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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

## Aggregate Demand (2.2)

**A Level Economics Theme 2**

94 questions · 465 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.

| QUESTION                               | SOURCE                        | MARKS             | PAGE      |
|----------------------------------------|-------------------------------|-------------------|-----------|
| <b>2.2.1 THE CHARACTERISTICS OF AD</b> |                               | 17 Qs · 110 marks | <b>4</b>  |
| 1. <b>Q3(b)</b>                        | AS Paper 2 June 2018          | 1                 | <b>5</b>  |
| 2. <b>Q4(a)</b>                        | AS Paper 2 June 2018          | 1                 | <b>6</b>  |
| 3. <b>Q4(a)</b>                        | AS Paper 2 June 2025          | 1                 | <b>7</b>  |
| 4. <b>Q4(c)</b>                        | AS Paper 2 June 2025          | 1                 | <b>8</b>  |
| 5. <b>Q4(b)</b>                        | AS Paper 2 June 2018          | 2                 | <b>9</b>  |
| 6. <b>Q4(b)</b>                        | AS Paper 2 October 2020       | 2                 | <b>10</b> |
| 7. <b>Q4(b)</b>                        | AS Paper 2 June 2025          | 2                 | <b>11</b> |
| 8. <b>Q4</b>                           | AS Paper 2 June 2018          | 4                 | <b>12</b> |
| 9. <b>Q4</b>                           | AS Paper 2 June 2025          | 4                 | <b>14</b> |
| 10. <b>Q2</b>                          | A Level Paper 2 June 2018     | 5                 | <b>16</b> |
| 11. <b>Q1</b>                          | A Level Paper 2 June 2023     | 5                 | <b>17</b> |
| 12. <b>Q6(b)</b>                       | A Level Paper 2 June 2024     | 8                 | <b>18</b> |
| 13. <b>Q6(b)</b>                       | AS Paper 2 June 2024          | 10                | <b>23</b> |
| 14. <b>Q1(c)</b>                       | A Level Paper 3 November 2021 | 12                | <b>28</b> |
| 15. <b>Q2(c)</b>                       | A Level Paper 3 June 2024     | 12                | <b>33</b> |
| 16. <b>Q6(e)</b>                       | A Level Paper 2 June 2022     | 15                | <b>39</b> |
| 17. <b>Q2(e)</b>                       | A Level Paper 3 November 2021 | 25                | <b>46</b> |
| <b>2.2.2 CONSUMPTION (C)</b>           |                               | 46 Qs · 206 marks | <b>53</b> |
| 18. <b>Q5(b)</b>                       | AS Paper 2 June 2017          | 1                 | <b>54</b> |
| 19. <b>Q5(a)</b>                       | AS Paper 2 June 2019          | 1                 | <b>55</b> |
| 20. <b>Q5(c)</b>                       | AS Paper 2 June 2019          | 1                 | <b>56</b> |
| 21. <b>Q4(a)</b>                       | AS Paper 2 October 2020       | 1                 | <b>57</b> |
| 22. <b>Q4(c)</b>                       | AS Paper 2 October 2020       | 1                 | <b>58</b> |
| 23. <b>Q2(a)</b>                       | AS Paper 2 June 2024          | 1                 | <b>59</b> |
| 24. <b>Q2(c)</b>                       | AS Paper 2 June 2024          | 1                 | <b>60</b> |
| 25. <b>Q2(a)</b>                       | AS Paper 2 June 2025          | 1                 | <b>61</b> |
| 26. <b>Q2(c)</b>                       | A Level Paper 2 June 2017     | 1                 | <b>62</b> |
| 27. <b>Q2(a)</b>                       | A Level Paper 2 June 2018     | 1                 | <b>63</b> |
| 28. <b>Q1(a)</b>                       | A Level Paper 2 June 2019     | 1                 | <b>64</b> |
| 29. <b>Q2(a)</b>                       | A Level Paper 2 June 2022     | 1                 | <b>65</b> |
| 30. <b>Q3(b)</b>                       | A Level Paper 2 June 2022     | 1                 | <b>66</b> |
| 31. <b>Q1(b)</b>                       | A Level Paper 2 June 2023     | 1                 | <b>67</b> |



| QUESTION                    | SOURCE                       | MARKS            | PAGE       |
|-----------------------------|------------------------------|------------------|------------|
| 32. Q4(a)                   | A Level Paper 2 June 2023    | 1                | 68         |
| 33. Q1(a)                   | A Level Paper 2 June 2024    | 1                | 69         |
| 34. Q5(b)                   | AS Paper 2 June 2019         | 2                | 70         |
| 35. Q2(b)                   | AS Paper 2 June 2024         | 2                | 71         |
| 36. Q2(a)                   | A Level Paper 2 June 2017    | 2                | 72         |
| 37. Q2(b)                   | A Level Paper 2 June 2017    | 2                | 73         |
| 38. Q1(b)                   | A Level Paper 2 June 2019    | 2                | 74         |
| 39. Q1(c)                   | A Level Paper 2 June 2019    | 2                | 75         |
| 40. Q1(b)                   | A Level Paper 2 June 2024    | 2                | 76         |
| 41. Q1(c)                   | A Level Paper 2 June 2024    | 2                | 77         |
| 42. Q5(a)                   | AS Paper 2 June 2017         | 3                | 78         |
| 43. Q3(a)                   | AS Paper 2 June 2018         | 3                | 79         |
| 44. Q2(b)                   | AS Paper 2 June 2025         | 3                | 80         |
| 45. Q5                      | AS Paper 2 June 2017         | 4                | 81         |
| 46. Q3                      | AS Paper 2 June 2018         | 4                | 83         |
| 47. Q5                      | AS Paper 2 June 2019         | 4                | 85         |
| 48. Q4                      | AS Paper 2 October 2020      | 4                | 87         |
| 49. Q2                      | AS Paper 2 June 2024         | 4                | 89         |
| 50. Q2                      | AS Paper 2 June 2025         | 4                | 90         |
| 51. Q2                      | A Level Paper 2 June 2017    | 5                | 92         |
| 52. Q6(c)                   | AS Paper 2 June 2018         | 5                | 94         |
| 53. Q1                      | A Level Paper 2 June 2019    | 5                | 98         |
| 54. Q2                      | A Level Paper 2 June 2022    | 5                | 100        |
| 55. Q4                      | A Level Paper 2 June 2023    | 5                | 102        |
| 56. Q1                      | A Level Paper 2 June 2024    | 5                | 104        |
| 57. Q6(c)                   | AS Paper 2 October 2020      | 6                | 106        |
| 58. Q6(b)                   | AS Paper 2 June 2016         | 10               | 110        |
| 59. Q6(b)                   | AS Paper 2 June 2018         | 10               | 115        |
| 60. Q6(d)                   | AS Paper 2 October 2020      | 10               | 121        |
| 61. Q1(d)                   | A Level Paper 3 October 2020 | 25               | 126        |
| 62. Q1(e)                   | A Level Paper 3 June 2023    | 25               | 133        |
| 63. Q2(d)                   | A Level Paper 3 June 2023    | 25               | 139        |
| <b>2.2.3 INVESTMENT (I)</b> |                              | 17 Qs · 80 marks | <b>146</b> |
| 64. Q4(c)                   | AS Paper 2 June 2018         | 1                | 147        |
| 65. Q4(a)                   | AS Paper 2 June 2023         | 1                | 148        |
| 66. Q4(b)                   | AS Paper 2 June 2023         | 1                | 149        |
| 67. Q4(a)                   | AS Paper 2 June 2024         | 1                | 150        |
| 68. Q4(c)                   | AS Paper 2 June 2024         | 1                | 151        |
| 69. Q2(a)                   | A Level Paper 2 June 2024    | 1                | 152        |
| 70. Q4(c)                   | AS Paper 2 June 2023         | 2                | 153        |



| QUESTION                                | SOURCE                       | MARKS           | PAGE       |
|-----------------------------------------|------------------------------|-----------------|------------|
| 71. <b>Q4(b)</b>                        | AS Paper 2 June 2024         | 2               | <b>155</b> |
| 72. <b>Q6(a)</b>                        | AS Paper 2 June 2022         | 4               | <b>156</b> |
| 73. <b>Q4</b>                           | AS Paper 2 June 2023         | 4               | <b>159</b> |
| 74. <b>Q4</b>                           | AS Paper 2 June 2024         | 4               | <b>161</b> |
| 75. <b>Q6(c)</b>                        | AS Paper 2 June 2017         | 5               | <b>162</b> |
| 76. <b>Q3</b>                           | A Level Paper 2 June 2022    | 5               | <b>165</b> |
| 77. <b>Q2</b>                           | A Level Paper 2 June 2024    | 5               | <b>167</b> |
| 78. <b>Q6(b)</b>                        | AS Paper 2 June 2022         | 6               | <b>169</b> |
| 79. <b>Q6(d)</b>                        | A Level Paper 2 June 2025    | 12              | <b>176</b> |
| 80. <b>Q1(e)</b>                        | A Level Paper 3 June 2017    | 25              | <b>179</b> |
| <b>2.2.4 GOVERNMENT EXPENDITURE (G)</b> |                              | 5 Qs · 27 marks | <b>187</b> |
| 81. <b>Q2(b)</b>                        | A Level Paper 2 June 2019    | 1               | <b>188</b> |
| 82. <b>Q5(b)</b>                        | A Level Paper 2 October 2020 | 1               | <b>189</b> |
| 83. <b>Q2</b>                           | A Level Paper 2 June 2019    | 5               | <b>190</b> |
| 84. <b>Q5</b>                           | A Level Paper 2 October 2020 | 5               | <b>192</b> |
| 85. <b>Q6(e)</b>                        | AS Paper 2 June 2025         | 15              | <b>196</b> |
| <b>2.2.5 NET TRADE (X-M)</b>            |                              | 9 Qs · 42 marks | <b>199</b> |
| 86. <b>Q4(a)</b>                        | AS Paper 2 June 2022         | 1               | <b>200</b> |
| 87. <b>Q4(b)</b>                        | AS Paper 2 June 2022         | 1               | <b>201</b> |
| 88. <b>Q4(c)</b>                        | AS Paper 2 June 2022         | 2               | <b>202</b> |
| 89. <b>Q6(a)</b>                        | AS Paper 2 June 2017         | 4               | <b>204</b> |
| 90. <b>Q4</b>                           | AS Paper 2 June 2022         | 4               | <b>207</b> |
| 91. <b>Q6(c)</b>                        | AS Paper 2 June 2016         | 5               | <b>209</b> |
| 92. <b>Q6(b)</b>                        | AS Paper 2 October 2020      | 5               | <b>212</b> |
| 93. <b>Q6(d)</b>                        | AS Paper 2 June 2019         | 10              | <b>215</b> |
| 94. <b>Q6(c)</b>                        | AS Paper 2 June 2023         | 10              | <b>221</b> |



# QUESTIONS

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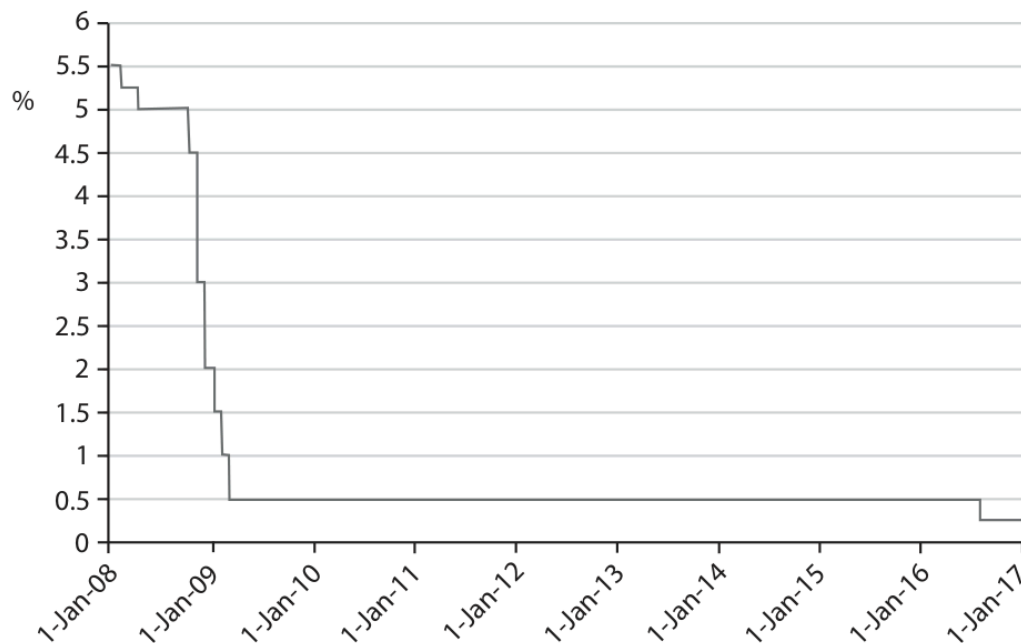
94 questions · 465 marks · 5 sub-topics

## SUB-TOPIC 2.2.1

# THE CHARACTERISTICS OF AD

Sub-topic 2.2.1 · 17 questions · 110 marks · lowest tariff first



**3 UK base interest rate, January 2008 to January 2017**

(Source: Bank of England, <http://www.bankofengland.co.uk/boeapps/iadb/Repo.asp>)

In August 2016 the Bank of England extended its existing asset purchases (quantitative easing) programme, from a total of £375 billion to £435 billion.

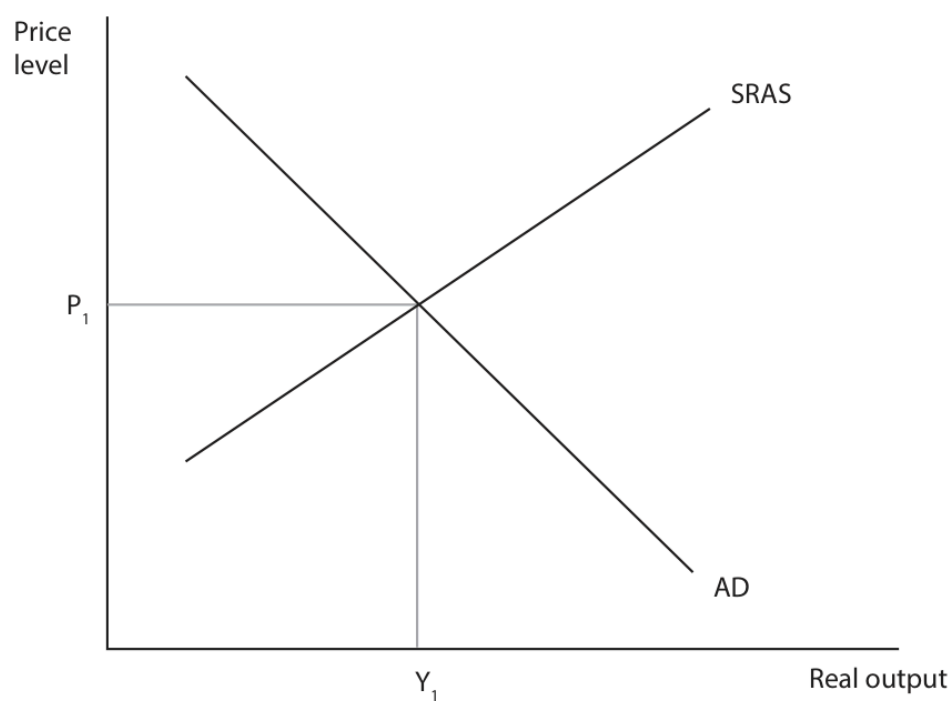
(b) Which **one** of the following is the most likely effect of the Bank of England's quantitative easing?

(1)

- ☐ **A** A fall in economic growth
- ☐ **B** A fall in the money supply
- ☐ **C** An increase in the rate of inflation
- ☐ **D** An increase in unemployment

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

- 4 The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.



- (a) Define the term 'aggregate demand'.

(1)

.....

.....

.....

(Total for Question 4(a) = 1 mark)

**4** In 2023 the UK government reduced indirect tax on certain goods and services.

(a) Define the term 'indirect tax'.

(1)

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(Total for Question 4(a) = 1 mark)



**4** In 2023 the UK government reduced indirect tax on certain goods and services.

(c) Which **one** of the following is an example of an indirect tax?

(1)

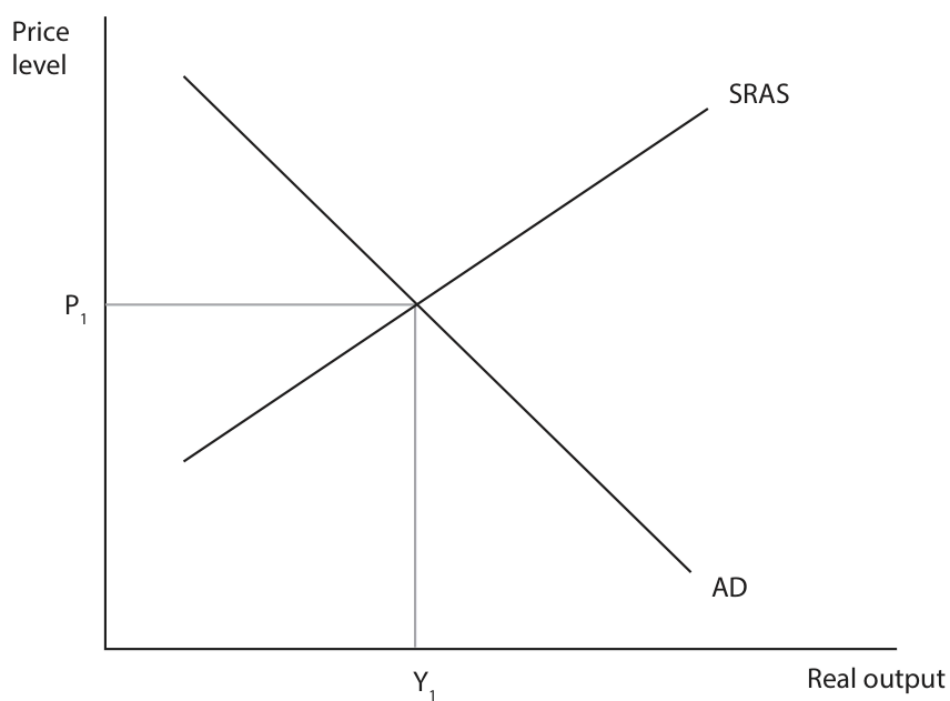
- ☐ **A** Corporation tax
- ☐ **B** Income tax
- ☐ **C** Inheritance tax
- ☐ **D** Value added tax

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(Total for Question 4(c) = 1 mark)



- 4 The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.



- (b) Annotate the diagram above to show the likely impact of a rise in the cost of raw materials on the UK's equilibrium level of real output and price level.

(2)

(Total for Question 4(b) = 2 marks)



- 4 In August 2018 the Monetary Policy Committee of the Bank of England raised the UK's base interest rate from 0.5% to 0.75%.

(a) Define the term 'interest rate'.

(1)

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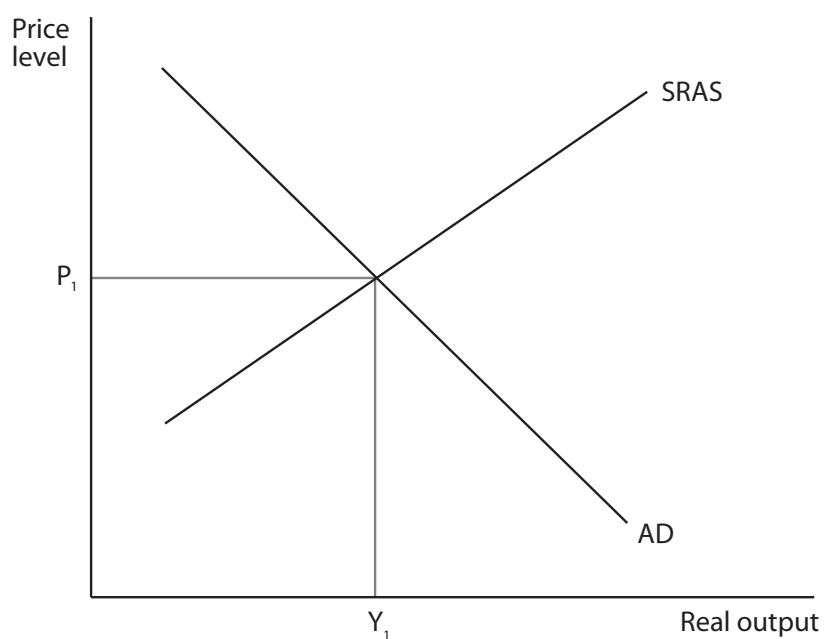
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- (b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the possible impact of a rise in the base interest rate on the equilibrium level of real output and the price level.

(2)



4 In 2023 the UK government reduced indirect tax on certain goods and services.

(a) Define the term 'indirect tax'.

(1)

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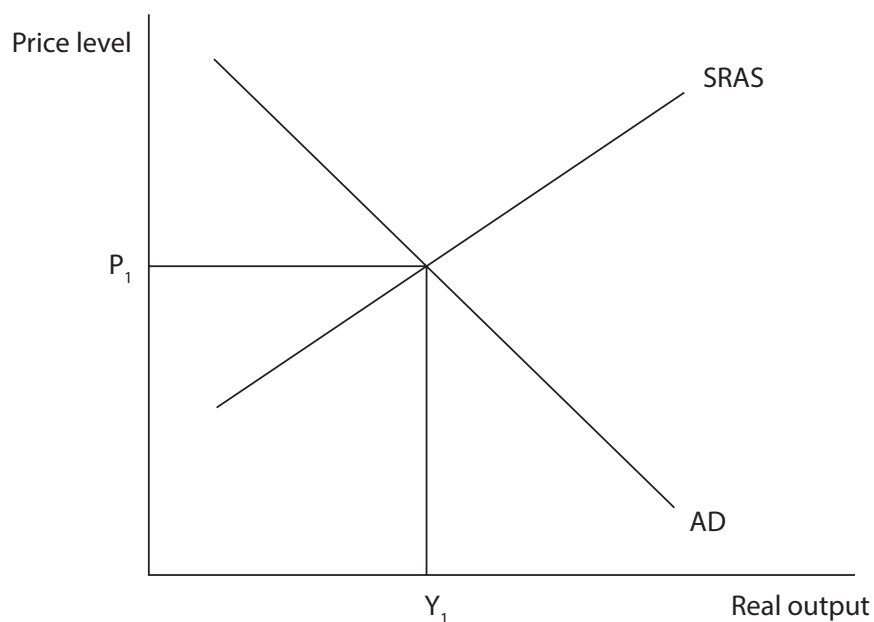
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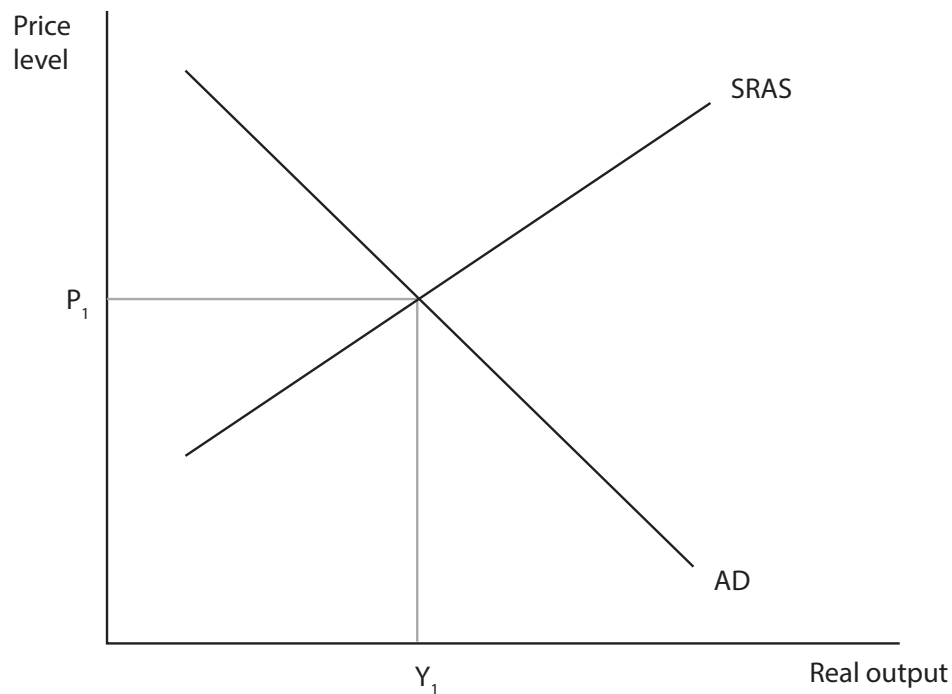
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a reduction in indirect tax on the equilibrium level of real output and the price level.

(2)



- 4 The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.



- (a) Define the term 'aggregate demand'.

(1)

.....

.....

.....

- (b) Annotate the diagram above to show the likely impact of a rise in the cost of raw materials on the UK's equilibrium level of real output and price level.

(2)



(c) Which **one** of the following factors is most likely to cause an increase in the long-run aggregate supply?

(1)

- ☐ **A** Decrease in investment
- ☐ **B** Increase in relative productivity
- ☐ **C** Increase in the level of unemployment benefits
- ☐ **D** Reduced access to credit for consumers and businesses

(Total for Question 4 = 4 marks)



4 In 2023 the UK government reduced indirect tax on certain goods and services.

(a) Define the term 'indirect tax'.

(1)

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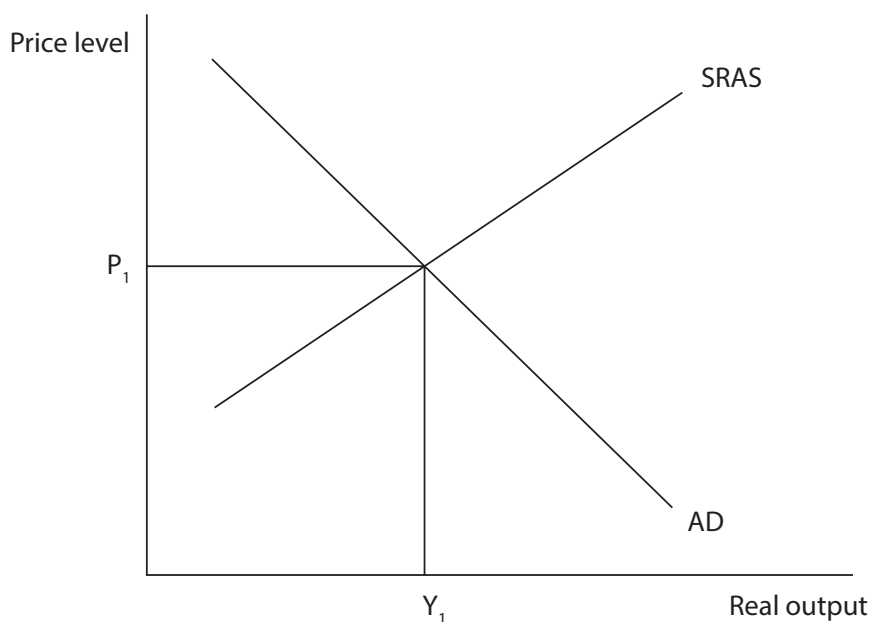
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a reduction in indirect tax on the equilibrium level of real output and the price level.

(2)



(c) Which **one** of the following is an example of an indirect tax?

(1)

- ☐ **A** Corporation tax
- ☐ **B** Income tax
- ☐ **C** Inheritance tax
- ☐ **D** Value added tax

(Total for Question 4 = 4 marks)

- 2 (a) Which **one** of the following would be most likely to cause aggregate demand to increase?

**A fall in:**

(1)

- ☐ **A** government spending
- ☐ **B** net trade ( $X-M$ )
- ☐ **C** the marginal propensity to consume
- ☐ **D** the marginal propensity to save

- (b) Draw an aggregate demand and aggregate supply diagram illustrating the likely impact of a rise in interest rates on the price level and real output.

(4)

(Total for Question 2 = 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 In September 2022 the Bank of England increased the base interest rate from 1.75% to 2.25%.

(Source: adapted from <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>)

- (a) Draw an aggregate demand and aggregate supply diagram to illustrate the likely impact of an increase in the UK base interest rate on the average price level and real output.

(4)

- (b) Which **one** of the following is the most likely impact of an increase in the base interest rate?

(1)

A decrease in the:

- ☐ A level of demand pull inflation
- ☐ B marginal propensity to save
- ☐ C rate of cyclical unemployment
- ☐ D value of the pound against the dollar

(Total for Question 1 = 5 marks)



## SECTION B

Read Figures 1, 2, 3 and 4 and the following extracts (A and B) before answering Question 6.

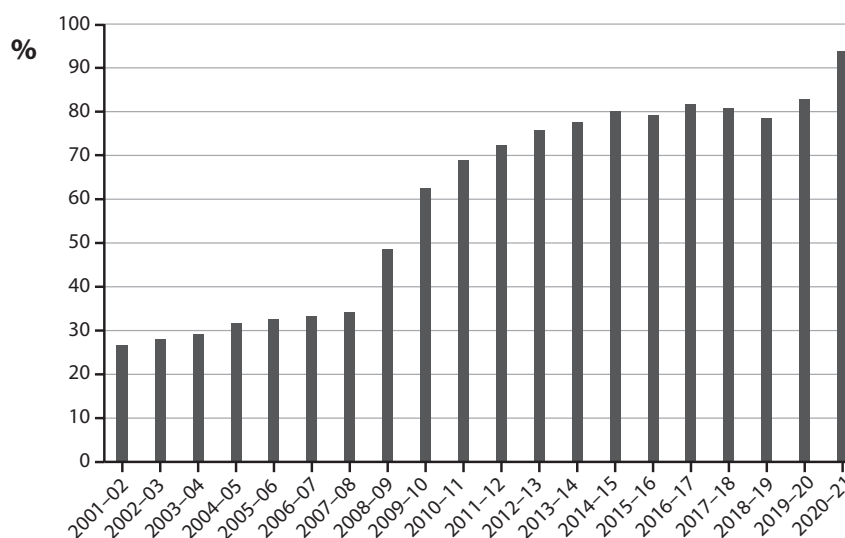
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

## Question 6

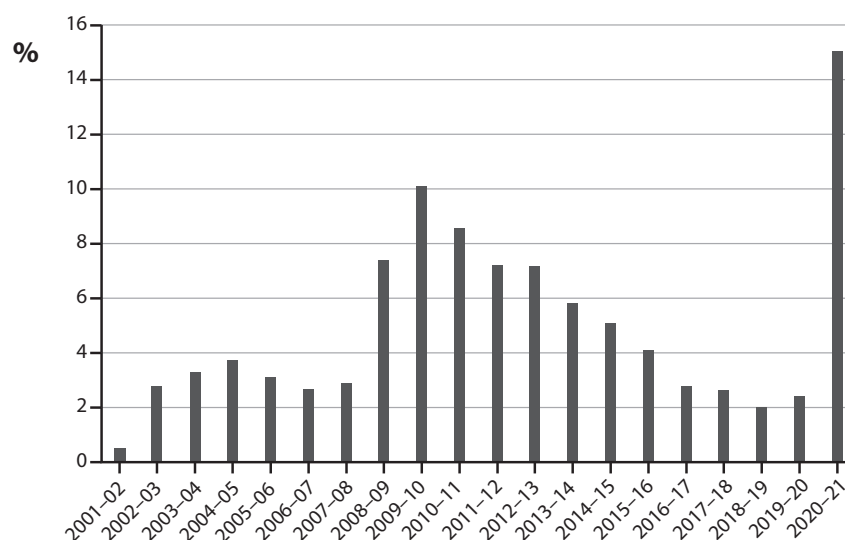
## The UK Economy

Figure 1: UK national debt, percentage of GDP, 2001–2021



(Source: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/deceember2021>)

Figure 2: UK fiscal deficit, percentage of GDP, 2001–2021



(Source: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/deceember2021>)



Figure 3: Interest rate on a 10-year UK government bond, July 2022 to March 2023



(Source: <https://www.ft.com/content/ece962c3-b7e5-48c6-a0b1-06f9823a4853#post-ad2ac225-0543-49e7-9ed5-af9907e83697>)

Figure 4: Income tax rates for 2023–24, compared to 2022–23

|                    | 2022–23          |          | 2023–24          |          |
|--------------------|------------------|----------|------------------|----------|
| Tax band           | Income threshold | Tax rate | Income threshold | Tax rate |
| Personal allowance | Up to £12 570    | 0%       | Up to £12 570    | 0%       |
| Basic rate         | £12 571–£50 270  | 20%      | £12 571–£50 270  | 20%      |
| Higher rate        | £50 271–£150 000 | 40%      | £50 271–£125 140 | 40%      |
| Additional rate    | Over £150 000    | 45%      | Over £125 140    | 45%      |

(Source: Gov.uk)

Extract A

Freeze in income tax thresholds from 2023 onwards

The freeze on the personal allowance, and the basic and higher-rate income tax bands in England, Wales and Northern Ireland will be extended to April 2028. While this freeze may not look like a tax rise on the face of it, having thresholds that fail to rise in line with salaries, people will still end up paying more tax on their income – particularly if they end up in a higher tax band as a result.

The biggest change announced in the Autumn Statement 2022 was the reduction of the additional-rate income tax threshold, dropping from £150 000 to £125 140 from 6 April 2023. It is estimated around 250 000 taxpayers will be pushed into the additional rate tax band, paying 45% tax on any income above the new limit.

The Chancellor said lowering the additional rate threshold means that a person earning £150 000 will pay an extra £1 200 income tax per year.

(Source adapted from: <https://www.which.co.uk/news/article/6-tax-changes-to-watch-out-for-in-2023>)

**Extract B****UK Monetary Policy Decisions**

At a special meeting on 19th March 2020, the monetary policy committee of the Bank of England announced further measures to help support the UK economy during the global health crisis. It voted to reduce the base rate of interest to 0.1% and restart the quantitative easing programme by buying £200 billion of UK government bonds and corporate bonds. This followed a number of announcements by the UK government to try and limit the damage of the deep recession the country was facing and reduce the chances of deflation occurring in the UK. Government borrowing grew massively during 2020 and 2021 to fund support for businesses and workers. 5

However, since then the monetary policy committee has rapidly increased the base rate of interest – which reached 4% in February 2023. The UK government's long-term borrowing costs are higher today than they were before former prime minister Liz Truss's £45 billion proposed tax cuts caused the interest rate on 30-year government bonds to briefly rise above 5%, which almost caused a financial crisis. 10

The Bank's use of quantitative easing (QE) has also come in for criticism, with former governor of the Bank of England Mervyn King saying that the decision to keep pumping money into the economy during the global health crisis was a mistake that fuelled inflation. He said: 'central banks decided it was a good time to print a lot of money. That was a mistake [as] we had too much money chasing too few goods'. 15

Experts have argued this pushed inflation higher in the UK by stimulating aggregate demand. However, critics say QE does not cause inflation as most of the extra money is contained in the financial system and does not affect consumption and investment. 20

Higher interest rates on the national debt may limit the ability of the UK government to increase spending on supply-side policies needed to boost economic growth, such as a £20 billion plan to transform carbon capture in the UK, which would create jobs and support a move to cleaner electricity generation and technology. 25

(Source: adapted from: <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/monetary-policy-summary-for-the-special-monetary-policy-committee-meeting-on-19-march-2020> and <https://www.ft.com>)

(8)





## SECTION B

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

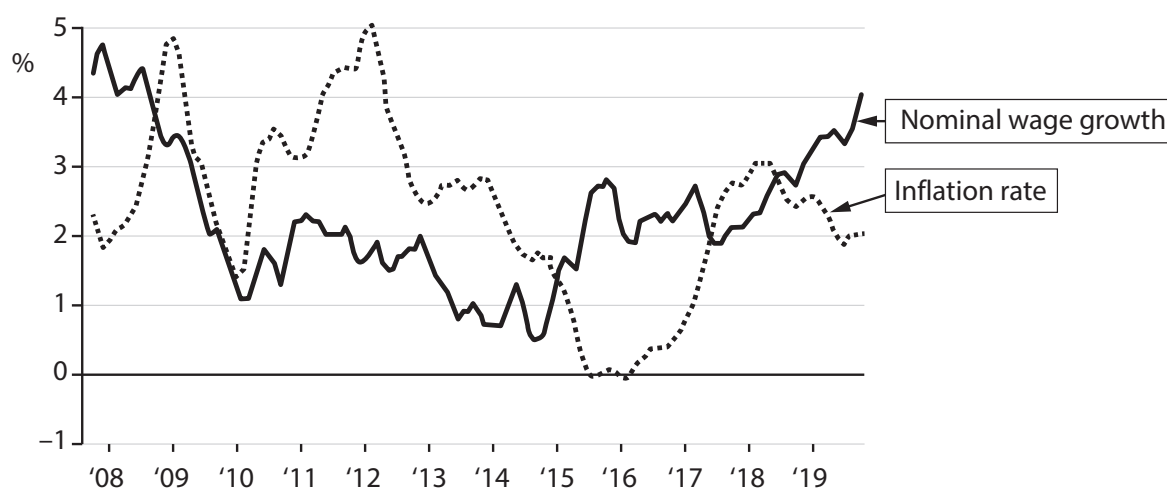
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

## Question 6

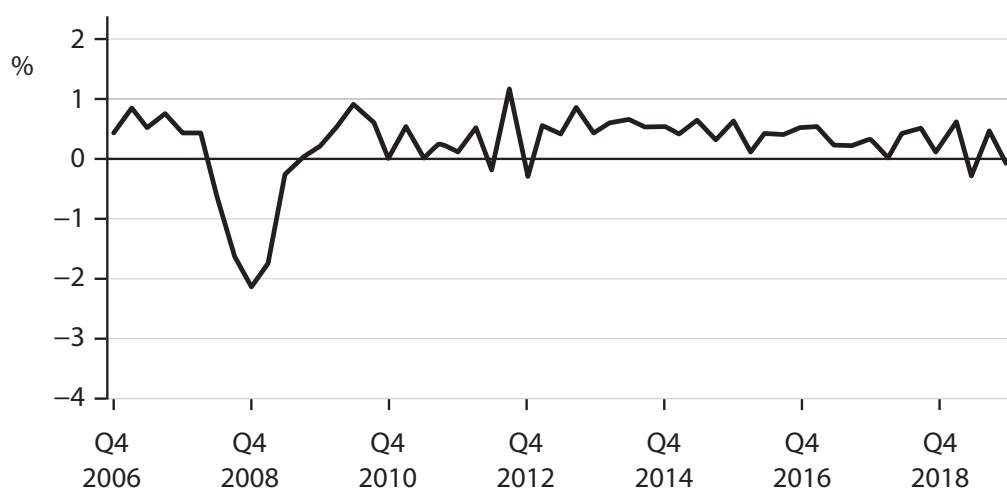
## UK monetary policy since the Global Financial Crisis of 2008

**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. 5

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. 10

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. 15

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. 20

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. 25

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. 30

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>)

(10)







## SECTION A

Read 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

## Hand car wash (HCW) firms in the UK

## Extract A

## What is the true human cost of your £5 hand car wash (HCW)?

The UK's hand car washes (HCWs) are extremely price competitive, but they have also been linked to modern slavery. Are they ever fair for workers?

There is little agreement about how many HCWs there are in the UK. Estimates range from 10 000 to 20 000. This lack of accurate information about the industry makes government regulation very difficult. Automated car washes, with their fierce rotating bristles, used to be the first option for drivers in a hurry. Now there is more choice. While the economy slows and incomes fail to keep up with inflation, demand for HCWs has grown. Many people see paying £5 for a car washed by someone else, rather than cleaning it at home, as a small expense which yields a high utility. But what is the true cost of a £5 car wash – and what should we be paying?

The growth of HCWs is partly the result of changes in the structure of industry in the UK. Many petrol stations have closed as drivers fill up at supermarkets. Garages and their forecourts have closed as cars become more reliable and locked into service agreements. The available sites for HCWs have therefore increased significantly and rents have fallen.

HCW entrepreneurs have identified available land and have benefitted from changes in the labour market, partly as a result of EU migration. UK drivers are now able to obtain cheap and effective hand car washing. For many migrants, car washes are a first job. "They accept car washing for a short period while they improve their language skills and move into other industries," says Ian Clark, a professor of work and employment at Nottingham Business School. "But there are also car-wash workers without networks who are in a dead end, working there for long periods."

Many drivers are only interested in getting the cheapest wash. If the price is very low, it probably means that workers are receiving less than the minimum wage and working in poor conditions. Crude calculations illustrate the problem. A £5 HCW employing five workers for 10 hours a day would need to wash 79 cars a day to just cover the wage costs. This assumes the workers are paid the minimum wage. This is one car every seven and a half minutes. Even if the profit can be higher on valet services, the price of which can be as little as £12 for a full inside-and-out clean, it's hard to see how a car wash price as low as £5 pays a living wage. This ignores all other costs which HCWs incur such as business rates and rent.

Evidence from car-wash workers is limited but Clark and others have been able to build a picture of some of the tougher conditions on drenched forecourts. "Like nail bars and small garment manufacturers, car washes are what we call 'hard-to-reach places,'" Clark

explains. As part of the research, Clark and his team spoke to workers from 45 HCWs in the Midlands.

Clark and his team met and observed workers who lacked waterproof boots or trousers, or hi-vis jackets and gloves. "They're spraying around hydrochloric acid solution for alloy wheels, breathing in the vapour and fumes," Clark says. Some workers were paid a little over half the minimum wage.

(Source adapted from: <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>)



**Extract B****Government intervention in the HCW industry**

There are three main areas of government intervention that might impact on labour intensive firms such as HCWs:

First, there is the planning issue which focuses on the impact on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent the use of tarmac rather than concrete on forecourts. Tarmac allows waste water and chemicals to seep into the sub soil. It could also be a requirement to have a sludge trap to stop the waste entering waterways. 5

Second, there is the health and safety issue for workers. Prolonged exposure to chemicals and lack of protective clothing puts the health of workers at risk. Performance targets could involve minimum levels of protective clothing and rest breaks for the workers. 10

Third, there is the issue of tax. The informal nature of the business type makes tax evasion easier.

Not all UK HCWs violate regulations. There are legitimate, regulated HCW firms as well as examples of good practice by independent outlets. One national supermarket, Tesco, has banned all independent hand car washes from its car parks. It is now in a partnership agreement with national car wash operator Waves. It uses a WashMark certificate of quality and compliance which was introduced by the industry to improve working conditions. Other major supermarkets are considering similar changes. One adviser believes £9 is a reasonable minimum price for a basic wash. Some pressure groups have developed a mobile phone app where evidence of unreasonable conditions can be reported by drivers. 15 20

Involving drivers in the issue, and making them demand fairer car washes, creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. 25

(Source adapted from: <https://www.parliament.uk/documents/commons-committees/environmental-audit/Hand-Car-Wash-evidence.pdf> research into HCWs by Professor Ian Clark, Nottingham Business School May 2018)



(12)







Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.  
Answer ALL Questions 2 (a) to 2 (c), and EITHER Questions 2(d) OR 2(e).  
Write your answers in the spaces provided.  
You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

Figure 3: World’s largest cocoa growers and chocolate producers

| Cocoa growers   | Chocolate producers |
|-----------------|---------------------|
| Ivory Coast 46% | Germany 17%         |
| Ghana 18%       | Belgium 11%         |
| Indonesia 14%   | Italy 7.4%          |
| Nigeria 7%      | US 7.2%             |

(Source: adapted from International Cocoa Association [www.icco.org](http://www.icco.org) December 2021 and The Telegraph.co.uk accessed 24/2/22)

Extract D

From a managed to a floating exchange rate

Ghana’s currency, the cedi, has depreciated significantly against major currencies, especially the US dollar (US\$), since the adoption of the floating exchange rate system in 1992. From 1983 to 1992 it operated a managed exchange rate. Since the liberalisation of the foreign exchange market there have substantial swings and on average the cedi has depreciated 98% against the US dollar. The cedi to US dollar rate has been very volatile recently, causing macroeconomic instability and limiting economic growth.

(Source adapted from: <https://www.theigc.org/project/on-the-causes-and-effect-of-exchange-rate-volatility-on-economic-growth-evidence-from-ghana/> and <https://www.scrip.org/journal/paperinformation.aspx?paperid=95492>)



**Extract E****There is a lot of money in chocolate but the growers of cocoa see very little of it.**

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world's second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly \$1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere. 5

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate. 10 15

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. "You cannot grow a business when you have to service interest rates of 18%–20% or even more," he says. 20

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. "It only makes sense that the most important commodity in our country, which is cocoa... should become the target for a major programme of industrialisation," he says. 25

The 'One District One Factory' programme aims to kickstart industrialisation by providing the infrastructure for Ghana's farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country's enterprise zones – designated areas to encourage economic activity – in a bid to help them export. 30

(Source: adapted from <https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate> and <https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties> and <https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/> and <https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375>)

**Extract F****A new trade bloc for Africa**

The African Continental Free Trade Agreement (AfCFTA) has been signed by all 55 member states of the African Union, including Ghana, Nigeria, and South Africa. This brings together 1.2 billion people with a combined gross domestic product (GDP) of more than \$2 trillion as of 2023.

5

The agreement commits countries to removing tariffs on 90% of goods, with other goods to be phased in later.

The agreement also liberalises services and aims to tackle non-tariff barriers which reduce trade between African countries, such as long delays at the borders.

(Source adapted from: <https://www.aljazeera.com/economy/2018/3/20/african-continental-free-trade-area-what-you-need-to-know>)



(12)







**SECTION B**

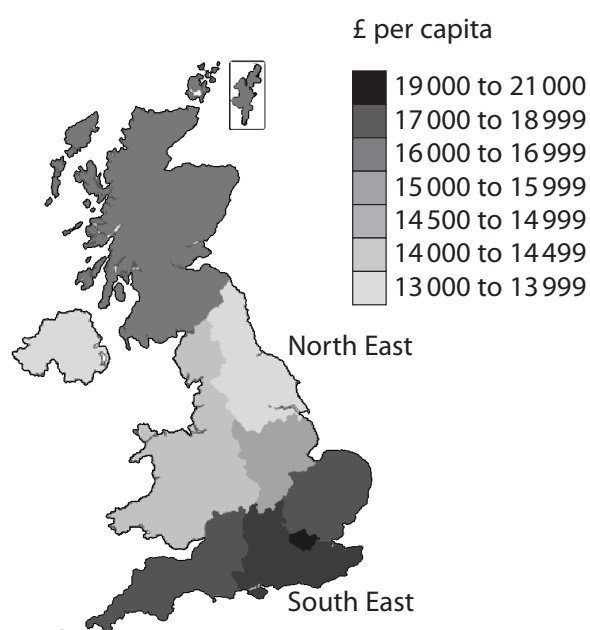
Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

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/incomegroupsplittestimatesonpersonalandeconomicwellbeingacrosstime>)

**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.

5

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.

10

15

(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.

5

10

(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>)



(15)





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**TOTAL FOR SECTION B = 50 MARKS**



**SECTION B**

Read Figures 1 to 4 and extracts C and D before answering Question 2.

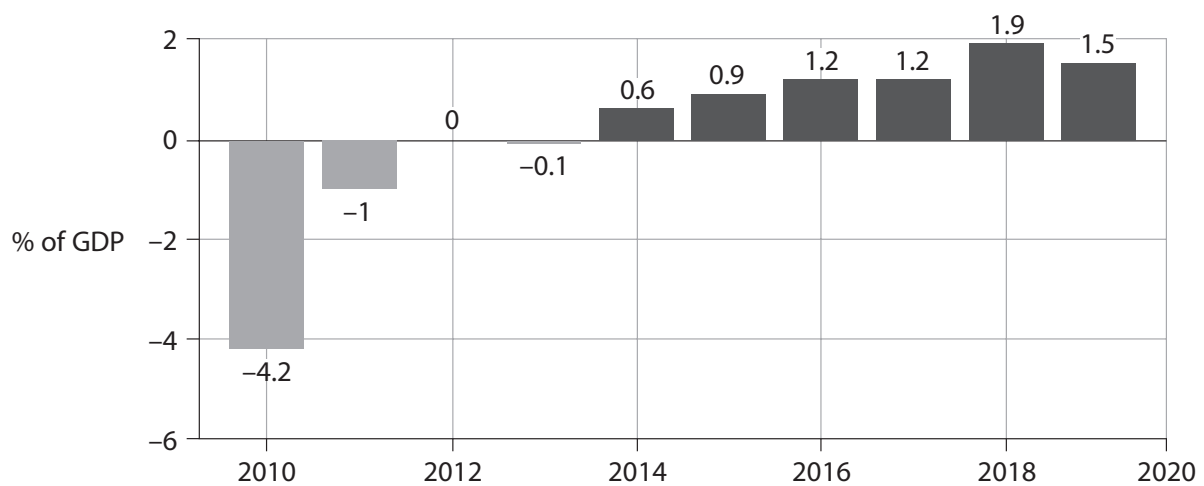
Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

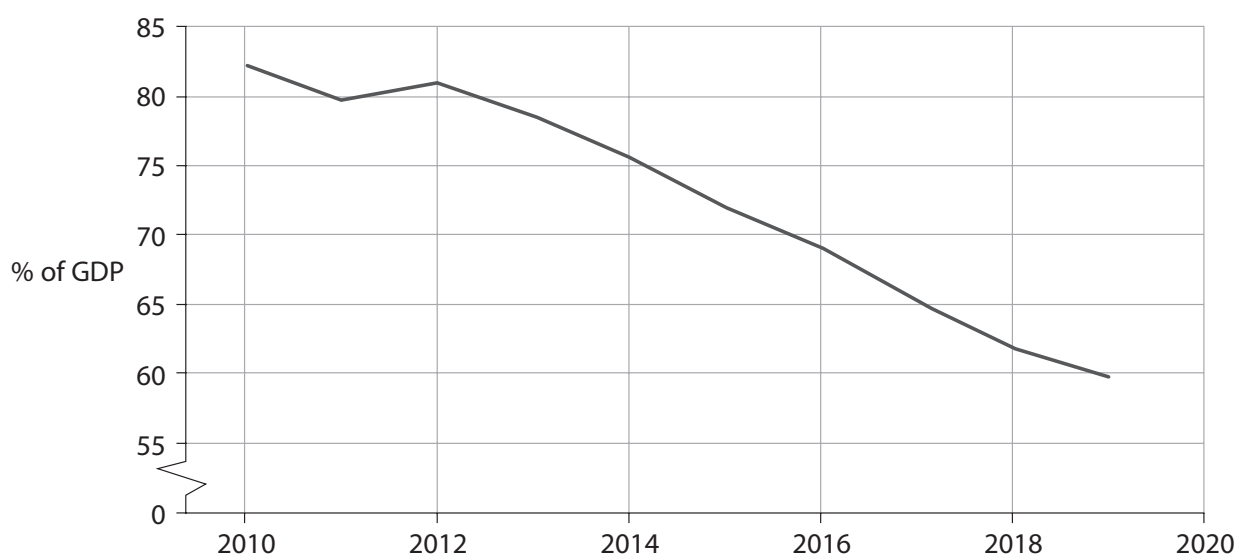
**Question 2****The German economy**

**Figure 1: German government budget balance, percentage of GDP, 2010 to 2019**



(Source adapted from: The Economist Nov 14th 2019)

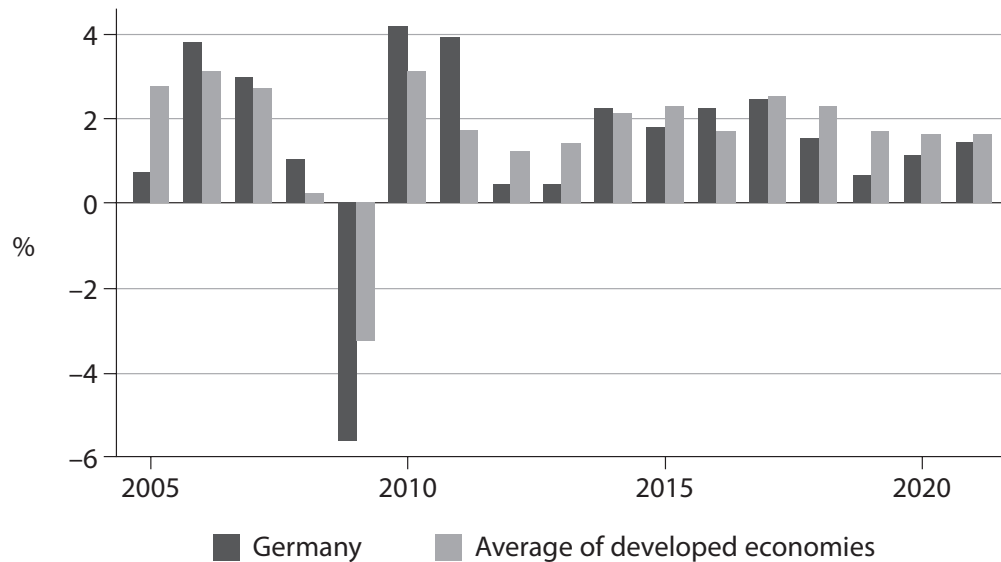
**Figure 2: German national debt, percentage of GDP, 2010 to 2019**



(Source adapted from: The Economist Nov 14th 2019)

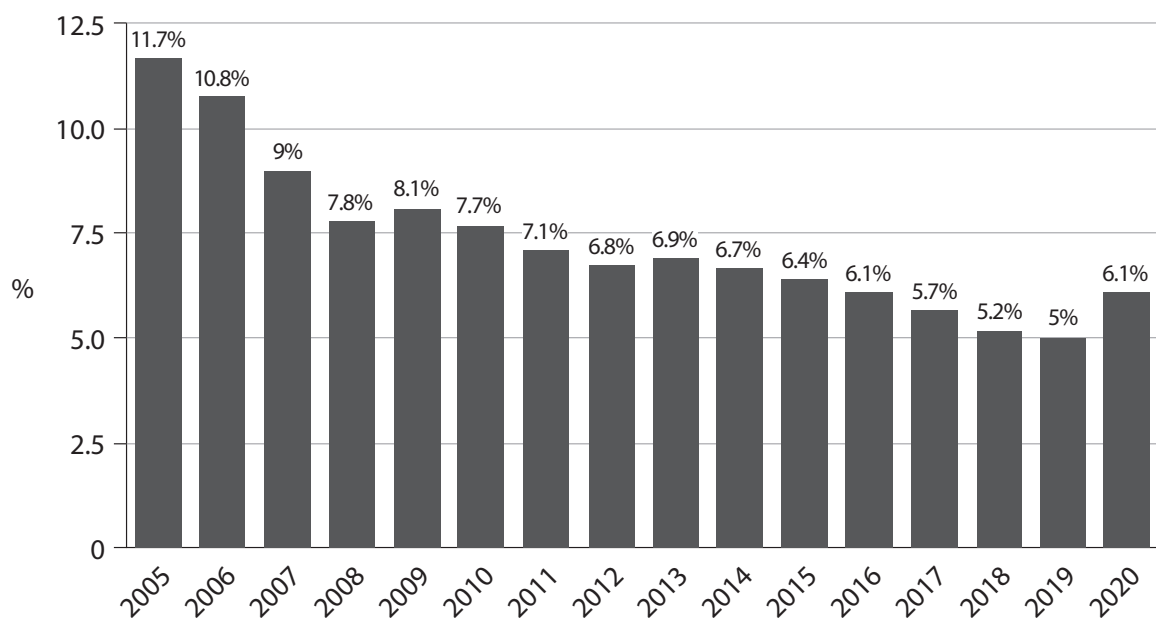


**Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)**



(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. 5  
10

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. 15  
20

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. 25

(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. 5

(Source: <https://www.dw.com/en/germany-falls-in-global-competitiveness-ranking/a-50745071> 8 October 2019)



(25)







**(Total for this part = 25 marks)**

SUB-TOPIC 2.2.2

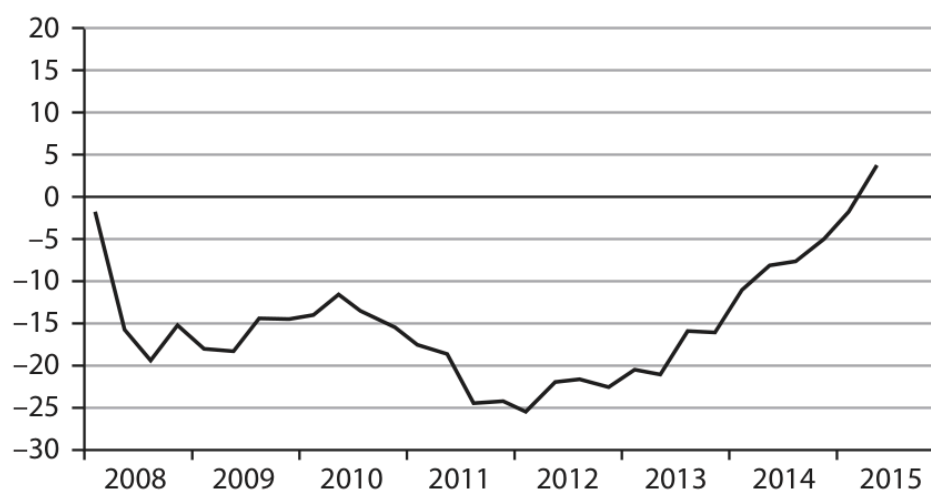
# CONSUMPTION (C)

Sub-topic 2.2.2 · 46 questions · 206 marks · lowest tariff first



- 5 The chart below shows the results from a survey of UK consumers' confidence in their financial situation. A negative balance means that, on average, consumers reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. This is recorded on a scale from -100 to +100.

**UK consumer confidence**



(Source: [http://www.ons.gov.uk/ons/dcp171778\\_418064.pdf](http://www.ons.gov.uk/ons/dcp171778_418064.pdf))

- (b) Which **one** of the following is most likely to result from an improvement in UK consumer confidence? A decrease in the marginal propensity to:

(1)

- ☒ A consume
- ☒ B tax
- ☒ C import
- ☒ D save

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

5 The table below shows average UK house prices between July 2014 and July 2017.

| Year | Average house prices (£) | Index numbers of average UK house prices (2014 is the base year) |
|------|--------------------------|------------------------------------------------------------------|
| 2014 | 189 709                  | 100                                                              |
| 2015 | 200 141                  |                                                                  |
| 2016 | 215 127                  |                                                                  |
| 2017 | 226 185                  | 119.2                                                            |

(Source: adapted from <http://landregistry.data.gov.uk/app/ukhpi/explore> - Crown Copyright)

(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners?

(1)

- ☐ A Greater confidence
- ☐ B Higher income
- ☐ C Lower consumption
- ☐ D Negative wealth effect

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



5 The table below shows average UK house prices between July 2014 and July 2017.

| Year | Average house prices (£) | Index numbers of average UK house prices (2014 is the base year) |
|------|--------------------------|------------------------------------------------------------------|
| 2014 | 189 709                  | 100                                                              |
| 2015 | 200 141                  |                                                                  |
| 2016 | 215 127                  |                                                                  |
| 2017 | 226 185                  | 119.2                                                            |

(Source: adapted from <http://landregistry.data.gov.uk/app/ukhpi/explore> - Crown Copyright)

(c) Define the term 'index number'.

(1)

.....

.....

.....

.....

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



- 4** In August 2018 the Monetary Policy Committee of the Bank of England raised the UK's base interest rate from 0.5% to 0.75%.

(a) Define the term 'interest rate'.

(1)

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(Total for Question 4(a) = 1 mark)



4 In August 2018 the Monetary Policy Committee of the Bank of England raised the UK's base interest rate from 0.5% to 0.75%.

(c) Which **one** of the following demand-side policies best explains a rise in the base interest rate?

(1)

- ☐ A Contractionary fiscal policy
- ☐ B Contractionary monetary policy
- ☐ C Expansionary fiscal policy
- ☐ D Expansionary monetary policy

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(Total for Question 4(c) = 1 mark)



**2** In 2019 the marginal propensity to consume in the UK was estimated to be 0.8.

(a) Define the term 'marginal propensity to consume'.

(1)

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



2 In 2019 the marginal propensity to consume in the UK was estimated to be 0.8.

(c) Using the above data, which **one** of the following represents the value of the multiplier?

(1)

☐ A 0.2

☐ B 0.8

☐ C 1.3

☐ D 5.0

---

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



2 The table shows average UK house prices between January 2023 and March 2023.

| Month and year | Average house price (£) |
|----------------|-------------------------|
| January 2023   | 286 321                 |
| February 2023  | 284 152                 |
| March 2023     | 281 555                 |

(Source: adapted from <https://landregistry.data.gov.uk/>)

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

(1)

- ☒ **A** Between January 2023 and February 2023, average UK house prices fell by £2 597
- ☒ **B** The average UK house price in March 2023 is 16.65% higher than in January 2023
- ☒ **C** The index number of average UK house prices for March 2023 is 100
- ☒ **D** The ratio of the average UK house price in February 2023 to the average UK house price in March 2023 is 1 : 0.99

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



2 The table below shows marginal propensity to save data for an economy.

| Year | Marginal propensity to save (mps) |
|------|-----------------------------------|
| 2010 | 0.11                              |
| 2011 | 0.09                              |
| 2012 | 0.07                              |
| 2013 | 0.05                              |
| 2014 | 0.05                              |
| 2015 | 0.04                              |

An economy has marginal propensity to save of 0.1, marginal propensity to tax of 0.2 and marginal propensity to import of 0.1.

(c) Which **one** of the following is the correct size of the multiplier?

(1)

- ☐ **A** 0.4
- ☐ **B** 0.6
- ☐ **C** 1.7
- ☐ **D** 2.5

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



- 2 (a) Which **one** of the following would be most likely to cause aggregate demand to increase?

**A fall in:**

(1)

- ☐ **A** government spending
- ☐ **B** net trade ( $X-M$ )
- ☐ **C** the marginal propensity to consume
- ☐ **D** the marginal propensity to save

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



## SECTION A

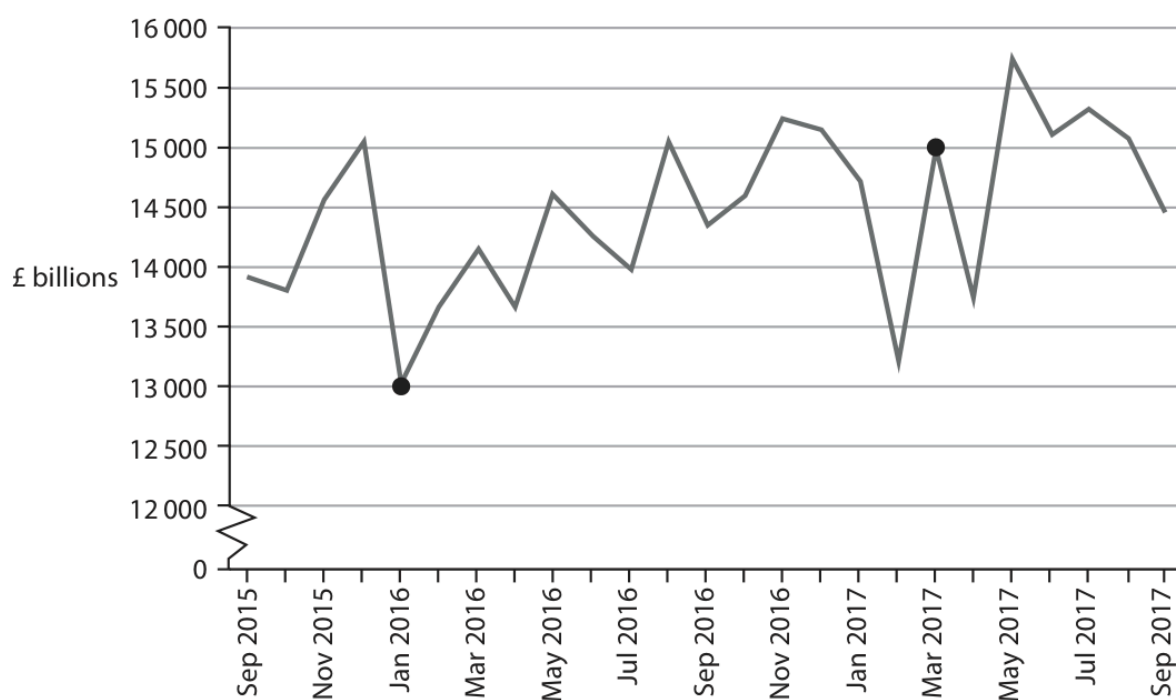
Answer ALL questions. Write your answers in the spaces provided.

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 Monthly additions to UK credit card lending, £ billions, 2015 – 2017



(Source: <https://www.ukfinance.org.uk/statistics/cards/>)

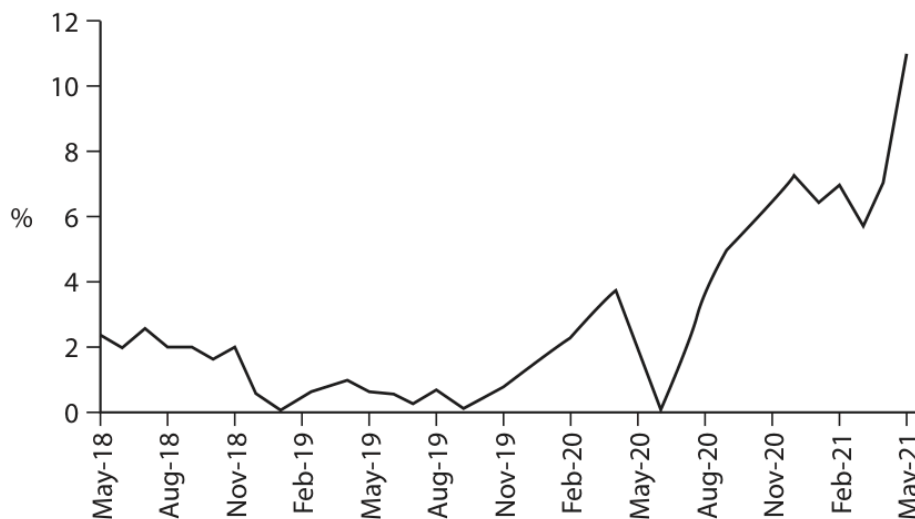
- (a) Which **one** of the following would be **most** likely to cause an increase in credit card lending?

(1)

- ☐ A A fall in interest rates
- ☐ B A fall in investment
- ☐ C An increase in the deficit on the current account of the balance of payments
- ☐ D An increase in savings

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



**2 Annual percentage change in average UK house prices**

(Source: adapted from [https://www.nationwide.co.uk/-/media/MainSite/documents/about/house-price-index/2021/May\\_2021.pdf](https://www.nationwide.co.uk/-/media/MainSite/documents/about/house-price-index/2021/May_2021.pdf))

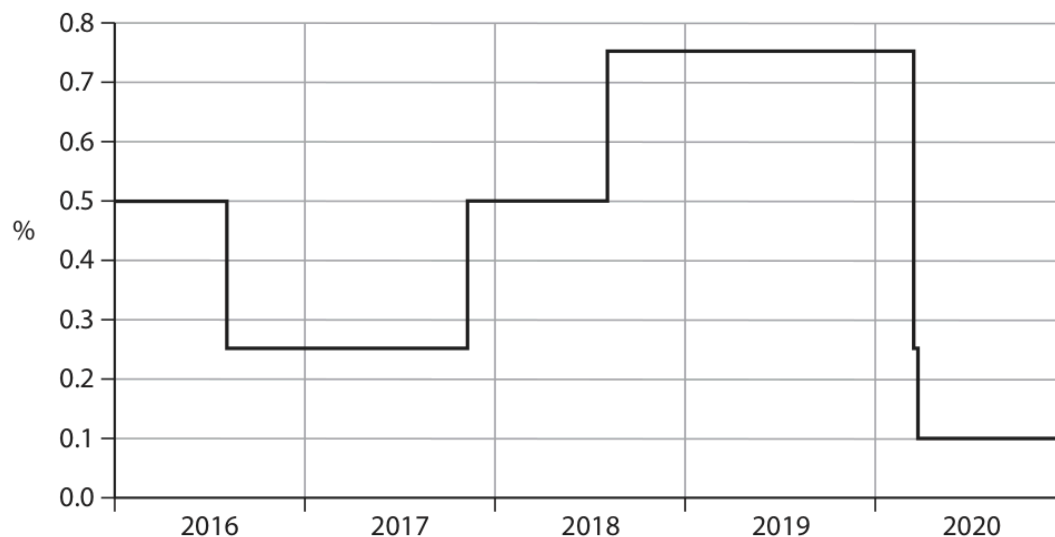
(a) With reference to the chart, which **one** of the following is true?

Average UK house prices:

(1)

- ☒ **A** fell in August 2020
- ☒ **B** fell in November 2018
- ☒ **C** rose the fastest in May 2021
- ☒ **D** stayed constant in 2018

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

**3 Bank of England base interest rate, 2016–2020**

(Source: adapted from <https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate>)

(b) Which **one** of the following would be most likely to result from lower base interest rates?

A fall in:

(1)

- ☒ **A** the average price of houses
- ☒ **B** the external value of the pound
- ☒ **C** the level of employment
- ☒ **D** the rate of economic growth

(Total for Question 3(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 30 minutes on this section.**

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

- 1** In September 2022 the Bank of England increased the base interest rate from 1.75% to 2.25%.

(Source: adapted from <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>)

- (b) Which **one** of the following is the most likely impact of an increase in the base interest rate?

(1)

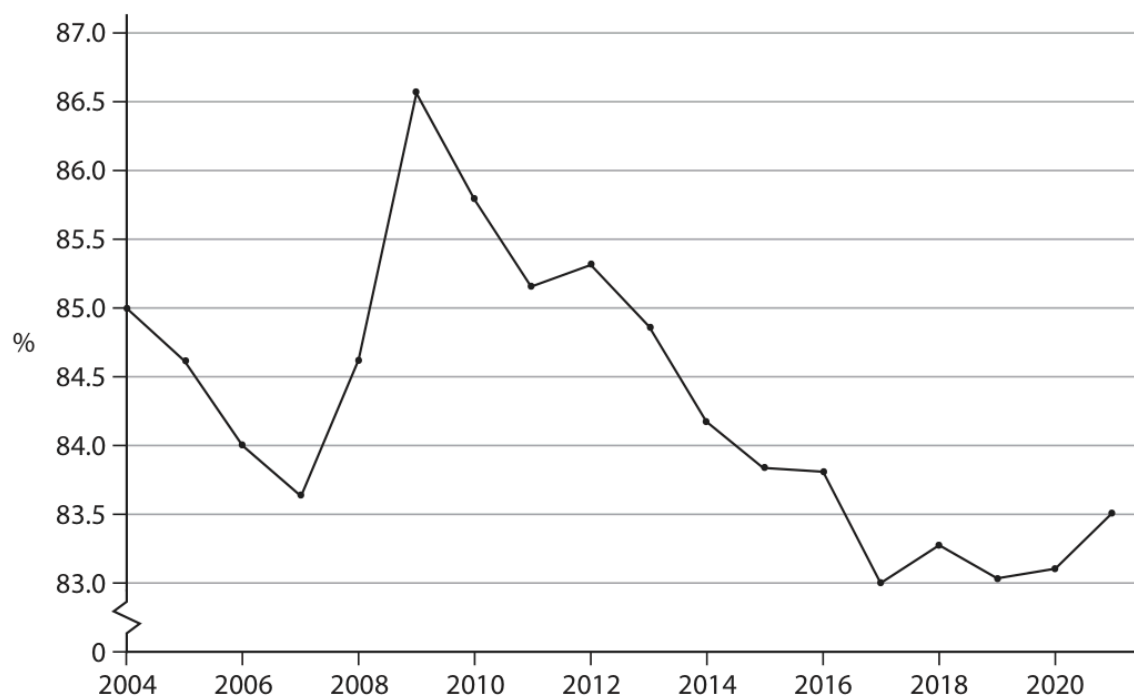
A decrease in the:

- ☐ **A** level of demand pull inflation
- ☐ **B** marginal propensity to save
- ☐ **C** rate of cyclical unemployment
- ☐ **D** value of the pound against the dollar

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



**4** UK consumption, % of GDP, 2004–2021

(Source: adapted from <https://data.worldbank.org/indicator/NE.CON.TOTL.ZS?end=2021&locations=GB&start=2002>)

(a) Which **one** of the following is an example of consumption?

(1)

- ☐ **A** Construction of a new cycle lane
- ☐ **B** Expansion of Heathrow Airport
- ☐ **C** New school buildings
- ☐ **D** Purchase of new clothes

(Total for Question 4(a) = 1 mark)



## SECTION A

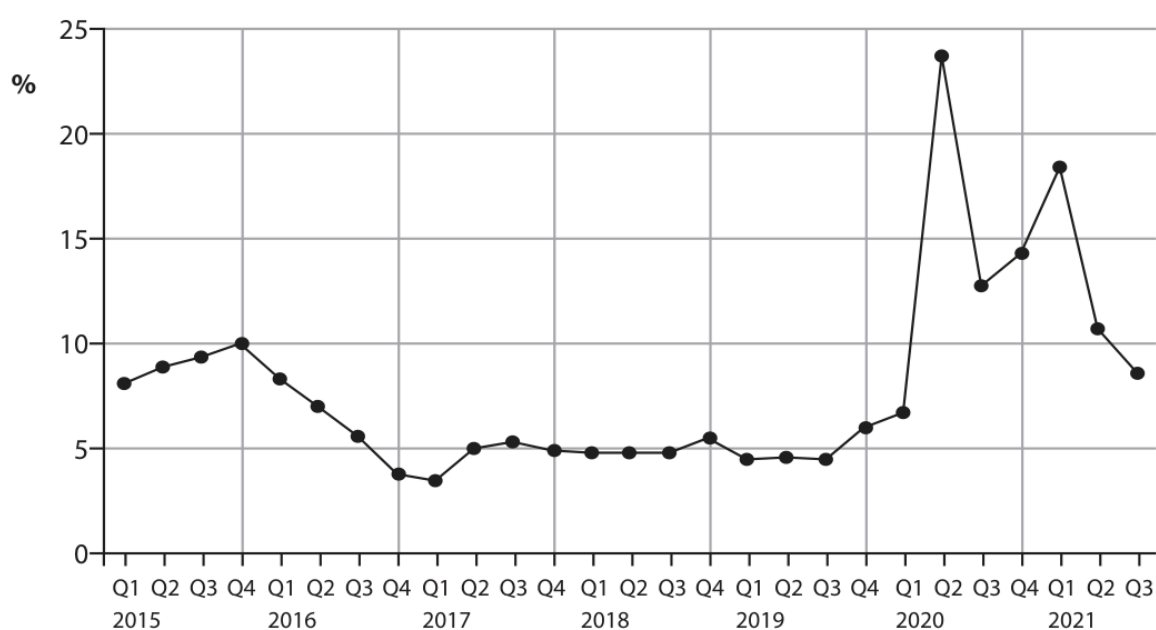
Answer ALL questions. Write your answers in the spaces provided.

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 household savings as a percentage of household disposable income, quarter 1 (Q1) 2015 to quarter 3 (Q3) 2021



(Source: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukeya>)

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

(1)

UK household savings as a percentage of household disposable income:

- ☐ A fell in 2015
- ☐ B fell throughout the time period shown
- ☐ C were the highest in Q1 2017
- ☐ D were the highest in Q2 2020

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



5 The table below shows average UK house prices between July 2014 and July 2017.

| Year | Average house prices (£) | Index numbers of average UK house prices (2014 is the base year) |
|------|--------------------------|------------------------------------------------------------------|
| 2014 | 189 709                  | 100                                                              |
| 2015 | 200 141                  |                                                                  |
| 2016 | 215 127                  |                                                                  |
| 2017 | 226 185                  | 119.2                                                            |

(Source: adapted from <http://landregistry.data.gov.uk/app/ukhpi/explore> - Crown Copyright)

(b) Using 2014 as the base year, calculate the index number for

(2)

(i) 2015

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(ii) 2016.

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



2 In 2019 the marginal propensity to consume in the UK was estimated to be 0.8.

(b) Explain **one** likely factor that could increase the level of consumption of UK households.

(2)

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

2 The table below shows marginal propensity to save data for an economy.

| Year | Marginal propensity to save (mps) |
|------|-----------------------------------|
| 2010 | 0.11                              |
| 2011 | 0.09                              |
| 2012 | 0.07                              |
| 2013 | 0.05                              |
| 2014 | 0.05                              |
| 2015 | 0.04                              |

(a) Explain **one** possible reason for the changes in the marginal propensity to save as shown in the table.

(2)

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



2 The table below shows marginal propensity to save data for an economy.

| Year | Marginal propensity to save (mps) |
|------|-----------------------------------|
| 2010 | 0.11                              |
| 2011 | 0.09                              |
| 2012 | 0.07                              |
| 2013 | 0.05                              |
| 2014 | 0.05                              |
| 2015 | 0.04                              |

(b) Explain the likely effect of a fall in the marginal propensity to save on the value of the multiplier if other things remain equal.

(2)

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



SECTION A

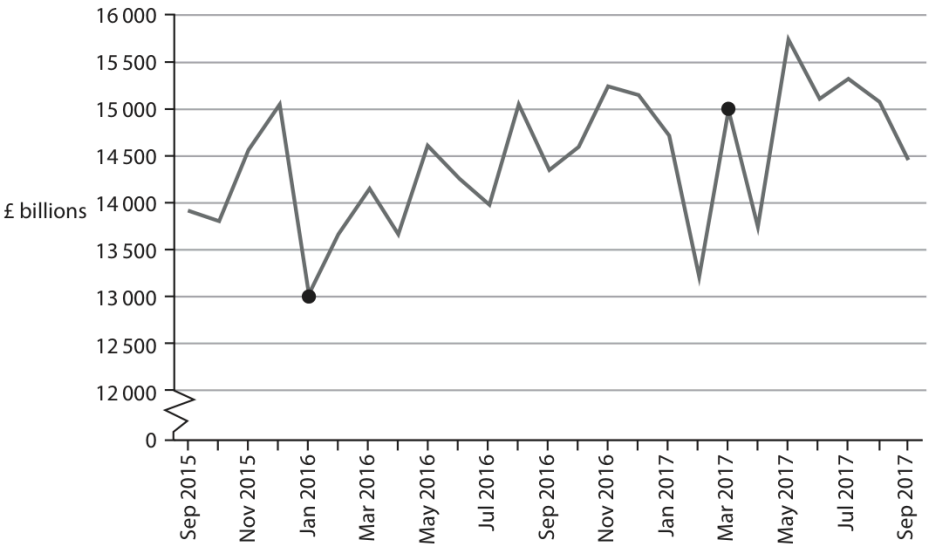
Answer ALL questions. Write your answers in the spaces provided.

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 30 minutes on this section.

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

1 Monthly additions to UK credit card lending, £ billions, 2015 – 2017



(Source: <https://www.ukfinance.org.uk/statistics/cards/>)

(b) Using the chart, calculate an index number for additions to credit card lending in March 2017, using January 2016 as the base. You are advised to show your working.

(2)

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

SECTION A

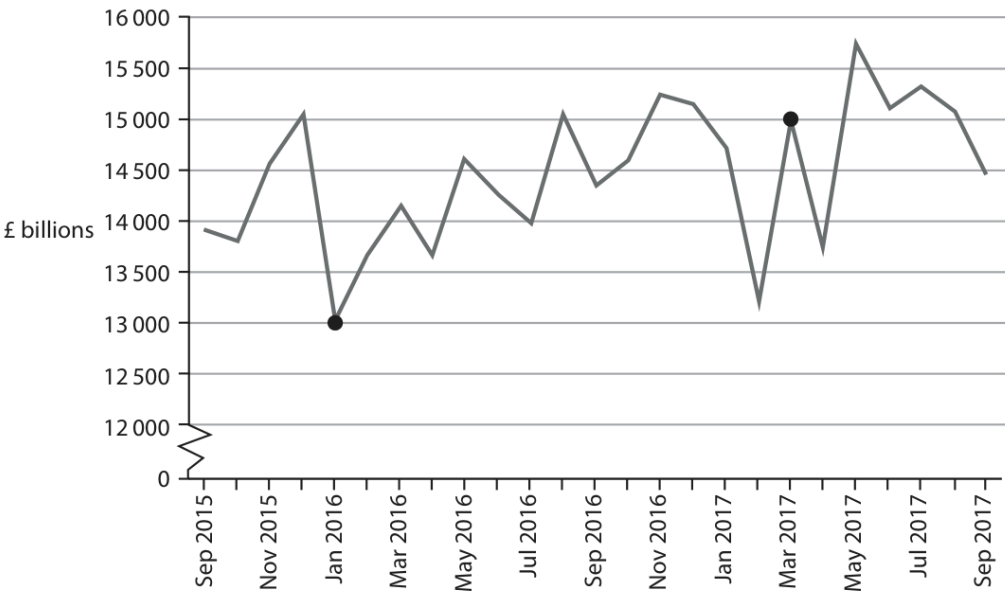
Answer ALL questions. Write your answers in the spaces provided.

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 30 minutes on this section.

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

1 Monthly additions to UK credit card lending, £ billions, 2015 – 2017



(Source: <https://www.ukfinance.org.uk/statistics/cards/>)

(c) Explain **one** possible link between an increase in credit card lending and the rate of inflation.

(2)

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



## SECTION A

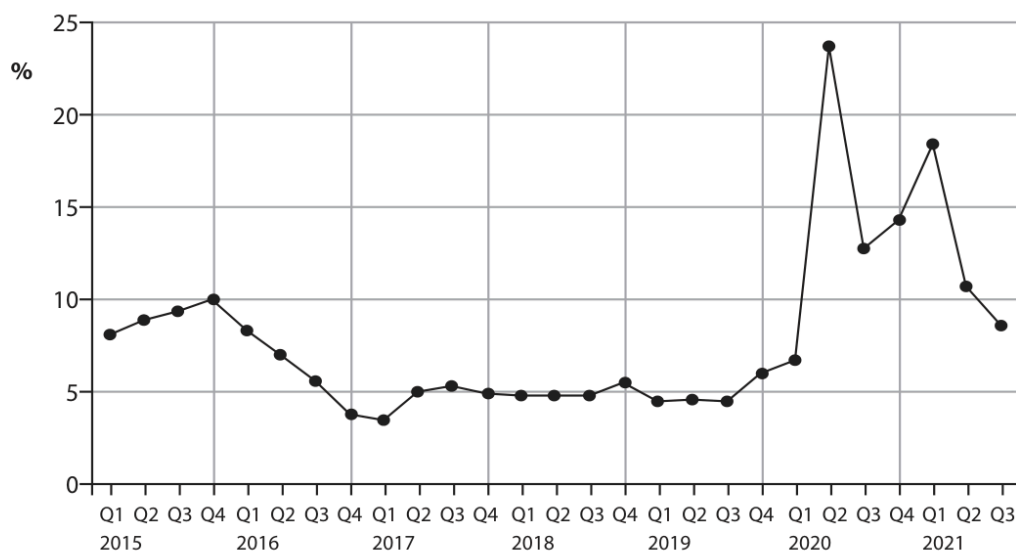
Answer ALL questions. Write your answers in the spaces provided.

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 household savings as a percentage of household disposable income, quarter 1 (Q1) 2015 to quarter 3 (Q3) 2021



(Source: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea>)

- (c) Explain **one** likely reason for the change in total household savings from Q1 2020 to Q2 2020.

(2)

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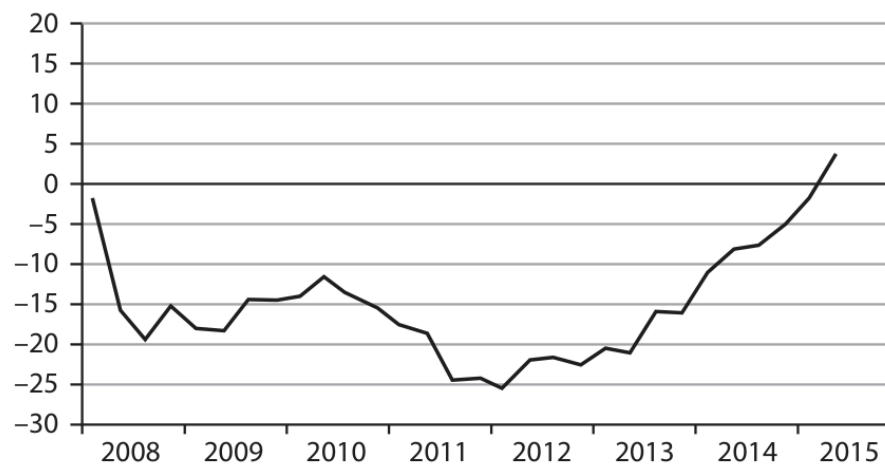
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(Total for Question 1(c) = 2 marks)



- 5** The chart below shows the results from a survey of UK consumers' confidence in their financial situation. A negative balance means that, on average, consumers reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. This is recorded on a scale from -100 to +100.

## UK consumer confidence



(Source: [http://www.ons.gov.uk/ons/dcp171778\\_418064.pdf](http://www.ons.gov.uk/ons/dcp171778_418064.pdf))

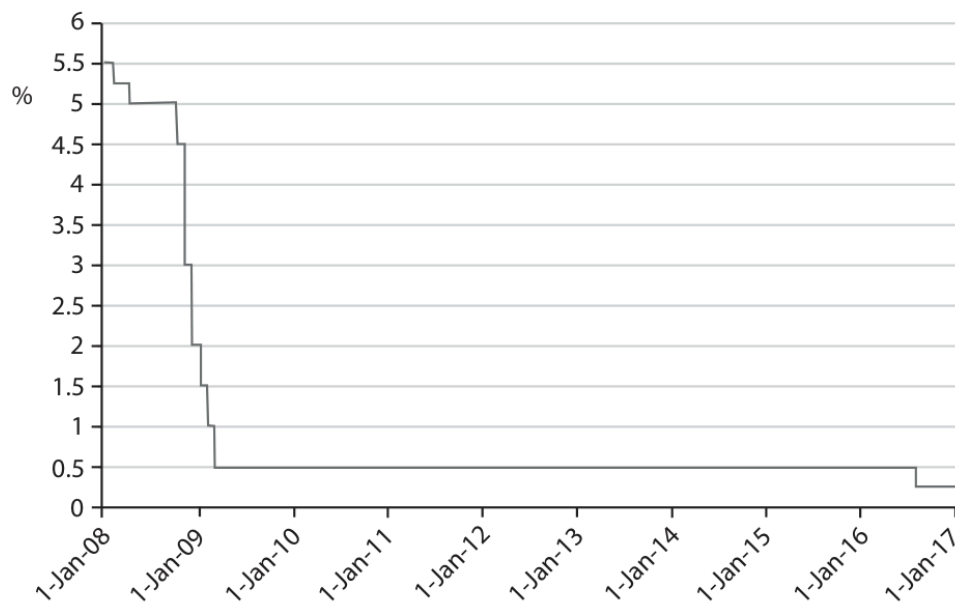
- (a) Explain **one** likely reason for the change in consumer confidence between 2012 and 2015.

(3)

**(Total for Question 5(a) = 3 marks)**



### 3 UK base interest rate, January 2008 to January 2017



(Source: Bank of England, <http://www.bankofengland.co.uk/boeapps/iadb/Repo.asp>)

- (a) With reference to the chart above, explain **one** factor that the Monetary Policy Committee (MPC) of the Bank of England may have considered when reducing the base interest rate.

(3)

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



**2** The table shows average UK house prices between January 2023 and March 2023.

| Month and year | Average house price (£) |
|----------------|-------------------------|
| January 2023   | 286 321                 |
| February 2023  | 284 152                 |
| March 2023     | 281 555                 |

(Source: adapted from <https://landregistry.data.gov.uk/>)

(b) Explain **one** likely impact of the fall in average UK house prices on existing homeowners between January 2023 and March 2023. Refer to the table on **page 4** in your answer.

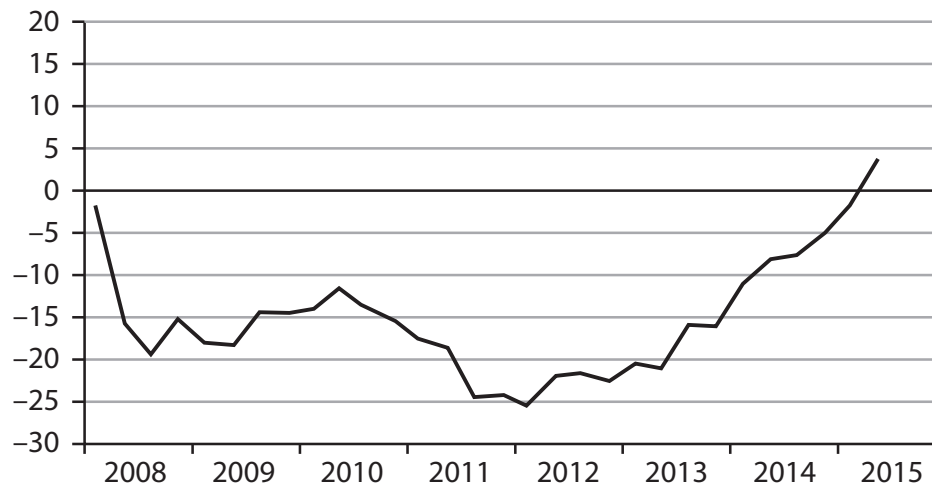
(3)

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



- 5** The chart below shows the results from a survey of UK consumers' confidence in their financial situation. A negative balance means that, on average, consumers reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. This is recorded on a scale from  $-100$  to  $+100$ .

## UK consumer confidence



(Source: [http://www.ons.gov.uk/ons/dcp171778\\_418064.pdf](http://www.ons.gov.uk/ons/dcp171778_418064.pdf))

- (a) Explain **one** likely reason for the change in consumer confidence between 2012 and 2015.

(3)

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting practice. There are no margins, text, or other markings on the page.

(b) Which **one** of the following is most likely to result from an improvement in UK consumer confidence? A decrease in the marginal propensity to:

(1)

- ☐ **A** consume
- ☐ **B** tax
- ☐ **C** import
- ☐ **D** save

---

(Total for Question 5 = 4 marks)

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**TOTAL FOR SECTION A = 20 MARKS**





In August 2016 the Bank of England extended its existing asset purchases (quantitative easing) programme, from a total of £375 billion to £435 billion.

(b) Which **one** of the following is the most likely effect of the Bank of England's quantitative easing?

(1)

- ☐ **A** A fall in economic growth
- ☐ **B** A fall in the money supply
- ☐ **C** An increase in the rate of inflation
- ☐ **D** An increase in unemployment

(Total for Question 3 = 4 marks)



5 The table below shows average UK house prices between July 2014 and July 2017.

| Year | Average house prices (£) | Index numbers of average UK house prices (2014 is the base year) |
|------|--------------------------|------------------------------------------------------------------|
| 2014 | 189 709                  | 100                                                              |
| 2015 | 200 141                  |                                                                  |
| 2016 | 215 127                  |                                                                  |
| 2017 | 226 185                  | 119.2                                                            |

(Source: adapted from <http://landregistry.data.gov.uk/app/ukhpi/explore> - Crown Copyright)

(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners?

(1)

- ☒ A Greater confidence
- ☒ B Higher income
- ☒ C Lower consumption
- ☒ D Negative wealth effect



(b) Using 2014 as the base year, calculate the index number for

(2)

(i) 2015

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(ii) 2016.

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(c) Define the term 'index number'.

(1)

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**(Total for Question 5 = 4 marks)**

**TOTAL FOR SECTION A = 20 MARKS**



- 4 In August 2018 the Monetary Policy Committee of the Bank of England raised the UK's base interest rate from 0.5% to 0.75%.

(a) Define the term 'interest rate'.

(1)

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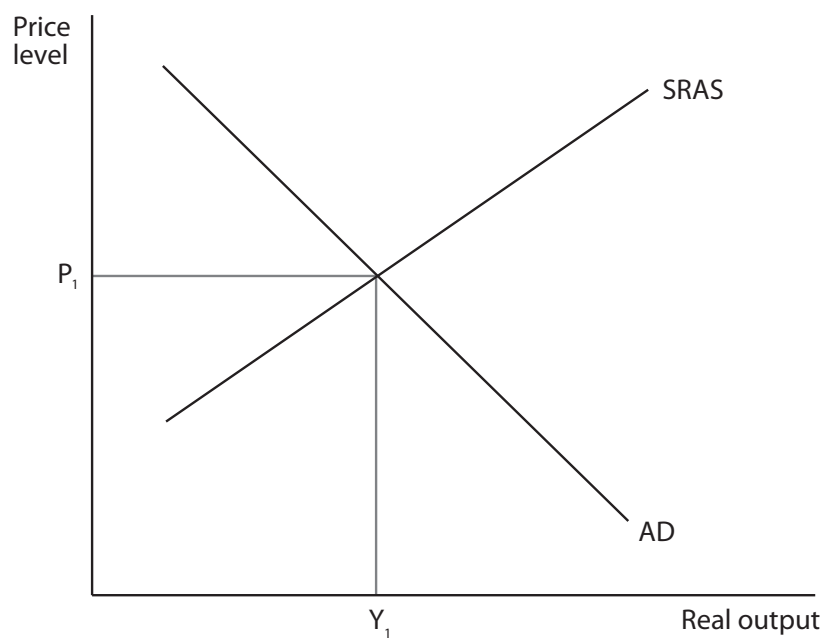
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- (b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the possible impact of a rise in the base interest rate on the equilibrium level of real output and the price level.

(2)



(c) Which **one** of the following demand-side policies best explains a rise in the base interest rate?

(1)

- ☐ **A** Contractionary fiscal policy
- ☐ **B** Contractionary monetary policy
- ☐ **C** Expansionary fiscal policy
- ☐ **D** Expansionary monetary policy

(Total for Question 4 = 4 marks)



2 In 2019 the marginal propensity to consume in the UK was estimated to be 0.8.

(a) Define the term ‘marginal propensity to consume’.

(1)

(b) Explain **one** likely factor that could increase the level of consumption of UK households.

(2)

(c) Using the above data, which **one** of the following represents the value of the multiplier?

(1)

- ☐ A 0.2
- ☐ B 0.8
- ☐ C 1.3
- ☐ D 5.0

(Total for Question 2 = 4 marks)



2 The table shows average UK house prices between January 2023 and March 2023.

| Month and year | Average house price (£) |
|----------------|-------------------------|
| January 2023   | 286 321                 |
| February 2023  | 284 152                 |
| March 2023     | 281 555                 |

(Source: adapted from <https://landregistry.data.gov.uk/>)

(a) Which **one** of the following can be deduced from the table? (1)

- ☒ **A** Between January 2023 and February 2023, average UK house prices fell by £2 597
- ☒ **B** The average UK house price in March 2023 is 16.65% higher than in January 2023
- ☒ **C** The index number of average UK house prices for March 2023 is 100
- ☒ **D** The ratio of the average UK house price in February 2023 to the average UK house price in March 2023 is 1 : 0.99

(b) Explain **one** likely impact of the fall in average UK house prices on existing homeowners between January 2023 and March 2023. Refer to the table on **page 4** in your answer.

(3)

**(Total for Question 2 = 4 marks)**



- 2 The table below shows marginal propensity to save data for an economy.

| Year | Marginal propensity to save (mps) |
|------|-----------------------------------|
| 2010 | 0.11                              |
| 2011 | 0.09                              |
| 2012 | 0.07                              |
| 2013 | 0.05                              |
| 2014 | 0.05                              |
| 2015 | 0.04                              |

- (a) Explain **one** possible reason for the changes in the marginal propensity to save as shown in the table.

(2)

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- (b) Explain the likely effect of a fall in the marginal propensity to save on the value of the multiplier if other things remain equal.

(2)

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An economy has marginal propensity to save of 0.1, marginal propensity to tax of 0.2 and marginal propensity to import of 0.1.

(c) Which **one** of the following is the correct size of the multiplier?

(1)

- ☐ **A** 0.4
- ☐ **B** 0.6
- ☐ **C** 1.7
- ☐ **D** 2.5

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(Total for Question 2 = 5 marks)



**SECTION B**

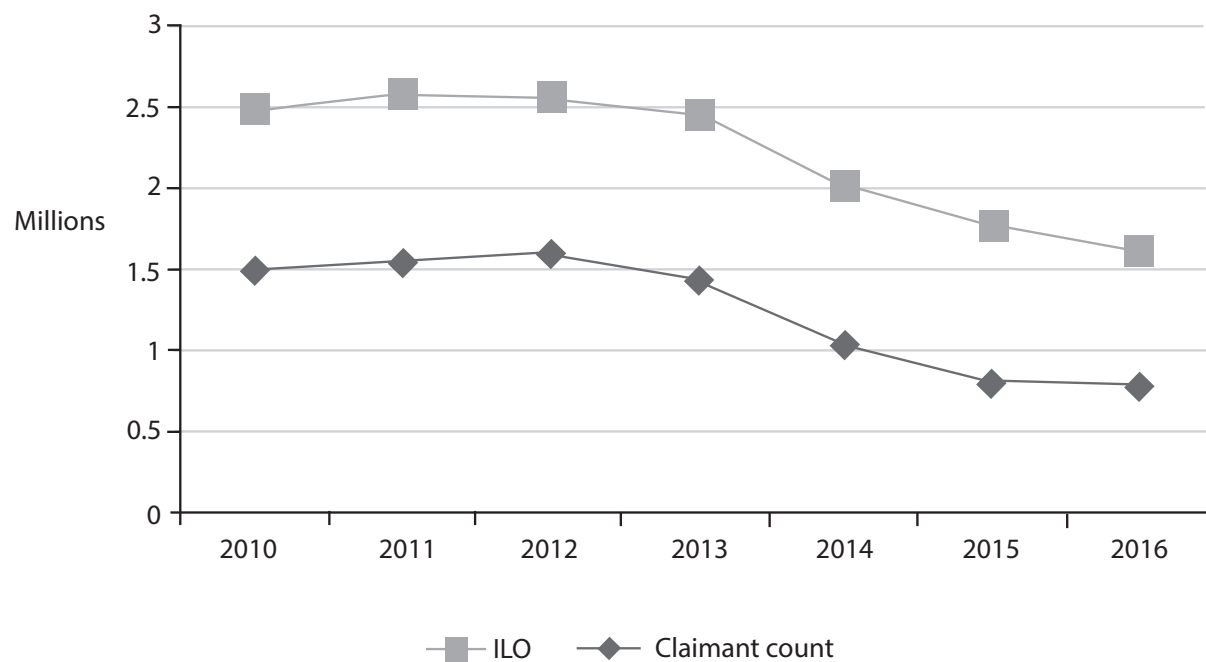
Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

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

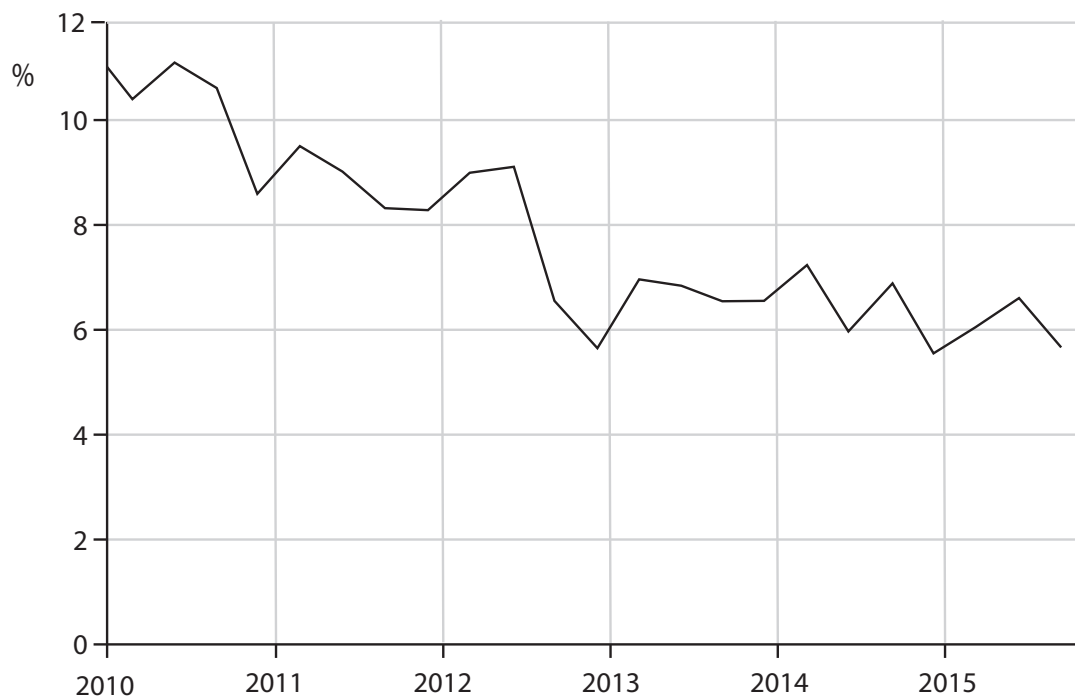
You are advised to spend 1 hour and 5 minutes on this section.

**Question 6****The UK economy**

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

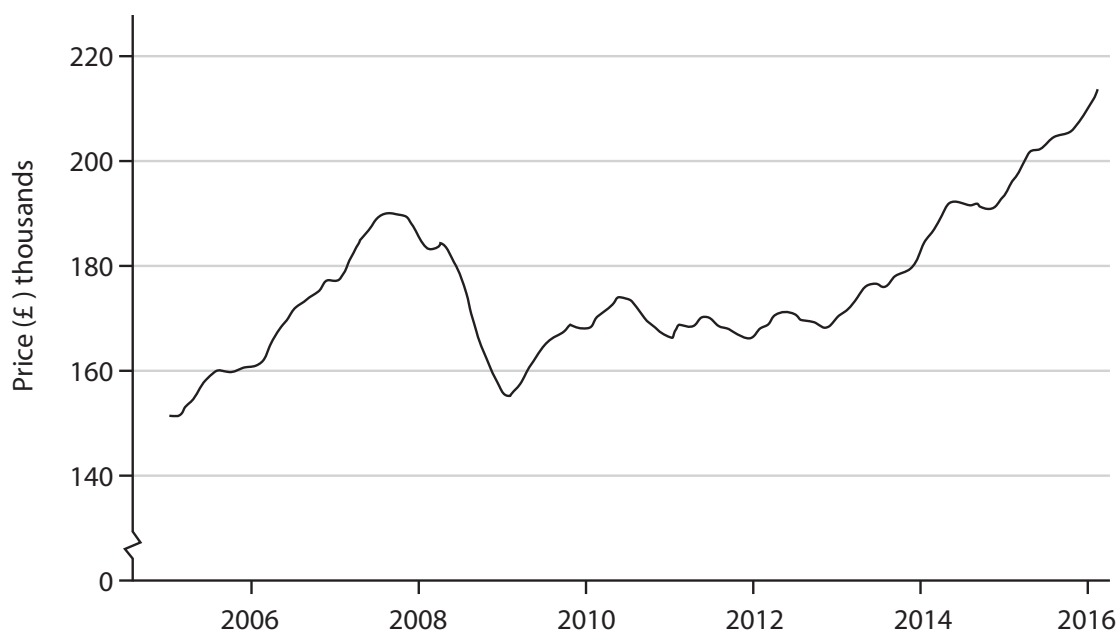


(Source: ONS Datasets, <https://www.ons.gov.uk/>)

**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.

5

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.

10

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.

15

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.

5

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.

10

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



(5)



## SECTION A

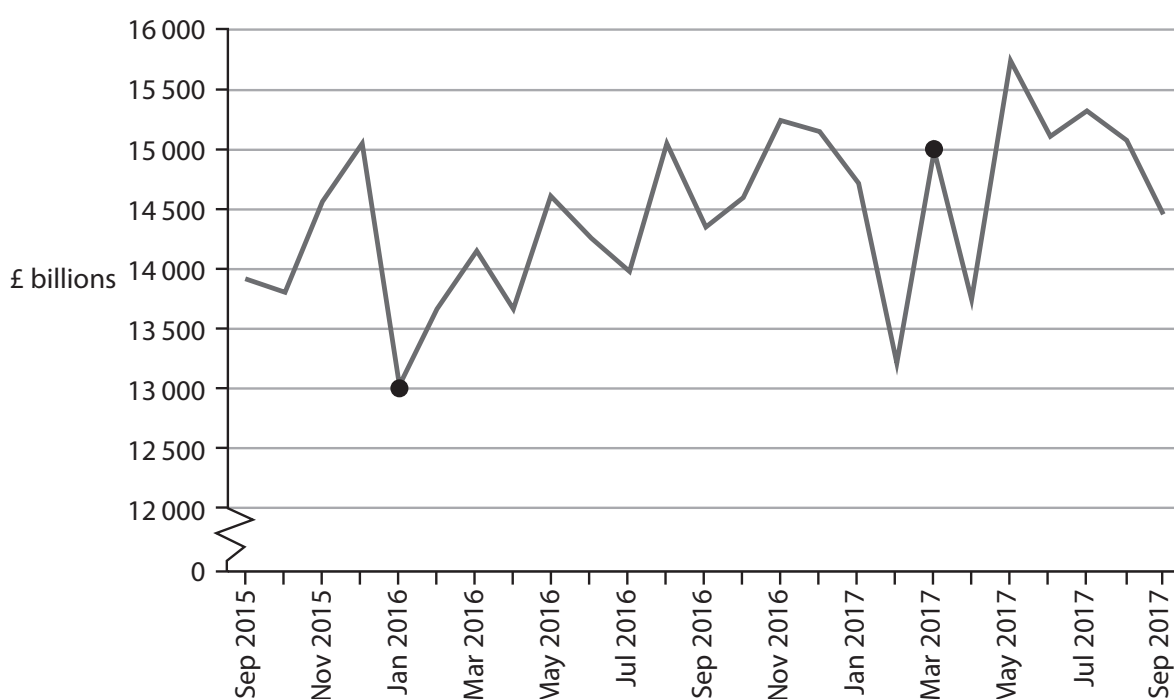
Answer ALL questions. Write your answers in the spaces provided.

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 Monthly additions to UK credit card lending, £ billions, 2015 – 2017



(Source: <https://www.ukfinance.org.uk/statistics/cards/>)

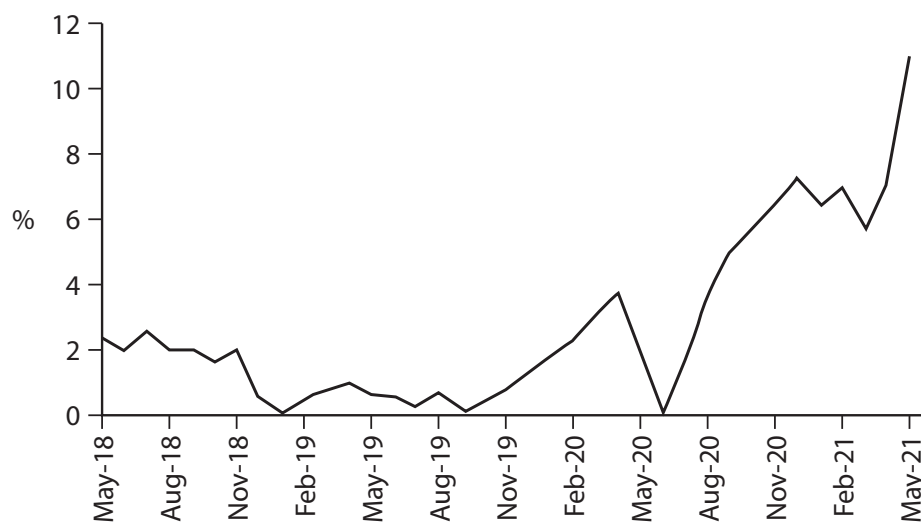
- (a) Which **one** of the following would be **most** likely to cause an increase in credit card lending?

(1)

- ☒ A A fall in interest rates
- ☒ B A fall in investment
- ☒ C An increase in the deficit on the current account of the balance of payments
- ☒ D An increase in savings





**2 Annual percentage change in average UK house prices**

(Source: adapted from [https://www.nationwide.co.uk/-/media/MainSite/documents/about/house-price-index/2021/May\\_2021.pdf](https://www.nationwide.co.uk/-/media/MainSite/documents/about/house-price-index/2021/May_2021.pdf))

(a) With reference to the chart, which **one** of the following is true?

Average UK house prices:

(1)

- ☒ **A** fell in August 2020
- ☒ **B** fell in November 2018
- ☒ **C** rose the fastest in May 2021
- ☒ **D** stayed constant in 2018



(b) With reference to the chart on the previous page, explain the likely impact of an increase in average house prices on UK consumption.

(4)

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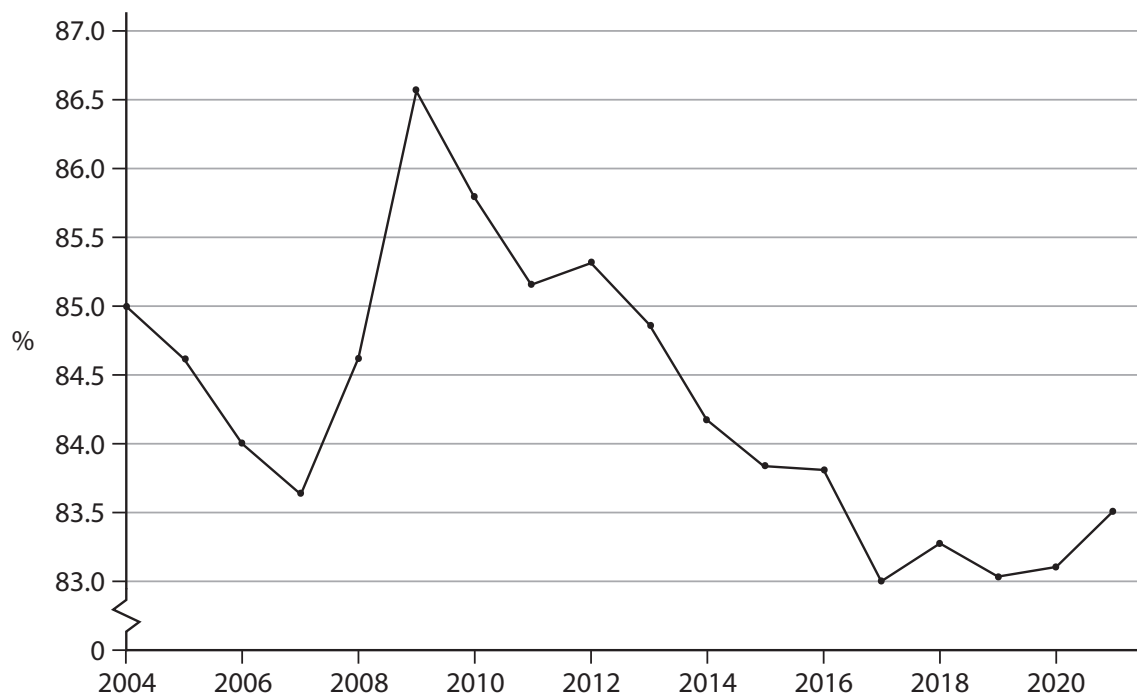
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(Total for Question 2 = 5 marks)

**4** UK consumption, % of GDP, 2004–2021

(Source: adapted from <https://data.worldbank.org/indicator/NE.CON.TOTL.ZS?end=2021&locations=GB&start=2002>)

(a) Which **one** of the following is an example of consumption?

(1)

- ☐ **A** Construction of a new cycle lane
- ☐ **B** Expansion of Heathrow Airport
- ☐ **C** New school buildings
- ☐ **D** Purchase of new clothes

(4)

**(Total for Question 4 = 5 marks)**



SECTION A

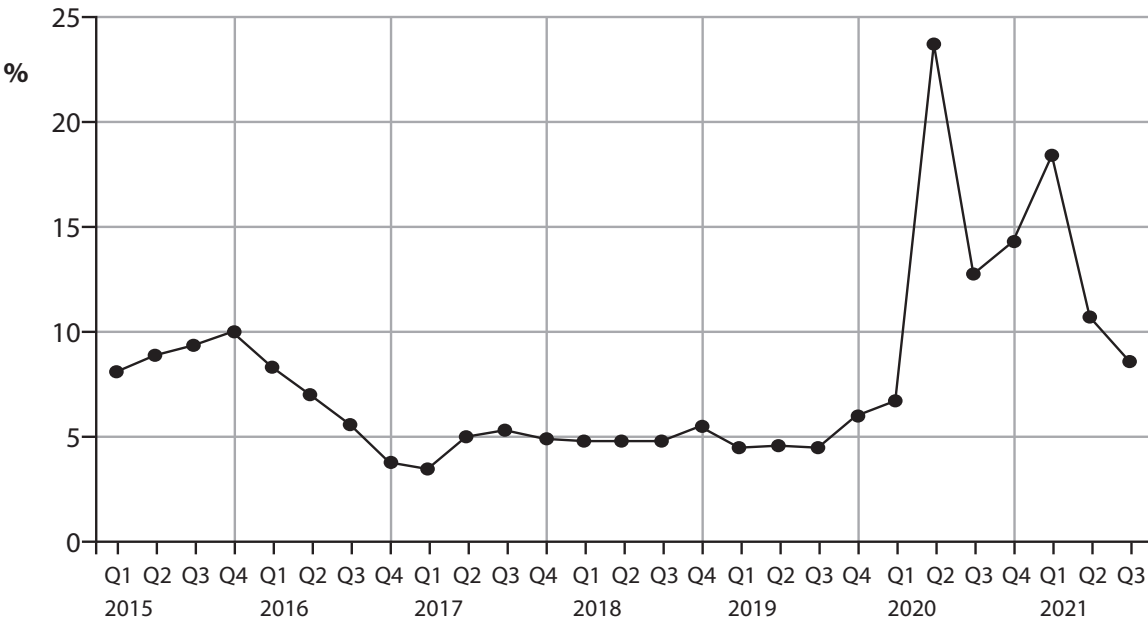
Answer ALL questions. Write your answers in the spaces provided.

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 UK household savings as a percentage of household disposable income, quarter 1 (Q1) 2015 to quarter 3 (Q3) 2021



(Source: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea>)

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

(1)

UK household savings as a percentage of household disposable income:

- ☒ A fell in 2015
- ☒ B fell throughout the time period shown
- ☒ C were the highest in Q1 2017
- ☒ D were the highest in Q2 2020

(b) In Q4 of 2015 average household disposable income was £26 300.

Calculate the total amount of money saved by the average household in Q4 of 2015.

(2)

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(c) Explain **one** likely reason for the change in total household savings from Q1 2020 to Q2 2020.

(2)

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(Total for Question 1 = 5 marks)

## SECTION B

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

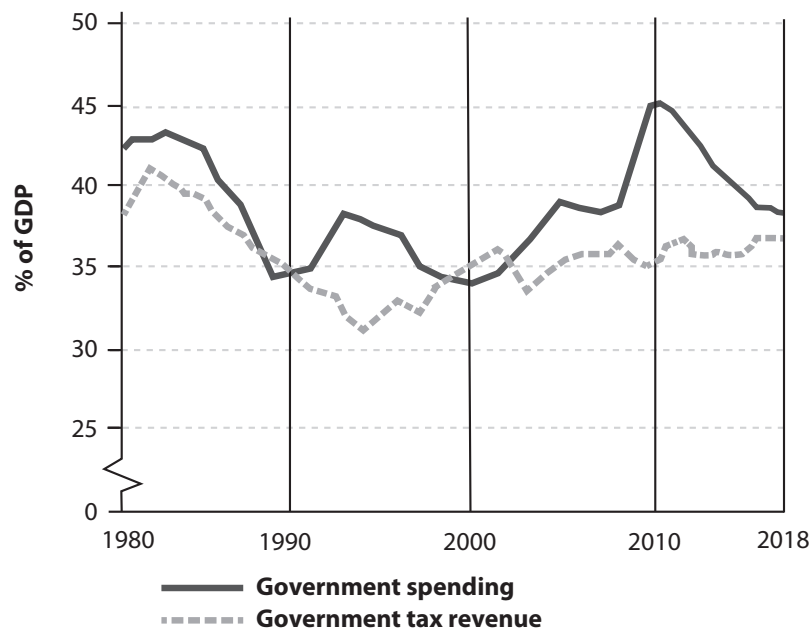
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

## Question 6

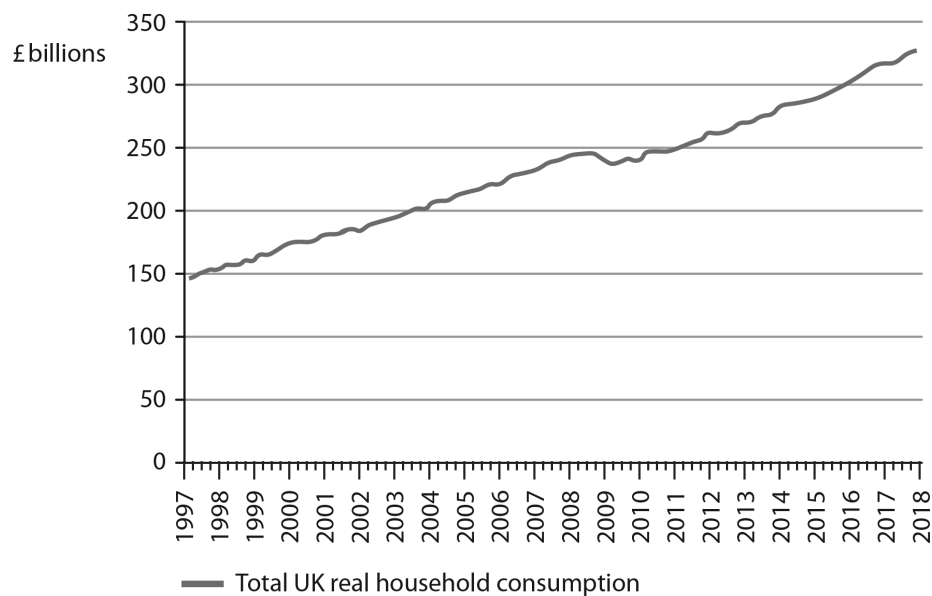
## UK government budget and household consumption

Figure 1: UK government spending and tax revenue as % of GDP, 1980–2018



(Source: adapted from Office for Budget Responsibility (OBR), [http://cdn.obr.uk/EFO-MaRch\\_2018.pdf](http://cdn.obr.uk/EFO-MaRch_2018.pdf) © Crown copyright 2018)

Figure 2: UK real household consumption, quarterly, £ billions, 1997 to 2018



(Source: adapted from ONS, [www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018](http://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018))



**Extract A****UK household consumption**

Despite the slow growth in real household disposable incomes, consumer spending rose in 2017. Annual spending per person increased by £589, when compared with 2016. This may have reflected UK households' delay in adjusting to the increase in inflation that was associated with the fall in the exchange rate of the British pound. The increase in consumption has also been driven by low interest rates. In 2017 UK house prices increased by an average of 5.1%. 5

UK consumers have financed most of their spending by borrowing on credit cards in order to maintain their living standards. In 2017 borrowing on credit cards rose by 9.6%, the second-highest level since before the financial crisis. This has increased the Bank of England's concerns about the sustainability of borrowing, given the slow growth in real incomes. The Bank has also indicated that the base interest rate was likely to rise faster than previously expected. More expensive credit could therefore constrain the ability of households to spend. 10

(Source: adapted from 'Consumer Trends UK', ONS, <https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/octobertodecember2017> and © Crown copyright 2018)

**Extract B****Reduction of the UK's budget deficit**

Since 2010 many economists have believed that the biggest problem facing the government was the rising budget deficit. In late 2017, the UK's Chancellor of the Exchequer announced that the government would continue with its plans to decrease its budget deficit. To address this issue, the government further reduced welfare payments and introduced extra spending cuts in the public sector. 5

The UK government had estimated that the fall in UK productivity since the financial crisis was only temporary. However, it has now accepted that this fall in the level of productivity is a long-term issue. Subsequently, the UK's forecast long-term trend rate of growth was reduced. Slower growth means lower tax receipts, higher spending and a bigger budget deficit. 10

Some economists have suggested that the government should not pursue additional reductions in the budget deficit. They have also claimed that the responsibility of the government is not to balance the budget but to balance the economy by moving it to full employment. 15

(Source: adapted from 'Philip Hammond must ditch deficit reduction and invest. But will he?', The Guardian, <https://www.theguardian.com/politics/2017/nov/19/philip-hammond-must-ditch-deficit-reduction-and-invest-but-will-he>)



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**SECTION B**

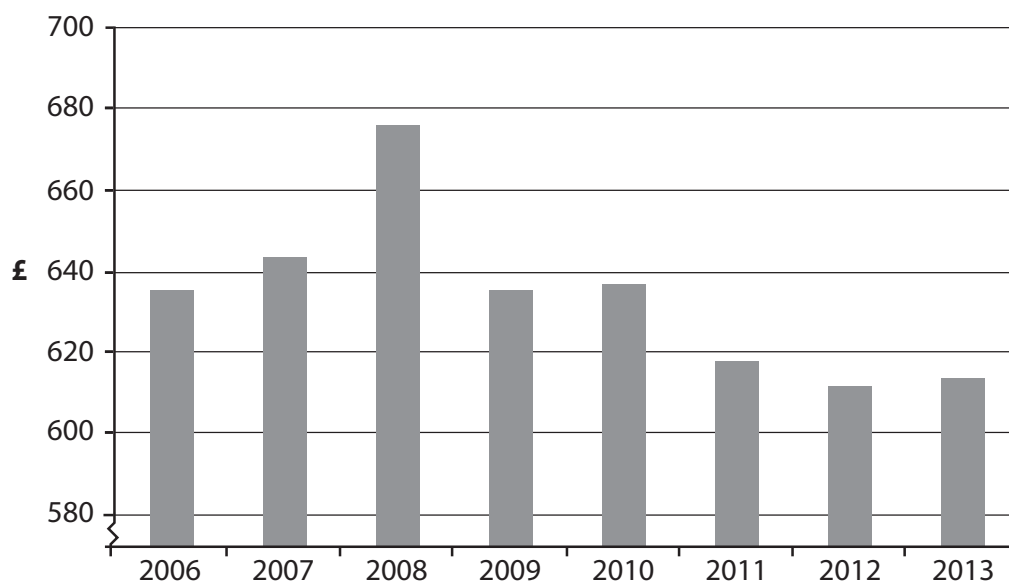
Read Figures 1 and 2 below and read extracts A and B before answering Question 6.

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.

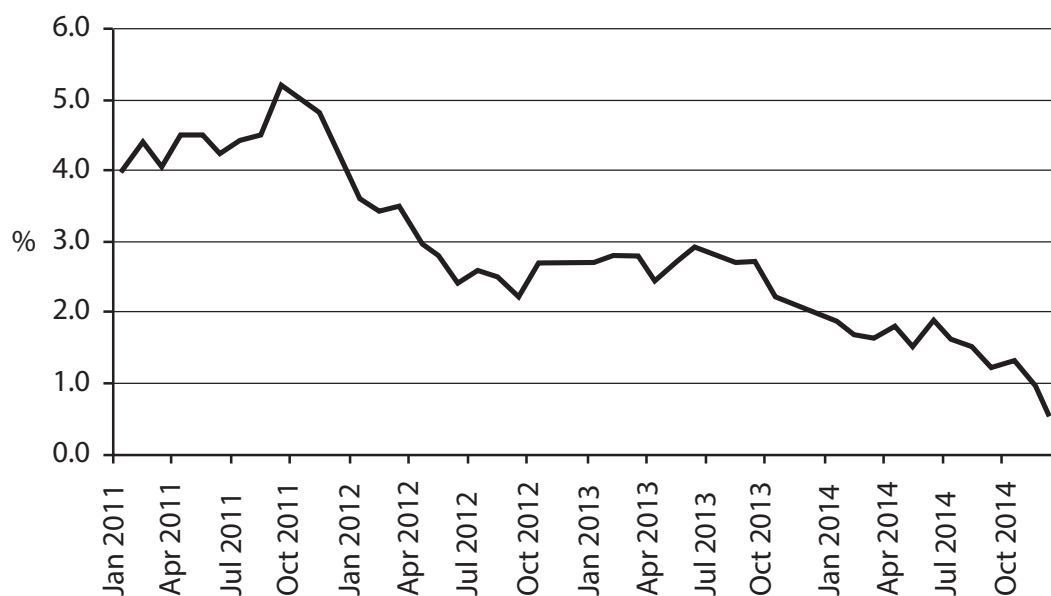
**Question 6****UK incomes, inflation and monetary policy**

**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. 5

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. 10

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. 15

“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. 5

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. 10

(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>)



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**SECTION B**

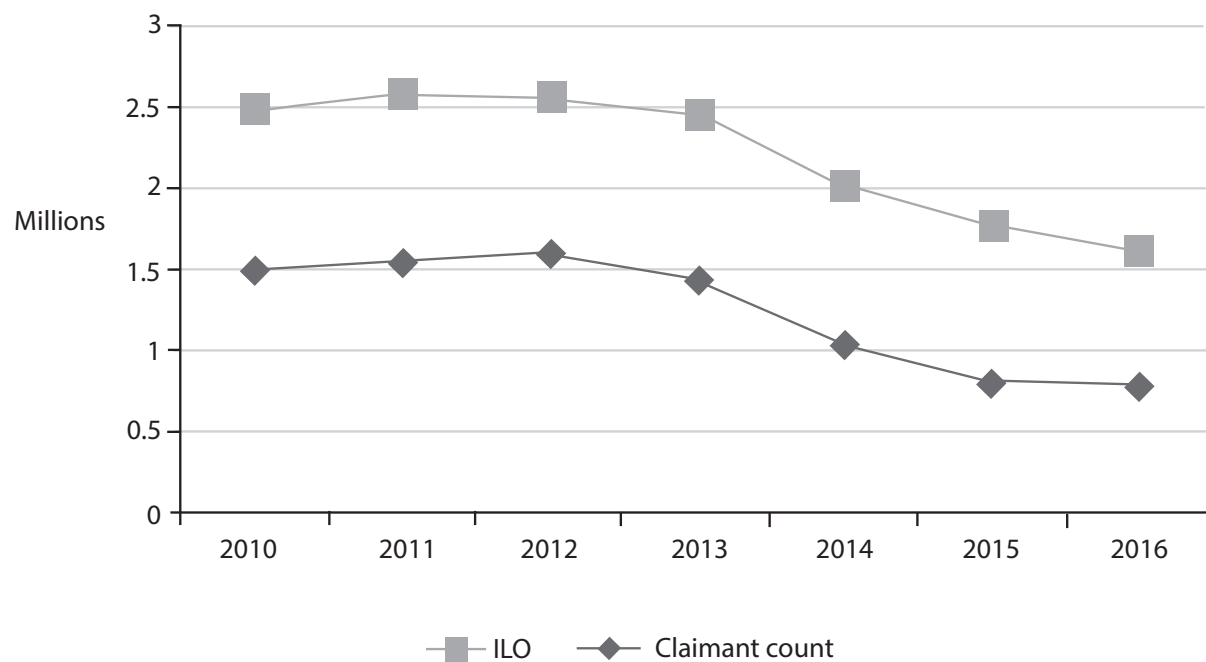
Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

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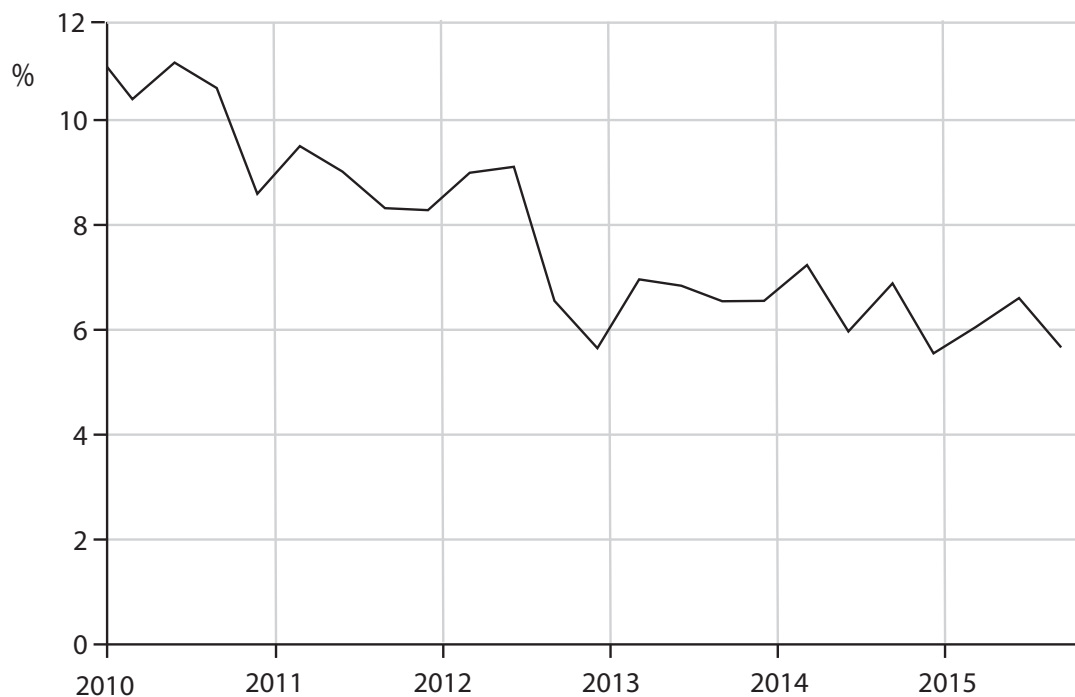
**Question 6****The UK economy**

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



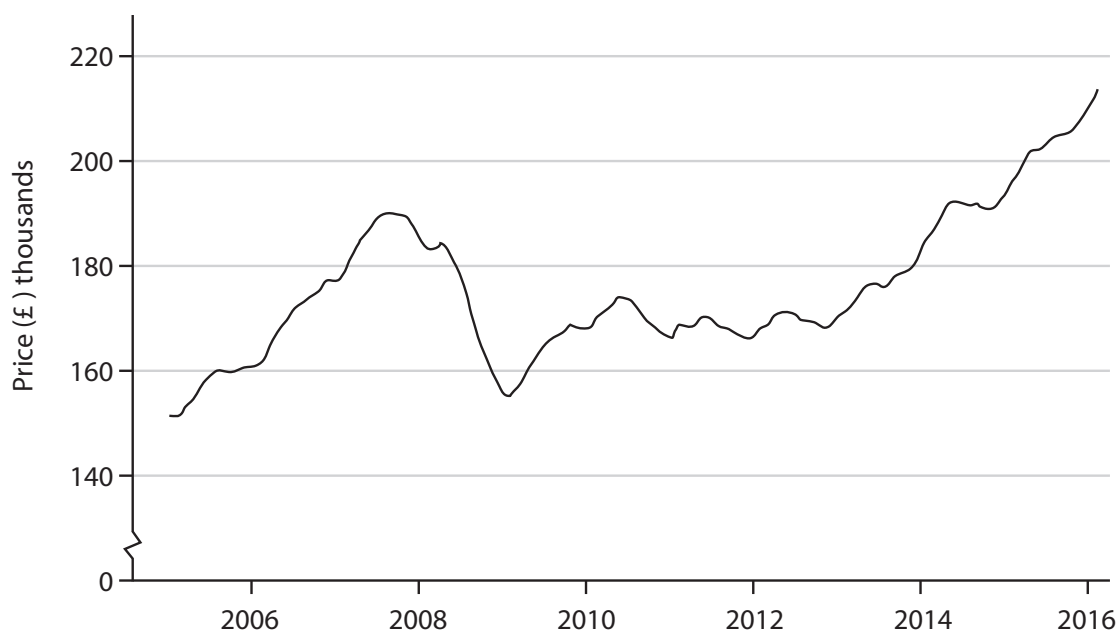
(Source: ONS Datasets, <https://www.ons.gov.uk/>)



**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.

5

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.

10

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.

15

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.

5

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.

10

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



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## SECTION B

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

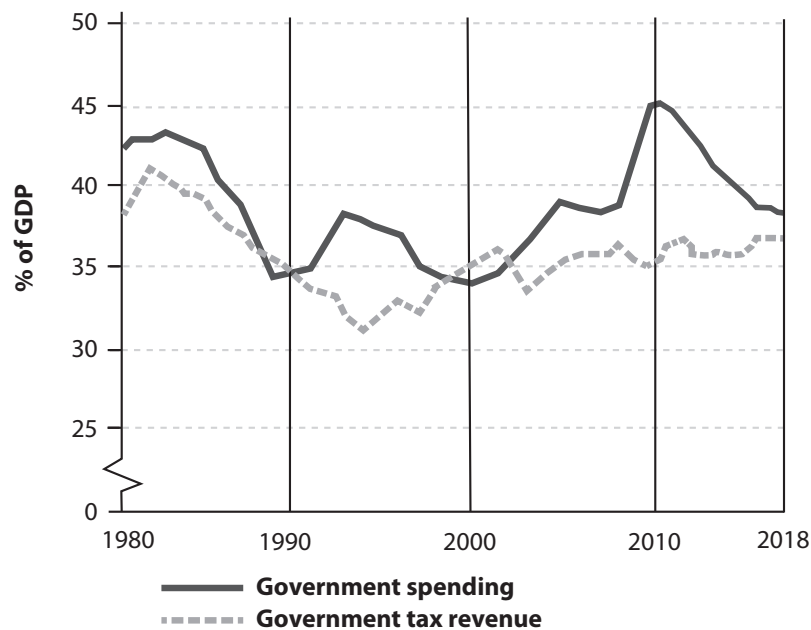
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## Question 6

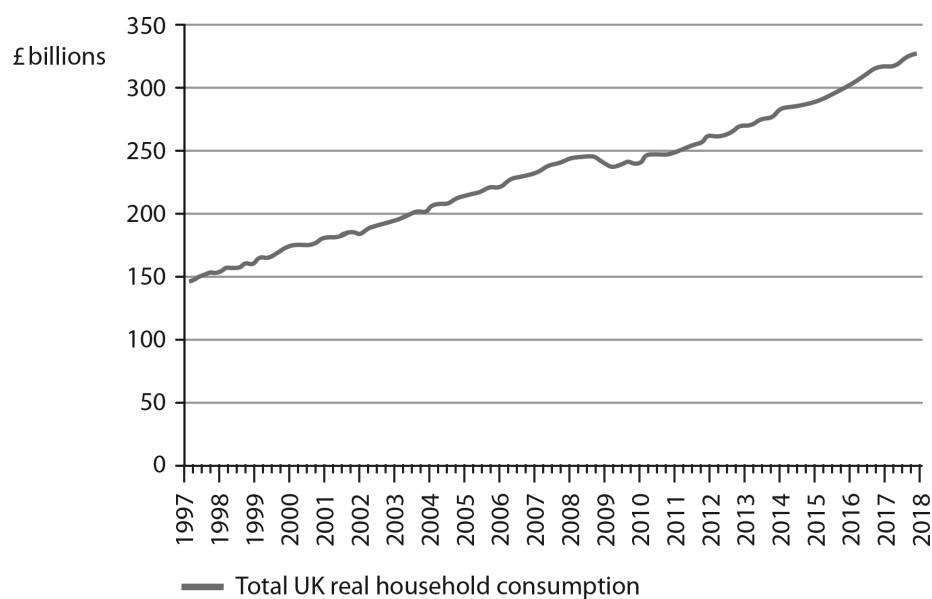
## UK government budget and household consumption

Figure 1: UK government spending and tax revenue as % of GDP, 1980–2018



(Source: adapted from Office for Budget Responsibility (OBR), [http://cdn.obr.uk/EFO-MaRch\\_2018.pdf](http://cdn.obr.uk/EFO-MaRch_2018.pdf) © Crown copyright 2018)

Figure 2: UK real household consumption, quarterly, £ billions, 1997 to 2018



(Source: adapted from ONS, [www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018](http://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018))



**Extract A****UK household consumption**

Despite the slow growth in real household disposable incomes, consumer spending rose in 2017. Annual spending per person increased by £589, when compared with 2016. This may have reflected UK households' delay in adjusting to the increase in inflation that was associated with the fall in the exchange rate of the British pound. The increase in consumption has also been driven by low interest rates. In 2017 UK house prices increased by an average of 5.1%. 5

UK consumers have financed most of their spending by borrowing on credit cards in order to maintain their living standards. In 2017 borrowing on credit cards rose by 9.6%, the second-highest level since before the financial crisis. This has increased the Bank of England's concerns about the sustainability of borrowing, given the slow growth in real incomes. The Bank has also indicated that the base interest rate was likely to rise faster than previously expected. More expensive credit could therefore constrain the ability of households to spend. 10

(Source: adapted from 'Consumer Trends UK', ONS, <https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/octobertodecember2017> and © Crown copyright 2018)

**Extract B****Reduction of the UK's budget deficit**

Since 2010 many economists have believed that the biggest problem facing the government was the rising budget deficit. In late 2017, the UK's Chancellor of the Exchequer announced that the government would continue with its plans to decrease its budget deficit. To address this issue, the government further reduced welfare payments and introduced extra spending cuts in the public sector. 5

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(Source: adapted from 'Philip Hammond must ditch deficit reduction and invest. But will he?', The Guardian, <https://www.theguardian.com/politics/2017/nov/19/philip-hammond-must-ditch-deficit-reduction-and-invest-but-will-he>)



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## SECTION A

Read Figures 1 and 2 and the following extracts (A, B and C) 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

## Turkey – an emerging economy

Figure 1: Turkey's central bank lending rate, percent, 2013–2018

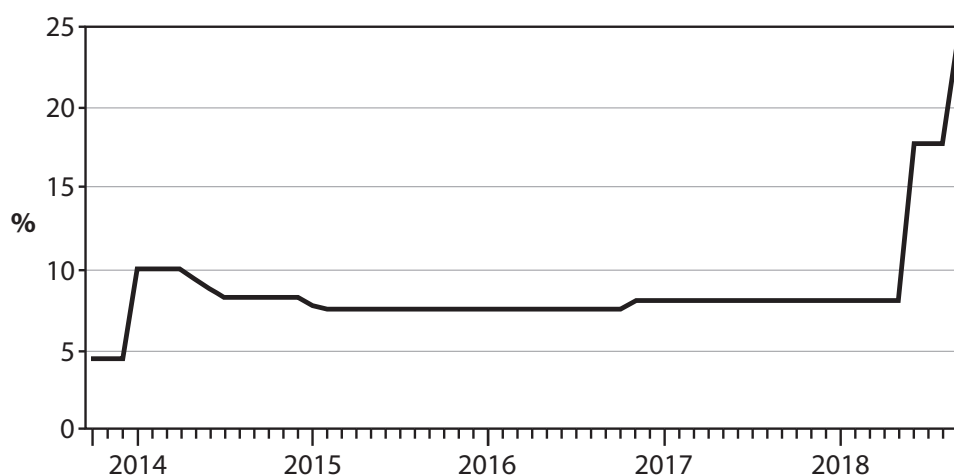
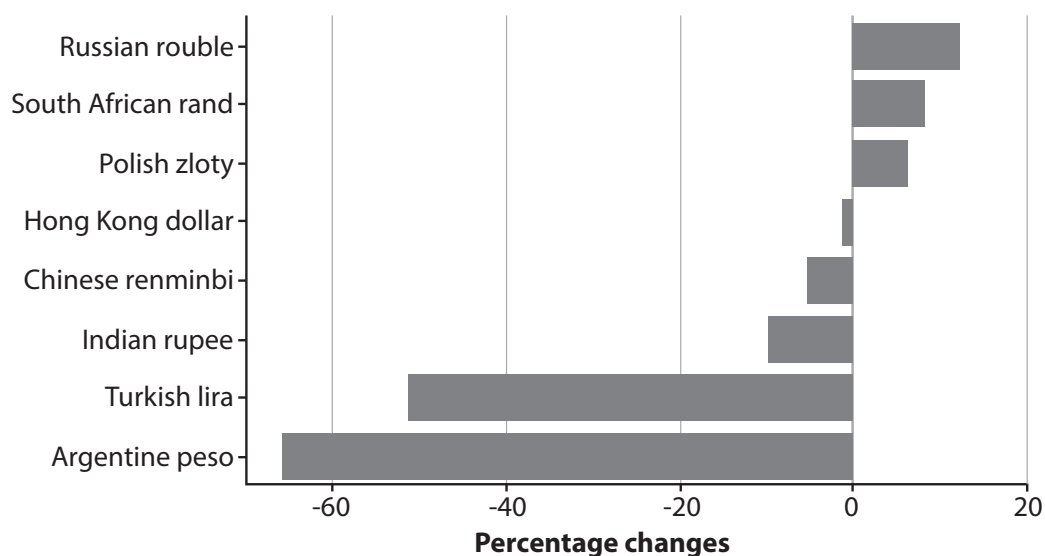


Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.



(Source adapted from: FT.com)



**Extract A****Can Turkey's central bank avoid another rate rise?**

At an annual rate of 25%, Turkey's inflation is alarming. However, it may have peaked. This may be a turning point for the economically struggling country, whose currency (the Turkish lira) has lost nearly a third of its value against the US dollar in 2018. The central bank may be able to avoid tightening monetary policy further, as a severe economic adjustment is already well under way. Turkey is highly indebted in foreign currency. The Turkish government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks. The financial market faces difficulties in trying to restore foreign investors' confidence. 5

Consumer prices increased by 2.7% in October 2018, a much lower rate than the 6.3% recorded in September 2018. The lira has stabilised, having risen 16% since the central bank raised interest rates by 6.25 percentage points. However, the government wants lower borrowing costs to fuel credit growth and economic expansion. Timothy Ash at a London investment bank says at this point it's "illogical" to raise interest rates again in Turkey. That's because Turkey's economy is already experiencing a severe slowdown. 10 15

In the long term Turkey's economic growth is expected to be above that of other emerging markets such as Brazil, Russia and China. Turkey's private sector is resilient. Between 2018–50 we expect Turkey to grow by an annual average of 3.1%. Brazil is expected to grow by an annual average of 2.1%, Russia by 1.6% and China by 2.8%. GDP growth will nevertheless be well below that recorded in 2004–07 and 2010–15. Average growth in GDP per head will be substantially lower, mainly reflecting the expected rise in the total population. 20

(Source adapted from: <https://ftalphaville.ft.com/2018/11/06/1541508141000/Can-Turkey-s-central-bank-avoid-another-rate-hike-/>. 6 Nov 2018 Colby Smith and one sentence The president wants lower borrowing costs to fuel credit growth and economic expansion from <https://www.theguardian.com/world/2018/aug/07/turkey-urged-to-announce-emergency-interest-rate-hike> Larry Elliott 7/8/18 and <http://country.eiu.com/article.aspx?articleid=157174199&Country=Turkey&topic=Economy&subtopic=Long-term+outlook&subsubtopic=Summary>)



**Extract B****Turkey aims to bin the plastic bag**

You get a free plastic bag whenever you go to a shop, even if it is just to buy a loaf of bread or a chocolate bar. In Turkey, plastic bags are everywhere, with millions being thrown away, and their use is causing a growing environmental problem.

In Istanbul, the country's biggest city with about 12 million people, around 10 000 tonnes of waste are being collected every day. Plastic bags and other plastic waste make up 950 tonnes, or almost 10%, of the total waste. 5

The Turkish government said it was looking at ways to discourage the consumption of single-use plastic bags. One possible step currently under review is a ban of the black bags that are said to contain carcinogens. Another is that the state may raise taxes on plastic products, which could lead to supermarkets charging consumers for the bags. In Corlu, a town north-west of Istanbul, a local environmental group distributed 20 000 canvas bags to shoppers in one month. In some parts of Turkey, plastic bags are completely banned, with heavy fines for both firms and consumers who use them. 10

(Source adapted from: tseibert@thenational.ae  
<https://www.thenational.ae/world/europe/turkey-aims-to-bin-the-plastic-bag-1.530059> accessed 11/11/18)

**Extract C****Istanbul's third airport set to be the busiest in the world**

Istanbul's third airport is being constructed over an area of 76.5 million square metres, to the north of Istanbul. When complete, the new airport will have six runways and have an annual passenger capacity of up to 200 million people, making it potentially the world's busiest airport. "This airport is going to be the most important hub between Asia and Europe," said one business leader. 5

The airport design includes high vaulted ceilings and spacious, modern and efficient design – and its tulip-shaped air traffic control tower won the 2016 International Architecture Award. It uses mobile applications and artificial intelligence for customers, is energy efficient and has a high-tech security system. The site employs 36 000 people and is estimated to cost the equivalent of £10 billion. However, the rush to meet the deadline set by the Turkish government is a major cause of accidents on the construction site, according to the construction workers' union. 10

(Source adapted from: <https://www.lonelyplanet.com/news/2018/08/08/istanbuls-huge-new-airport/> and <https://www.voanews.com/a/istanbul-to-unveil-new-airport-seeks-to-be-world-s-biggest/4632308.html>)



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**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**

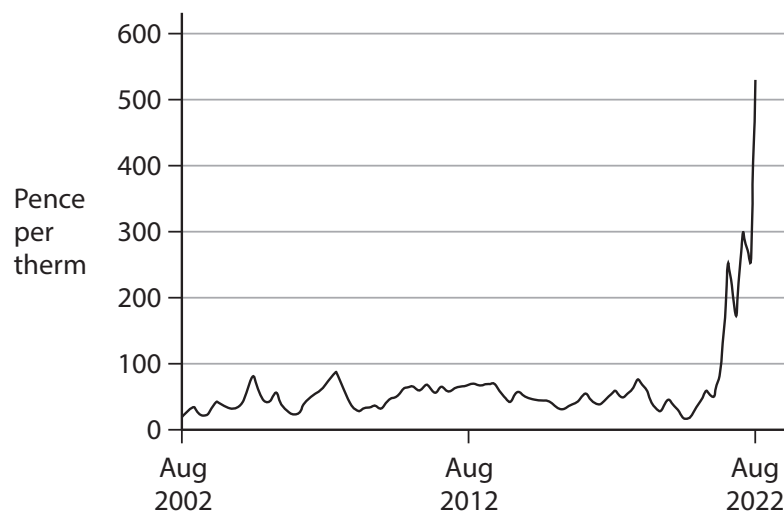
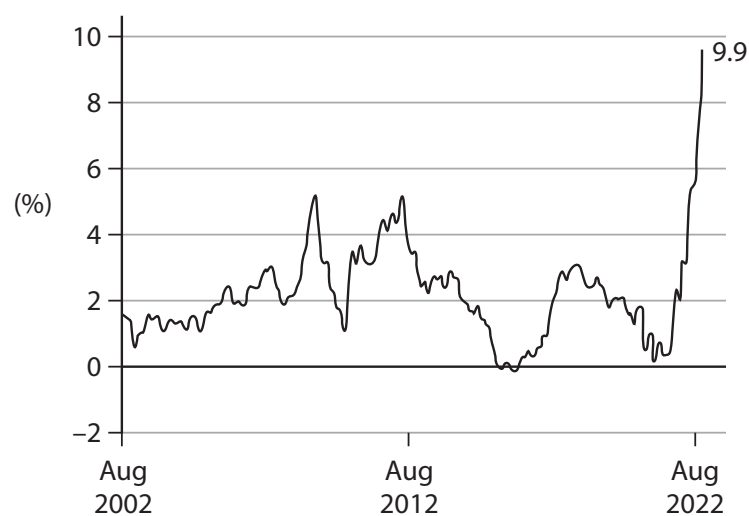


**Figure 2: UK inflation, CPI, August 2002 to August 2022**



**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.

5

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.

10

15

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.

20

(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.

5

10

(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>)

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## SECTION B

Read Figures 3 and 4 and the extracts (C to E) before answering Question 2.

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

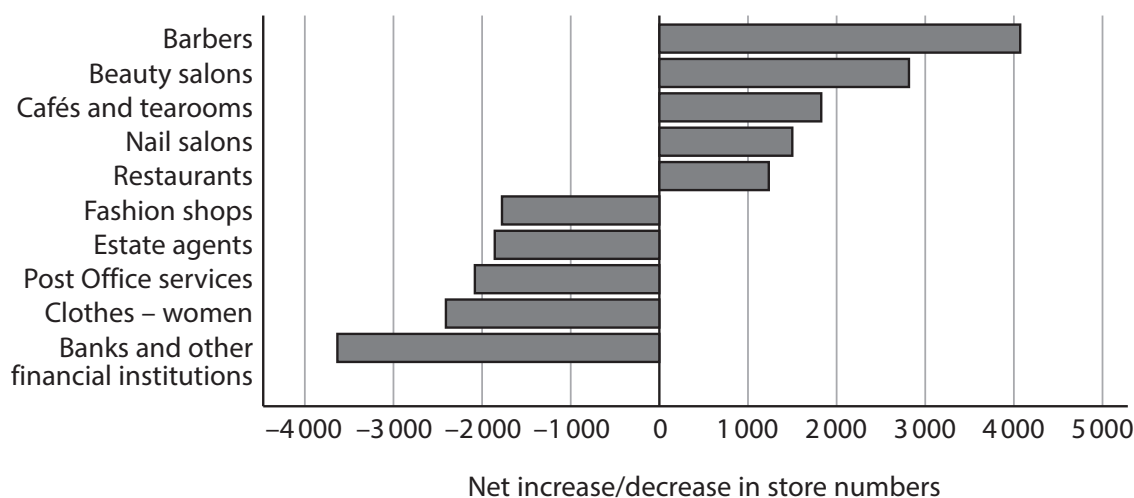
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

## Question 2

## Changes in the nature of UK towns and cities

**Figure 3: Growing and declining high street firms – net change in store numbers, 2013–2022**



(Source: adapted from <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)

**Figure 4: House price changes in the UK (%), 2005 to 2022**



(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)



**Extract C****What next for the high street?**

A high street is typically found in all UK towns and cities. Shops normally encountered in a typical UK high street can include successful small firms such as independent food retailers, cafés, nail and beauty salons, restaurants and charity shops. They differ from out-of-town shopping centres by being more diverse, family-run and offering local or personalised services. Customers are often very loyal. However, the high street may often have limited access by car or expensive parking facilities. 5

The rise of online retailers such as Amazon and eBay have placed huge pressures on UK high streets, with many well-known shops – and even successful retail chains – forced to close due to lost business. Many high street firms cannot compete on price with online retailers who – because they frequently have very low fixed costs – can significantly undercut the high street shops on price. 10

Even before online shopping, competition was eroding high street activity, with out-of-town retail parks that were not necessarily cheaper but provide a larger range of shops and offer plentiful parking. They offer a shopping experience that other retailing cannot match – pleasant, safe pedestrian shopping, a clean environment, fun activities for children and spend-the-day-there potential. 15

While the list of retail and leisure failures might suggest that the high street does not have a future, some analysts argue the opposite. Many believe that the high street is ideally placed to reinvent itself in response to the structural shift in working and shopping patterns that has resulted from the global health crisis 2020–22. The perceived weaknesses of the high street model – its fragmented ownership, lack of centralised coordination and high vacancy rates – become strengths as they lower the barriers to entry for new concepts and operators. They also enable risk taking and innovation that will ultimately lead to a more flourishing and diverse environment on our local high streets. 20 25

It should be possible for small firms to flourish even when staff shortages are pushing up wages in the high street, and house price falls damage consumer confidence and spending on perceived luxuries.

(Source: adapted from <https://www.designingbuildings.co.uk/> and <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)

**Extract D****UK house prices may fall up to 20%**

Turmoil on the UK financial markets has prompted analysts to predict that house prices could fall dramatically, and many lenders in the mortgage sector are withdrawing deals. People coming to the end of their fixed-rate mortgages are seeing rises from 2% to over 5.5%, with increases in the cost of borrowing of over £5 200 a year by 2024 for the average mortgage in the UK. Many people think UK house prices will never fall, but analysts say the fall could be between 10% and 20%. 5

One mortgage lender said that a lack of housing supply will not keep house prices up when mortgage interest rates are somewhere between 5% and 7%. He claimed that 'the decade-long property bubble is about to burst [...] It's a buyer's market now'. The greatest impact will be seen in the southeast of England. 10

(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)

**Extract E****UK job vacancies hit record 1.1 million as labour shortages increase**

The ratio of jobless people to vacancies is 1.45 to 1, lower than at any point in the last 40 years. Social care for example has 300 000 current unfilled posts.

'Today's figures show that labour shortages are now affecting the whole economy,' said one analyst. 'There are almost a million people fewer in the labour market, largely due to younger people staying in education and older people dropping out of the workforce.' The inactivity rate is 21.1%, and many people are not returning to work after the global health crisis. 'People seeking work do not have the skills or availability that employers need,' said Kitty Ussher, chief economist at the Institute of Directors. Firms offering higher wages does not solve the issue. 5 10

(Source: adapted from <https://www.ft.com/content/463f4fbd-3a50-45b5-891c-5cb5ba623df8>)

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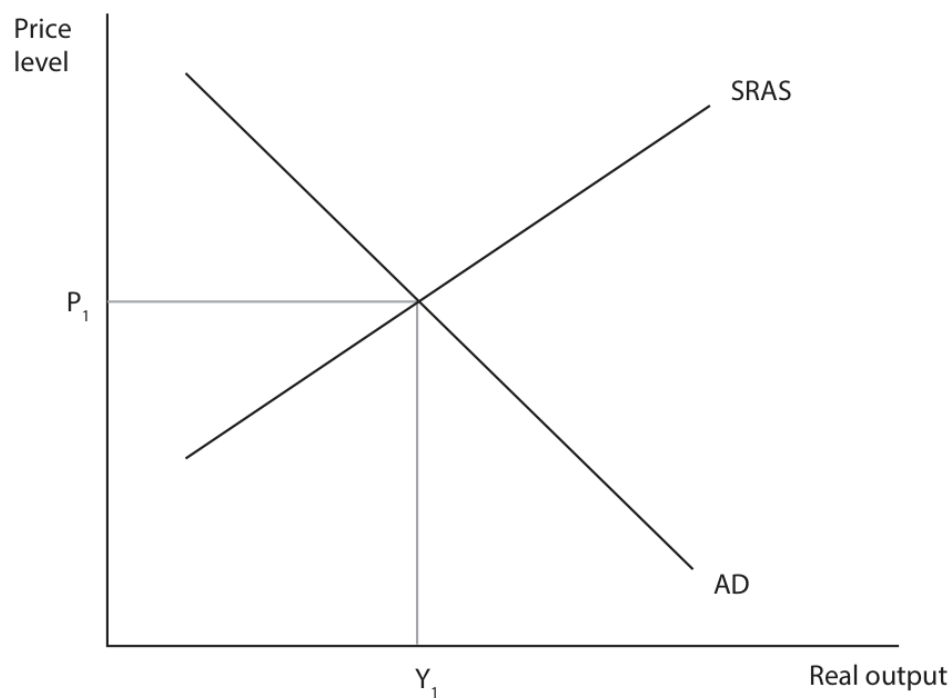
SUB-TOPIC 2.2.3

# INVESTMENT (I)

Sub-topic 2.2.3 · 17 questions · 80 marks · lowest tariff first



- 4 The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.



- (c) Which **one** of the following factors is most likely to cause an increase in the long-run aggregate supply?

(1)

- ☐ A Decrease in investment
- ☐ B Increase in relative productivity
- ☐ C Increase in the level of unemployment benefits
- ☐ D Reduced access to credit for consumers and businesses

(Total for Question 4(c) = 1 mark)



4 The table below shows the UK business investment, in £ billions, 2019 and 2020.

| Year | Business investment (£ billions) |
|------|----------------------------------|
| 2019 | 226                              |
| 2020 | 204                              |

(a) Define the term ‘investment’. (1)

(Total for Question 4(a) = 1 mark)

4 The table below shows the UK business investment, in £ billions, 2019 and 2020.

| Year | Business investment (£ billions) |
|------|----------------------------------|
| 2019 | 226                              |
| 2020 | 204                              |

(b) Assume 2019 is the base year. Which **one** of the following represents the index number for 2020?

(1)

- ☐ A 9.7
- ☐ B 90.3
- ☐ C 109.7
- ☐ D 110.8

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(Total for Question 4(b) = 1 mark)



**4** Business investment fell by 0.5% between Quarter 3 2019 and Quarter 4 2019.

(Source: adapted from <https://www.ons.gov.uk>)

(a) Define the term 'investment'.

(1)

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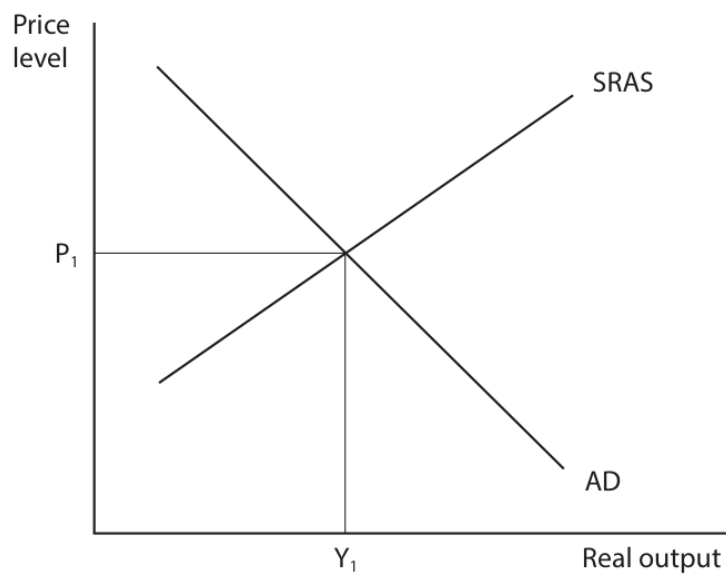
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**(Total for Question 4(a) = 1 mark)**



4 Business investment fell by 0.5% between Quarter 3 2019 and Quarter 4 2019.

(Source: adapted from <https://www.ons.gov.uk>)



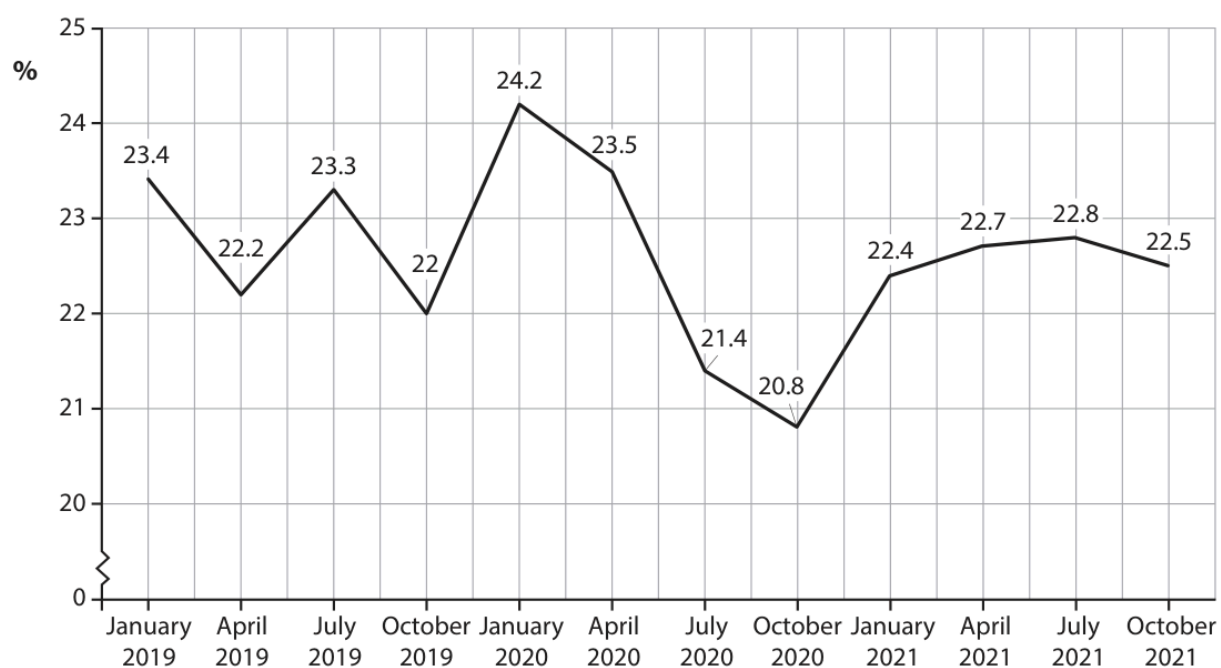
(c) Which **one** of the following factors might have caused business investment in the UK to fall?

(1)

- ☒ A A decrease in business expectations
- ☒ B A decrease in government regulations
- ☒ C An increase in the demand for exports
- ☒ D An increase in the rate of economic growth

(Total for Question 4(c) = 1 mark)



**2** Investment in the European Union, percentage of GDP, January 2019 to October 2021

(Source: adapted from <https://www.ceicdata.com/en/indicator/european-union/investment--nominal-gdp>)

- (a) Which **one** of the following is the percentage point fall in investment between April 2020 and July 2020?

(1)

- ☐ **A** 0.1
- ☐ **B** 0.6
- ☐ **C** 2.1
- ☐ **D** 8.9

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



4 The table below shows the UK business investment, in £ billions, 2019 and 2020.

| Year | Business investment (£ billions) |
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| 2019 | 226                              |
| 2020 | 204                              |

(a) Define the term 'investment'.

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(b) Assume 2019 is the base year. Which **one** of the following represents the index number for 2020?

(1)

- ☐

**A** 9.7
- ☐

**B** 90.3
- ☐

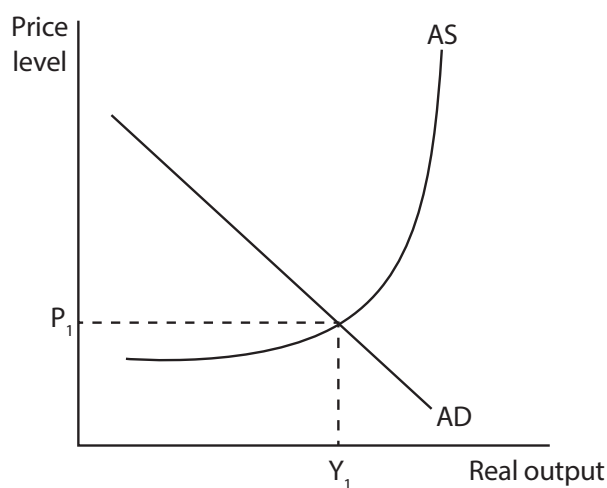
**C** 109.7
- ☐

**D** 110.8



- (c) Annotate the aggregate demand (AD) and aggregate supply (AS) diagram below to show the likely impact of a fall in business investment on the equilibrium level of real output and the price level.

(2)

**(Total for Question 4 = 4 marks)**

4 Business investment fell by 0.5% between Quarter 3 2019 and Quarter 4 2019.

(Source: adapted from <https://www.ons.gov.uk>)

(a) Define the term 'investment'.

(1)

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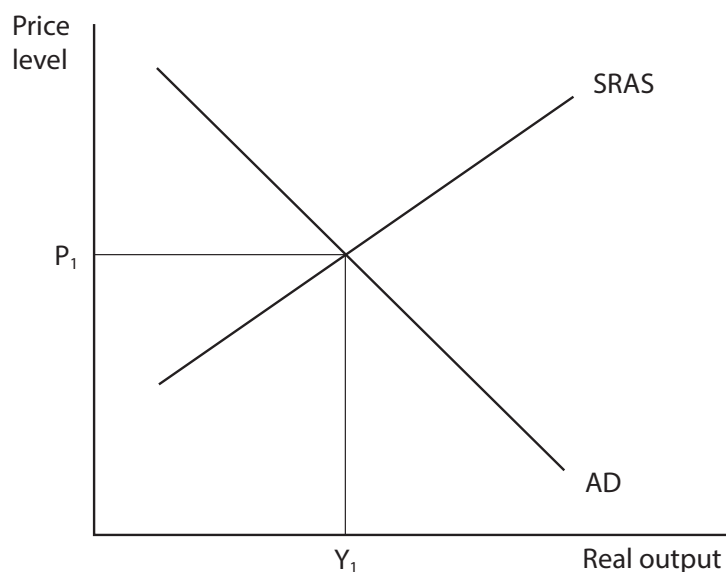
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a fall in business investment on the equilibrium level of real output and the price level.

(2)



(c) Which **one** of the following factors might have caused business investment in the UK to fall?

(1)

- ☒ A A decrease in business expectations
- ☒ B A decrease in government regulations
- ☒ C An increase in the demand for exports
- ☒ D An increase in the rate of economic growth

(Total for Question 4 = 4 marks)



## SECTION B

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

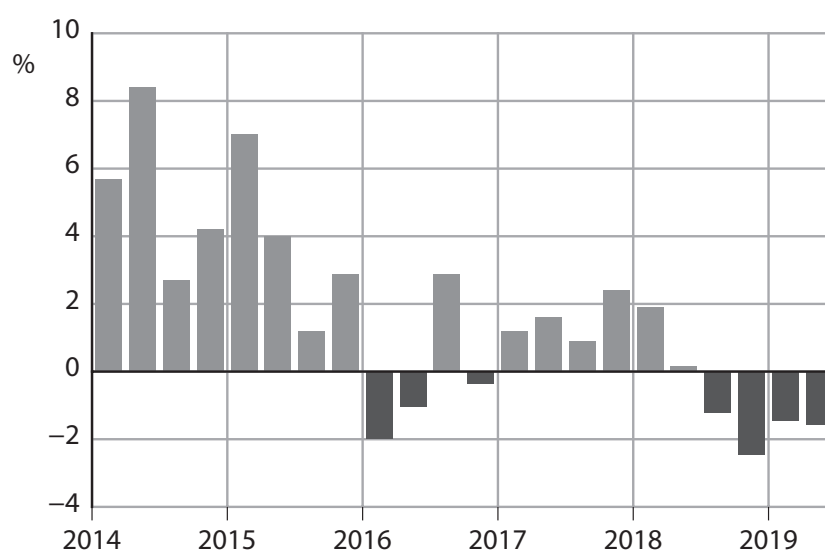
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

## Question 6

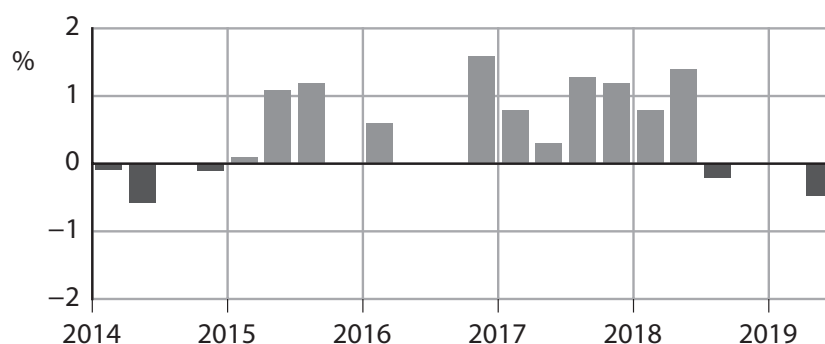
## UK investment and productivity

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-brex-it-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. 5

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. 10

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. 15

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. 20

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. 25

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. 30

(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>)

(a) With reference to Figure 1, explain the term ‘investment’.

(4)

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| 2019 | 226                              |
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(a) Define the term 'investment'.

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(b) Assume 2019 is the base year. Which **one** of the following represents the index number for 2020?

(1)

- ☐

**A** 9.7
- ☐

**B** 90.3
- ☐

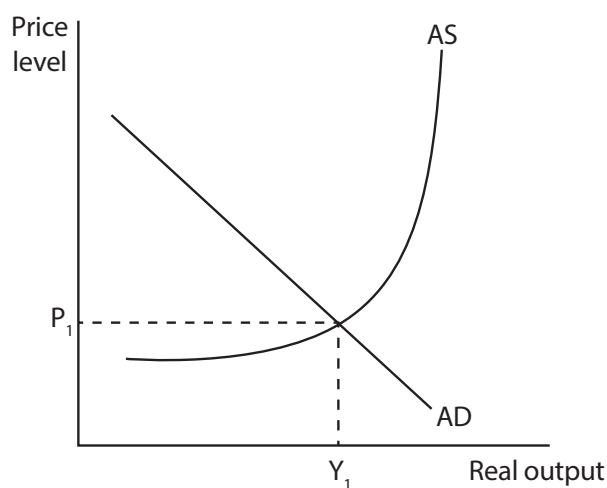
**C** 109.7
- ☐

**D** 110.8



- (c) Annotate the aggregate demand (AD) and aggregate supply (AS) diagram below to show the likely impact of a fall in business investment on the equilibrium level of real output and the price level.

(2)

**(Total for Question 4 = 4 marks)**

4 Business investment fell by 0.5% between Quarter 3 2019 and Quarter 4 2019.

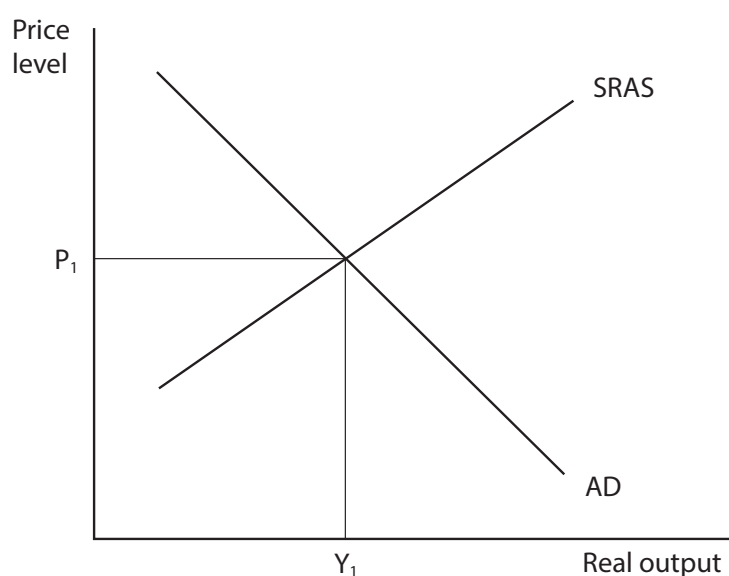
(Source: adapted from <https://www.ons.gov.uk>)

(a) Define the term 'investment'.

(1)

(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a fall in business investment on the equilibrium level of real output and the price level.

(2)



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(1)

- ☐ A A decrease in business expectations
- ☐ B A decrease in government regulations
- ☐ C An increase in the demand for exports
- ☐ D An increase in the rate of economic growth

(Total for Question 4 = 4 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

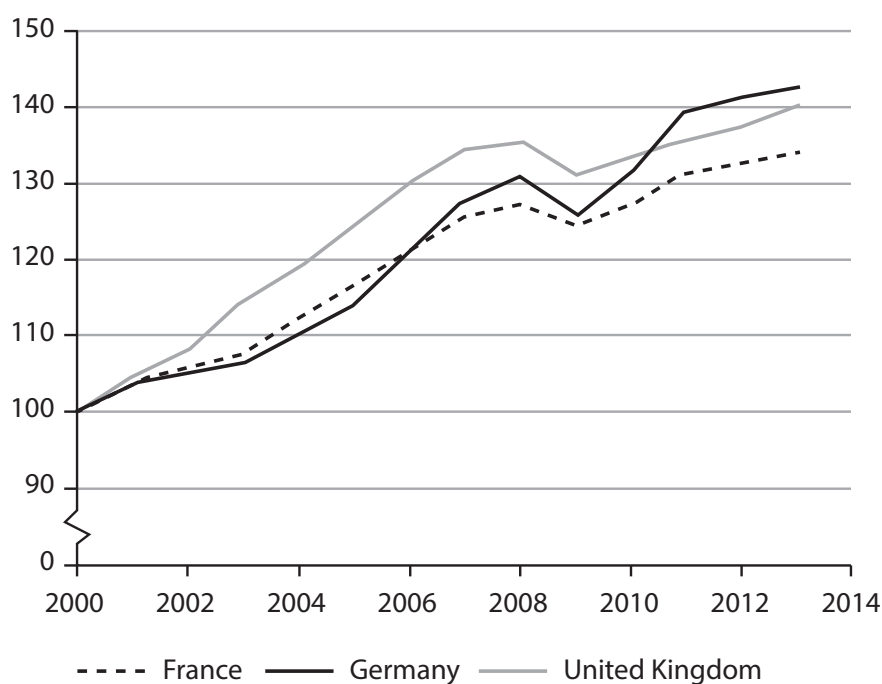
Figure 1: Components of aggregate demand in selected countries 2014

| 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%. 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. 10

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. 15

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. 20

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. 25 30

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



(5)





(b) Which **one** of the following would be most likely to result from lower base interest rates?

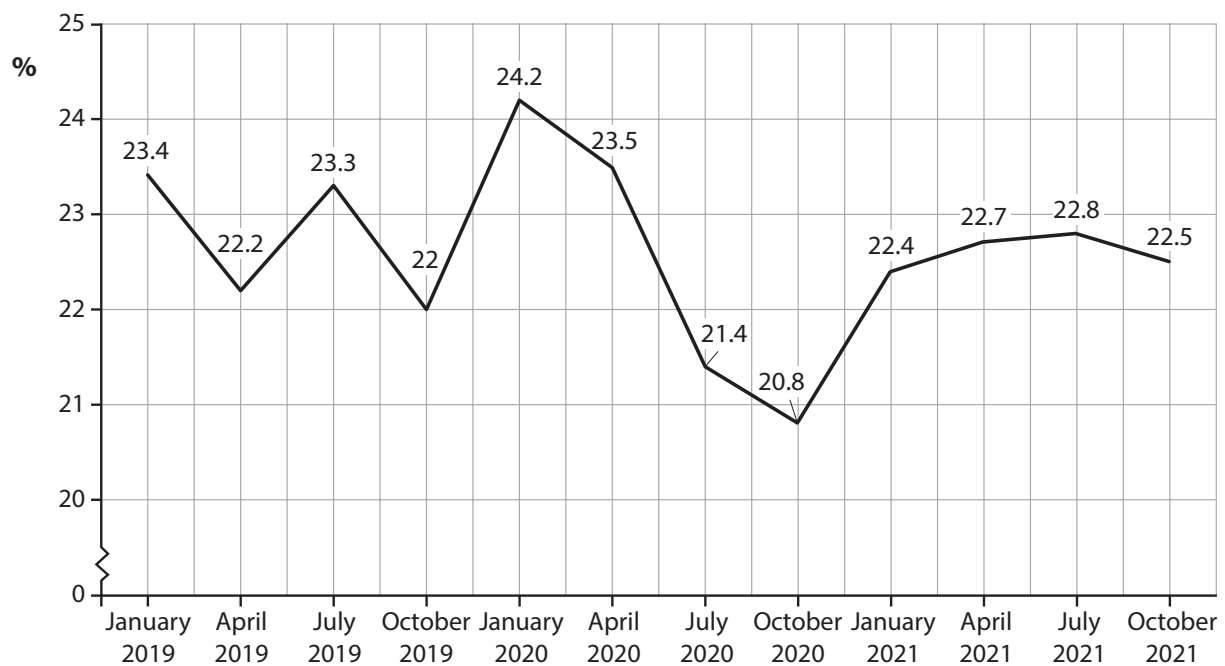
A fall in:

(1)

- ☐ **A** the average price of houses
- ☐ **B** the external value of the pound
- ☐ **C** the level of employment
- ☐ **D** the rate of economic growth

(Total for Question 3 = 5 marks)



**2** Investment in the European Union, percentage of GDP, January 2019 to October 2021

(Source: adapted from <https://www.ceicdata.com/en/indicator/european-union/investment--nominal-gdp>)

- (a) Which **one** of the following is the percentage point fall in investment between April 2020 and July 2020?

(1)

- ☐ A 0.1
- ☐ B 0.6
- ☐ C 2.1
- ☐ D 8.9



(4)

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



## SECTION B

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

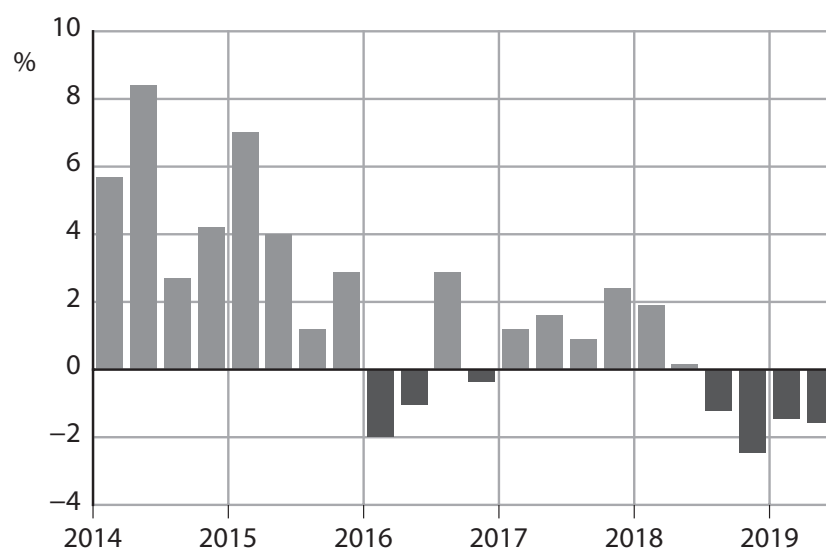
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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## Question 6

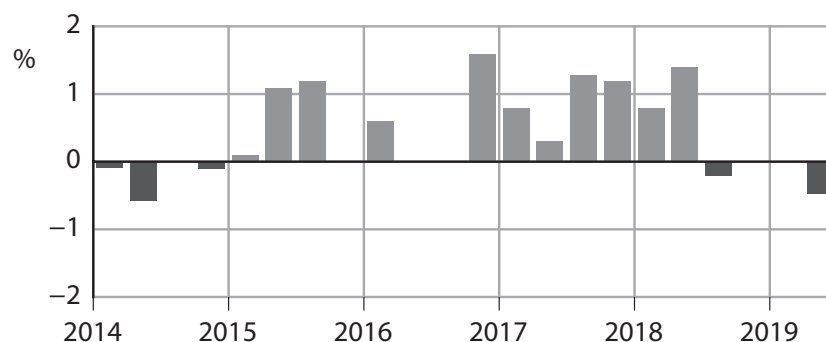
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The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting 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. 15

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. 20

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. 25

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. 30

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(6)



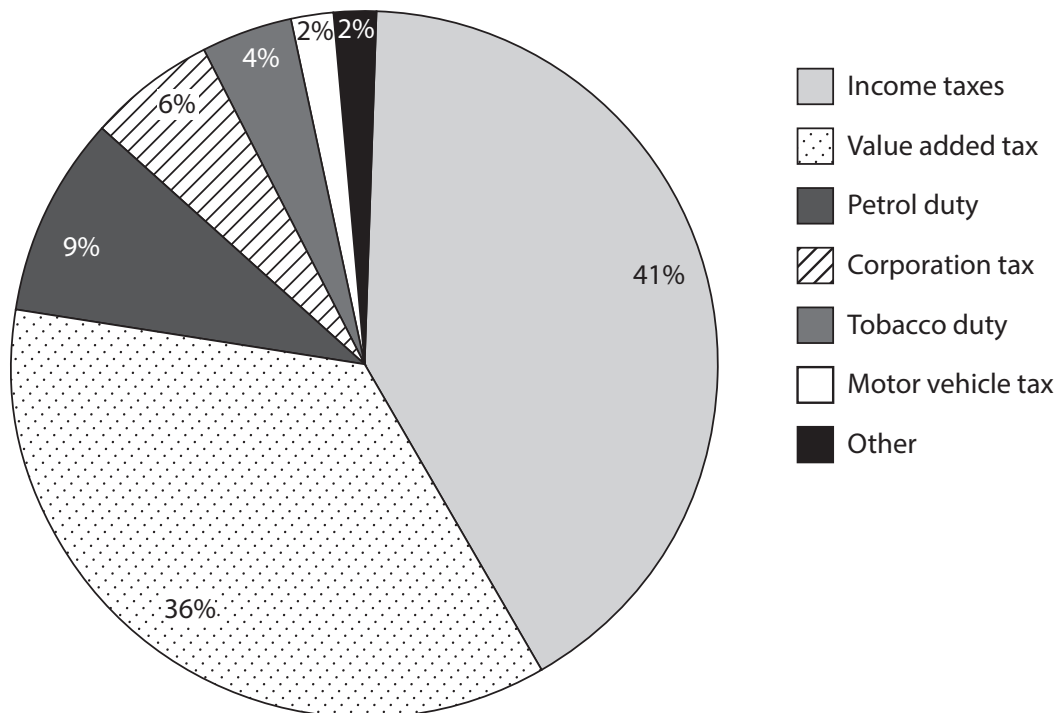


**Sources for use with SECTION B**

Read the following figures (1–2) and extracts (A and B) before answering Question 6.

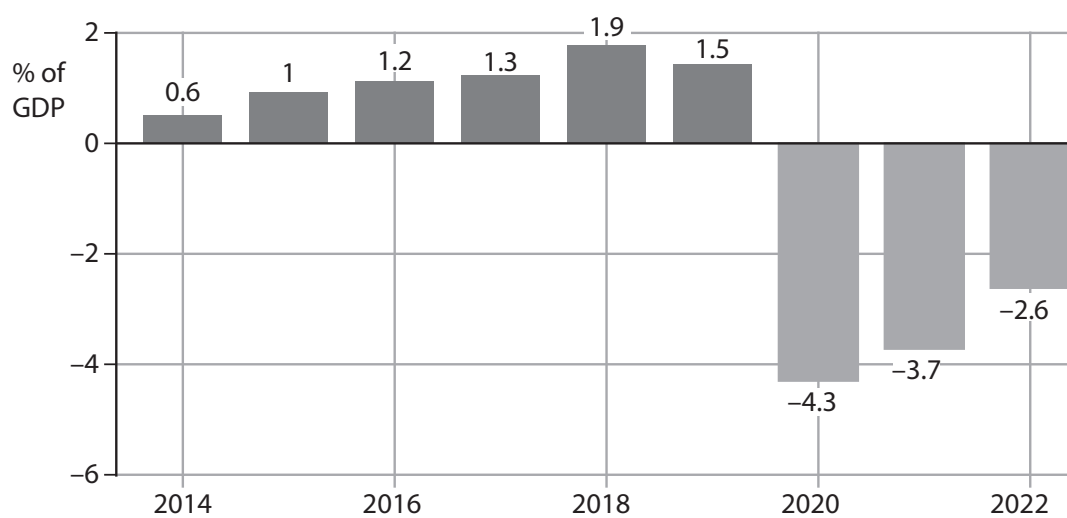
**Question 6****The German economy**

**Figure 1: German government tax revenue, % of total revenue, 2022**



(Source adapted from: <https://www.bundesfinanzministerium.de>)



**Figure 2: German government budget, % of GDP, 2014–2022**

(Source adapted from: <https://tradingeconomics.com/germany/government-budget>)

**Extract A****The opportunities and challenges facing the German economy**

The German economy entered a recession in 2023, and business confidence in the country fell at the fastest pace since 2021. German growth was the lowest among major economies in 2023. The future, however, is a greater concern owing to external factors such as global conflicts and restrictions on free trade.

5

The German government has been trying to improve its economic performance, with an aim to have renewables account for 80% of its energy supply. However, this would be a major shift for Germany where fossil fuels such as coal and gas still provide 75% of the energy needs and exposes it to volatile global energy prices. The rapid building of liquid natural gas terminals has helped to secure energy supplies in the short term.

10

The German government needs to remove a number of problems that have long held back its economy. Infrastructure projects in renewable energy production, such as wind farms, have been delayed by lengthy planning procedures. Business leaders complain of excessive bureaucracy and lack of technological advances. Labour shortages are another issue. Germany is expected to be short of up to 7 million workers by 2035, partly due to an ageing population. There is a lack of skilled workers in the building trade, electrical engineering and professional services, which are important for the country's economic ambitions. The German government needs to introduce effective policies such as planning reforms to speed up construction projects or reforms to increase the flexibility of the labour market.

15

20

The German economy has long been one of the biggest exporters in the world. It has trade surpluses with all its major trading partners except China and in 2021 its current account surplus was 7.7% of GDP. However, this has caused tensions with the governments of other countries, in particular the USA, which sees Germany's surplus as partly a cause of the USA's huge current account deficit. Having said that, a weakening euro caused by higher interest rates in the USA compared to the Eurozone is beginning to have an effect in reducing Germany's current account surplus – which dropped to 4.2% in 2022.

25

(Source adapted from: <https://www.ft.com/>,  
<https://www.cnb.cz/en/monetary-policy/inflation-reports/boxes-and-annexes-contained-in-inflation-reports/The-German-economy-and-the-dollar-euro-exchange-rate>, and  
<https://tradingeconomics.com/germany/current-account-to-gdp>)

**Extract B****US technology firm Intel invests in German semiconductor factories**

Intel is to double its investment in semiconductor factories in eastern Germany to €30 billion. This is the largest foreign direct investment in Germany's history. Intel acquired the land for the factories in November 2022 and the first factory is expected to start production within four to five years. The site is expected to create 7 000 construction jobs during the building phase, about 3 000 permanent high-tech jobs and tens of thousands of additional jobs across the semiconductor industry.

5

(Source adapted from: <https://www.ft.com/>)



(12)



10/10

[illegible]

## SECTION A

Read Figures 1 to 3 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).

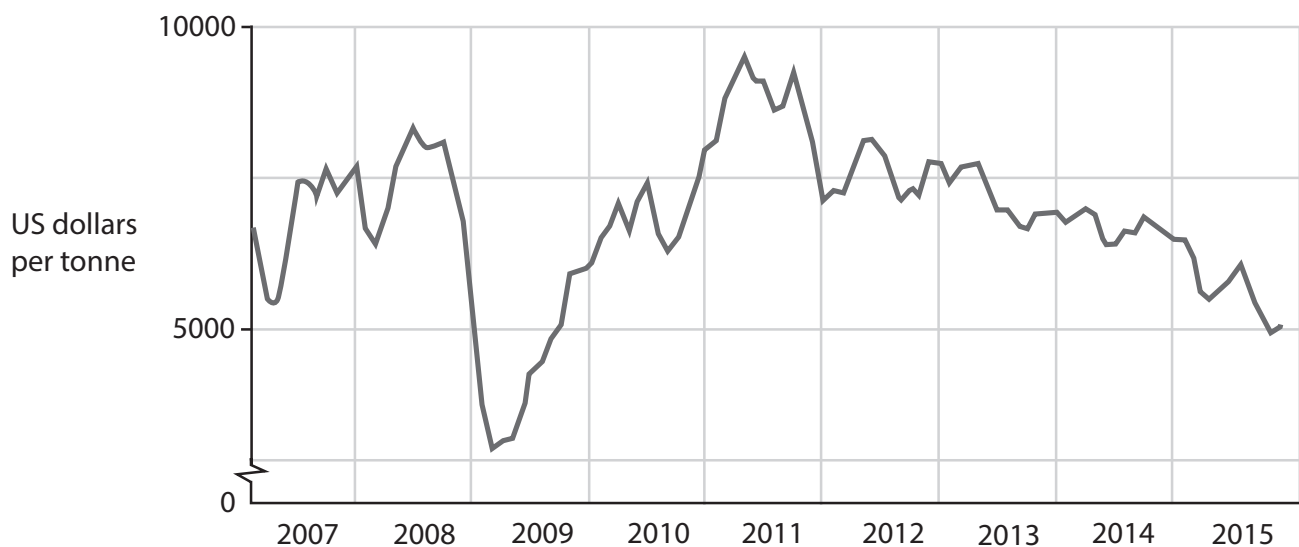
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

## Question 1

## Chile

Figure 1: Copper prices, US dollars per tonne, 2007–2015



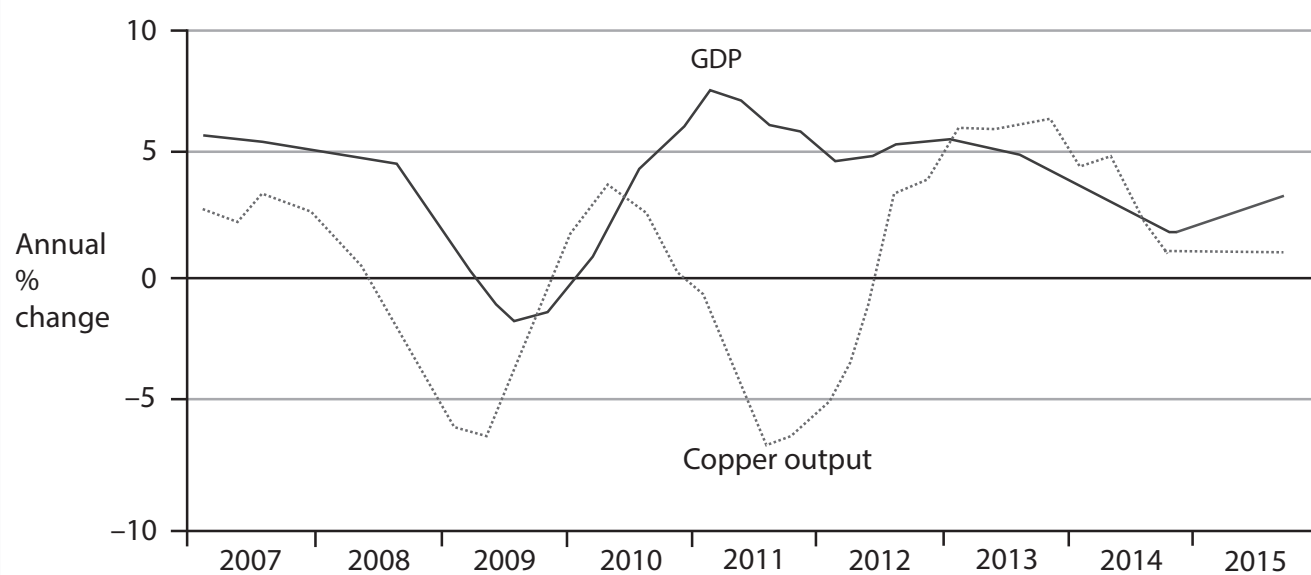
(Source: adapted from <http://www.indexmundi.com/commodities/?commodity=copper&months=120>)

Figure 2: US dollar per 100 Chile pesos exchange rate, 2007–2015



(Source: <https://www.google.co.uk/finance?q=CLPUSD&ei=OGEvVun-AoulU6awjugF>)



**Figure 3: Chile: copper output and real GDP growth, 2007–2015**

(Source: adapted from FT.com sources below)

**Extract A****Chile's economic outlook brightens**

Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached \$11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices. 5

Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP. 10 15

Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies. 20

However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence. 25 30

Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential. 35

(Sources: adapted from <http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de.html#axzz3pCnzT3PC> FT 20 April 2015 and <http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC> FT 19 October 2015 and <http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC> FT 19 October 2015 all by Benedict Mander)

**Extract B****Chile's copper mining on a downward track**

There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia. 5

By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns \$70 000 a year, \$10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive. 10

Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production. 15

Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly. 20

Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days. 25

(Source: adapted from <http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20if45k> Gideon Long September 27, 2015)



(25)







**(Total for this part = 25 marks)**



SUB-TOPIC 2.2.4

# GOVERNMENT EXPENDITURE (G)

Sub-topic 2.2.4 · 5 questions · 27 marks · lowest tariff first



- 2 The International Monetary Fund has called on the G20 group of large industrialised countries to boost government spending on infrastructure.

(Source: <https://www.theguardian.com/business/2016/jul/23/imf-calls-for-more-government-spending-as-rate-cuts-lose-their-impact>)

- (b) Which **one** of the following would be an example of government spending on infrastructure?

(1)

An increase in:

- ☐ A construction work on new railway lines
- ☐ B interest payments on the national debt
- ☐ C salaries for teachers
- ☐ D unemployment benefit payments

---

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



- 5 The Hong Kong-Zhuhai-Macau Bridge is the world's longest sea bridge. It reduces the journey time from Hong Kong to Zhuhai from 4 hours to just 30 minutes. It cost the equivalent of \$18.8 billion and was government funded.

(Source adapted from: [www.theguardian.com](http://www.theguardian.com))

- (b) Which **one** of the following would be most likely to solve a negative output gap problem in a domestic economy?

An increase in

(1)

- ☐ A government funding to the World Bank
- ☐ B government spending on foreign aid
- ☐ C government spending on public transport
- ☐ D income tax

---

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



- 2 The International Monetary Fund has called on the G20 group of large industrialised countries to boost government spending on infrastructure.

(Source: <https://www.theguardian.com/business/2016/jul/23/imf-calls-for-more-government-spending-as-rate-cuts-lose-their-impact>)

- (a) Draw an aggregate demand and aggregate supply diagram to show the likely impact of an increase in government spending on infrastructure on a country's price level and real output.

(4)



(b) Which **one** of the following would be an example of government spending on infrastructure?

(1)

An increase in:

- ☐ **A** construction work on new railway lines
- ☐ **B** interest payments on the national debt
- ☐ **C** salaries for teachers
- ☐ **D** unemployment benefit payments

(Total for Question 2 = 5 marks)



- 5 The Hong Kong-Zhuhai-Macau Bridge is the world's longest sea bridge. It reduces the journey time from Hong Kong to Zhuhai from 4 hours to just 30 minutes. It cost the equivalent of \$18.8 billion and was government funded.

(Source adapted from: [www.theguardian.com](http://www.theguardian.com))

- (a) Draw an aggregate demand and aggregate supply diagram to show the likely impact of this new bridge on the price level and real output in the region.

(4)



- (b) Which **one** of the following would be most likely to solve a negative output gap problem in a domestic economy?

An increase in

(1)

- ☐ A government funding to the World Bank
- ☐ B government spending on foreign aid
- ☐ C government spending on public transport
- ☐ D income tax

(Total for Question 5 = 5 marks)

**TOTAL FOR SECTION A = 25 MARKS**

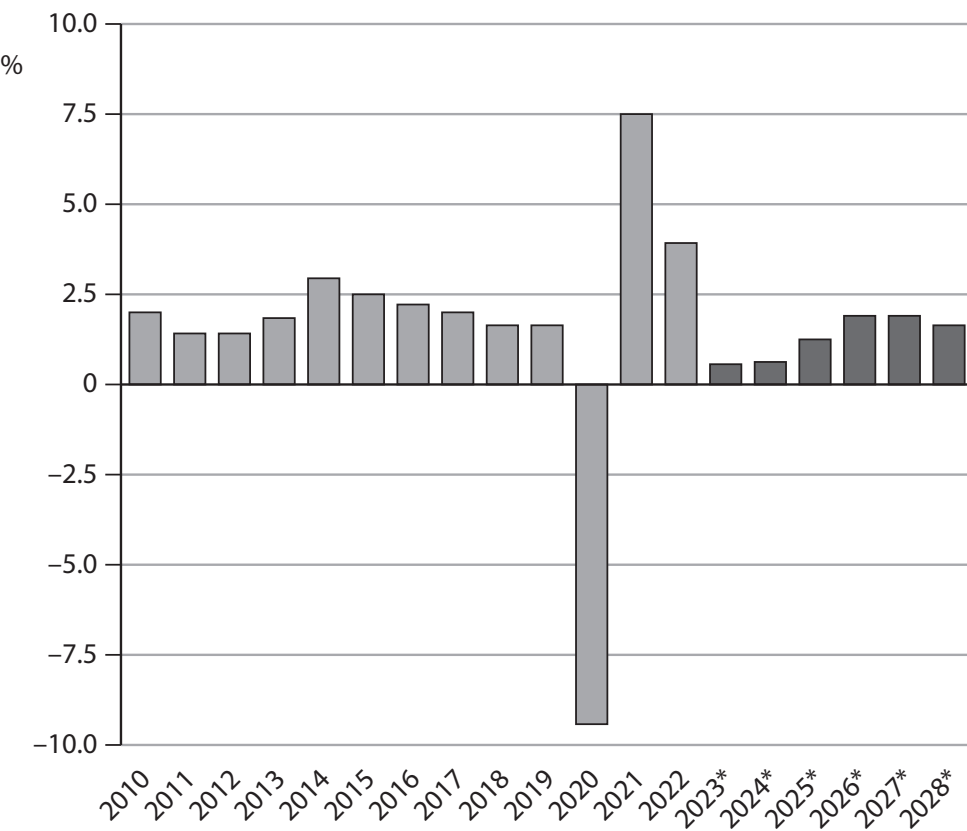


Sources for use with SECTION B

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

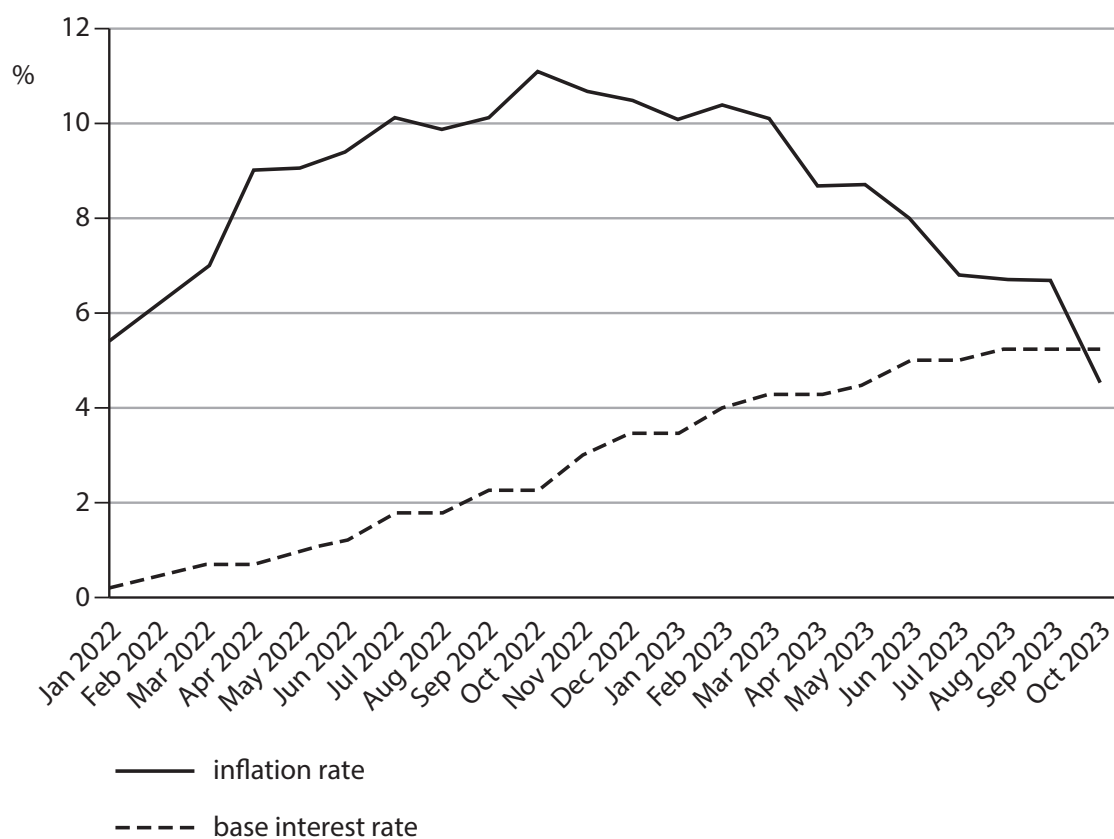
UK living standards and supply-side policies

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](http://www.statista.com) and [www.tradingeconomics.com](http://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. 5

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. 10

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. 15

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. 20 25

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. 30

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. 35

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. 40

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



(e) Discuss the likely macroeconomic effects of a decrease in government expenditure on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)



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

SUB-TOPIC 2.2.5

# NET TRADE (X-M)

Sub-topic 2.2.5 · 9 questions · 42 marks · lowest tariff first



- 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)

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(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%

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(Total for Question 4(b) = 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)

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

(1)

☐ A 0.31%

☐ B 20.26%

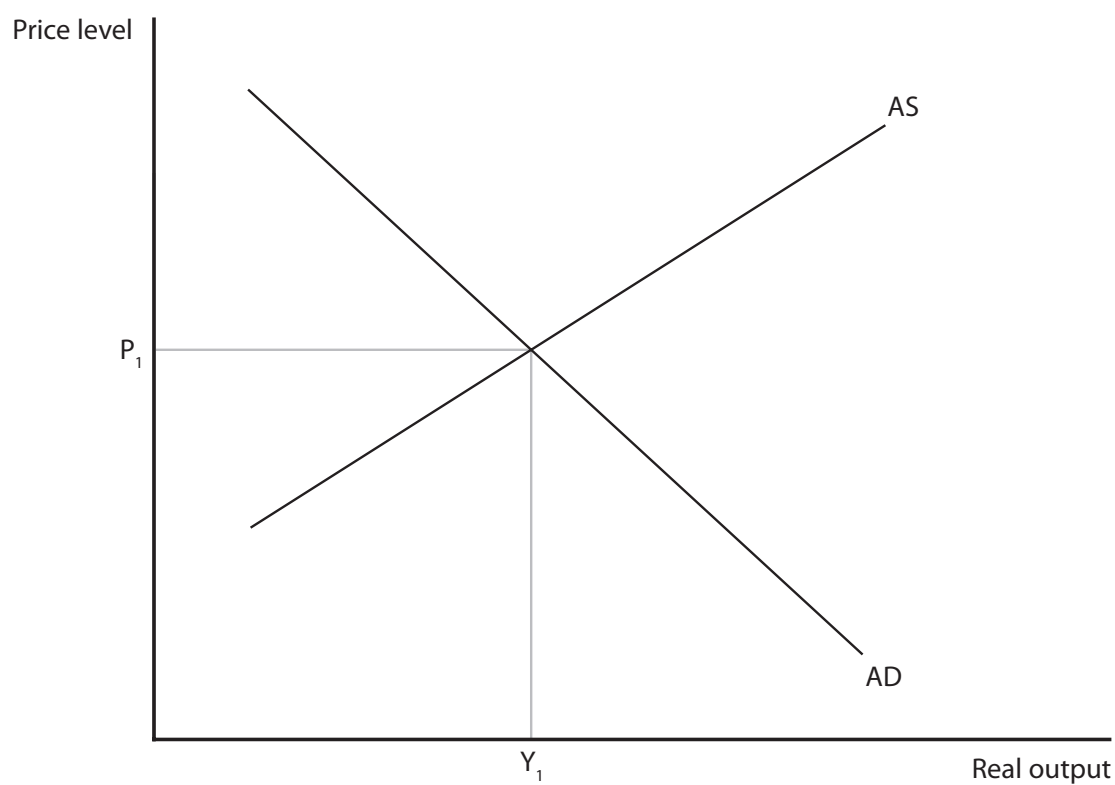
☐ C 25.41%

☐ 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 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

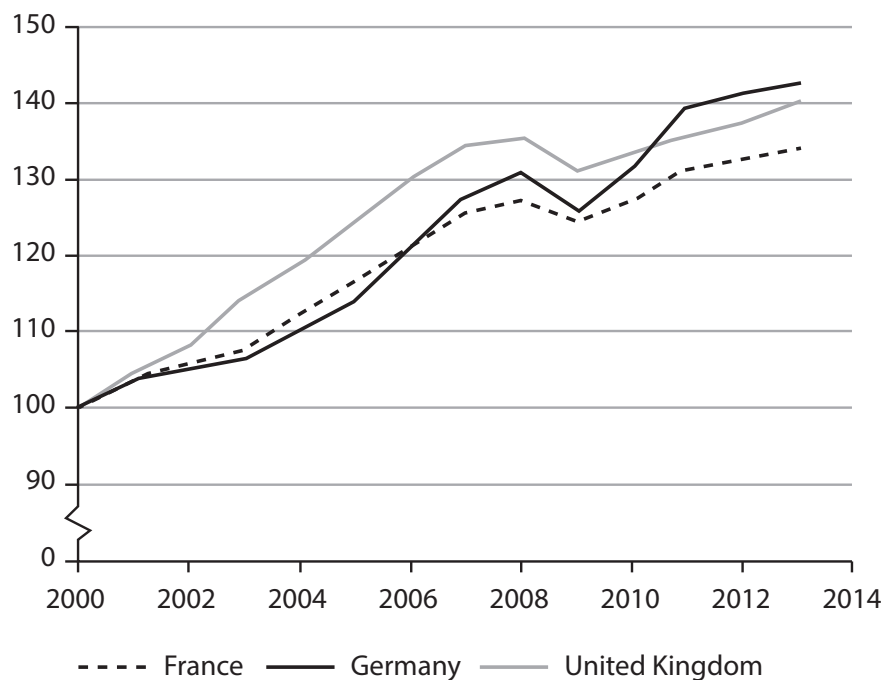
Figure 1: Components of aggregate demand in selected countries 2014

| 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%. 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. 10

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. 15

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. 20

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. 25 30

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



6 (a) With reference to Figure 1, explain the term ‘net trade’.

(4)

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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)

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

(1)

☐ A 0.31%

☐ B 20.26%

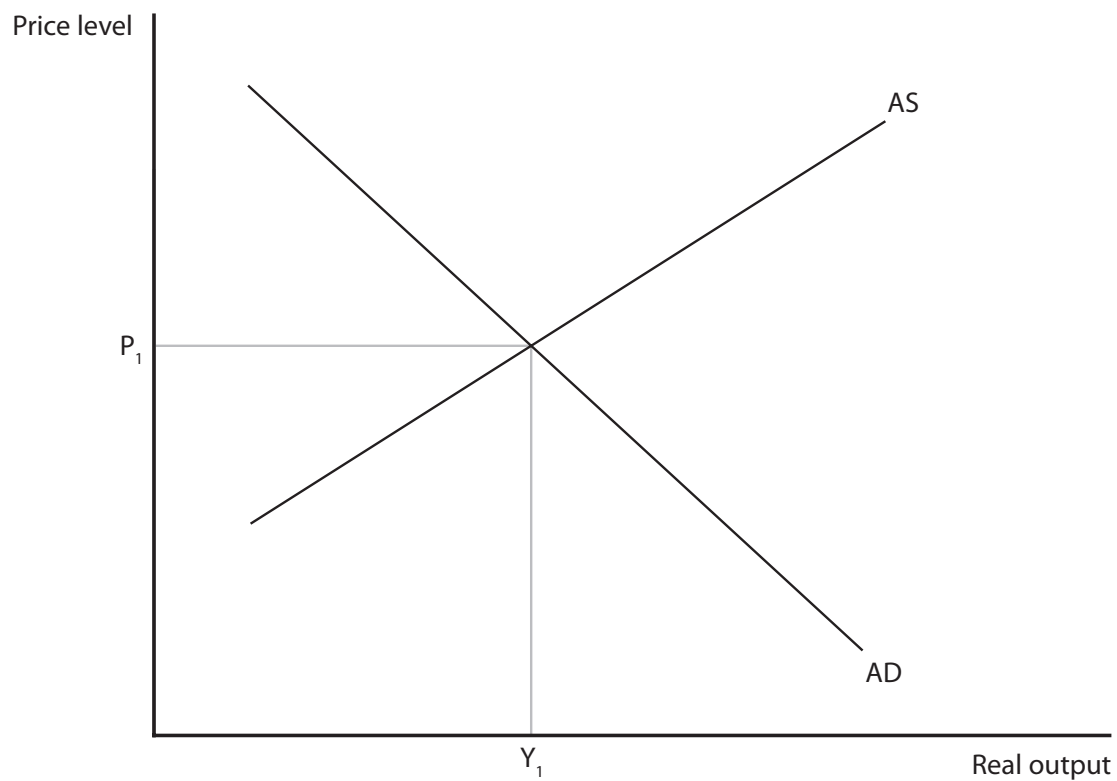
☐ C 25.41%

☐ 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)



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(Total for Question 4 = 4 marks)



**SECTION B**

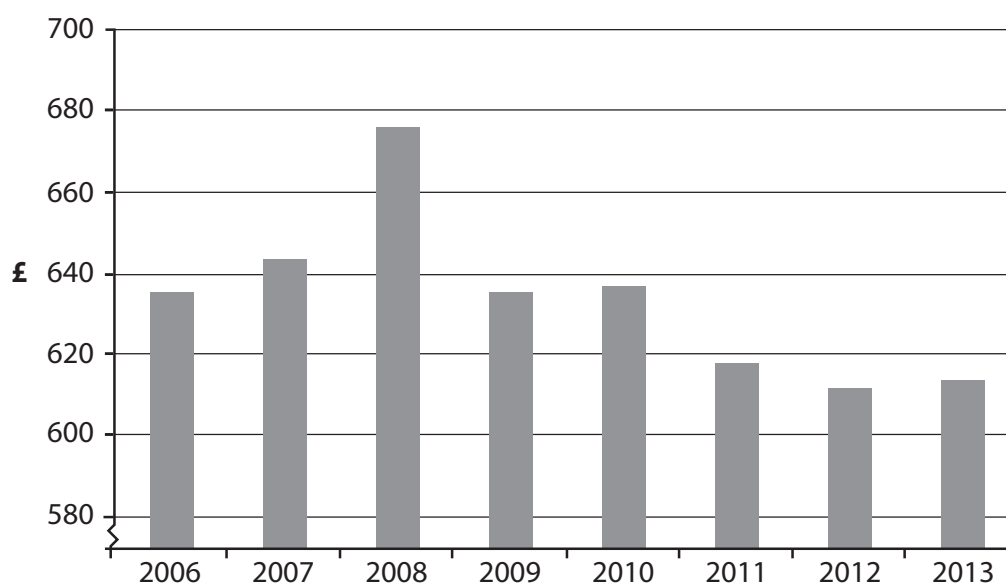
Read Figures 1 and 2 below and read extracts A and B before answering Question 6.

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

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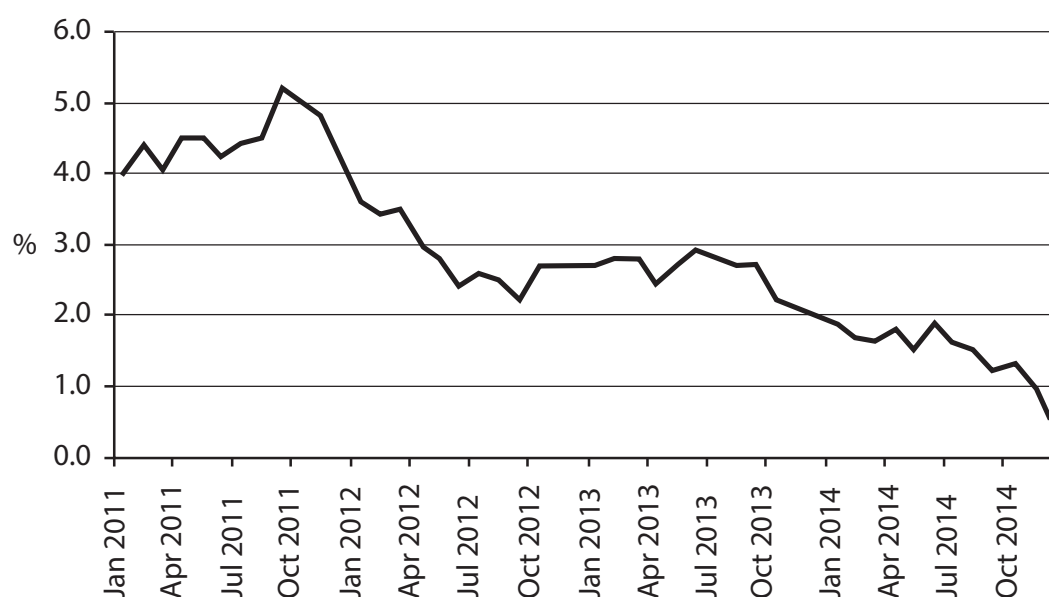
**Question 6****UK incomes, inflation and monetary policy**

**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. 5

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. 10

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. 15

“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. 5

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. 10

(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>)



(5)



## SECTION B

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

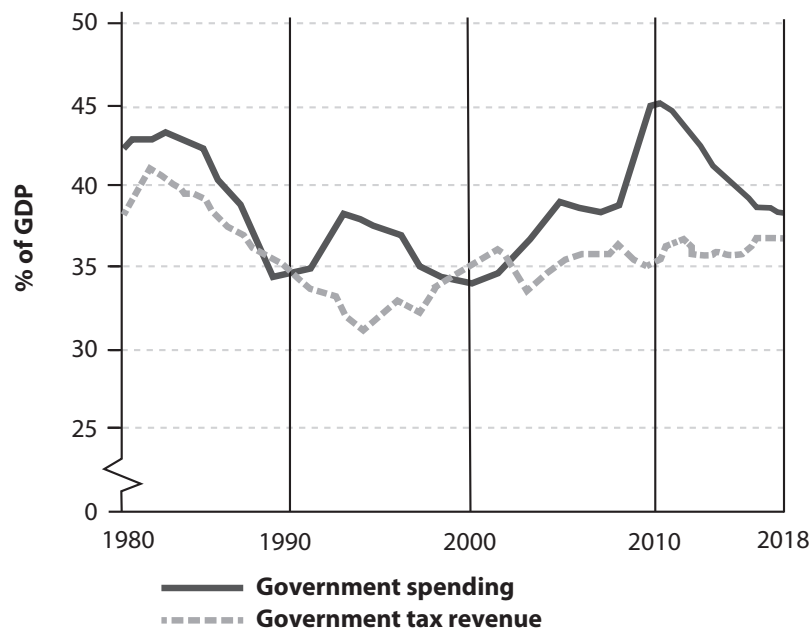
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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## Question 6

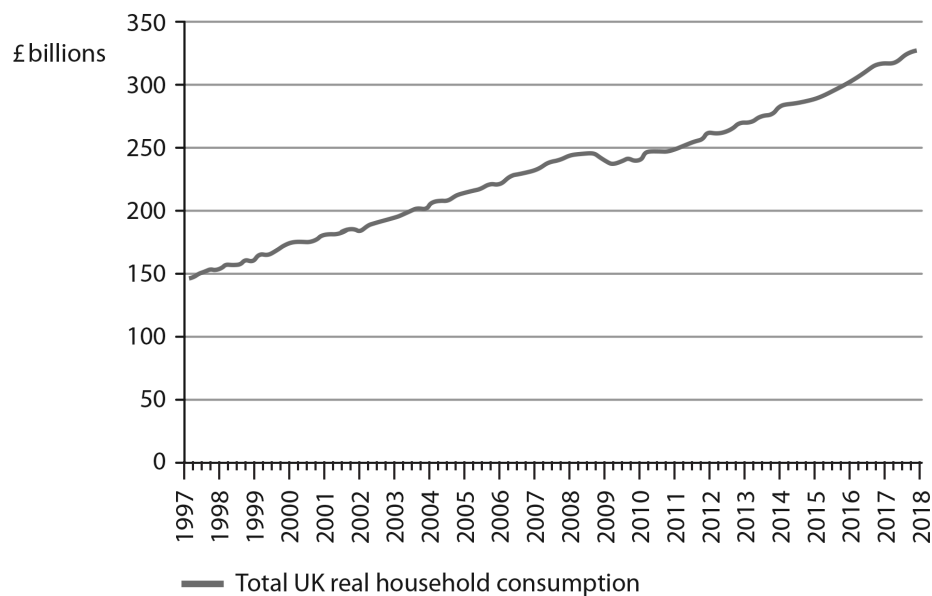
## UK government budget and household consumption

Figure 1: UK government spending and tax revenue as % of GDP, 1980–2018



(Source: adapted from Office for Budget Responsibility (OBR), [http://cdn.obr.uk/EFO-MaRch\\_2018.pdf](http://cdn.obr.uk/EFO-MaRch_2018.pdf) © Crown copyright 2018)

Figure 2: UK real household consumption, quarterly, £ billions, 1997 to 2018



(Source: adapted from ONS, [www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018](http://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018))



**Extract A****UK household consumption**

Despite the slow growth in real household disposable incomes, consumer spending rose in 2017. Annual spending per person increased by £589, when compared with 2016. This may have reflected UK households' delay in adjusting to the increase in inflation that was associated with the fall in the exchange rate of the British pound. The increase in consumption has also been driven by low interest rates. In 2017 UK house prices increased by an average of 5.1%. 5

UK consumers have financed most of their spending by borrowing on credit cards in order to maintain their living standards. In 2017 borrowing on credit cards rose by 9.6%, the second-highest level since before the financial crisis. This has increased the Bank of England's concerns about the sustainability of borrowing, given the slow growth in real incomes. The Bank has also indicated that the base interest rate was likely to rise faster than previously expected. More expensive credit could therefore constrain the ability of households to spend. 10

(Source: adapted from 'Consumer Trends UK', ONS, <https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/octobertodecember2017> and © Crown copyright 2018)

**Extract B****Reduction of the UK's budget deficit**

Since 2010 many economists have believed that the biggest problem facing the government was the rising budget deficit. In late 2017, the UK's Chancellor of the Exchequer announced that the government would continue with its plans to decrease its budget deficit. To address this issue, the government further reduced welfare payments and introduced extra spending cuts in the public sector. 5

The UK government had estimated that the fall in UK productivity since the financial crisis was only temporary. However, it has now accepted that this fall in the level of productivity is a long-term issue. Subsequently, the UK's forecast long-term trend rate of growth was reduced. Slower growth means lower tax receipts, higher spending and a bigger budget deficit. 10

Some economists have suggested that the government should not pursue additional reductions in the budget deficit. They have also claimed that the responsibility of the government is not to balance the budget but to balance the economy by moving it to full employment. 15

(Source: adapted from 'Philip Hammond must ditch deficit reduction and invest. But will he?', The Guardian, <https://www.theguardian.com/politics/2017/nov/19/philip-hammond-must-ditch-deficit-reduction-and-invest-but-will-he>)





**SECTION B**

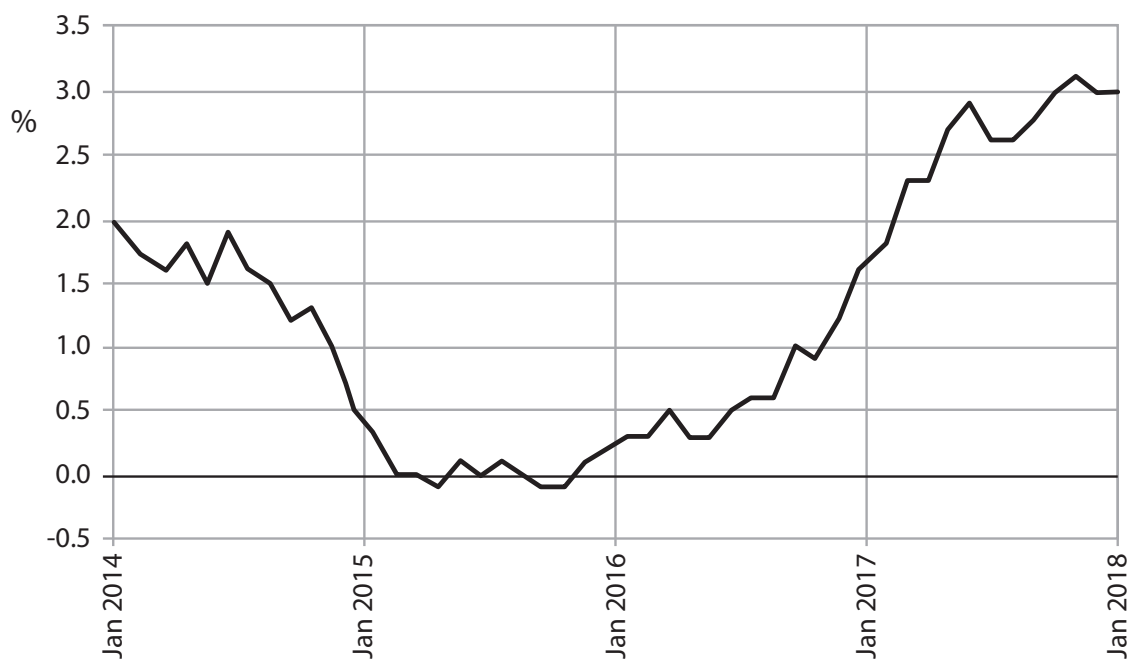
Read Figures 1 to 4 and extracts (A and B) before answering Question 6.

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**



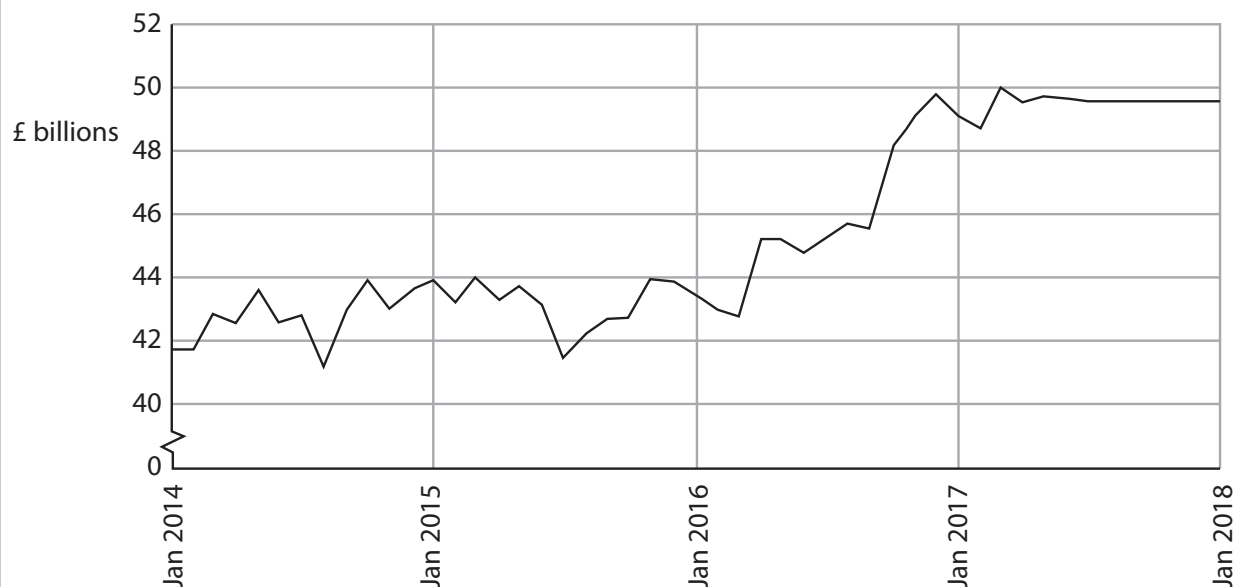
(Source: [www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx](http://www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx))



**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](http://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. 5

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. 10

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. 15

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. 20

(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. 5

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. 10

(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/>)



(10)



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## SECTION B

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

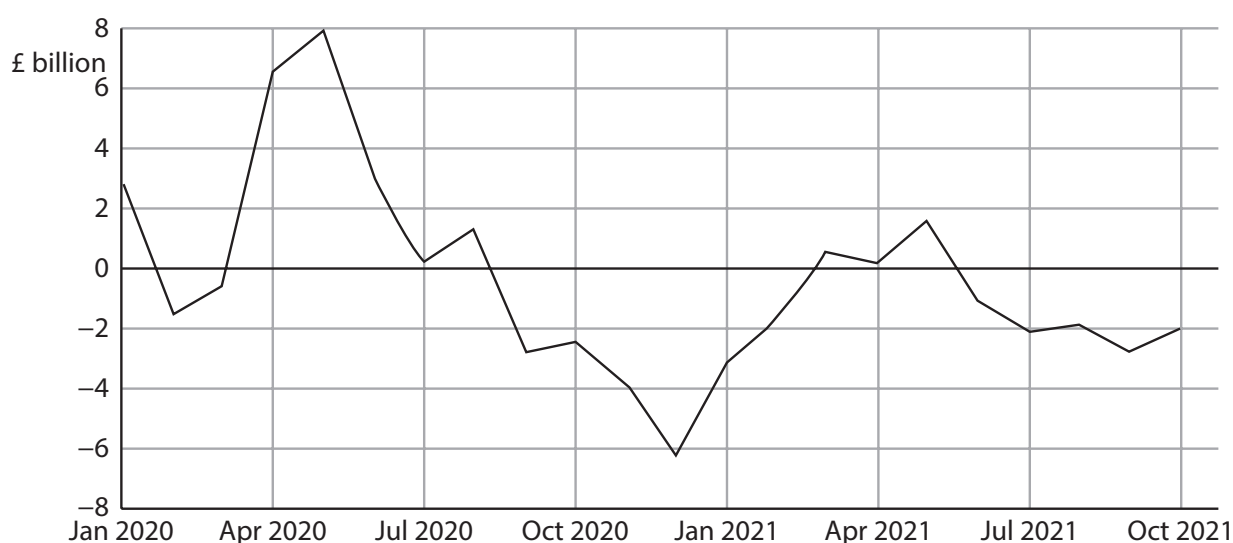
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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## Question 6

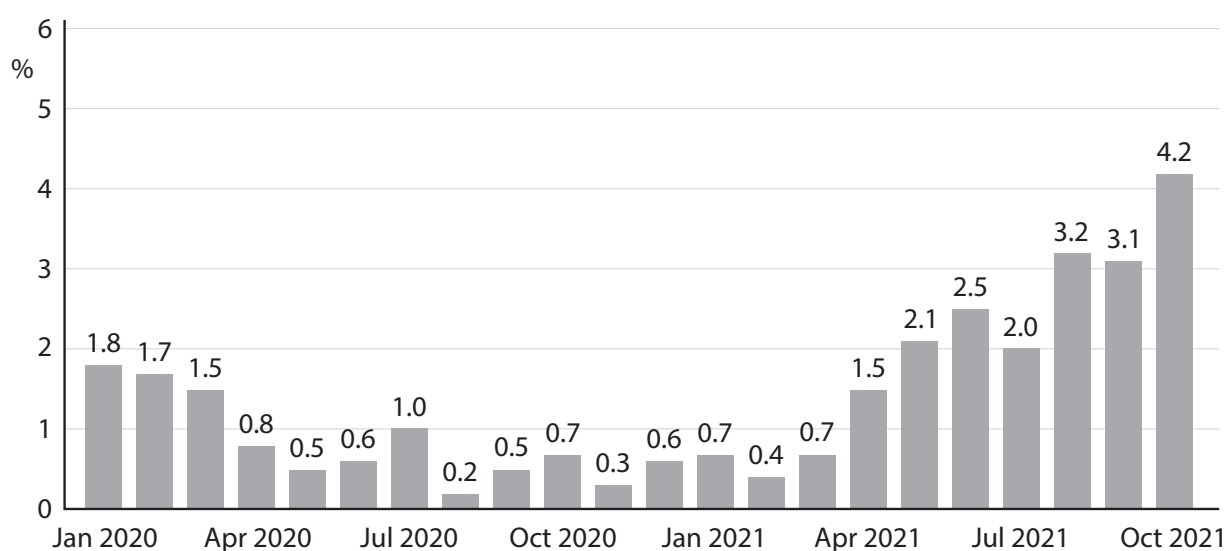
## UK balance of trade and inflation

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.

5

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.

10

(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.

5

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.

10

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.

15

(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>)

(10)





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# MARK SCHEMES

official mark schemes



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
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| <b>3(a)</b>     | <p><b>Knowledge 1, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding</b><br/>1 mark for identifying one relevant factor, e.g.</p> <ul style="list-style-type: none"> <li>• Expected inflation rate (1)</li> <li>• Confidence (1)</li> <li>• Growth rate (1)</li> <li>• House prices (1)</li> </ul> <p><b>Application</b><br/>1 mark for reference to the chart, for e.g.</p> <ul style="list-style-type: none"> <li>• Global Financial Crisis of 2008 (1)</li> <li>• Interest rate has decreased from 5.5% in 2008 to 0.5% in 2009 or has decreased by 5 percentage points (1)</li> <li>• Brexit decision 2016 (1)</li> </ul> <p><b>Analysis</b><br/>1 mark, e.g.</p> <ul style="list-style-type: none"> <li>• Consumer and business confidence: can indicate turning points in the business cycle (1)</li> <li>• GDP growth rate and spare capacity: ensure that AD grows in line with productive potential (1)</li> <li>• House prices and share prices: that help decide household wealth, which translates through to borrowing and spending (1)</li> </ul> | <b>(3)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>3(b)</b>     | <p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because quantitative easing will increase AD and therefore economic growth</p> <p><b>B</b> is not correct because quantitative easing increases the money supply as the central bank buys government bonds</p> <p><b>D</b> is not correct because quantitative easing would lead to increase in AD and a fall in the level of unemployment as real output increases</p> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(a)</b>     | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• <math>AD = C + I + G + (X - M)</math> (1)</li> <li>• Total amount of planned spending on goods and services at any price level in an economy (1)</li> </ul> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(b)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application</b><br/>2 marks for,</p> <ul style="list-style-type: none"> <li>• Correct leftward shift of SRAS (1)</li> <li>• Correct new equilibrium point showing higher price level and lower real output (1)</li> </ul> <div style="text-align: center;"> </div> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                         | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(c)</b>     | <p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because a decrease in investment will reduce capital stock of the economy, reducing LRAS</p> <p><b>B</b> is not correct because increase in level of unemployment benefits will reduce the incentive to work, reducing LRAS</p> <p><b>D</b> is not correct as reduced access to credit would decrease investment as banks would be unwilling to lend</p> | <b>(1)</b> |



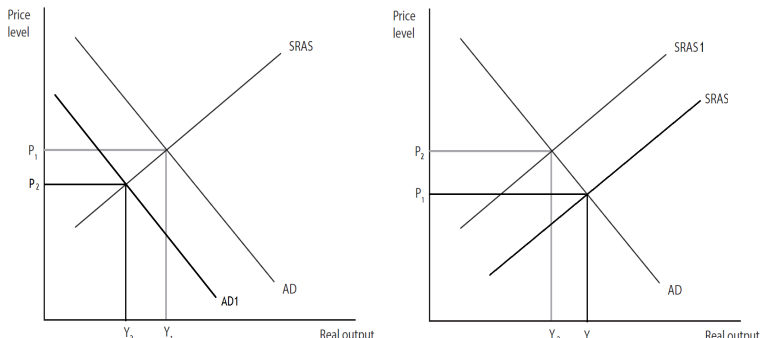
| Question Number | Answer                                                                                                                                                                                                                                                                                    | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(a)</b>     | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• Tax on expenditure/spending on goods and services</li> <li>• Tax on a product/good or service <b>(1)</b></li> </ul> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(b)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b><br/>2 marks for,</p> <ul style="list-style-type: none"> <li>• Correct rightward shift of short-run AS <b>(1)</b></li> <li>• Correct new equilibrium point showing lower price level and higher real output <b>(1)</b></li> </ul> <div style="text-align: center;"> </div> <p><b>NB: Accept AD shifting to the right with higher price level and higher real output</b></p> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                   | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(c)</b>     | <p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because this is an example of a direct tax</p> <p><b>C</b> is not correct because this is an example of a direct tax</p> <p><b>D</b> is not correct because this is an example of a direct tax</p> | <b>(1)</b> |



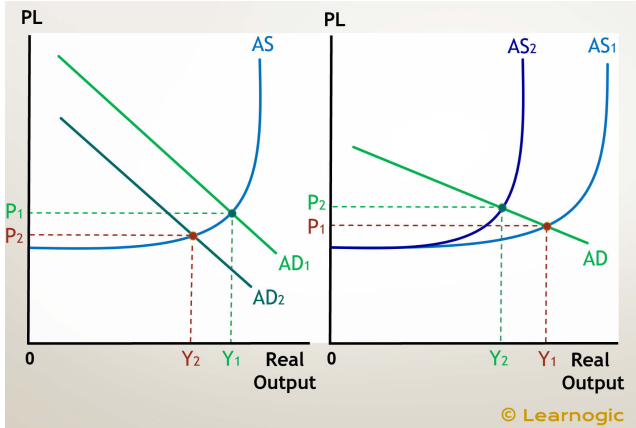
| Question Number | Answer                                                                                                                                                                                                                                    | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4 (a)</b>    | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• Cost of borrowing (1) /</li> <li>• Reward for saving (1)</li> </ul> | <b>(1)</b> |

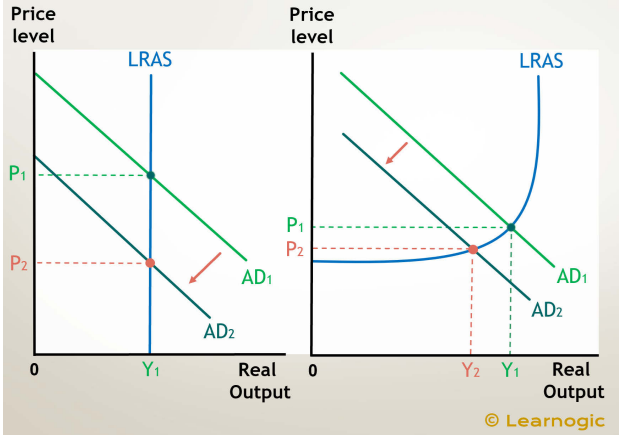
| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4 (b)</b>    | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• Correct leftward shift of AD (1)</li> <li>• Correct new equilibrium point (1)</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>• Correct shift of SRAS (1)</li> <li>• Correct new equilibrium point (1)</li> </ul> <div style="display: flex; justify-content: space-around; align-items: flex-end;">  </div> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4 (c)</b>    | <p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because contractionary fiscal policy involves the government increasing tax rates and reducing government spending</p> <p><b>C</b> is not correct because expansionary fiscal policy involves the government reducing tax rates and increasing government spending</p> <p><b>D</b> is not correct because an expansionary monetary policy involves reducing interest rates and increasing asset purchases (quantitative easing)</p> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(a)</b>     | <p><b>The only correct answer is D</b></p> <p><i>A is not correct because this would cause AD to decrease</i></p> <p><i>B is not correct because this would cause AD to decrease</i></p> <p><i>C is not correct because this would cause AD to decrease</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(b)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding:</b><br/>Correct labels on axes (1) and lines (1)</p> <p><b>Application:</b><br/>Correct shift of line(s) (1) showing change in price level and/or real output (1)<br/>For example:</p> <div style="text-align: center;">  <p>© Learnogic</p> </div> <p>N.B. Other AS curves are acceptable</p> | <b>(4)</b> |

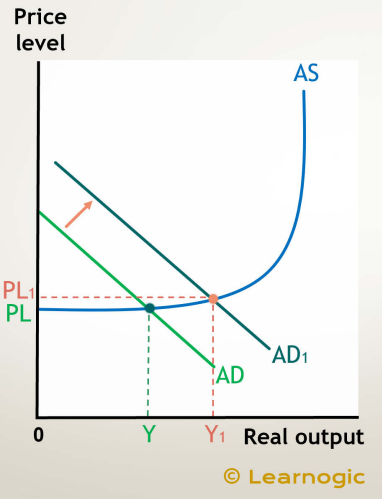
| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(a)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding:</b></p> <p>Correct labels on axes and curves (1) and shift of curve(s) (1)</p> <p><b>Application:</b></p> <p>Correct change in price level (1) and fall in real output (1)</p> <p>For example:</p>  <p>N.B. Other AS curves are acceptable</p> <p>N.B. Decrease in AS also acceptable</p> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                              | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(b)</b>     | <p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because higher interest rates would lead to an increase in marginal propensity to save</p> <p><b>C</b> is not correct because unemployment would be likely to increase as AD falls</p> <p><b>D</b> is not correct because the pound would be likely to increase in value as a higher interest rate attracts more flows of money to the UK</p> | <b>(1)</b> |





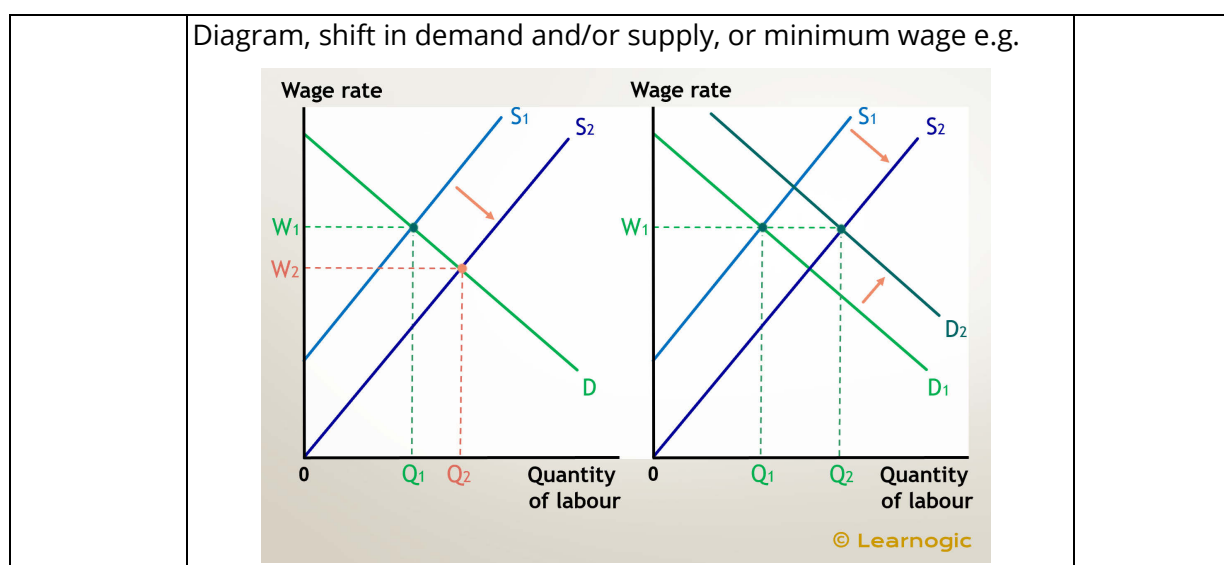
|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |            |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
|  | <p><b>Evaluation:</b> 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment (1+1 or 2+0), e.g.</p> <ul style="list-style-type: none"> <li>• If government spends extra tax revenue (1) then that could create more employment (1)</li> <li>• Stealth tax? (1)</li> <li>• Depends on changes in other taxes/government spending that may offset higher income tax (1)</li> <li>• Inflation is expected to fall in 2023 so wages may rise more slowly in the future (1), limiting impact of freeze in tax bands (1)</li> <li>• Impact on economic growth depends on where the AD lies on Keynesian LRAS/level of spare capacity (1)</li> <li>• Depends on changes in other components of AD (1)</li> <li>• Time lags: Short run v long run considerations (1)</li> <li>• Consumers may not reduce consumption if they choose to save less instead (1)</li> <li>• Top income households disposable income does fall (1)</li> <li>• Depends on value of multiplier (1)</li> <li>• Impact on tax revenue may not be as expected (1) e.g. Laffer Curve (1) / possible tax avoidance (1)</li> </ul> | <b>(8)</b> |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|

| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                       | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(b)</b>     | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• An increase in real wages will lead to an increase in consumer expenditure</li> <li>• Consumption is a component of aggregate demand</li> <li>• Aggregate demand will increase from AD to AD<sub>1</sub></li> <li>• Inflationary pressures will increase from PL to PL<sub>1</sub></li> <li>• Real output will increase from Y to Y<sub>1</sub></li> <li>• Consequently, unemployment will decrease</li> <li>• Figure 1: In 2019, real wage growth increased by 2%</li> </ul> <p>Diagram, e.g.:</p>  <p><b>NB Candidates must answer with an AD/AS diagram presenting an increase in AD to access Level 3</b></p> |                                                                                                                                                                                                                                                                                                                       | <b>(6)</b> |
| Level           | Mark                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Descriptor                                                                                                                                                                                                                                                                                                            |            |
|                 | 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | A completely inaccurate response.                                                                                                                                                                                                                                                                                     |            |
| Level 1         | 1–2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p>Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.</p> <p>Use of generic or irrelevant information or examples.</p> <p>Descriptive approach which has no link between causes and consequences.</p>                                                                |            |
| Level 2         | 3–4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p>Displays elements of knowledge and understanding of economic principles, concepts and theories.</p> <p>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.</p> <p>A narrow response or the answer may lack balance.</p>        |            |
| Level 3         | 5–6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p>Demonstrates accurate knowledge and understanding of the concepts, principles and models.</p> <p>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.</p> <p>Economic ideas are applied appropriately to the broad elements of the question.</p> |            |

| Question Number          | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                     | Mark       |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(b)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Consumption is largest component of aggregate demand, therefore will have a significant impact</li> <li>• Significance of the elasticity of the AS curve and the state of the UK economy</li> <li>• UK consumers have financed their spending by borrowing – "Borrowing on credit cards and personal loans has increased above the levels seen before 2008": it creates an unstable and unbalanced economy</li> <li>• Depends on other factors in the economy, such as net trade and investment</li> <li>• Nominal wage growth may be more significant in determining impact on consumption: Figure 1</li> </ul> |                                                                                                                                                                     | <b>(4)</b> |
| 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 |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 1(c)            | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <p><b>Knowledge/implicit understanding:</b> Points might include:</p> <ul style="list-style-type: none"> <li>Increased labour supply – workers willing to take low-paid jobs</li> <li>Arguments also allowed that since the UK left the EU, many workers are leaving – question does not specify immigration or emigration</li> <li>Increased demand from increased UK population also allowed as an approach</li> </ul> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>Immigrants the main employees at HCWs and similar labour intensive firms (Extract A)</li> <li>Implication in EU that increased immigration (Extract A paragraph 4) has caused supply to increase and therefore wages half of minimum wage (Ext A last paragraph)</li> <li>HCW often a first job while the migrant's language improves on arrival in the UK (Ext A)</li> <li>Following UK leaving the EU many low skilled labour may leave</li> <li>Workers are not able to migrate as wages are not high enough in sector to be able to migrate to post UK leaving the EU</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>Labour market diagram showing increase in the supply of labour</li> <li>NMW diagram showing excess supply of labour at the wage floor</li> <li>Allow decrease in supply, e.g. since the UK leaving the EU</li> <li>Allow backward bending supply of labour</li> <li>Allow monopsony diagrams (although not required)</li> <li>Some segments require more skilled workers and not suit low skilled migrant workers, e.g. valeting</li> <li>Reference to any industry that relies on migrant workers, e.g. hospitality, nursing, construction</li> </ul> <p><b>NB if no valid diagram or reference to an industry, then award a maximum of Level 2 KAA</b></p> | (8)  |

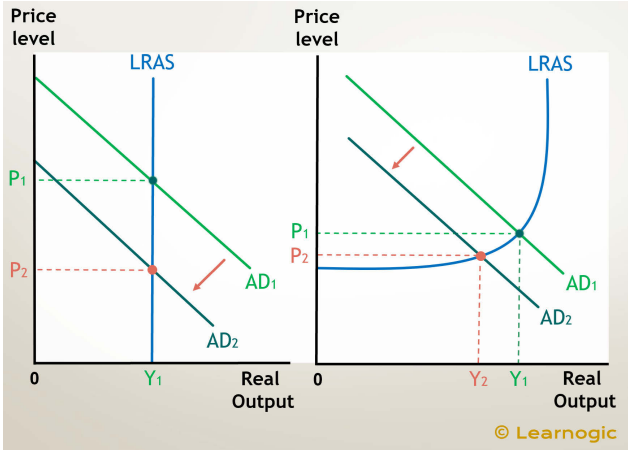


| Level   | Mark | Descriptor                                                                                                                                                                                                                                                                                                                                                                                |
|---------|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                         |
| Level 1 | 1–2  | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences.                                                                                                                           |
| Level 2 | 3–5  | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance.                                                       |
| Level 3 | 6–8  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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       |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(c)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Impact of UK leaving the EU, Global Health Crisis etc. might put immigration figures into negative, and wages and conditions might improve</li> <li>• Depends on monopsony power</li> <li>• Evidence suggests there is not exploitation, or there is not enough evidence</li> <li>• Some firms are charging a fair wage</li> <li>• Other changes in the pipeline</li> <li>• The size of the changes in migration will dictate the impact on labour market</li> <li>• The ability of workers to move to other sectors/ speed language developed will determine impact on labour market</li> <li>• Within HCW there are sub-markets - some specialise in luxury vehicles - others are mobile operators who visit home - each will be affected differently</li> </ul> | <b>(4)</b> |

| 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 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 | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2(c)            | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul style="list-style-type: none"> <li>• Exchange rate: affects net trade (Extract D)</li> <li>• Demand for exports: affects investment</li> <li>• Access to credit: affects funds required for capital investment</li> <li>• Interest rate: affects firms cost of borrowing</li> <li>• Government expenditure</li> <li>• Industrialisation: will impact exports and net trade</li> <li>• Reducing corporation tax: will impact investment</li> <li>• Enterprise zones: will impact exports</li> <li>• Protectionism: affects net trade (Extract F)</li> <li>• Consumer income e.g Cocoa farmers in Ghana make roughly \$1 a day (Extract E)</li> <li>• Being part of a trade bloc (Extract F)</li> </ul>  <p><b>NB ANY diagram consistent with analysis is acceptable</b></p> <p><b>NB An AD/AS diagram must be drawn to access Level 3</b></p> <p><b>NB For level 3 candidates must discuss 2 different factors</b></p> | (8)  |

| <b>Knowledge, application and analysis</b> |      |                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences.                                                                                                                           |
| Level 2                                    | 3–5  | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance.                                                       |
| Level 3                                    | 6–8  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

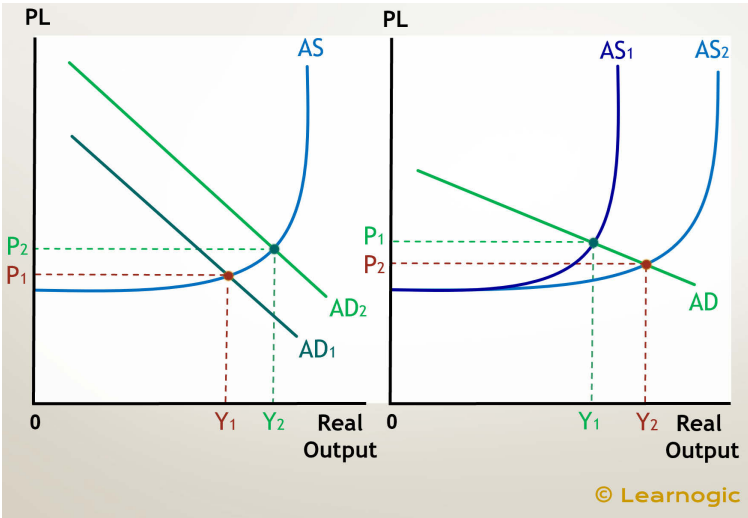


| Question Number          | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark       |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(c)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Prioritisation of the most important factor</li> <li>• Significance of factors change over time</li> <li>• Short run versus long run considerations</li> <li>• Combination of factors has a larger influence on aggregate demand</li> <li>• One factor could offset another</li> <li>• Depends on relative size of components of AD</li> <li>• Contrasting impact in Ghana relative to other countries</li> </ul> | <b>(4)</b> |

| <b>Evaluation</b> |      |                                                                                                                                                                          |
|-------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 |
|-----------------|--------------------|------|
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| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(e)</b>     | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <ul style="list-style-type: none"> <li>• People can access jobs further away from where they live, reducing unemployment</li> <li>• Improved ability to transport goods around the country and/or abroad quicker/cheaper</li> <li>• Greater injections into the circular flow leading to a multiplier effect</li> <li>• Helping to reduce inequality across the country by focusing spending on poorer areas of the country, e.g., new train station in Wales, leading to new businesses, jobs, etc.</li> <li>• Diagram showing an increase in AD and/or AS, e.g.:</li> </ul>  <p><b>NB A correct AD/AS diagram is needed for KAA level 3</b><br/> <b>Reference to Extract B is needed for KAA level 3</b></p> | <b>(9)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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       |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(e)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Significance of impact- will a few new train stations will make that much difference to economic growth?</li> <li>• Depends on the quality of the new infrastructure provided</li> <li>• Depends on if the infrastructure is in the right location to help improve connectivity</li> <li>• Opportunity cost- perhaps spending on education or healthcare would have a larger impact?</li> <li>• Time lag- large infrastructure projects take a long time from initial planning to being completed</li> <li>• Impact on public finances and national debt</li> <li>• Crowding out</li> <li>• Depends on the value of the multiplier</li> </ul> | <b>(6)</b> |

| 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.<br>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.<br>Evaluation recognises different viewpoints and/or is critical of the evidence.     |



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2(e)            | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8,<br/>Evaluation 9</b></p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Employment improves or unemployment stops rising</li> <li>• Incomes rise/stop falling</li> <li>• Increased profits for firms e.g. motor manufacturers</li> <li>• Other micro effects of increased spending and welfare e.g. improved health service</li> <li>• Infrastructure improves if spending on this area</li> <li>• Higher taxes in future might have an impact on demand and other aspects of consumer behaviour</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• AD increases</li> <li>• multiplier</li> <li>• Shift in SRAS or LRAS might be drawn e.g. capacity increases</li> <li>• Increase in price level/output</li> <li>• increase in borrowing – cost for future generations</li> <li>• Diagrams might involve an increase in AD with multiplier effects</li> <li>• Increased debt payments in the future – opportunity cost arguments may be used</li> </ul> <p><b>NB for a Level 4 answer there must be reference to the German fiscal policy. Some effects such as lower costs or increased investment could be seen as micro or macro</b></p> <p><b>NB for a Level 4 response there must be reference to Germany</b></p> <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• Depends on Classical vs Keynesian shape of AS</li> <li>• Depends on size of multiplier</li> <li>• Depends on the cost of borrowing – currently very low</li> <li>• Impact on money markets and conflict with other policies</li> <li>• Opportunity cost arguments</li> <li>• Reference to budget deficit and national debt</li> <li>• Confidence in the markets and consumers in the fiscal policy will determine whether or not it is effective</li> <li>• Will interest rates remain low?</li> <li>• An essential action in the recent context, and without stimulus many incomes and businesses would be lost</li> </ul> | (25) |



| <b>Knowledge, application and analysis</b> |         |                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| <b>Evaluation</b> |       |                                                                                                                                                                                                                                                                              |
|-------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>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.<br>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       |
|-----------------|----------|------------|
| <b>4(c)</b>     | <b>C</b> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(a)</b>     | <p><b>Knowledge 1, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding</b><br/> 1 mark for identifying a reason e.g.</p> <ul style="list-style-type: none"> <li>• Falling unemployment (1)</li> <li>• Rising incomes / economic growth (1)</li> <li>• Lower inflation rates (1)</li> </ul> <p><b>Application</b><br/> 1 mark for identifying an <b>improvement</b> in consumer confidence (1) or other single use of figures from the chart e.g. a low of -25 in 2012 (1)</p> <p><b>Analysis</b><br/> 1 mark for linked development of reason (1) e.g. economic growth leads to more predictable job security</p> | <b>(3)</b> |

| Question Number | Answer   | Mark       |
|-----------------|----------|------------|
| <b>5(b)</b>     | <b>D</b> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(a)</b>     | <p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because an increase in house prices will lead to wealth effects and not an increase in income</p> <p><b>C</b> is not correct because an increase in house prices will raise consumer confidence and increase consumption</p> <p><b>D</b> is not correct because an increase in house prices will lead to positive wealth effects, which will lead to greater spending by existing homeowners</p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                  | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(b)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>2015: <math>(200\ 141/189\ 709) \times 100 = 105.5</math> or 106 (1)</li> <li>2016: <math>(215\ 127/189\ 709) \times 100 = 113.4</math> or 113 (1)</li> </ul> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                               | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(c)</b>     | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>An economic data figure that reflects price/quantity compared with the base year (1)</li> <li>Shows percentage change (increase or decrease) in price/quantity from the base year (1)</li> </ul> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(a)</b>     | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• It is the proportion of extra income that is spent on consumption (1)</li> <li>• The additional consumer spending from an increase in national income (1)</li> <li>• Change in consumption/change in income (<math>\Delta C/\Delta Y</math>)</li> </ul> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(b)</b>     | <p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding:</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• Increase in employment/disposable income (1) so increases purchasing power/greater affordability (1)</li> <li>• Lower interest rates (1) so reduces the cost of borrowing/reward for savings (1)</li> <li>• Increase in consumer confidence (1) due to greater job security and raises consumer spending (1)</li> <li>• Positive wealth effects (1) so increases confidence and raises consumer spending (1)</li> </ul> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                       | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(c)</b>     | <p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because this figure is determined by <math>(1-0.8)</math></p> <p><b>B</b> is not correct because this figure is determined by <math>(1 \times 0.8)</math></p> <p><b>C</b> is not correct because this figure is determined by <math>(1/0.8)</math></p> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                     | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(a)</b>     | <p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because average UK house prices fell by £2 597 between February 2023 and March 2023</p> <p><b>B</b> is not correct because the average UK house price in March 2023 was 1.665% lower than in January 2023</p> <p><b>C</b> is not correct because there is no information available on the base year to calculate an index number</p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(b)</b>     | <p><b>Knowledge 1, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for identifying one impact, e.g.</p> <ul style="list-style-type: none"> <li>Decrease in consumption/consumer spending/AD <b>(1)</b></li> </ul> <p><b>Application:</b><br/>1 mark, for e.g.</p> <ul style="list-style-type: none"> <li>House prices fell from £286 321 in January 2023 to £281 555 in March 2023 <b>(1)</b></li> <li>House prices fell by £4 766 / 1.66% / 1.7% between January 2023 and March 2023 <b>(1)</b></li> </ul> <p><b>Analysis:</b><br/>1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> <li>Identification of negative wealth effects / decrease in the value of physical assets/property <b>(1)</b></li> <li>Decrease in confidence of existing homeowners <b>(1)</b></li> <li>Encourages homeowners to save more <b>(1)</b></li> </ul> | <b>(3)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(a)</b>     | <p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying one reason; 1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> <li>• The decrease in the mps reflects a rise in the marginal propensity to consume (1) due to rising consumer confidence (1)</li> <li>• Decrease in mps due to rise in marginal propensity to tax (1) to reduce the budget deficit. (1)</li> <li>• Low interest rates (1) reducing the incentive to save/lower rate of return (1)</li> </ul> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                             | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(b)</b>     | <p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding:</b> 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.</p> <ul style="list-style-type: none"> <li>• The value of the multiplier is likely to increase (1), due a decrease in withdrawals (1).</li> </ul> | <b>(2)</b> |

| Question Number | Answer | Mark       |
|-----------------|--------|------------|
| <b>2(c)</b>     | D      | <b>(1)</b> |

| Question Number | Answer | Mark       |
|-----------------|--------|------------|
| <b>3(a)</b>     | B      | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                      | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(a)</b>     | <p><b>The only correct answer is A</b></p> <p><i><b>B</b> is not correct because investment is by firms, and would not be related to credit cards</i></p> <p><i><b>C</b> is not correct because this is about trade and wouldn't affect credit cards</i></p> <p><i><b>D</b> is not correct because this would mean less consumption</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(b)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p>Identify correct data (1):</p> <p>January 2016: 13 000</p> <p>March 2017: 15 000</p> <p>Correct manipulation of formula (1)</p> <p>e.g. <math>(\text{Final value} \div \text{Initial value}) \times 100</math></p> <p><math>(15\,000 \div 13\,000) \times 100</math></p> <p>Correct answer: 115.4 (allow range 115 to 115.4)</p> <p>Also allow:</p> <p>Feb-March 113.6 (range 113 to 114)</p> <p>Mar-April 91.33 (range 91 to 92)</p> <p><b>NB Award full marks for correct answer</b></p> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                     | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(c)</b>     | <p style="text-align: center;"><b>Knowledge 1, Application 1</b></p> <p>Identify link e.g. rise in inflation (1):</p> <p>Linked development (1)</p> <p>e.g. rise in AD (1) causes an increase in inflation (1)</p> <p><b>Accept other possible approaches</b></p> <p><b>NB Allow answers explaining how inflation might lead to an increase in credit card lending</b></p> | <b>(2)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                     | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(a)</b>     | <p><b>The only correct answer is C</b></p> <p><i>A is not correct because house prices rose in August 2020</i></p> <p><i>B is not correct because house prices rose in November 2018</i></p> <p><i>D is not correct because house prices rose throughout this time</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(b)</b>     | <p><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding (2):</b></p> <ul style="list-style-type: none"> <li>• Reference to wealth effect/houseowners are wealthier (1)</li> <li>• Increase in UK consumption (1)</li> <li>• Mortgage equity withdrawal (1)</li> </ul> <p><b>Application (1):</b><br/>A correct reference to the figure<br/>E.g. in November 2018 house prices increased by approximately 2% a year</p> <p><b>Analysis (1):</b><br/>Linked development 1 mark for e.g.</p> <ul style="list-style-type: none"> <li>• Increased consumer confidence</li> <li>• Consumers are less likely to save</li> </ul> <p><b>Alternative approach based on justified economic rationale:</b><br/>Allow answers based on people unable to buy and home improvements/saving instead<br/>E.g. Reduced consumption (K1) as consumers save more (K1) in order to be able to afford a deposit for a house (An1)</p> | <b>(4)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>3(a)</b>     | <p><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding (2):</b></p> <ul style="list-style-type: none"> <li>Investment will increase (1)</li> <li>Lower interest rates reduce cost of borrowing (1)</li> </ul> <p><b>Application (1):</b><br/>A relevant reference to the data, e.g.</p> <ul style="list-style-type: none"> <li>In 2020 interest rates fell from 0.75% to 0.1% (1)</li> <li>In 2020 interest rates fell by 0.65 percentage points (1)</li> </ul> <p><b>Analysis (1):</b><br/>Linked development 1 mark for e.g.</p> <ul style="list-style-type: none"> <li>Firms are more incentivised to borrow money (1)</li> <li>Firms feel more confident to invest</li> <li>Investments financed by borrowing are now more profitable/less risky (1)</li> <li>Costs of production fall for firms (1)</li> <li>Fall in return on savings stimulating consumption/sales (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>3(b)</b>     | <p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because average house prices would be likely to rise</p> <p><b>C</b> is not correct because the level of employment would be likely to rise</p> <p><b>D</b> is not correct because the rate of economic growth would be likely to rise</p> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                               | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4 (a)</b>    | <p><b>The only correct answer is D</b></p> <p><i>A is not correct because this is an example of government spending</i></p> <p><i>B is not correct because this is an example of investment</i></p> <p><i>C is not correct because this is an example of government spending</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(b)</b>     | <p style="text-align: center;"><b>Application 3, Analysis 1</b></p> <p><b>Application:</b><br/>Identification of relevant application for 3 marks e.g.</p> <ul style="list-style-type: none"> <li>• Level of real <b>GDP is likely to fall</b> (could show on a diagram) (1)</li> </ul> <p style="text-align: center;"><b>AND</b></p> <ul style="list-style-type: none"> <li>• UK consumption, as a percentage of GDP, has fallen from 86.5% in 2009 (1) to 83% in 2017 (1)</li> <li>• Diagram/formula/explanation showing multiplier (1)</li> </ul> <p><b>Analysis:</b><br/>Linked development 1 mark for e.g.</p> <ul style="list-style-type: none"> <li>• Development of multiplier formula/explanation e.g. second round effects (1)</li> <li>• Reduction in the value of the multiplier (1)</li> <li>• An increase in withdrawals from the circular flow of income (1)</li> <li>• Other factors may change e.g. savings, government spending (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                             | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(a)</b>     | <p><b>The only correct answer is D</b></p> <p><i>A is not correct because household savings rose in 2015</i></p> <p><i>B is not correct because household savings fluctuated during the time period shown</i></p> <p><i>C is not correct because household savings were the lowest in 2017</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                          | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(b)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p>UK household savings in quarter 4 of 2015 is 10% (1)</p> <p>10% of £26 300 = £2 630 (1)</p> <p><b>NB Award 2 marks for 2 630</b></p> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(c)</b>     | <p style="text-align: center;"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge/understanding (1): e.g.</b></p> <ul style="list-style-type: none"> <li>• Reduction in consumer confidence</li> <li>• Consumers reluctant to spend</li> <li>• Fall in incomes / recession</li> <li>• Global health crisis</li> </ul> <p><b>Analysis (1):</b></p> <p>Linked development 1 mark for e.g.</p> <ul style="list-style-type: none"> <li>• Due to global health crisis consumers are unwilling/ unable to spend</li> <li>• Consumers are concerned about losing their job and so unwilling/unable to spend</li> <li>• Rise in unemployment</li> </ul> <p><b>NB You may award a rise in interest rates</b></p> | <b>(2)</b> |

| Level   | Mark | Descriptor                                                                                                                                                          |
|---------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                             |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>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       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(c)</b>     | <p align="center"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>1 mark for identification, e.g.</p> <ul style="list-style-type: none"> <li>• Income (1)</li> <li>• Interest rates (1)</li> <li>• Unemployment (1)</li> <li>• Consumer confidence (1)</li> </ul> <p><b>Application</b><br/>2 marks for data reference (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• real incomes in the UK have fallen (1) by 10.4% (1)</li> <li>• unemployment fell (1) according to ILO and CC (1)</li> <li>• savings ratio has fallen (1) between 2010 and 2015 (1)</li> <li>• Britain's vote to leave the EU – Extract A Line 6 (1)</li> </ul> <p><b>Analysis</b><br/>Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Fall in income is likely to reduce savings leading to a fall in the marginal propensity to save</li> <li>• Lower unemployment is likely to cause a rise in consumer spending due to greater disposable incomes, leading to fall in savings ratio</li> </ul> | <b>(5)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 6 (c)           | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>Identification of two influences (1+1) for, e.g.</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Disposable incomes</li> <li>• Consumer confidence</li> <li>• Positive wealth effects</li> </ul> <p><b>Application</b><br/>1 mark for data reference from Figure 2 and 1 mark from Extract A (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Figure 2 – real household consumption increased by approximately 1.7% between 2016 and 2017</li> <li>• Extract A – Annual spending per person increased by £589 (1)</li> <li>• Increase in consumption has also been driven by low interest rates / average increase of 5.1% in house prices (1)</li> </ul> <p><b>Analysis</b><br/>Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Low interest rate implies low reward for saving / low cost of borrowing (1)</li> <li>• Higher incomes incentivise consumers to spend, but at a slower rate as people tend to save more as earnings rise (1)</li> <li>• High consumer confidence / wealth effects implies consumers are likely to make purchases that they know they can pay for in the future (1)</li> </ul> | <b>(6)</b> |



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6 (b)</b>    | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Lower incomes means lower consumption</li> <li>• Consumer confidence falls</li> <li>• Aggregate demand therefore falls</li> <li>• Fall in standard of living</li> <li>• Falling demand for firms means lower profits; rising unemployment</li> <li>• Less ability to save &amp; possible consequences of this, e.g. mortgage deposit; confidence</li> </ul> <p>Candidates may illustrate this with an accurate AD/AS diagram showing AD decreasing</p> | <b>(6)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number           | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6 (b)</b><br>continued | <p><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Depends on other factors in the economy, such as government spending or demand for exports</li> <li>• Changes in benefits and/or tax allowances may offset fall in real income</li> <li>• Only short-term fall (Figure 1 shows slight increase in 2013)</li> <li>• Inflation falling recently, improving likelihood of real income rises</li> <li>• 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</li> </ul> | <b>(4)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                  |
|---------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                     |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning.                            |
| Level 2 | 3–4  | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

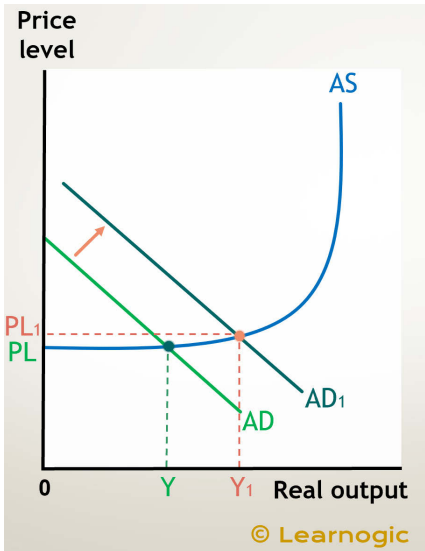


| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 6(b)            | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Rise in value of houses will lead to wealth effect</li> <li>• An increase in householder's confidence</li> <li>• Encourage households to consume more (and/or save less)</li> <li>• Aggregate demand (AD) will increase</li> <li>• Lead to an increase in real output or a faster rate of economic growth</li> <li>• Credit for discussion of other effects besides wealth effect, e.g. impact on:             <ul style="list-style-type: none"> <li>• Balance of Payments</li> <li>• Unemployment</li> <li>• Budget deficit</li> <li>• Price level</li> </ul> </li> <li>• Increase in investment from the construction industry</li> <li>• Diagram e.g.</li> </ul> <div data-bbox="598 974 1088 1624"> <p>© Learnogic</p> </div> <p>"£24 000 more than it was" / "annual growth increased from 5.2% in July 2016 to 5.6% in August 2016" / Data reference to Figure 1 data</p> <p><b>NB Candidates have to show impacts with accurate AD/AS diagram presenting a relevant change in AD to access Level 3</b></p> <p><b>NB Benefits to rising house prices can be seen as KAA and negative effect as Evaluation, or vice versa</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number          | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark       |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(b)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>Houses are a significant component of consumers' wealth and effect large proportion of households (65% owner occupied) in the UK, which will have a major effect on AD</li> <li>SR vs LR – "house prices will fall 1% across the UK in 2017" / wealth effects take time to trigger spending changes</li> <li>Regional differences in impact – "House price growth was strongest in London"</li> <li>"home ownership has risen to 78.6% among those aged 65-to-74" – it may not raise AD / consumption</li> <li>Discussion of the significance of falling real wages</li> <li>Significance of the elasticity of the AS curve</li> <li>Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship</li> <li>Lower confidence for areas where it will be harder to move to find jobs, because of price differentials</li> <li>Effect on first-time buyers – may lead to their consumption falling (discussion of real wages and home ownership)</li> </ul> | <b>(4)</b> |



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mark                                                                                                                                                                                                                                                                                         |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6 (d)           | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>Explanation of the term consumption, e.g. the expenditure on consumer goods and services</li> <li>Consumption is a component of aggregate demand</li> <li>Aggregate demand will increase from AD<sub>1</sub> to AD<sub>2</sub></li> <li>Inflationary pressures will increase from P<sub>1</sub> to P<sub>2</sub></li> <li>Real output will increase from Y<sub>1</sub> to Y<sub>2</sub></li> <li>Consequently, unemployment will decrease</li> <li>Figure 1: household consumption has increased by nearly 117% between 1998 and 2018</li> <li>Extract A: spending per person increased by £589</li> </ul> <p>Diagram, e.g.:</p>  <p><b>NB Candidates must answer with a valid AD/AS diagram showing an increase in AD to access Level 3</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |
|---------|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| Question Number           | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                     | Mark       |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6 (d)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Consumption is largest component of aggregate demand, therefore will have a significant impact</li> <li>• Significance of the elasticity of the AS curve and the state of the UK economy</li> <li>• UK consumers have financed their spending by borrowing – “borrowing on credit cards rose by 9.6%”: it creates an unstable and unbalanced economy</li> <li>• Consumer spending could be constrained in the long term if the central bank raises the base interest rate – “more expensive credit could constrain the ability of households to spend”</li> <li>• Depends on other factors in the economy, such as net trade and investment</li> </ul> |                                                                                                                                                                     | <b>(4)</b> |
| Level                     | Mark                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Descriptor                                                                                                                                                          |            |
|                           | 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | No evaluative comments.                                                                                                                                             |            |
| Level 1                   | 1–2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>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 |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 1 (d)           | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>16 marks for KAA, for effects of increased interest rates.</p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Fixed costs to firms will rise. May cause shut down/loss of competitiveness</li> <li>• Fall in consumer demand as consumption expenditure falls - likely reduction in AR for normal goods</li> <li>• Other costs to consumers/firms/a government e.g. increased burden of debt and loan repayments/servicing costs</li> <li>• Fall in investment by firms - reducing dynamic efficiency in the economy as less funds for R&amp;D</li> <li>• Impact on Turkish housing market</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Link between higher interest rates and lower investment and lower consumption- reducing AD: inward shift of AD (or slowing outward shift) with multiplier effects with macroeconomic impacts e.g. unemployment</li> <li>• Rise in the value of the lira – worsening of current account of the Balance of Payments – possibly with effects on other countries</li> <li>• Redistribution of income e.g. from borrowers to savers/lenders, from asset holders to renters</li> <li>• Cost of financing public deficit/debt (may refer to opportunity cost) may mean less government spending elsewhere, e.g. limited ability to spend on education</li> </ul> <p><b>NB for a Level 4 response there must be micro and macro effect (s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.</b></p> <p>9 marks for evaluation – points might include:</p> <ul style="list-style-type: none"> <li>• Interest rate might not be the most significant cost for firms</li> <li>• Contractionary monetary policies already very tight. Depends on the interest rates in other markets</li> <li>• Inflation has peaked and there are signs that it will fall so the rise in interest rates is not necessary</li> <li>• Trade-off between objectives or prioritisation e.g. lower inflation at the cost of higher unemployment might be shown with critical use of a Phillips Curve</li> </ul> |      |



|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |
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|  | <ul style="list-style-type: none"><li>• Depends on interest rates in other markets- do we mean lending rates in other countries.</li><li>• Turkey's private sector is resilient - they may refer to this explaining that shut down is less likely<ul style="list-style-type: none"><li>• Impact on housing market will depend on whether people own homes and are mortgaged or whether they rent, or whether mortgage is fixed or variable rate</li></ul></li><li>• Magnitude the interest rate change - Figure 1 suggests large increases and therefore significant impact/large changes are unable to have much further effect</li></ul> |      |
|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | (25) |



| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                              |
|-------------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>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.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |



|         |     |                                                                                                                                                                                                                                                                              |
|---------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to the context.<br>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 |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>1(e)</b>     | <p><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>16 marks for KAA, for effect(s) of tax cuts</p> <p>Microeconomic effect(s) may include:</p> <ul style="list-style-type: none"> <li>• higher disposable incomes (income tax)</li> <li>• higher retained profits for firms (if corporation tax)</li> <li>• lower costs for business (if indirect tax)</li> <li>• rising demand/revenue for firms</li> <li>• use of cost/revenue/profit diagram</li> <li>• change in level of funding/service arguments at schools/hospitals</li> <li>• supply of labour increases in certain occupations (incentive to work arguments)</li> <li>• relocation of MNC arguments/regeneration of a specific area</li> </ul> <p>Macroeconomic effect(s) may include:</p> <ul style="list-style-type: none"> <li>• use of AD analysis e.g. - consumption rising</li> <li>• use of LRAS analysis e.g. - productivity rising, incentive to work arguments</li> <li>• income equality worsening – may use Gini and Lorenz</li> <li>• prices rise – inflationary effects</li> <li>• reduction in relative poverty</li> <li>• multiplier effects</li> <li>• budget deficit argument</li> <li>• Laffer curve arguments</li> <li>• reduced unemployment</li> <li>• FDI</li> </ul> <p><b>NB for a Level 4 response there must be micro and macro effect(s) and use of data with reference to proposed UK tax changes. Employment or welfare issues could be seen as</b></p> |      |



|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |             |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
|  | <p><b>micro or macro, for example, can be used as either micro or macroeconomics.</b></p> <p><b>NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa</b></p> <p>9 marks for evaluation – points might include:</p> <ul style="list-style-type: none"> <li>• depends on which rate is changed – e.g. 45% or 20% with income tax</li> <li>• Laffer curve</li> <li>• temporary nature of tax changes</li> <li>• magnitude of change</li> <li>• size of multiplier</li> <li>• PED, YED arguments</li> </ul> |             |
|  | <ul style="list-style-type: none"> <li>• shape of LRAS arguments</li> <li>• output gap arguments</li> <li>• combination arguments e.g. conflicts between effects</li> <li>• conflict between policies e.g. higher interest rates (cancelling out each other)</li> </ul>                                                                                                                                                                                                                                                                 | <b>(25)</b> |



| <b>Knowledge, application and analysis</b> |       |                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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. |

| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                              |
|-------------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>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.<br>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 |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2(d)            | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Microeconomic effects of falling house prices may include:</p> <ul style="list-style-type: none"> <li>• lower revenues / profits/ share price for new home builders</li> <li>• reduced incentive to build new homes for construction companies / externality arguments</li> <li>• lower (derived) demand for construction workers</li> <li>• lower revenues/profits for estate agents</li> <li>• use of cost/revenue/profit diagram</li> <li>• changing pattern of consumer spending - cut back on luxuries and big-ticket items</li> <li>• lower revenue/profit for firms selling luxury goods</li> <li>• reduction in supply of houses on the market</li> <li>• opportunity for first time buyers / buy-to-let to purchase at a lower price (buyers' market)</li> <li>• risk of negative equity for those with large existing mortgages e.g. causes geographical immobility</li> <li>• geographical mobility of labour arguments e.g. easier to buy in cities</li> <li>• fall in rent cost for firms</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• negative wealth effects - falling confidence &amp; consumption</li> <li>• AD/AS analysis</li> <li>• effects on growth</li> <li>• effects on employment</li> <li>• effects on inflation</li> <li>• effects on financial account of BoP</li> <li>• impact on government finances via fall in stamp duty and inheritance tax revenues</li> <li>• impact on inequality</li> </ul> <p><b>NB for a Level 4 response, there must be micro and macro effect(s). Some effects can be seen as micro or macro e.g. geographical immobility/mobility and fall in growth.</b></p> <p>9 marks for evaluation – points might include:</p> <ul style="list-style-type: none"> <li>• Short run v long run effects</li> <li>• Discussion of falling v rising at a slower rate</li> <li>• Regional variations</li> <li>• Micro effects depend on position on property ladder</li> </ul> |      |



|  |                                                                                                                                                                                                                                                          |             |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
|  | <ul style="list-style-type: none"> <li>• Magnitude arguments e.g. 'UK house prices will never fall, but...could be between 10% and 20%.'</li> <li>• Information gaps</li> <li>• Depends on position of AD on LRAS</li> <li>• magnitude of PES</li> </ul> |             |
|  | <ul style="list-style-type: none"> <li>• significance of other changes within the economy e.g. tax changes</li> <li>• extent of impact depends on policy making e.g. interest rate decision</li> </ul>                                                   | <b>(25)</b> |

| <b>Knowledge, application and analysis</b> |         |                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.<br>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.<br>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.<br>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. |

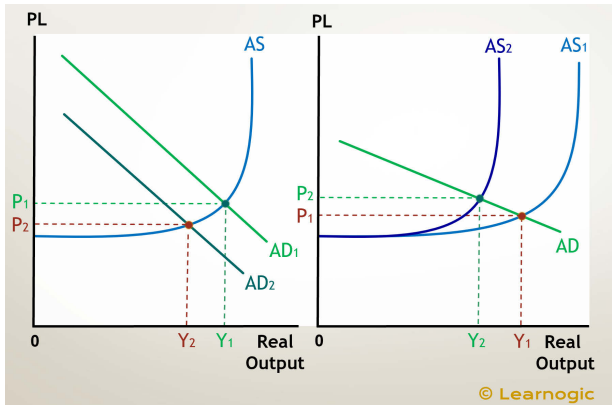


| <b>Evaluation</b> |      |                                                                                                                                                                                                                                                                           |
|-------------------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(a)</b>     | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• Increase in capital stock of the economy <b>(1)</b></li> <li>• Increase in spending on capital goods <b>(1)</b></li> <li>• Injection into the circular flow of income <b>(1)</b></li> </ul> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                         | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(b)</b>     | <p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because this is the percentage change</p> <p><b>C</b> is not correct because this is the base year</p> <p><b>D</b> is not correct because this is the index number for 2019, using 2020 as base year</p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(c)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b><br/>2 marks for,</p> <ul style="list-style-type: none"> <li>• Correct leftward shift of AD <b>(1)</b></li> <li>• Correct new equilibrium point showing lower price level and lower real output <b>(1)</b></li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• Correct leftward shift of AS <b>(1)</b></li> <li>• Correct new equilibrium point showing higher price level and lower real output <b>(1)</b></li> </ul> <div style="text-align: center;">  <p>© Learnogic</p> </div> <p><b>NB Award marks for accurately labelled and correct inward shift of both AD and AS</b></p> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(a)</b>     | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• Increase in the capital stock of the economy (1)</li> <li>• An injection into the circular flow of income (1)</li> <li>• Spending by firms on capital goods (1)</li> </ul> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                         | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(b)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b><br/>2 marks for,</p> <ul style="list-style-type: none"> <li>• Correct leftward shift of AD (1)</li> <li>• Correct new equilibrium point showing lower price level and lower real output (1)</li> </ul> <div style="text-align: center;"> </div> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(c)</b>     | <p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because this will reduce cost of production for firms leading to an increase in investment</p> <p><b>C</b> is not correct because this will increase revenues for firms leading them to increase investment</p> <p><b>D</b> is not correct because firms will increase investment as they expect future demand to rise</p> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                             | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(a)</b>     | <p><b>The only correct answer is C</b></p> <p><i><b>A</b> is not correct because this is if you part-calculate percentage change</i></p> <p><i><b>B</b> is not correct because this is the figure for July to October 2020</i></p> <p><i><b>D</b> is not correct because this is if you calculate percentage change between the two values</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark       |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(b)</b>     | <p><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding and analysis (3):</b></p> <ul style="list-style-type: none"> <li>• Reduction in economic growth (1) due to lower injections into the circular flow of income (1) or GDP rises more slowly (1)</li> <li>• Investment is a component of AD</li> <li>• Reduction in real/potential output (1) leading to higher unemployment (1)</li> <li>• Reduction in productivity (1) leading to lower potential output (1)</li> <li>• Reduction in quality of factors of production (1) leading to reduced productive potential (1)</li> <li>• Decrease in AD (1)</li> <li>• Reduced multiplier effects (1)</li> <li>• Accurate diagram showing reduction in AD (1) or LRAS (1)</li> <li>• Change in the price level (1)</li> </ul> <p><b>Application (1):</b></p> <p>A correct reference to the figure, e.g.</p> <ul style="list-style-type: none"> <li>• Investment fell to a low of 20.8% of GDP (in October) 2020 (1) or any other figure for 2020 in diagram</li> <li>• Investment fell from 24.2% (in January 2020) to 20.8% (or 3.4% points) of GDP (on October 2020) (1)</li> <li>• Diagram showing changes in prices/real output linked to fall in investment, unless awarded as analysis above (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(a)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• An increase in (1) capital stock of the economy (1)</li> <li>• Money spent on purchasing capital goods/improving factors of production (1) to raise productivity/LRAS/produce consumer goods (1)</li> <li>• An injection (1) into the circular flow of income (1)</li> </ul> <p><b>Application</b><br/>2 marks for 2 data references from Figure 1 (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• In Q1 2015, investment increased by 4% (1) and in Q1 2016, investment decreased by 2% (1)</li> <li>• Between Q3 2018 and Q2 2019, investment has been falling each quarter (1)</li> <li>• In Q2 2014, highest percentage change (1) was approximately 8.2% (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(b)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding and analysis</b><br/>1 mark for identification of each influence (1+1) and 1 mark each for linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Business confidence/expectations/animal spirits (1K): firms will only invest if there is less uncertainty about future costs and revenues, and sales (1AN)</li> <li>• Demand for exports (1K): lower the demand in a country to which a firm is trying to export, the less the investment (1AN)</li> <li>• Rate of economic growth (1K): fall in GDP will mean firms do not invest in capital goods as there is lower demand (1AN)</li> </ul> <p><b>Application</b><br/>1 mark for each data reference (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Firms are reluctant to commit to capital spending while there is economic uncertainty (1)</li> <li>• uncertainty over the UK's future trade relationship has discouraged companies from investing (1)</li> <li>• trade tensions are also affecting investment (1)</li> <li>• fall of 0.2% in Gross Domestic Product (GDP) (1)</li> <li>• another recession? (1)</li> </ul> <p><b>NB Award up to 4 marks for one influence well developed (1kn + 1ap + 2an)</b></p> | <b>(6)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(c)</b>     | <p align="center"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge</b><br/>1 mark for, e.g.</p> <ul style="list-style-type: none"> <li>• Business confidence (1)</li> <li>• Interest rates (1)</li> <li>• Access to credit (1)</li> <li>• Rise in demand for UK exports (1)</li> </ul> <p><b>Application</b><br/>2 marks for relevant references to context or one reference to context plus development, e.g.</p> <ul style="list-style-type: none"> <li>• 5% growth in investment (1)</li> <li>• Output rising at the fastest rate in the G7 (1)</li> <li>• GDP growth has remained strong (1)</li> <li>• Unemployment continued to drop (1)</li> </ul> <p><b>Analysis</b><br/>Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Lower interest rates reduces cost of borrowing incentivising firms to invest</li> </ul> | <b>(5)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(a)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• An increase in (1) capital stock of the economy (1)</li> <li>• Money spent on purchasing capital goods/improving factors of production (1) to raise productivity/LRAS/produce consumer goods (1)</li> <li>• An injection (1) into the circular flow of income (1)</li> </ul> <p><b>Application</b><br/>2 marks for 2 data references from Figure 1 (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• In Q1 2015, investment increased by 4% (1) and in Q1 2016, investment decreased by 2% (1)</li> <li>• Between Q3 2018 and Q2 2019, investment has been falling each quarter (1)</li> <li>• In Q2 2014, highest percentage change (1) was approximately 8.2% (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(b)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding and analysis</b><br/>1 mark for identification of each influence (1+1) and 1 mark each for linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Business confidence/expectations/animal spirits (1K): firms will only invest if there is less uncertainty about future costs and revenues, and sales (1AN)</li> <li>• Demand for exports (1K): lower the demand in a country to which a firm is trying to export, the less the investment (1AN)</li> <li>• Rate of economic growth (1K): fall in GDP will mean firms do not invest in capital goods as there is lower demand (1AN)</li> </ul> <p><b>Application</b><br/>1 mark for each data reference (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Firms are reluctant to commit to capital spending while there is economic uncertainty (1)</li> <li>• uncertainty over the UK's future trade relationship has discouraged companies from investing (1)</li> <li>• trade tensions are also affecting investment (1)</li> <li>• fall of 0.2% in Gross Domestic Product (GDP) (1)</li> <li>• another recession? (1)</li> </ul> <p><b>NB Award up to 4 marks for one influence well developed (1kn + 1ap + 2an)</b></p> | <b>(6)</b> |





| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>1 (e)</b>    | <p><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p><b>This mark scheme is based on an increase in I, but answer can be given from the point of view of a decrease</b></p> <p>Up to 16 marks for effects:</p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Effects on workers – higher incomes, more jobs</li> <li>• Effect on firms, e.g. increase in productivity, or for firms that produce capital goods, a change in demand</li> <li>• Increase in demand as consumer and business confidence improves</li> <li>• Improved quality of life as a result of research into and development of products</li> </ul> <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> <li>• Shift (increase) in AD, with multiplier effects, increasing real GDP</li> <li>• Shift (increase) in AS increasing capacity e.g. through investment in education (Extract A paragraph 5) (LRAS shift only, may be implicit)</li> <li>• Inflation, if linked to expansionary macroeconomics policies</li> <li>• Balance of payments – e.g. effects of inward FDI: short term improvement on financial account, long term impact on current account</li> </ul> <p>Award Keynesian and Classical approaches with equal weight. The opposing viewpoints may be used as evaluation.</p> <p><b>NB a Level 4 answer refer to <i>changes in</i> investment rather than levels. This may be implicit e.g. through a fall in AD</b></p> <p><b>NB do not award for impact other than on Chile. Do not award for causes rather than effects.</b></p> |      |



|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |      |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|  | <p>Up to 9 marks for evaluation points include:</p> <ul style="list-style-type: none"> <li>Investment in capital might decrease employment</li> <li>Investment in human capital e.g. education in Extract A, is hard to measure in terms of effectiveness</li> <li>Data points to both increases and decreases in investment. Other forms of injection into the circular flow might be more sustainable, e.g. G</li> <li>Depends if the investment is internal or FDI as to the effects on the balance of payments</li> <li>Depends on whether there is a demand deficiency (Keynesian viewpoint) or failings in the supply side</li> </ul> | (25) |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

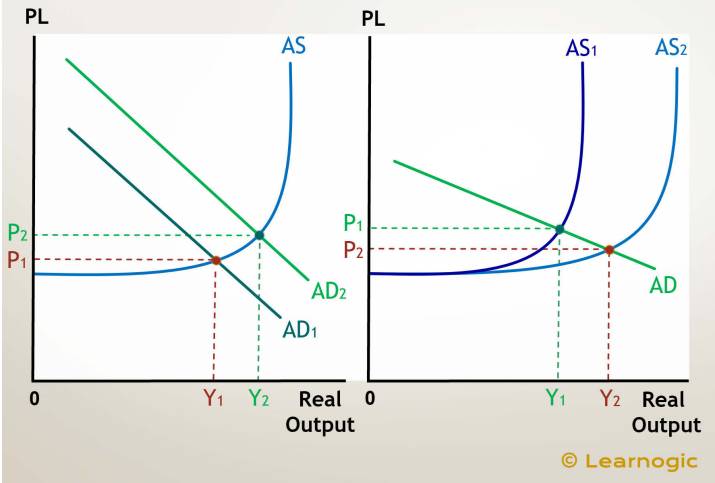
### Knowledge, application and analysis

| 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.<br>Demonstrates understanding by identifying relevant information.<br>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.<br>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.<br>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.<br>A clear understanding of economic principles, concepts, theories and arguments. |

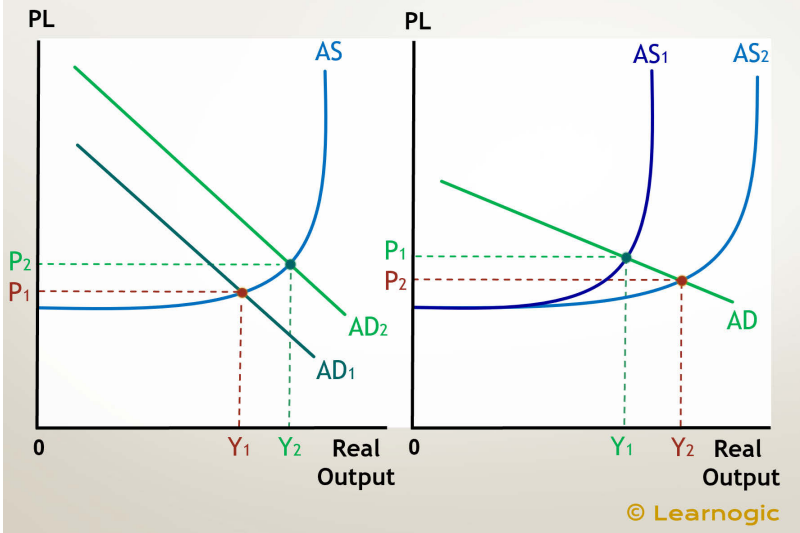
### Evaluation

| 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.<br>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.<br>Evaluation recognises different viewpoints and can be critical of the evidence provided.                 |



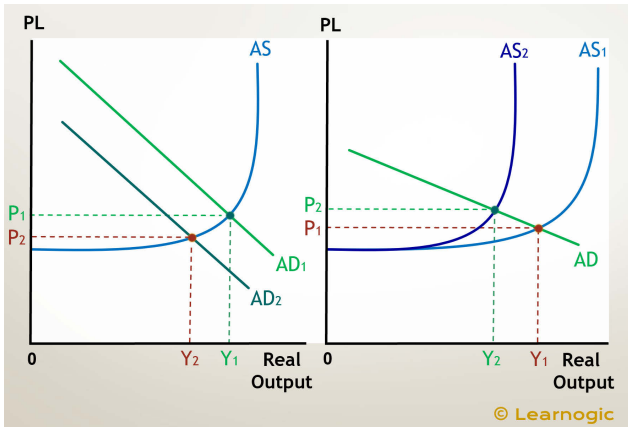
| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(a)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding:</b><br/>Accurate diagram with correct labels on axes (1) and lines (1)</p>  <p style="text-align: right;">© Learnogic</p> <p><b>Application:</b><br/>Correct shift of line(s) (1) showing change in price level and/or real output (1)<br/>For example:<br/><br/>N.B. Other AS curves are acceptable. Allow outward shift of both AD and AS.</p> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(b)</b>     | <p><b>The only correct answer is A</b></p> <p><i>B is not correct because it is not infrastructure</i></p> <p><i>C is not correct because it is spending on salaries, not infrastructure</i></p> <p><i>D is not correct because it is spending on welfare, not infrastructure</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 5 (a)           | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding:</b><br/>Correct labels on axes (1) and lines (1)</p> <p><b>Application:</b><br/>Correct shift of line(s) (1) showing change in price level and/or real output (1)<br/>For example:</p>  <p style="text-align: right;">© Learnogic</p> <p>N.B. Other AS curves are acceptable<br/>Candidates can illustrate an increase in AD, AS, or both</p> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 5 (b)           | <p><b>The only correct answer is C</b></p> <p><i>A is not correct because this would not solve the negative output gap</i></p> <p><i>B is not correct because this would not solve the negative output gap</i></p> <p><i>D is not correct because this would not solve the negative output gap</i></p> | <b>(1)</b> |



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 6(e)            | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Understanding of government expenditure</p> <ul style="list-style-type: none"> <li>• “decreasing government expenditure on public services in the long run”</li> <li>• “It is estimated to decrease by a third as a proportion of GDP between 2024 and 2028”</li> <li>• A decrease in government expenditure will reduce injections into the UK’s circular flow of income</li> <li>• Government spending is a component of AD</li> <li>• AD will decrease, resulting in a reduction in real output/economic growth: may refer to Figure 1</li> <li>• Unemployment is likely to increase</li> <li>• Reference to negative multiplier effects</li> <li>• Inflation is likely to decrease: may refer to Figure 2</li> <li>• Lower income equality/greater income inequality if welfare payments/direct taxes are cut</li> <li>• Improvement in UK’s budget balance/reduction of the UK government’s budget deficit</li> <li>• Fall in productive potential in the economy e.g. as public service are cut (Extract A final paragraph)</li> <li>• Diagram showing AD and/or AS shift e.g.</li> </ul>  <p><b>NB Candidates must include an accurately drawn AD/AS diagram presenting a decrease in AD and/or AS to access Level 3</b></p> <p><b>NB Candidates may explain negative effects as KAA and positive effects as evaluation (or vice versa)</b></p> | (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.<br>Use of generic or irrelevant information or examples.<br>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.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

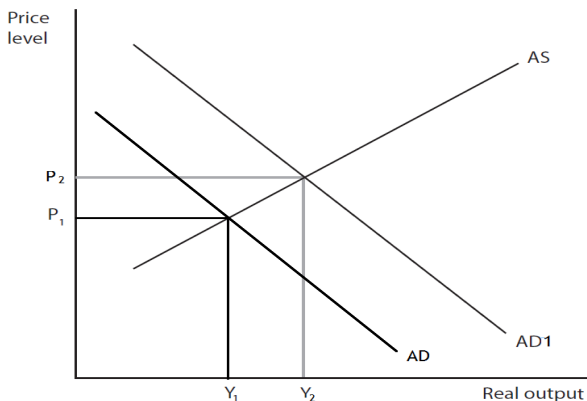
| Question Number          | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark       |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(e)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Impact depends on the magnitude of the fall in AD and/or AS</li> <li>• Impact on real output/inflation depends on where the AD lies on the Keynesian LRAS (elasticity of the LRAS curve)</li> <li>• Impact depends on other factors in the economy, such as consumption, investment and net trade</li> <li>• Impact depends on which areas of public services government expenditure has fallen</li> <li>• Time lags and implementation lags involved – if the UK government changes, there is a probability that spending on public services may not be cut</li> <li>• Critical judgement of the points discussed</li> </ul> | <b>(6)</b> |

| Level   | Mark | Descriptor                                                                                                                                                                               |
|---------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | No evaluative comments.                                                                                                                                                                  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                          |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                         | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(a)</b>     | <p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b><br/>1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>The value/price of one currency in terms of another (1)</li> <li>The rate at which the money of one country can be changed for the money of another country (1)</li> </ul> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(b)</b>     | <p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because this is the difference between \$1.53 and \$1.22</p> <p><b>C</b> is not correct because this uses the present year to calculate the percentage change</p> <p><b>D</b> is not correct because this is the calculation of an index number taking 2015 as the base year</p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                    | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>4(c)</b>     | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b><br/>2 marks for,</p> <ul style="list-style-type: none"> <li>Correct rightward shift of AD (1)</li> <li>Correct new equilibrium point showing higher price level and higher real output (1)</li> </ul>  | <b>(2)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(a)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/> 1 mark for e.g.<br/> <ul style="list-style-type: none"> <li>Exports – imports / <math>X - M</math> (1)</li> </ul> 2 marks for e.g.<br/> <ul style="list-style-type: none"> <li>Difference between total <b>value</b> of a country's exports and imports (2)</li> </ul> <p><b>Application</b><br/> 2 marks for e.g.<br/> <ul style="list-style-type: none"> <li>The UK net trade was -2% (1)</li> <li>The UK has a trade <b>deficit</b> (1)</li> <li>China has a trade <b>surplus</b> (1)</li> <li>China's net trade was 3% (1)</li> </ul> <p><b>e.g.</b> Germany had a trade surplus of 6% = 2 marks</p> </p></p> | <b>(4)</b> |



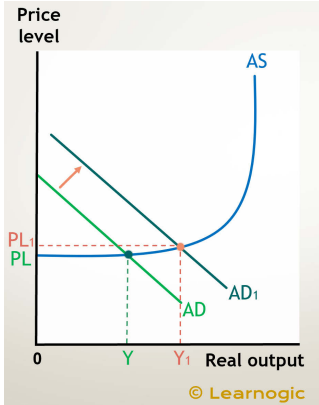
| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6 (c)</b>    | <p><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>1 marks, e.g.</p> <ul style="list-style-type: none"> <li>• Definition of aggregate demand</li> <li>• Understanding of a rise in value of the pound</li> </ul> <p><b>Application</b><br/>2 marks (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Aggregate demand will fall (1)</li> <li>• Lagged effect (1)</li> <li>• Declining imported food and commodity prices (1)</li> </ul> <p><b>Analysis</b><br/>Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Imports become cheaper so aggregate demand falls (1)</li> <li>• Exports become expensive so aggregate demand falls (1)</li> </ul> | <b>(5)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6 (a)</b>    | <p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b><br/>2 marks for, e.g.</p> <ul style="list-style-type: none"> <li>• Government spending equals (1) tax revenue/ income (1)</li> <li>• Neither a budget deficit nor a budget surplus (1)</li> </ul> <p><b>Application</b><br/>2 marks for 2 data references from Figure 1 (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• UK experienced a balanced budget in 1990 (1) at nearly 35% of GDP (1)</li> <li>• Overall trend/data point shows there is a budget deficit (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6 (b)</b>    | <p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b><br/>1 mark, for e.g.</p> <ul style="list-style-type: none"> <li>• Explanation/formula of aggregate demand (1)</li> <li>• Understanding of a depreciation of the exchange rate (1)</li> <li>• Simple explanation of what a weaker currency means (1)</li> </ul> <p><b>Application</b><br/>2 marks (1+1), for e.g.</p> <ul style="list-style-type: none"> <li>• Aggregate demand will increase (1) shown on a diagram (1)</li> <li>• Weaker pound due to a lack of confidence as a result of the UK's decision to leave the EU (1)</li> <li>• Low interest rate and less hot money flows (1)</li> </ul> <p><b>Analysis</b><br/>2 marks for linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Imports become relatively more expensive, so aggregate demand rises (1)</li> <li>• Exports become relatively cheaper, so aggregate demand rises (1)</li> </ul> | <b>(5)</b> |



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(d)</b>     | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• An injection into the circular flow of income</li> <li>• Economic growth is the increase in real GDP / increase in productive capacity of the economy</li> <li>• Positive relationship between an increase in exports and economic growth</li> <li>• Reference to the multiplier</li> <li>• Exports is a component of AD</li> <li>• AD will increase</li> <li>• Economic growth / real output will increase</li> <li>• Figure 3: since mid-2016, exports grew due to the fall in the exchange rate of the pound as a result of the referendum vote</li> </ul>  <p><b>NB Candidates must answer with an accurately drawn AD/AS diagram presenting an increase in AD to access Level 3</b></p> |                                                                                                                                                                                                                                                                                                        | <b>(6)</b> |
| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |            |
| Level 3         | 5–6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |            |



| Question Number          | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                     | Mark       |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(d)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>Exports are only a small component of AD</li> <li>Investment might be more significant as it is 10% to 15% of AD – “Economic growth is expected to speed up again as investment rises”</li> <li>Exporters are vulnerable to changes in demand in other countries and exchange rates which are out of UK's control – “which is largely due to the fall in the value of the pound”</li> <li>Figure 3 – UK exports have not risen significantly since the start of 2017</li> <li>Depends on other factors in the economy, such as imports, government spending and consumption</li> <li>Significance of the global economic recovery in increasing exports</li> </ul> |                                                                                                                                                                     | <b>(4)</b> |
| 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       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(c)</b>     | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Understanding/definition of exports</li> <li>• "exports to non-EU countries were £0.8 billion lower than exports to EU countries"</li> <li>• "increase in the export of financial services"</li> <li>• Exports represent an injection into the circular flow of income, therefore net injections increase</li> <li>• An increase in exports will increase net exports and this would increase AD, resulting in rising average prices and real output (can be shown via diagram)</li> <li>• This will lead to positive multiplier effect upon AD, further increasing real output</li> <li>• Rising real output could reduce unemployment, causing lower government spending on welfare</li> <li>• Could lead to rise in nominal wages (and also real wages depending upon inflation rate)</li> <li>• Increases living standards which could increase domestic demand and therefore consumption</li> <li>• Could lead to improvement in the current account if value of imports is lower than the value of exports</li> <li>• May have a positive long-term impact on the level of investment</li> </ul> | <b>(6)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance.        |
| Level 3 | 5–6  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

