits • State of the economy where more vacancies in a boom so harder to claim unemployment related benefits **Application** 2 marks for two data references from Figure 1 (1+1), e.g. Between 2010 and 2016: • Claimant count is below ILO (1) • Claimant count fell by around 48% / 0.7m (1) • ILO unemployment fell by around 35% / 0.9m (1) • In 2010, ILO unemployment was 2.5m (1) and CC unemployment was 1.5m (1)	**(4)**

Question Number	Indicative content	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2** **Evaluation 2** **Knowledge/implicit understanding of two effects (1 + 1) e.g.** • Consumers demand falls • Firms may pay lower wages • Lower labour turnover • Easier to recruit staff • Reduction in skills, efficiency • Deterioration of public sector finances further reducing spending on infrastructure **Application:** (2 marks for any relevant point, or two points 1 +1): e.g. • Unemployment is forecast to rise (1) to 6.1 percent from 5 percent (1) / 1.1 percentage points (2) • This comes after several years of a declining rate of unemployment (1) **Analysis** (1+1) • Development of points made **Evaluation** (2 marks for any relevant point, or two points 1 +1): e.g. • Demand might rise for inferior goods • Wages may be sticky downwards • This is only a forecast and given events at the beginning of 2020 might end up worse. • Firms exporting goods may not be affected as demand from abroad may remain strong if unemployment does not fall there • The rise in unemployment is small and is still below 11.7% 2005. So, the impact will be relatively small	**(8)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Effects for employment: • "Work remains the most common reason for long-term migration (312 000)" – this is most likely to lead to an increase in employment • "182 000 of these coming with a definite job" – these migrants could fill those vacancies that cannot be filled by indigenous workers • Increased size of population means that there is increase in supply of labour, thus reducing wage rate and increasing demand for labour • Increased consumer spending from an increased population means more jobs are created • Increased demand for public services creating an increased demand for public sector workers Effects for unemployment: • "130 000 looking for work" – these migrants could displace the current indigenous workers • "10 547 people granted asylum" / 80 000 family members – surplus labour in the market as they might attempt to join the labour market but with inappropriate skills **NB Answer must refer to both *employment and unemployment* to access Level 3**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** Points may include: • Magnitude and the significance of net migration – the figures on emigration have not been provided • "Long-term migration to the UK for study was estimated to be 163 000" – so may only be short-term migrants; also it is not sure they will remain in the UK after study • If the UK economy starts to grow, it can take on more labour without increasing unemployment • Evidence might be inaccurate, e.g. reason for migration is a very loaded question/inadequate data – it does not indicate if there has been an increase or decrease in the figures shown • Depends on the skills of migrants • "Dependents" may or may not have an effect • Depends on the percentage of asylum seekers granted leave to remain (Extract B) • Different industries may be affected differently	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
4 (a)	D	**(1)**

Question Number	Answer	Mark
4 (b)	**Knowledge 1 Application 1 Analysis 1** **Knowledge** 1 mark for identification of one likely reason, e.g. • Falling oil price reducing cost of imports (1) • Relatively lower inflation in UK makes exports more competitive (1) • Improvement in quality of UK exports increases demand for them (1) • Depreciation of the exchange rate. (1) **Application** 1 mark for use of data from Figure 1, e.g. • trade deficit was approx. £1 billion in January 2015 (1) **Analysis** 1 mark for linked development of reason, e.g. • Fall in the value of the pound makes exports cheaper and imports more expensive. (1)	**(3)**

Question Number	Answer	Mark
3 (a)	**The only correct answer is C** **A** is not correct because when government spending is greater than taxation, it represents a budget deficit **B** is not correct because the balance of trade is always in deficit as indicted by negative values **D** is not correct because the value of exports is smaller than the value of imports	**(1)**

Question Number	Answer	Mark
3 (b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one likely reason, e.g. • Increasing real incomes (1) • Relatively low productivity (1) • Rising oil/commodity prices (1) • Appreciation of exchange rate (1) • Worsening of quality of UK exports (1) **Application:** 1 mark for reference to the chart, for e.g. • The UKs monthly trade balance was in a deficit of just under £2 billion at the end of 2017 (1) • Value of outflows is greater than value of inflows for the UK (1) **Analysis:** 1 mark for linked development, e.g. • Imports increase as UK consumers have a high marginal propensity to import (1) • Low productivity increases cost per unit: makes exports relatively more expensive, reducing the demand for domestic goods (1) • Higher oil / commodity prices increase the cost of imports as the UK is a net importer of oil and commodities (1) • Rise in the value of the pound makes exports relatively expensive and its imports relatively cheaper (1)	**(3)**

Question Number	Answer	Mark
5(a)	**The only correct answer is C** **A** is incorrect because the data relates to the balance of trade in goods and services and not government budget **B** is incorrect because the data relates to the balance of trade in goods and services and not government budget **D** is incorrect because the value of imports is greater than the value of exports	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one likely reason, e.g. • Increasing real incomes **(1)** • Relatively low productivity **(1)** • Rising oil/commodity prices **(1)** • Appreciation of exchange rate **(1)** • Relatively high inflation rate **(1)** **Application:** 1 mark for reference to the chart, for e.g. • The UKs monthly trade balance was in a deficit of just over £4 billion in October 2023 **(1)** • There was a balance of trade in goods and services deficit throughout the given period **(1)** • Trend e.g. deficit fell from May 2023 to July 2023 **(1)** **Analysis:** 1 mark for linked development, e.g. • Imports increase as UK consumers have a high marginal propensity to import **(1)** • Low productivity increases cost per unit: makes exports relatively more expensive, reducing the demand for domestic goods **(1)** • Higher oil/commodity prices increase cost of imports as the UK is net importer of oil/commodities **(1)** • Rise in the external value of the pound makes exports relatively expensive/imports relatively cheaper **(1)**	**(3)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • Value of imports of goods and services **(1)** equals the value of exports of goods and services **(1)** • Net trade/(X-M) **(1)** **Application** 2 marks for 2 data references from Figure 1 **(1+1),** e.g. • Trend has worsened since May 2021 **(1)** • UK had a trade deficit **(1)** since June 2021 **(1)** • UK had a trade surplus **(1)** of £8bn in May 2020 **(1)**	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for understanding of weights, e.g., • Weights are assigned in proportion to the amount of money spent on each item **(1)** **NB: No marks for definition of inflation/inflation rate** **Application** 2 marks **(1+1),** for e.g. • Inflation rate in the UK has been increasing **(1)** from 0.4% in February 2021 to 4.2% in October 2021 **(1)** • There has been disinflation between January 2020 **(1)** and May 2020 **(1)** **Analysis** 2 marks for **(1+1),** e.g. • It uses a basket of goods and services **(1)** • Monthly price surveys are undertaken **(1)** • An annual survey of household spending is used to set the weights/the contents of the basket **(1)** • Within each year, consumer price indices represent the changing cost of a basket of goods and services of fixed composition, quantity and quality **(1)** • In the base year the index number is set at 100 **(1)**	**(5)**

Question Number	Indicative content	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** • Data reference to figure 1 of -2% for net trade • Strong value of the pound • Rising real income • Slow growth in the world economy • Low productivity in the UK e.g. around 20 percentage points below the G7 average	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(b) continued	**Evaluation 4** • Export of services has grown • Productivity difficult to measure e.g. especially large service sector • Investment is increasing so productivity may rise in the future • Time period under consideration e.g. the pound is weakening against various currencies	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

6(f)	**Knowledge 4, Application 4, Analysis 6** KAA: • exchange rate: e.g. if the external value of the UK's currency rises, the value of imports rises and the value of exports falls - UK's trade balance worsens • In Q3 2021 UK's trade deficit was nearly £7 billion • real income: e.g. increase in real income will causes consumer spending to rise part of which will be spent on imports; there is a high marginal propensity to import in the UK - UK's trade balance worsens • state of the world economy: e.g. if UK's main trading partners enter a recession, then they will buy less goods and services from the UK, hence exports fall - UK's trade balance worsens • degree of protectionism: e.g. if UK's trading partners impose a trade barrier on UK goods and services, the value of exports/net exports will fall - UK's trade balance worsens • non-price factors: e.g. if UK exports are of relatively lower quality, the value of their goods and services will fall - UK's trade balance worsens • inflation rate: e.g. if the rate of inflation is higher in the UK than in its trading partners, value of exports will fall - UK's trade balance worsens **Evaluation 6** • It depends on the size of the change in the value of the currency, and how long it is maintained for • The exchange rate is likely to be more significant in the long-run than the short-run due to pre-agreed contracts for imports and exports • It depends on how sensitive consumers are to price changes for imports and exports, which depends on a range of factors, such as non-price issues, the degree of competition in the market • It depends on firms' responses to the change in the exchange rate, e.g. domestic firms may respond to an increase in the value of their currency by lowering the price of their goods in their own currency to keep the price constant in the importer's currency etc. • Impact of real incomes depends on how sensitive consumers are to changes in income; depends on many factors, e.g. if goods are inferior or essential • Combination of influences has a larger impact on the net trade balance • Short-run vs long-run consideration	**(20)**
Knowledge, application and analysis		

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question	Indicative content	Mark