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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Aggregate Supply (2.3)

A Level Economics Theme 2

45 questions · 240 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
2.3.1 THE CHARACTERISTICS OF AS		11 Qs · 35 marks	3
1. Q4(a)	AS Paper 2 June 2018	1	4
2. Q3(a)	AS Paper 2 June 2025	1	5
3. Q3(c)	AS Paper 2 June 2025	1	6
4. Q4(b)	A Level Paper 2 November 2021	1	7
5. Q4(b)	AS Paper 2 June 2024	2	8
6. Q3(b)	AS Paper 2 June 2025	2	9
7. Q2(c)	A Level Paper 2 November 2021	2	10
8. Q4	AS Paper 2 June 2024	4	11
9. Q3	AS Paper 2 June 2025	4	12
10. Q4	A Level Paper 2 November 2021	5	14
11. Q2(c)	A Level Paper 3 November 2021	12	15
2.3.2 SHORT-RUN AS		5 Qs · 49 marks	21
12. Q4(b)	AS Paper 2 June 2018	2	22
13. Q4	AS Paper 2 June 2018	4	23
14. Q6(b)	A Level Paper 2 June 2025	8	28
15. Q6(b)	AS Paper 2 June 2024	10	30
16. Q8	A Level Paper 2 June 2017	25	35
2.3.3 LONG-RUN AS		29 Qs · 156 marks	39
17. Q4(c)	AS Paper 2 June 2018	1	40
18. Q2(a)	AS Paper 2 June 2019	1	41
19. Q2(c)	AS Paper 2 June 2019	1	42
20. Q4(a)	AS Paper 2 June 2019	1	43
21. Q4(c)	AS Paper 2 June 2019	1	44
22. Q2(a)	AS Paper 2 October 2020	1	45
23. Q2(c)	AS Paper 2 October 2020	1	46
24. Q1(b)	AS Paper 2 June 2023	1	47
25. Q4(a)	AS Paper 2 June 2024	1	48
26. Q4(c)	AS Paper 2 June 2024	1	49
27. Q2(a)	A Level Paper 2 November 2021	1	50
28. Q2(b)	AS Paper 2 June 2019	2	51
29. Q4(b)	AS Paper 2 June 2019	2	52
30. Q2(b)	AS Paper 2 October 2020	2	53



QUESTION	SOURCE	MARKS	PAGE
31. Q2(b)	A Level Paper 2 November 2021	2	54
32. Q1(a)	AS Paper 2 June 2023	3	55
33. Q2	AS Paper 2 June 2019	4	56
34. Q4	AS Paper 2 June 2019	4	58
35. Q2	AS Paper 2 October 2020	4	60
36. Q1	AS Paper 2 June 2023	4	62
37. Q2(a)	A Level Paper 3 June 2017	5	64
38. Q2(a)	A Level Paper 3 October 2020	5	68
39. Q2	A Level Paper 2 November 2021	5	71
40. Q2(b)	A Level Paper 3 October 2020	8	73
41. Q6(e)	AS Paper 2 June 2017	15	77
42. Q6(e)	AS Paper 2 June 2018	15	83
43. Q6(e)	AS Paper 2 October 2020	15	90
44. Q2(e)	A Level Paper 3 October 2020	25	96
45. Q2(e)	A Level Paper 3 June 2023	25	102



QUESTIONS

45 questions · 240 marks · 3 sub-topics

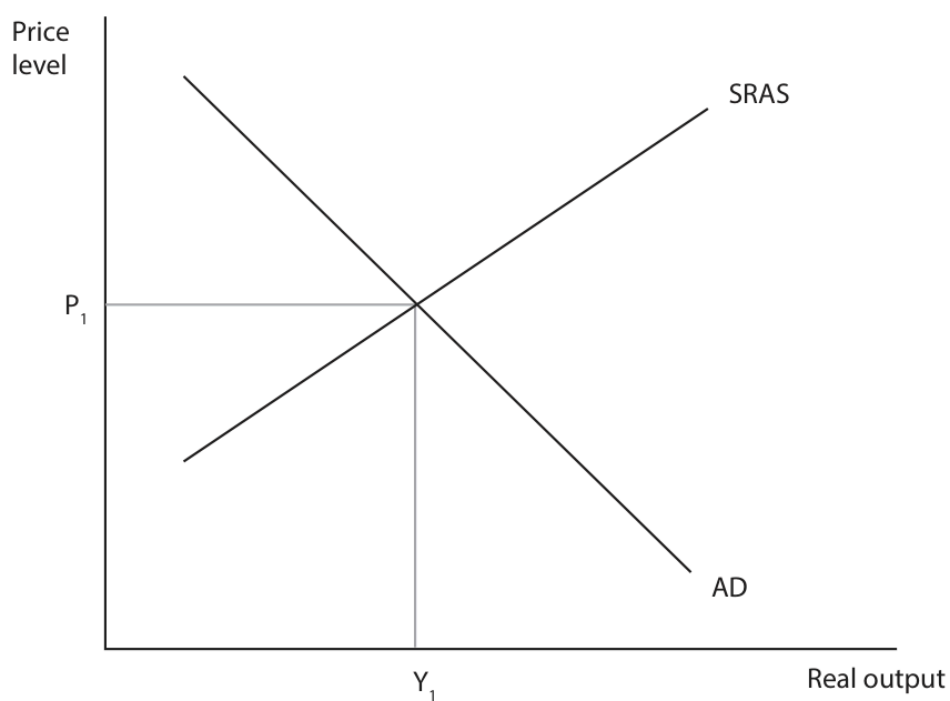
SUB-TOPIC 2.3.1

THE CHARACTERISTICS OF AS

Sub-topic 2.3.1 · 11 questions · 35 marks · lowest tariff first



- 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)

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.....

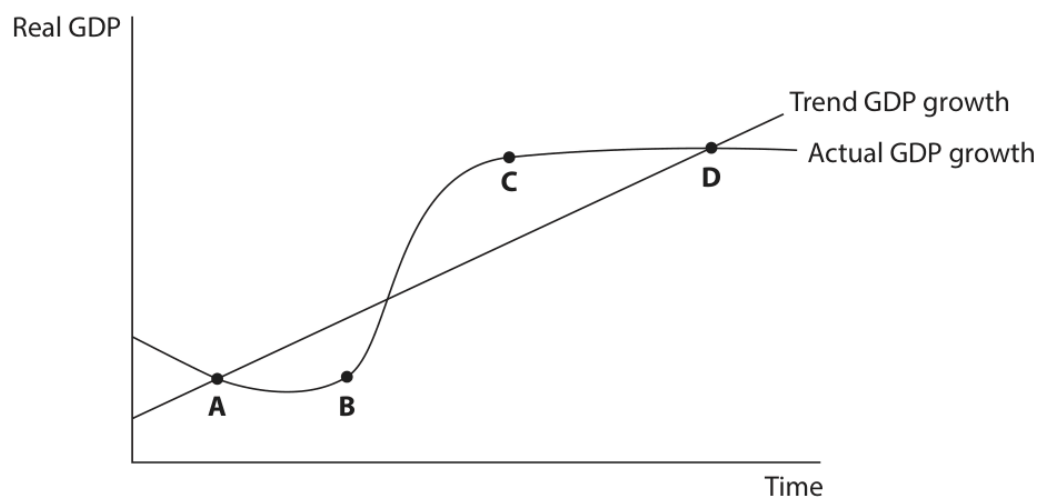
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(Total for Question 4(a) = 1 mark)

3 It was forecast that the UK will experience a positive output gap in 2024.

(a) Which point on the trade cycle diagram illustrates a positive output gap?

(1)



- ☒ A
- ☒ B
- ☒ C
- ☒ D

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

3 It was forecast that the UK will experience a positive output gap in 2024.

(c) Define the term 'trade cycle'.

(1)

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



- 4 A number of business groups have signed an open letter to the UK Government asking it to commit to delivering the full High Speed 2 rail link. This will connect London to the northern cities of Manchester and Leeds at a cost of £56 billion and reduce journey times by as much as 50%.

(Source adapted from: <https://www.theguardian.com/uk-news/2019/jun/22/business-heads-urge-next-pm-to-commit-to-finishing-hs2>)

- (b) Government spending on the High Speed 2 rail link is an example of which of the following?

(1)

- ☐ A Automatic stabilisers
- ☐ B Capital expenditure
- ☐ C Current expenditure
- ☐ D Transfer payments

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



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

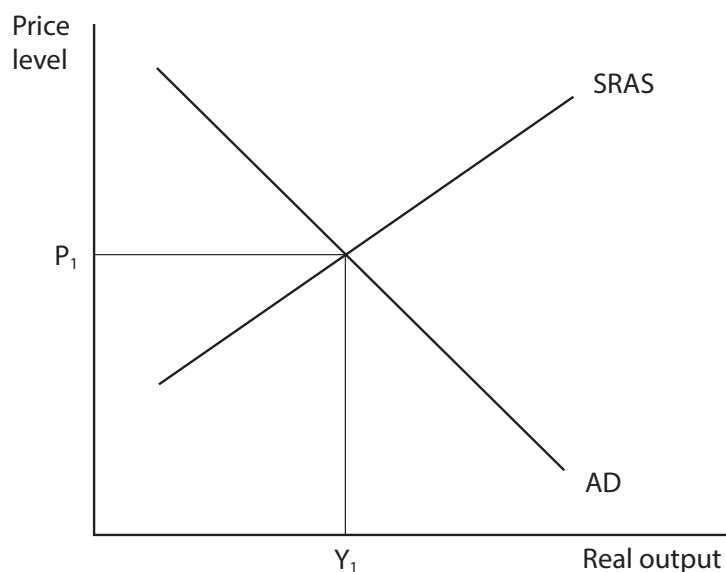
(Source: adapted from <https://www.ons.gov.uk>)

(a) Define the term 'investment'.

(1)

(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)



3 It was forecast that the UK will experience a positive output gap in 2024.

(b) Explain **one** reason why it is difficult to measure the size of an output gap in an economy.

(2)

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



(c) Explain the likely impact on aggregate demand of a fall in average house prices.

(2)

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



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

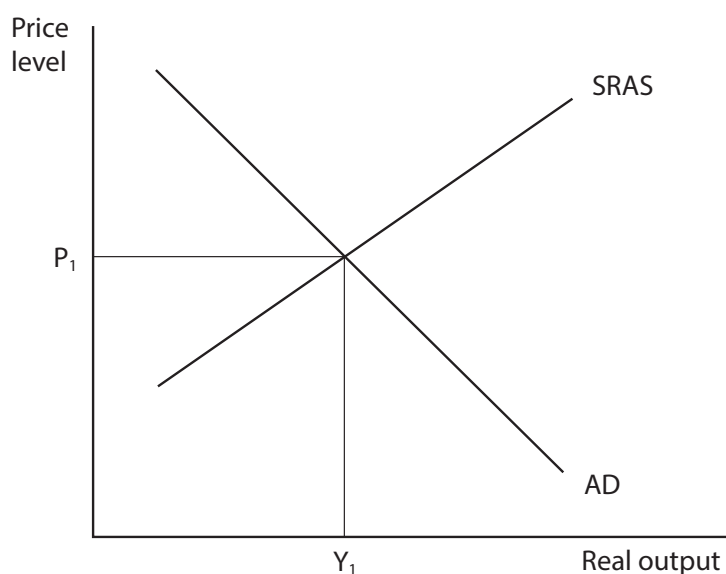
(Source: adapted from <https://www.ons.gov.uk>)

(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)



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

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- ☐ A A decrease in business expectations
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- ☐ D An increase in the rate of economic growth

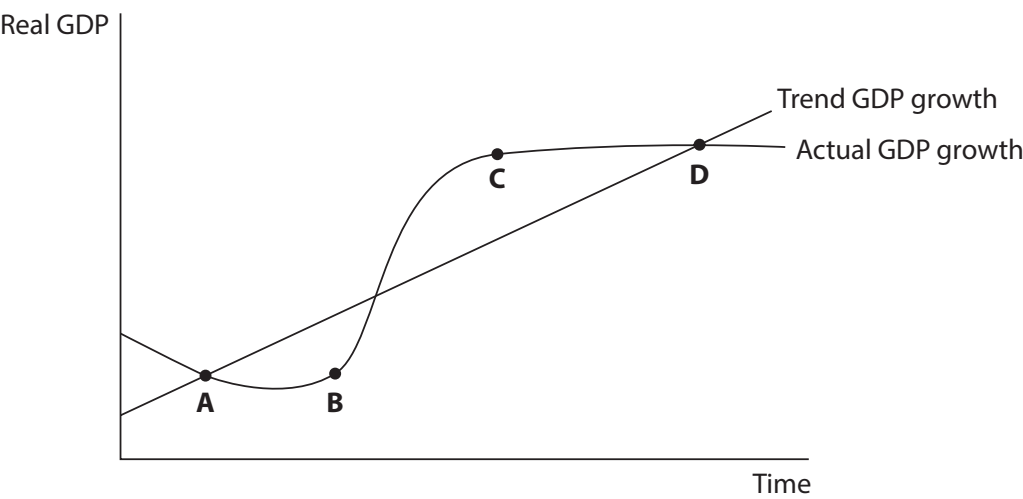
(Total for Question 4 = 4 marks)



3 It was forecast that the UK will experience a positive output gap in 2024.

(a) Which point on the trade cycle diagram illustrates a positive output gap?

(1)



- ☒ A
- ☒ B
- ☒ C
- ☒ D

(b) Explain **one** reason why it is difficult to measure the size of an output gap in an economy.

(2)

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(c) Define the term ‘trade cycle’.

(1)

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(Total for Question 3 = 4 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).

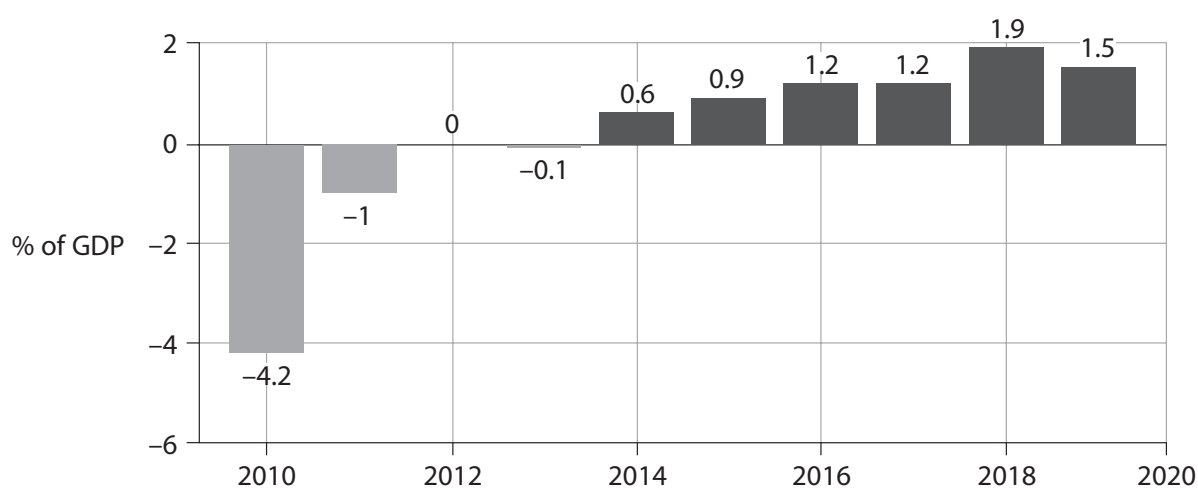
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

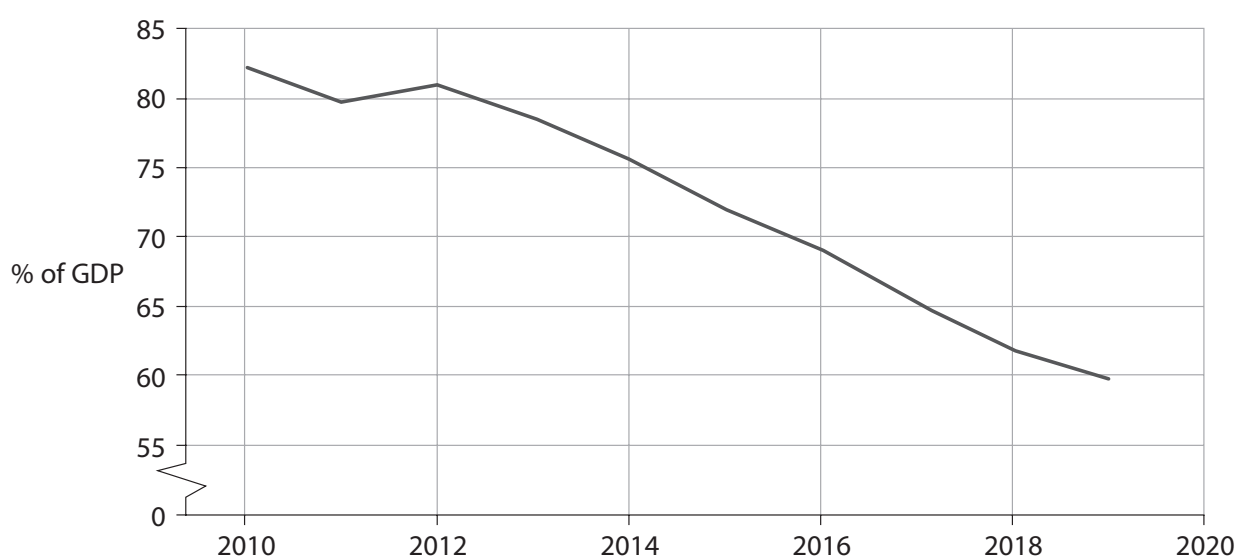
The German economy

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



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

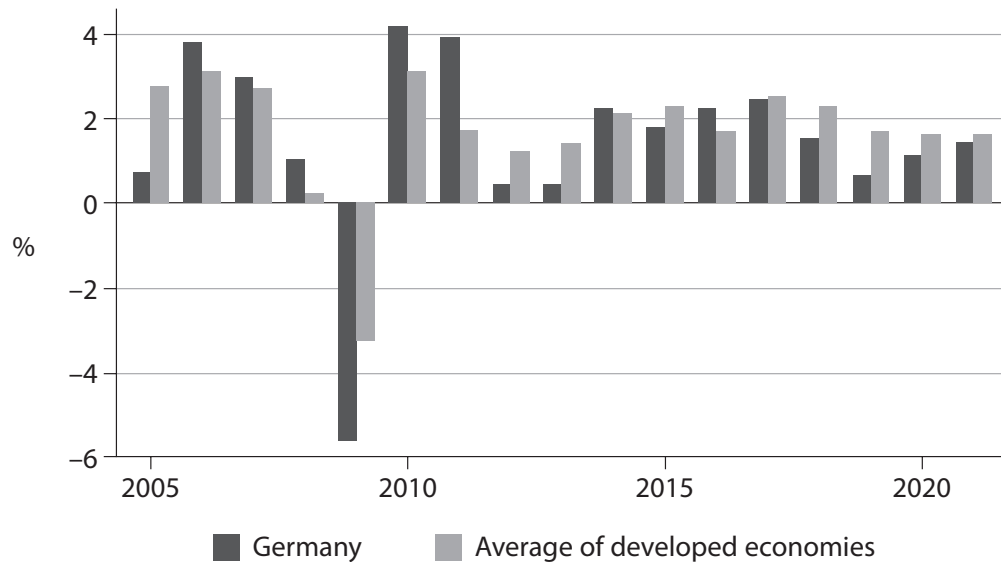
Figure 2: German national debt, percentage of GDP, 2010 to 2019



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

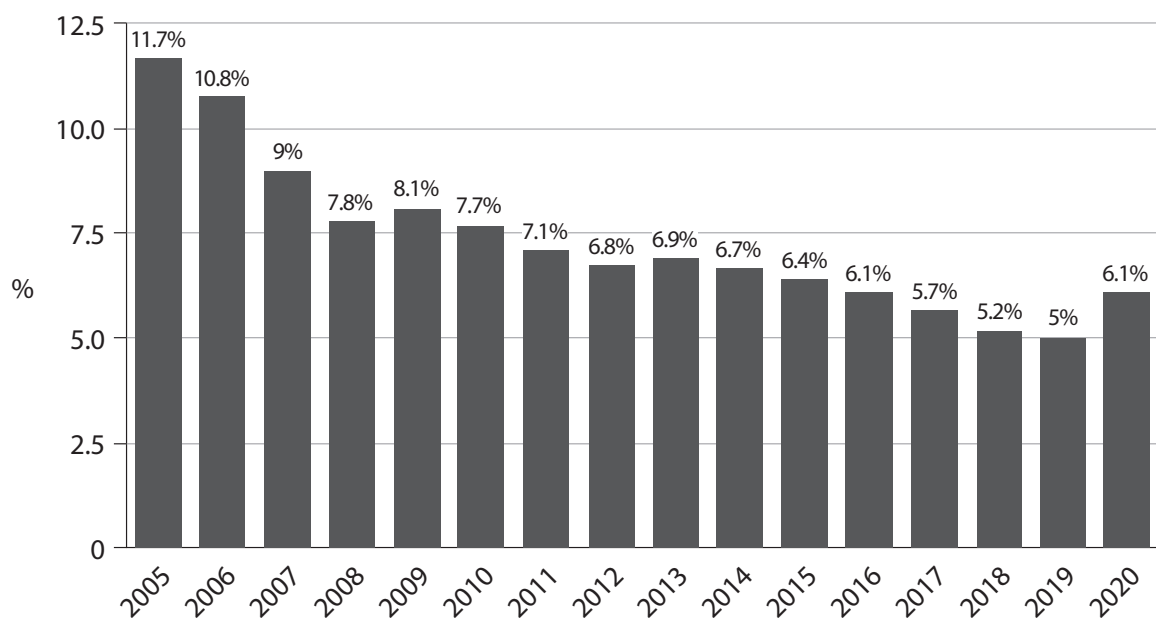


Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)



(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)



(12)



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Handwriting practice area with 25 horizontal dotted lines.

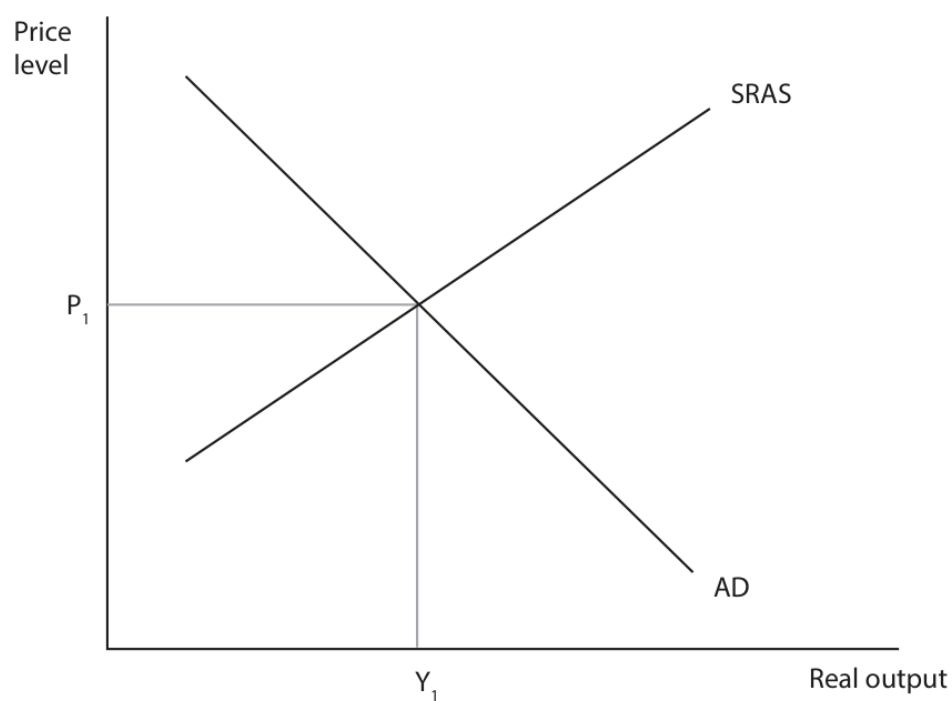
SUB-TOPIC 2.3.2

SHORT-RUN AS

Sub-topic 2.3.2 · 5 questions · 49 marks · lowest tariff first



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



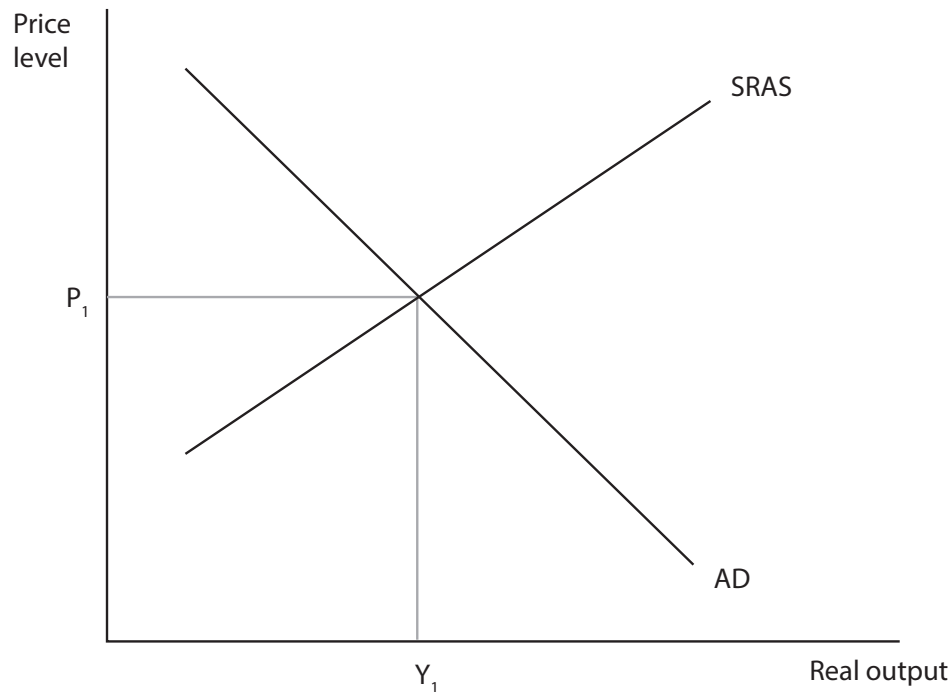
- (b) Annotate the diagram above to show the likely impact of a rise in the cost of raw materials on the UK's equilibrium level of real output and price level.

(2)

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



- 4 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)

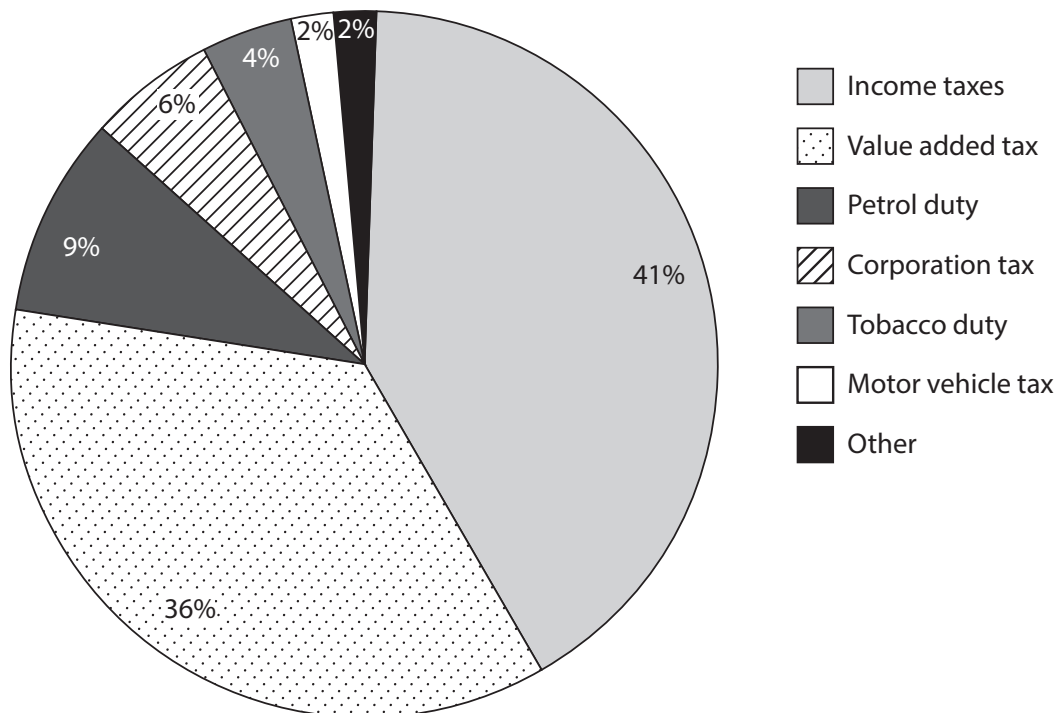


Sources for use with SECTION B

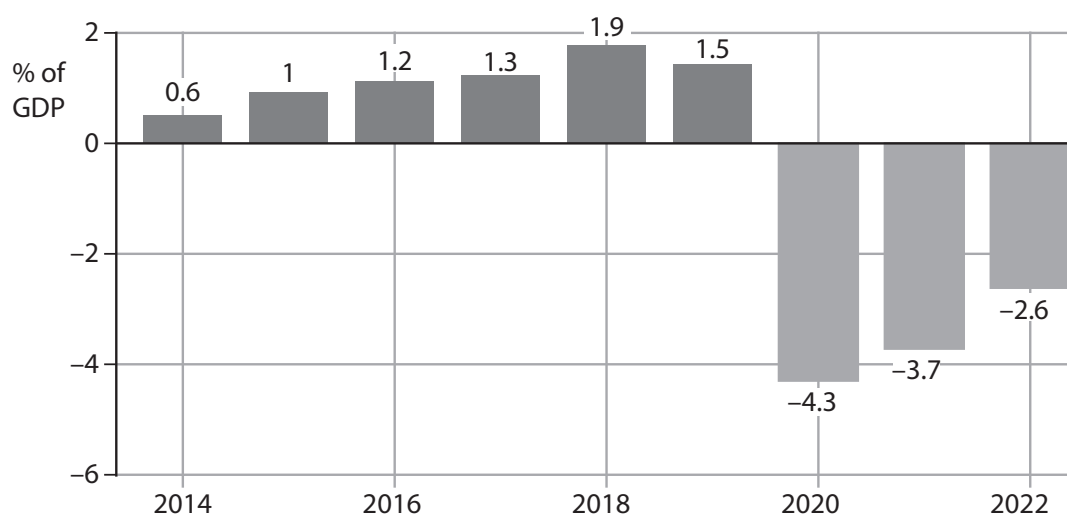
Read the following figures (1–2) and extracts (A and B) before answering Question 6.

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/>)



(8)



114



SECTION B

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

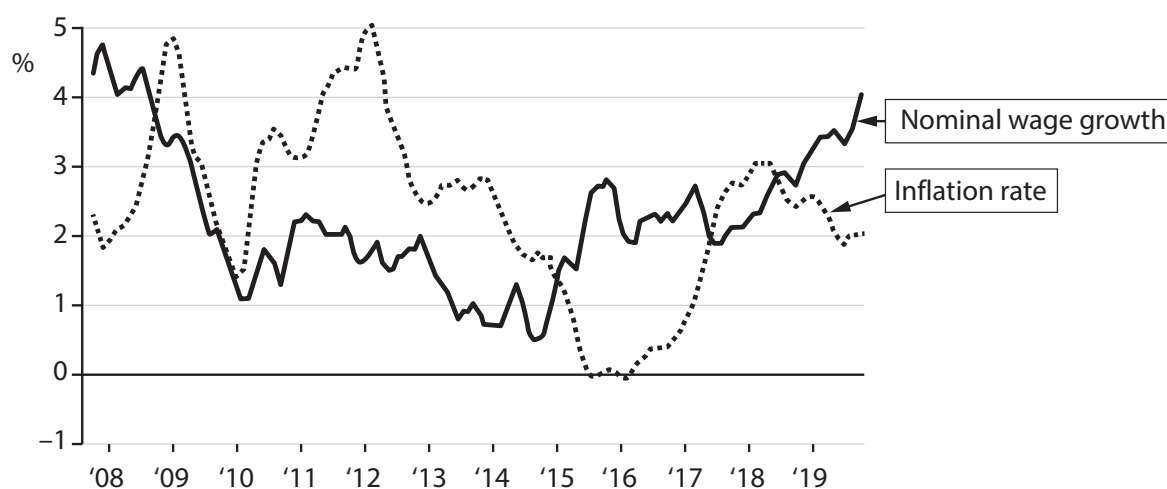
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

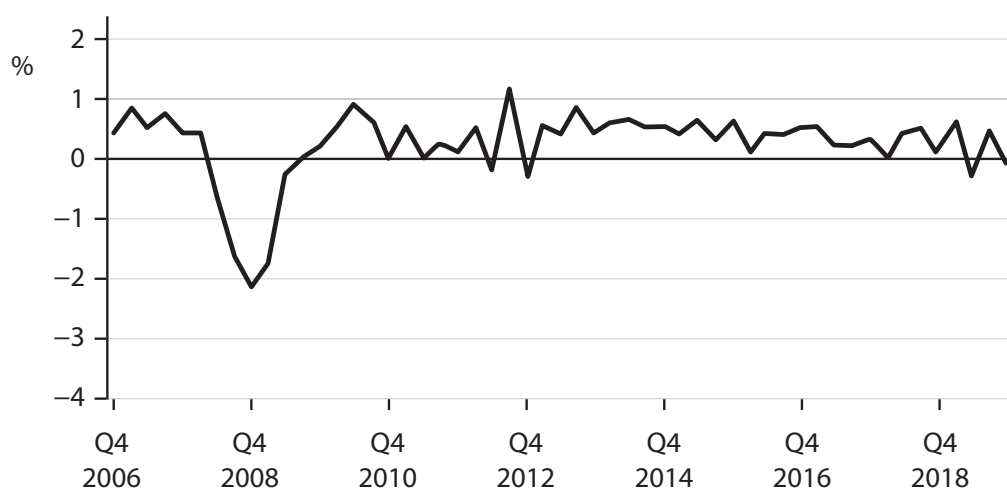
UK monetary policy since the Global Financial Crisis of 2008

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)





This image shows a single sheet 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 or typing. There are no margins, text, or other markings on the paper.

(25)





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 or typing. There are no margins, text, or other markings on the page.

(Total for this part = 25 marks)

38

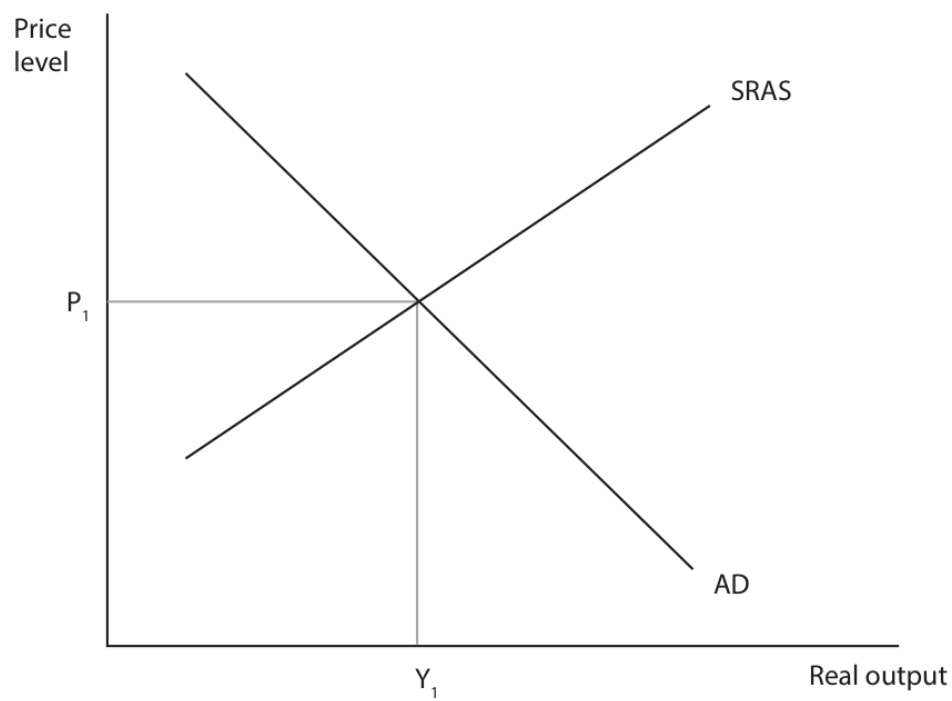
SUB-TOPIC 2.3.3

LONG-RUN AS

Sub-topic 2.3.3 · 29 questions · 156 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)

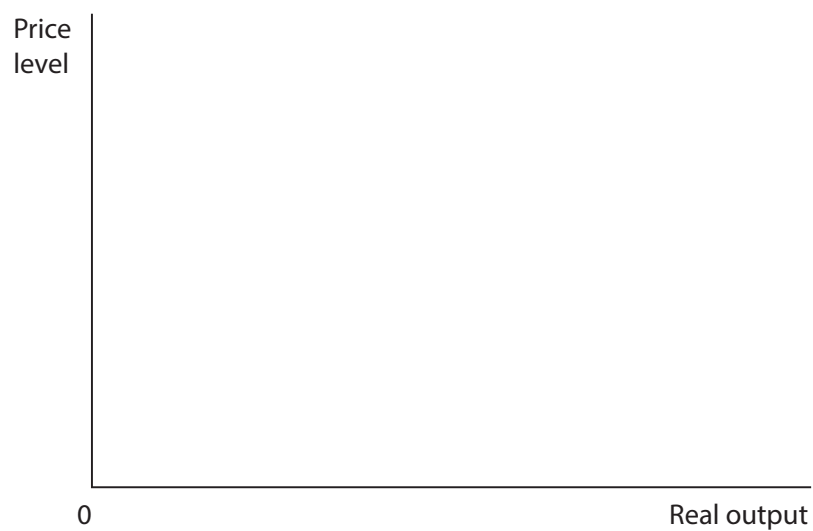
- ☐ A Decrease in investment
- ☐ B Increase in relative productivity
- ☐ C Increase in the level of unemployment benefits
- ☐ D Reduced access to credit for consumers and businesses

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



- 2 (a) Illustrate the shape of the Keynesian long-run AS curve on the diagram below.

(1)



- (b) Explain what is meant by spare capacity in an economy.

(2)

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(c) Which **one** of the following is most likely to cause a movement along the AS curve?

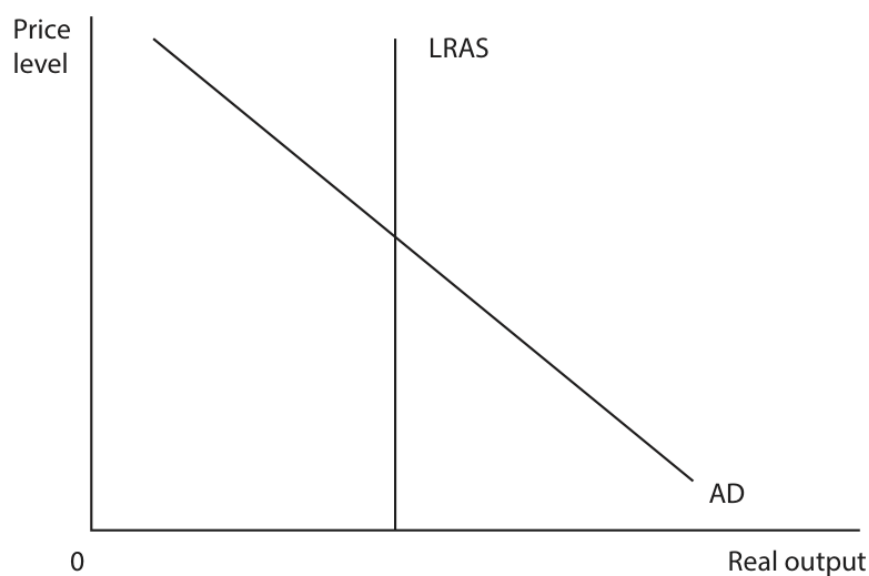
Changes in:

(1)

- ☐ **A** competition policy
- ☐ **B** relative productivity
- ☐ **C** the cost of raw materials
- ☐ **D** the level of aggregate demand

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

- 4 The diagram below shows the aggregate demand (AD) and a possible long-run aggregate supply (LRAS) for the UK.

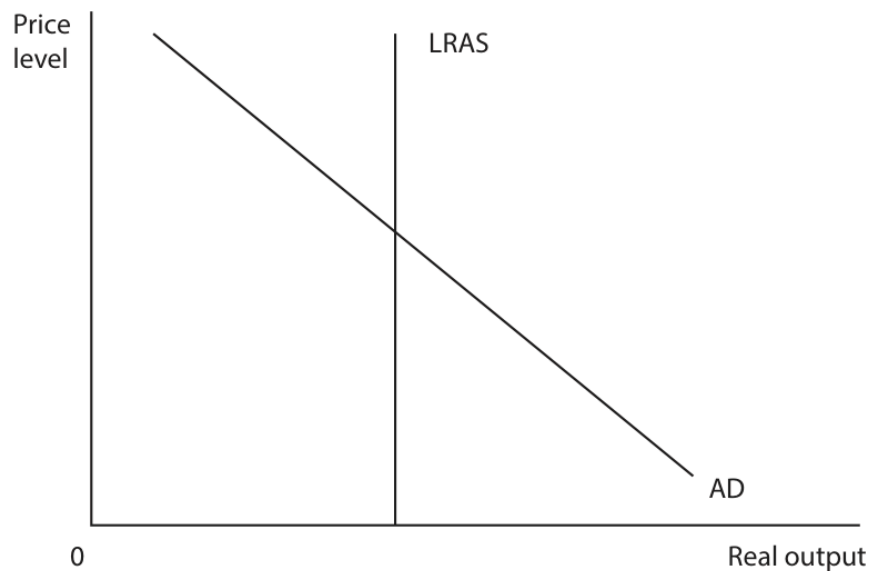


- (a) Define the term 'price level'.

(1)

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

- 4 The diagram below shows the aggregate demand (AD) and a possible long-run aggregate supply (LRAS) for the UK.



- (c) Which **one** of the following is an interventionist supply-side policy?

(1)

- ☐ A An improvement in infrastructure
- ☐ B An increase in indirect taxation
- ☐ C An increase in interest rates
- ☐ D An increase in the regulation of markets

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

- 2 (a) Illustrate the shape of the **Classical** long-run aggregate supply (AS) curve on the diagram below.

(1)



- (b) Explain the reason for the shape of the Classical long-run AS curve.

(2)

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(c) Which **one** of the following is an example of a market-based supply-side policy?

(1)

- ☐ **A** A reduction in unemployment benefits
- ☐ **B** Construction of new transportation links
- ☐ **C** Government-funded apprenticeship schemes
- ☐ **D** Increased government spending on healthcare

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



SECTION A

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

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

You are advised to spend 25 minutes on this section.

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

- 1** Between 2019 and 2020 the UK Government increased its expenditure on healthcare from £175.1 billion to £219.9 billion.

(b) Which **one** of the following is also an example of an interventionist supply-side policy?

(1)

- ☐ **A** A decrease in the level of unemployment benefits
- ☐ **B** A decrease in the regulation of product markets
- ☐ **C** An increase in the provision of training programmes
- ☐ **D** An increase in the rate of corporation tax

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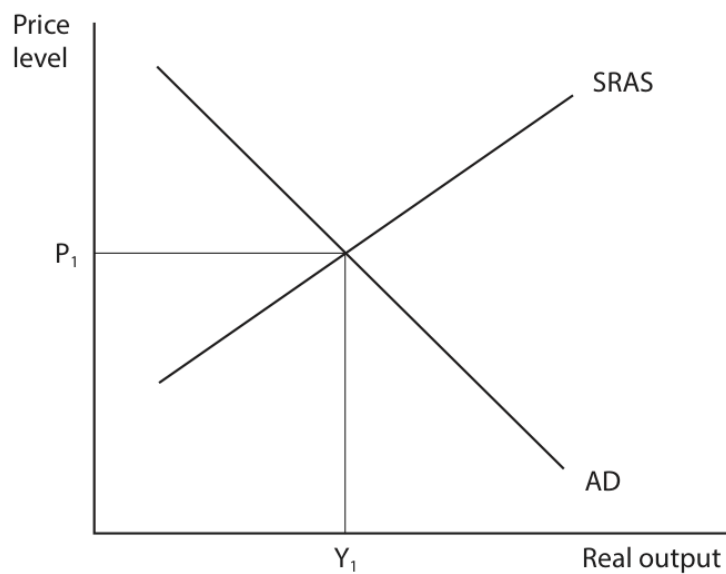
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(Total for Question 4(a) = 1 mark)

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?

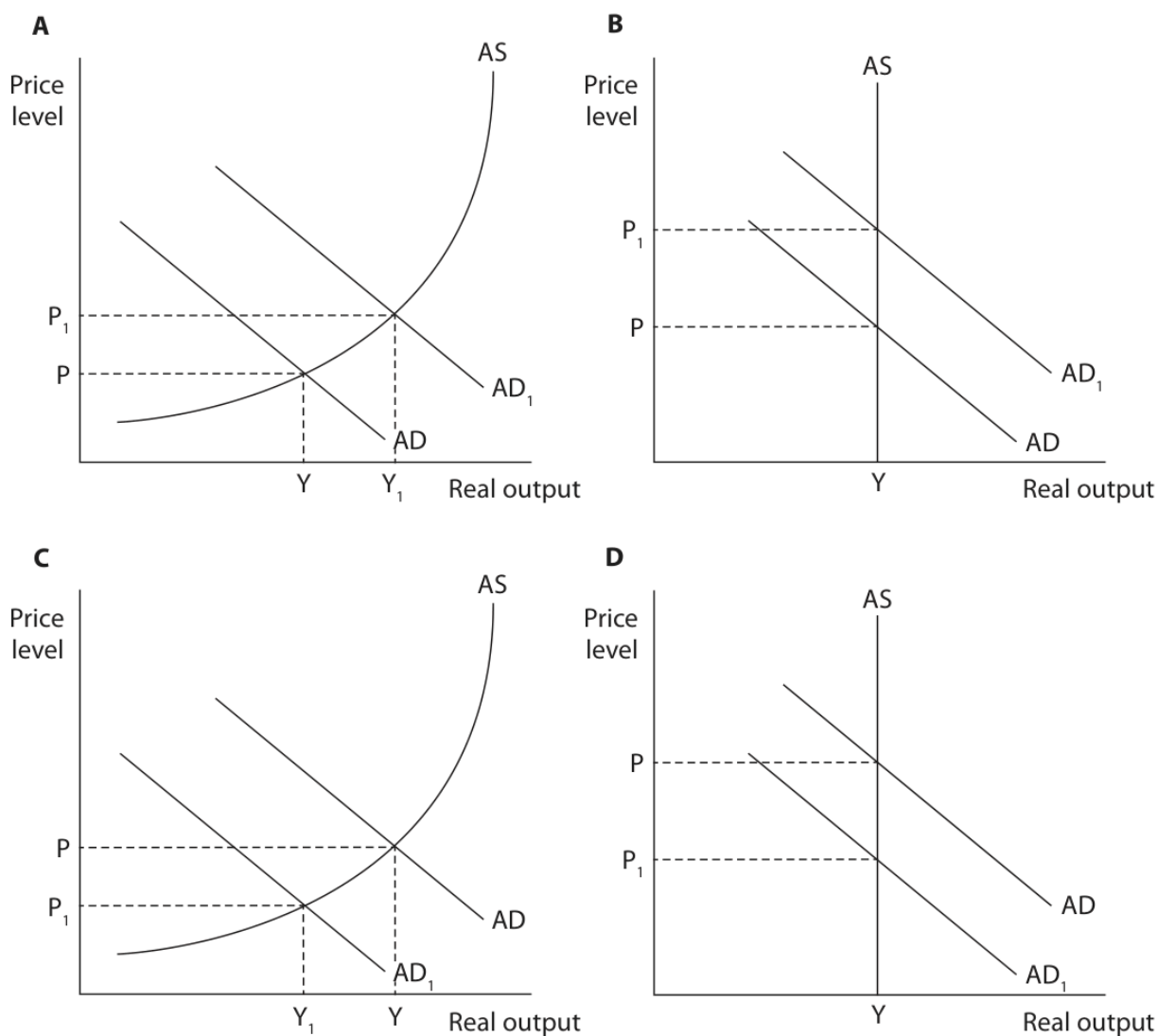
(1)

- ☒ 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 (a) Which **one** of the following diagrams illustrates the impact of an increase in net exports along a Keynesian long-run aggregate supply curve?

(1)



- ☐ A
- ☐ B
- ☐ C
- ☐ D

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





(b) Explain what is meant by spare capacity in an economy.

(2)

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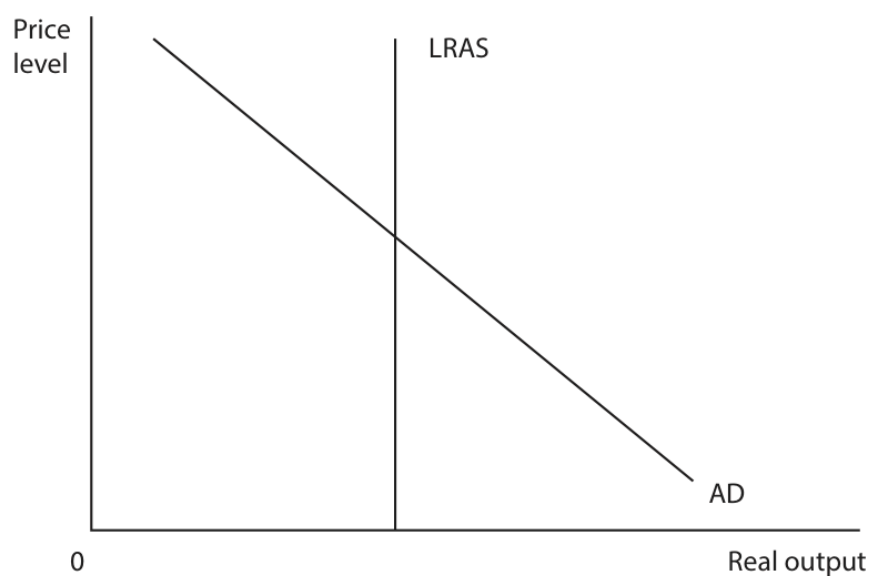
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(Total for Question 2(b) = 2 marks)



- 4 The diagram below shows the aggregate demand (AD) and a possible long-run aggregate supply (LRAS) for the UK.



- (b) Annotate the diagram above to show the likely impact of government policy to promote business competition on the equilibrium level of real output and price level.

(2)

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





(b) Explain the reason for the shape of the Classical long-run AS curve.

(2)

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



(b) Using the classical long-run aggregate supply curve, explain what will happen in the long run to real output if aggregate demand increases.

(2)

(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 25 minutes on this section.

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

1 Between 2019 and 2020 the UK Government increased its expenditure on healthcare from £175.1 billion to £219.9 billion.

(a) Explain **one** likely impact of this interventionist supply-side policy on aggregate supply in the UK.

(3)

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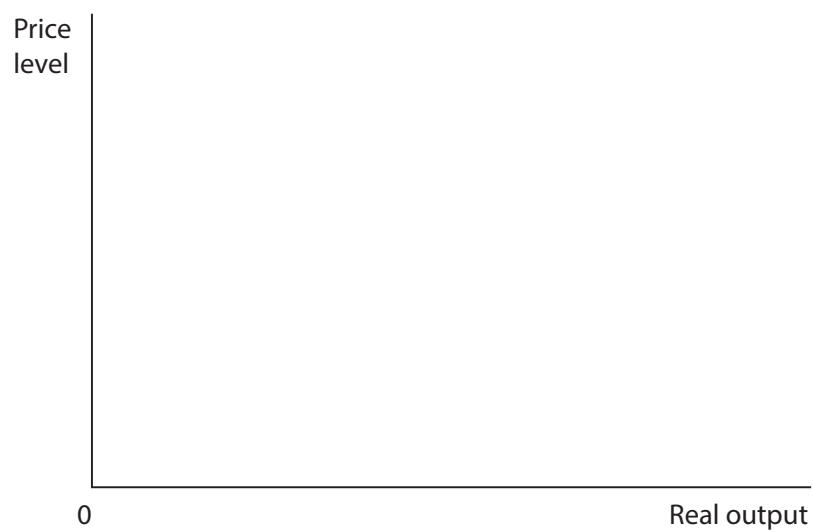
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(Total for Question 1(a) = 3 marks)

- 2 (a) Illustrate the shape of the Keynesian long-run AS curve on the diagram below.

(1)



- (b) Explain what is meant by spare capacity in an economy.

(2)

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(c) Which **one** of the following is most likely to cause a movement along the AS curve?

Changes in:

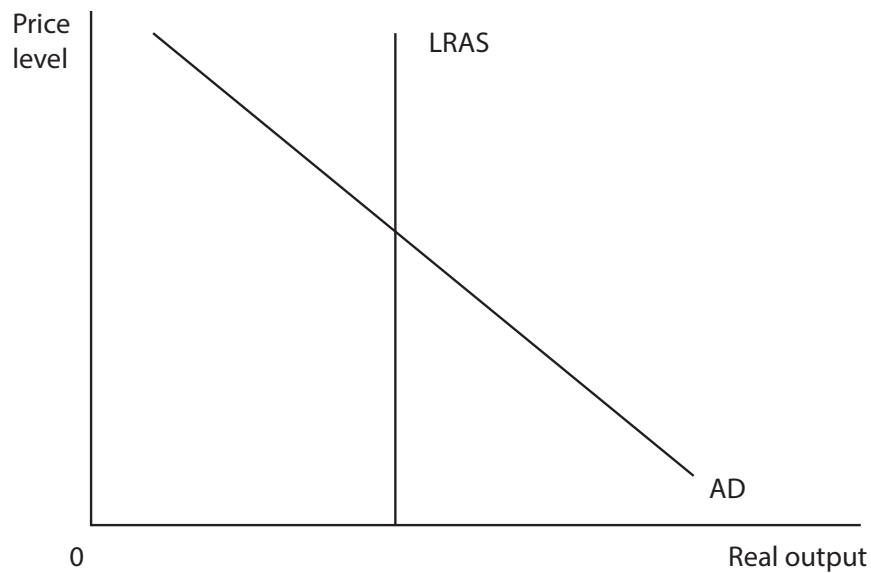
(1)

- ☐ **A** competition policy
- ☐ **B** relative productivity
- ☐ **C** the cost of raw materials
- ☐ **D** the level of aggregate demand

(Total for Question 2 = 4 marks)



- 4 The diagram below shows the aggregate demand (AD) and a possible long-run aggregate supply (LRAS) for the UK.



- (a) Define the term 'price level'.

(1)

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- (b) Annotate the diagram above to show the likely impact of government policy to promote business competition on the equilibrium level of real output and price level.

(2)



(c) Which **one** of the following is an interventionist supply-side policy?

(1)

- ☐ **A** An improvement in infrastructure
- ☐ **B** An increase in indirect taxation
- ☐ **C** An increase in interest rates
- ☐ **D** An increase in the regulation of markets

(Total for Question 4 = 4 marks)



- 2 (a) Illustrate the shape of the **Classical** long-run aggregate supply (AS) curve on the diagram below.

(1)



- (b) Explain the reason for the shape of the Classical long-run AS curve.

(2)

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(c) Which **one** of the following is an example of a market-based supply-side policy?

(1)

- ☐ **A** A reduction in unemployment benefits
- ☐ **B** Construction of new transportation links
- ☐ **C** Government-funded apprenticeship schemes
- ☐ **D** Increased government spending on healthcare

(Total for Question 2 = 4 marks)



SECTION A

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

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

You are advised to spend 25 minutes on this section.

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

- 1 Between 2019 and 2020 the UK Government increased its expenditure on healthcare from £175.1 billion to £219.9 billion.
- (a) Explain **one** likely impact of this interventionist supply-side policy on aggregate supply in the UK.

(3)

This image shows a full page of white paper with ten horizontal dashed lines spaced evenly apart, typical of primary school handwriting practice paper. The lines extend across the entire width of the page.

(b) Which **one** of the following is also an example of an interventionist supply-side policy?

(1)

- ☐ **A** A decrease in the level of unemployment benefits
- ☐ **B** A decrease in the regulation of product markets
- ☐ **C** An increase in the provision of training programmes
- ☐ **D** An increase in the rate of corporation tax

(Total for Question 1 = 4 marks)

SECTION B

Read Figures 4 to 6 and the following extracts (C and D) before answering Question 2.

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

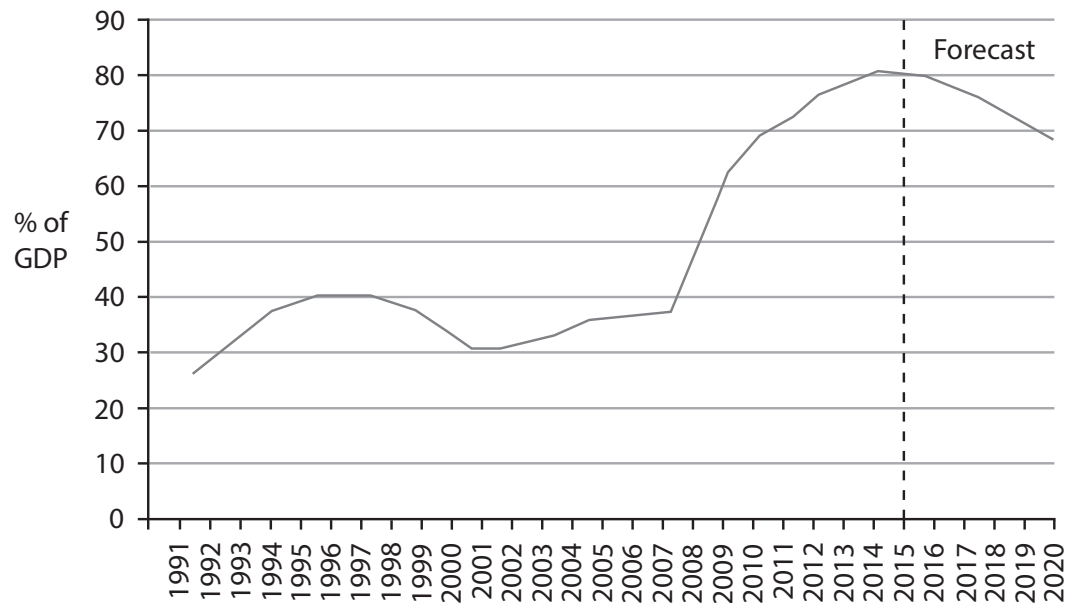
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

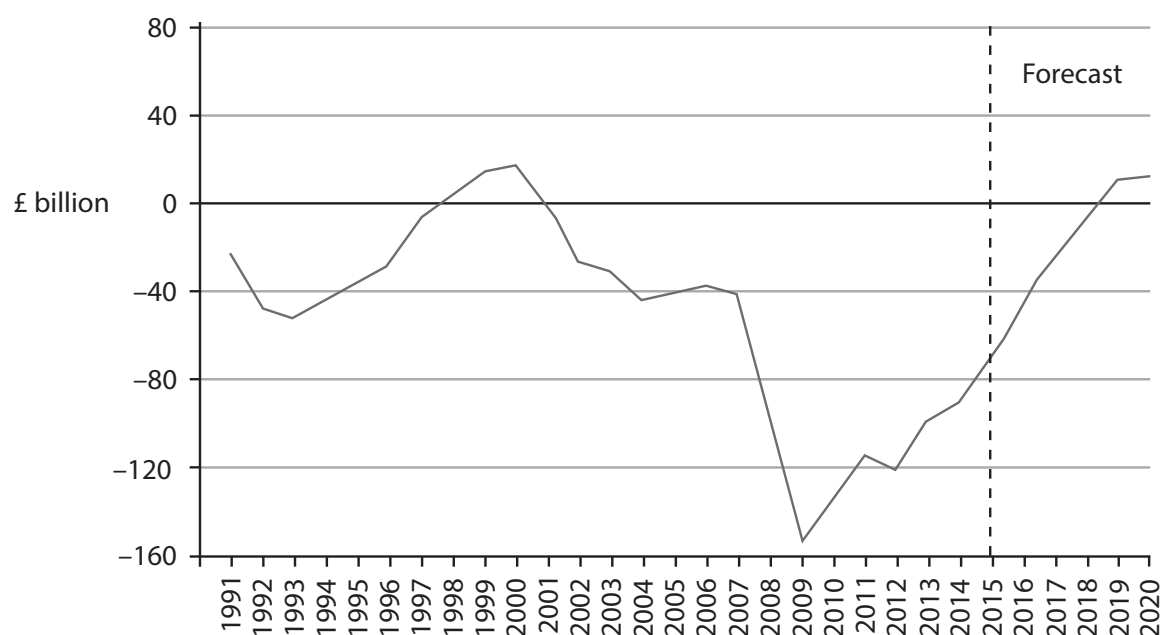
The UK economy

Figure 4: UK national debt as a percentage of GDP



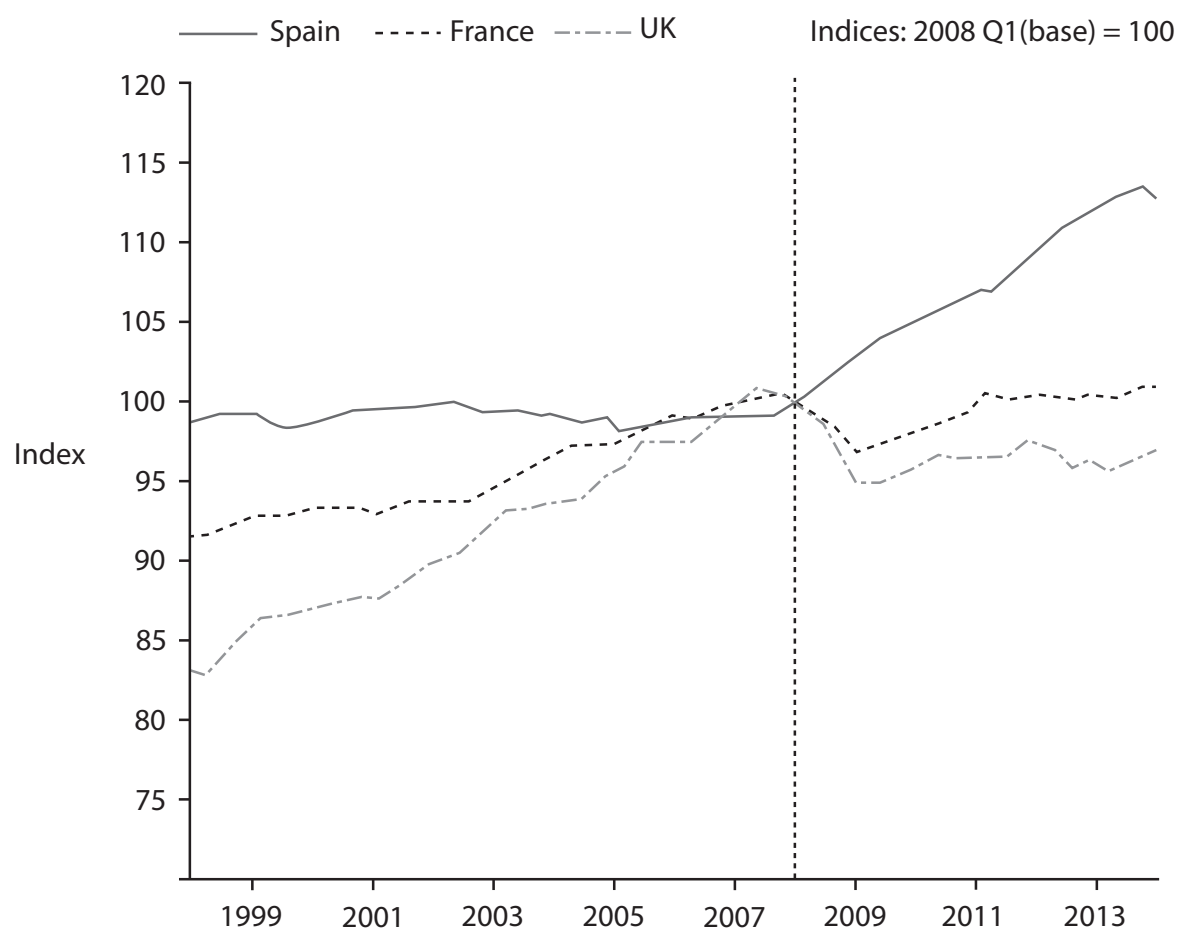
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 5: UK fiscal deficit, public sector net borrowing (PSNB)



(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)



Figure 6: Labour productivity per head, selected countries

(Source: <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf>)

Extract C**The National Living Wage (NLW)**

The Government has announced that from 2016 it will introduce a Living Wage Premium that will apply on top of the National Minimum Wage (NMW) for employees aged 25 and over to deliver a National Living Wage (NLW) for those people. The main NMW will continue to be set for all employees aged 21 and over, so that those aged 21 to 24 will continue to be subject only to that rate. 5

The effective minimum wage for the 25+ age group will therefore be over 13% higher in 2020 than would otherwise have been the case, and result in a 0.3% increase in wage costs overall. Further impacts on real GDP are estimated to be higher productivity (+0.3%) but lower average hours worked (-0.2%) and higher unemployment. Overall real GDP is forecast to fall by 0.1% as a result of the NLW. However these forecasts depend on estimates of the likely elasticity of demand for labour. 10

Academic evidence suggests that changes to the NMW since 1999 have led to only limited effects on demand for labour in the UK. The types of work that will be affected are relatively labour intensive, which may limit the scope for firms to substitute towards using capital. Firms may also be expected to shift demand in favour of the under-25s given that they will not be subject to the NLW, which all else being equal would lead to a smaller reduction in overall labour demand. Some of the reduction in employees could also be partially offset by a rise in self-employment. But increasing the NLW to a higher proportion of median earnings may lead to bigger effects than have been experienced in the past. 15 20

(Sources: adapted from <http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf> and <http://budgetresponsibility.independent.gov.uk/>)

Extract D**The productivity puzzle in the UK**

Since the onset of the 2007–2008 financial crisis, labour productivity growth in the UK has been exceptionally weak. Despite some modest improvements in 2013, whole-economy output per hour remains around 16% below the level implied by its pre-crisis trend. Even taking into account possible measurement issues and changes in the size of the service sector, this shortfall is large and is often referred to as the 'productivity puzzle'. 5

Measures of productivity can be used to inform estimates of an economy's ability to grow without generating excessive inflationary pressure, which makes understanding recent movements important for the conduct of monetary policy. During the initial phases of the recession, companies appear to have acted flexibly by holding on to labour and lowering levels of capacity utilisation in response to weak demand conditions. But the protracted weakness in productivity and the strength in employment growth over the past two years suggest that other factors are likely to be having a more persistent impact on the level of productivity. These factors are reduced investment in both physical and intangible capital, such as innovation and training, and failings in the labour market such as immobility of labour and under-employment of skilled workers. Some economists explain this by using the concept of an output gap. 10 15

(Source: adapted from <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf>)



- (5)



SECTION B

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

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

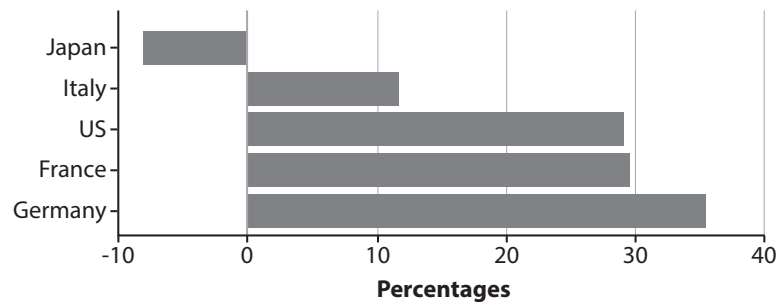
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

The UK economy

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



(Source adapted from: ONS.gov.uk)

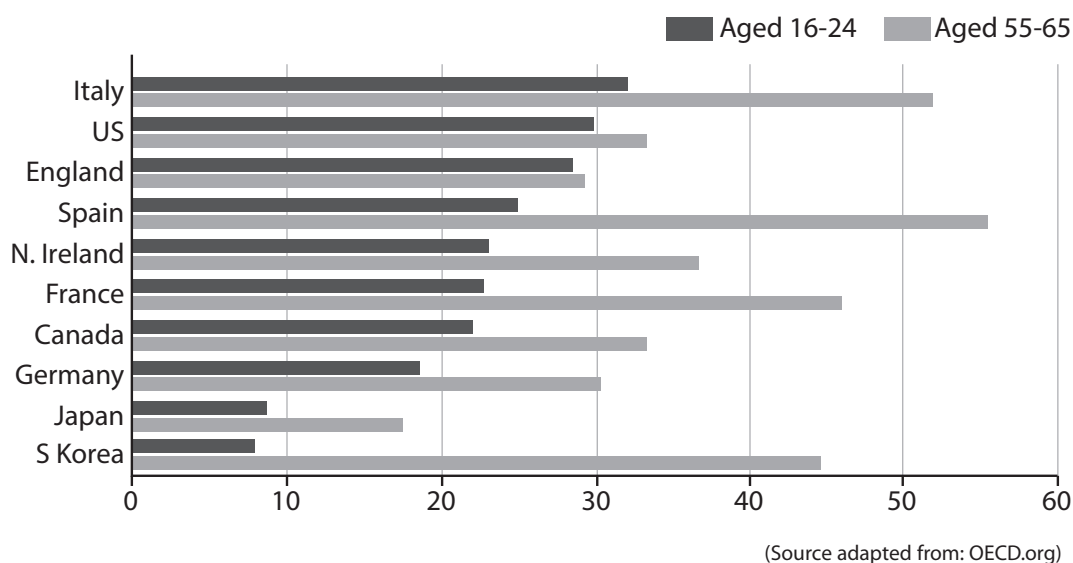
Figure 4: UK index of output per hour worked, base year 2016 = 100



(Source adapted from: ONS.gov.uk)



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



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

Extract D

The end of the High Street?

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

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

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

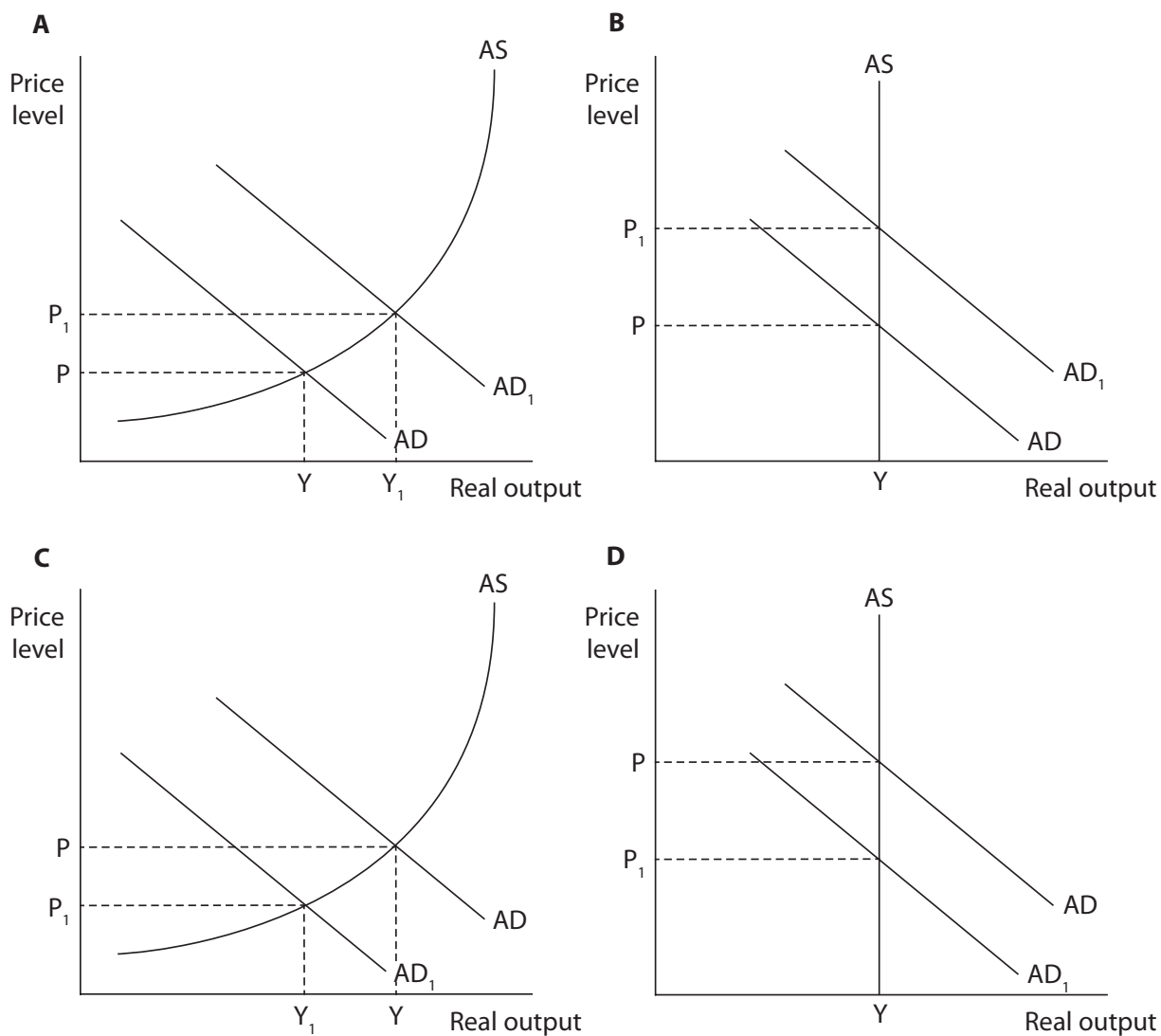
(Source adapted from: <https://www.ft.com/content/00d0bb9e-a6ee-11e8-8ecf-a7ae1beff35b> 24 August 2018 and <https://www.theguardian.com/business/2018/aug/13/homebase-close-80-stores-high-street-job-losses-mount> Patrick Collinson 13 Aug 2018)

(5)



- 2 (a) Which **one** of the following diagrams illustrates the impact of an increase in net exports along a Keynesian long-run aggregate supply curve?

(1)



- ☐ A
- ☐ B
- ☐ C
- ☐ D

(2)

(2)

(Total for Question 2 = 5 marks)



SECTION B

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

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

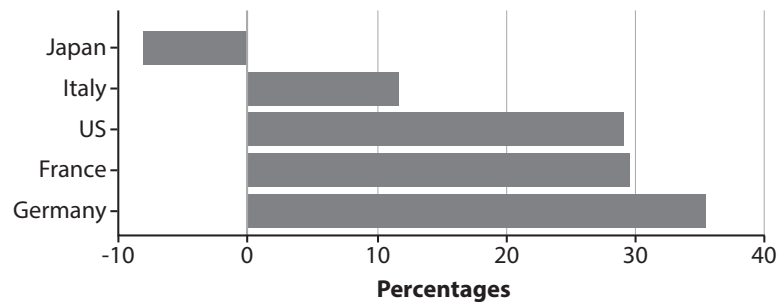
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

The UK economy

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



(Source adapted from: ONS.gov.uk)

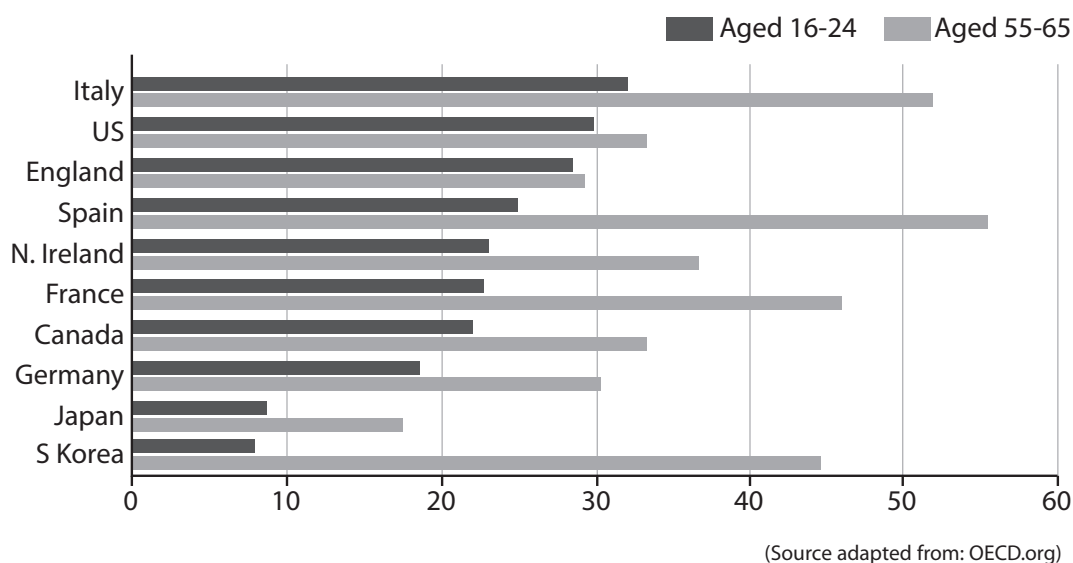
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(Figures 3, 4 and 5 Source: FT.com 2016 data published <https://www.ft.com/content/6ada0002-9a57-11e8-9702-5946bae86e6d> 2018)

Extract D

The end of the High Street?

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



(8)



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

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

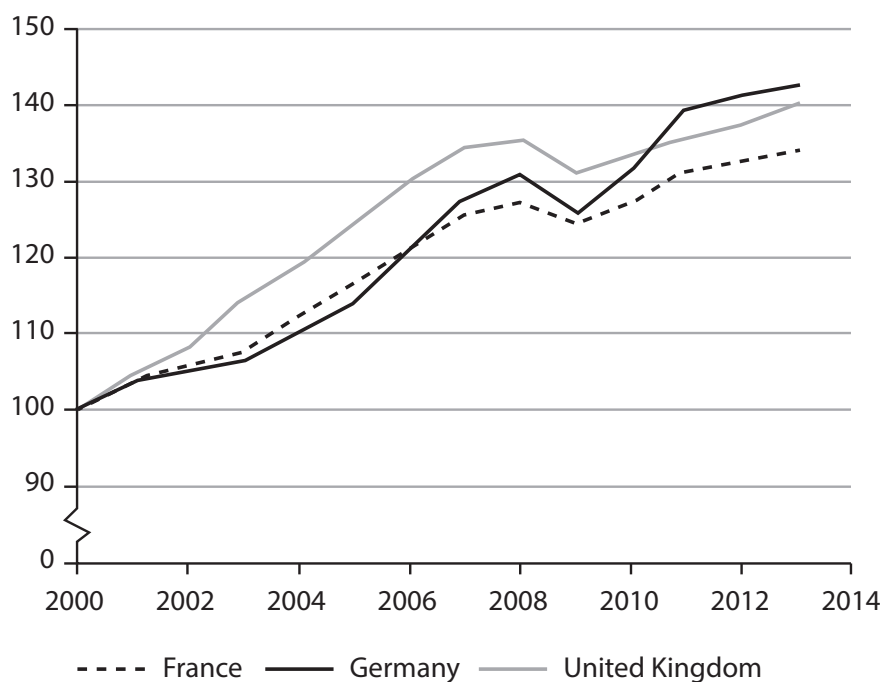
Figure 1: Components of aggregate demand in selected countries 2014

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)

(e) Evaluate policies the government could use to increase the UK's productivity.

(15)





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[illegible]

SECTION B

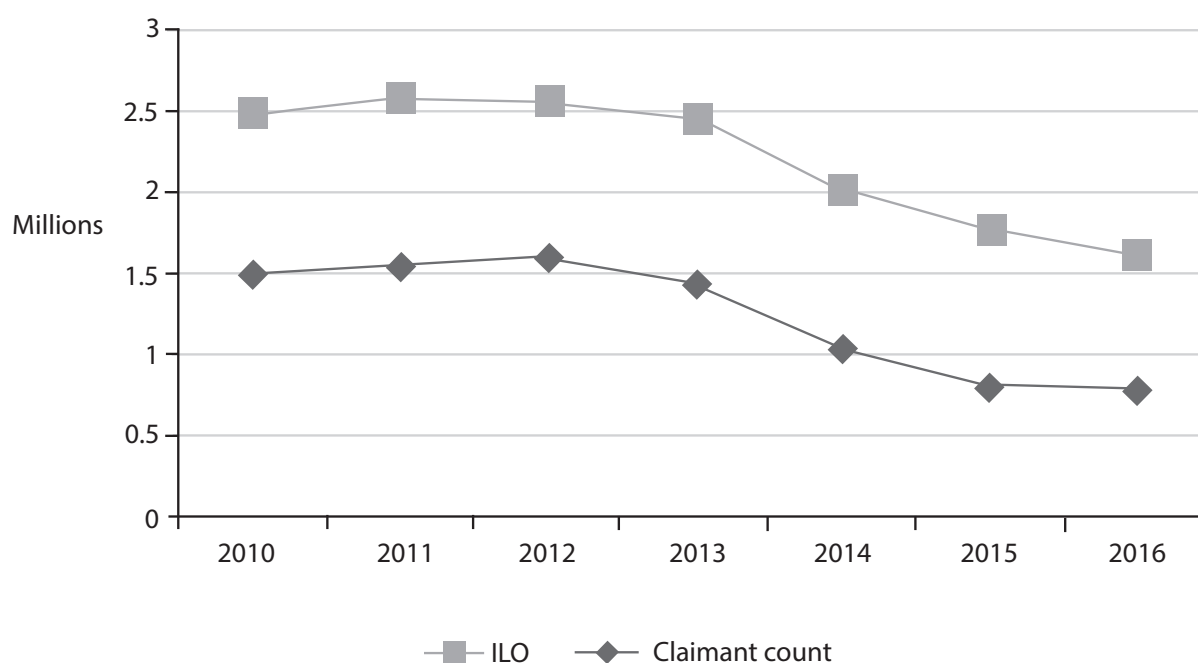
Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

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

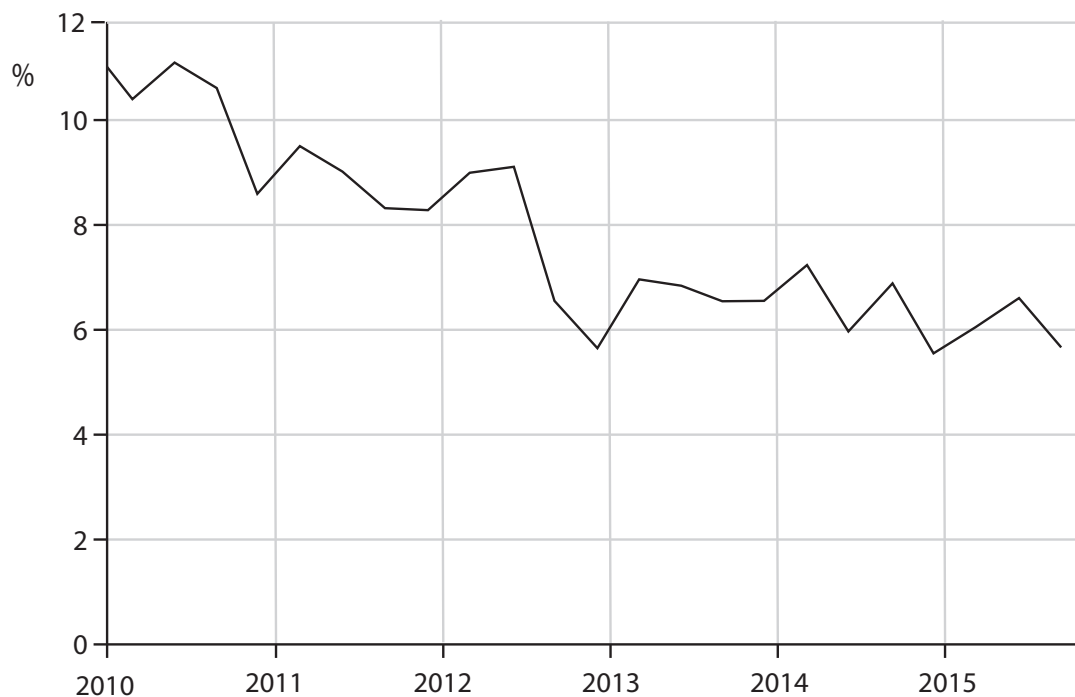
You are advised to spend 1 hour and 5 minutes on this section.

Question 6**The UK economy**

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

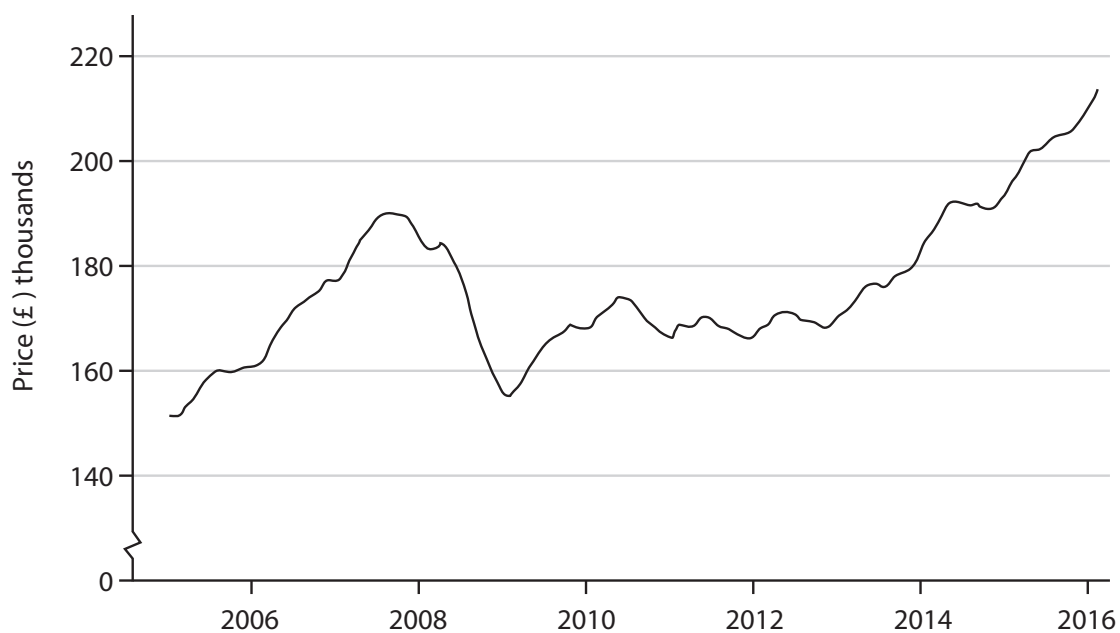


(Source: ONS Datasets, <https://www.ons.gov.uk/>)

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>)



(15)



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SECTION B

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

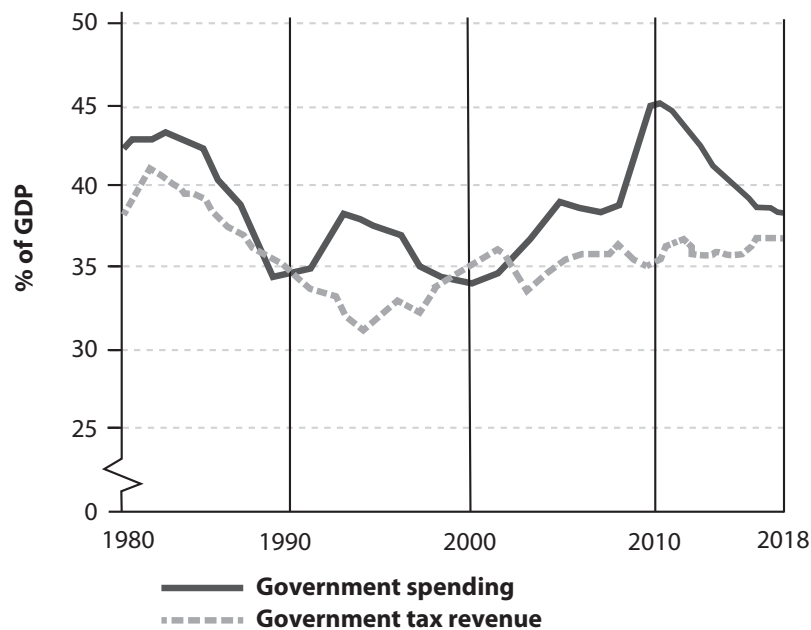
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

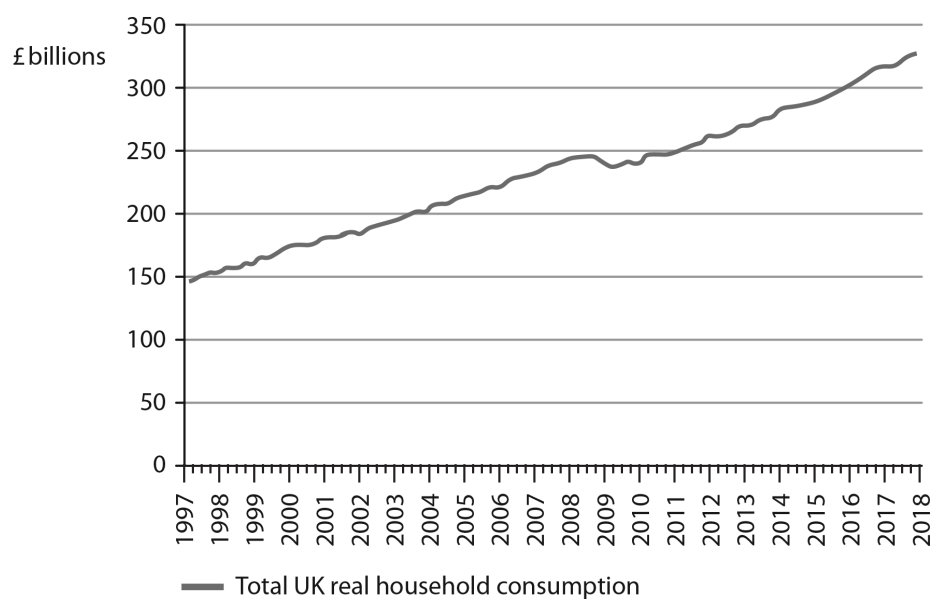
UK government budget and household consumption

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 © 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)



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>)



(15)



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



SECTION B

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

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

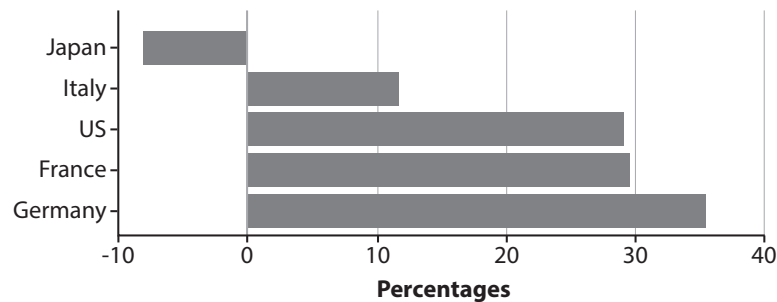
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

The UK economy

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



(Source adapted from: ONS.gov.uk)

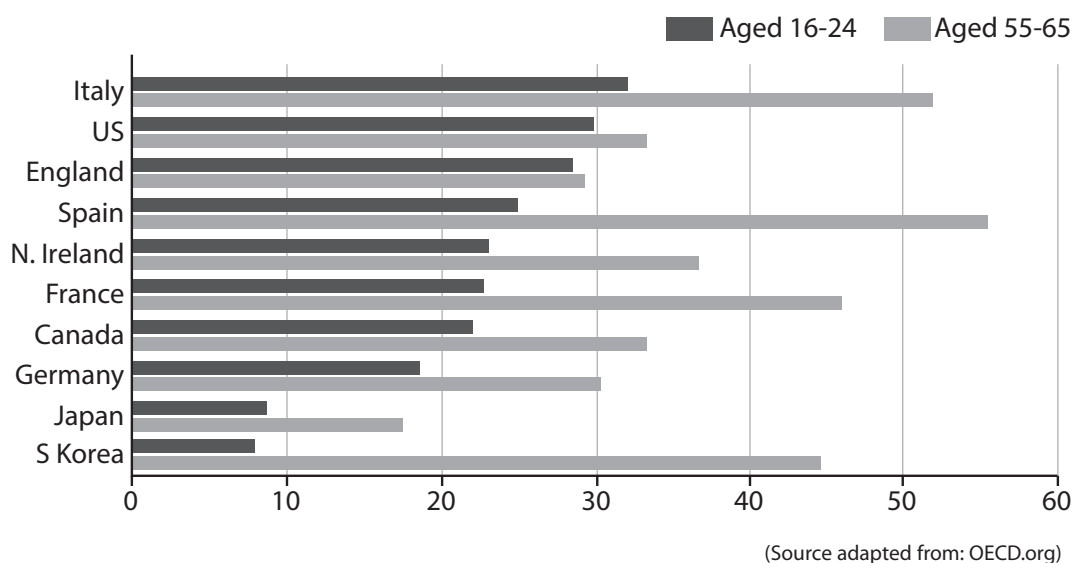
Figure 4: UK index of output per hour worked, base year 2016 = 100



(Source adapted from: ONS.gov.uk)



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



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

Extract D

The end of the High Street?

Homebase, the UK's second-largest do-it-yourself (DIY) retailer, made £20–40 million a year profit up to 2016. The Australian conglomerate Wesfarmers bought Homebase for £340 million in 2016, and began to rebrand 24 stores under its own name. It scaled back on curtain, cushion and other homeware sales in favour of power tools and building materials. In 2018 Wesfarmers sold the DIY chain for £1, in the face of "extremely challenging" market conditions and excess store space. The chain was bought by restructuring specialist Hilco, which had also rescued the music chain HMV in 2013, and the stores have gone back to using the Homebase name. Over 70% of Homebase stores are currently losing money and the new owner wants to exit loss-making stores and agree to rent reductions, as sales fell 10% in 2018. Homebase has gone back to popular products and brands dropped by its previous owner Wesfarmers. 5

The closures will add to the mounting job losses on Britain's high streets. About 25 000 jobs have gone in the first seven months of 2018, according to analysis by an economics thinktank. A further 8 300 jobs are under threat at suppliers, with the multiplier effect meaning that GDP is £1.5 billion less than projected. 10

Several Marks & Spencer clothing stores closed their doors for the last time as the high-street chain pushes ahead with a transformation plan. It plans to close 100 stores by 2022. Toys R Us, Poundworld and Maplin have shut down completely, while New Look, Mothercare and Carpetright have plans to close hundreds of stores as losses rise sharply. Increasing rents and higher business rates have occurred at the same time as falling consumer confidence. Meanwhile, House of Fraser employees and pensioners are nervously awaiting more details about their future. The £90 million rescue deal by Sports Direct, the sportswear chain controlled by Mike Ashley, will protect 16 000 jobs for the time being. 20

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



(25)



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(Total for this part = 25 marks)



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).

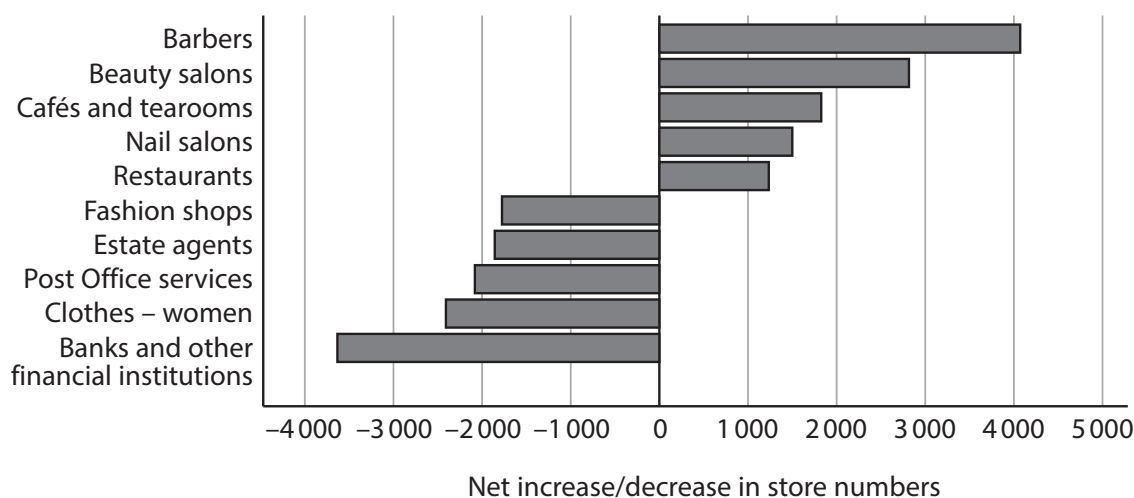
Write your answers in the spaces provided.

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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MARK SCHEMES

official mark schemes



Question Number	Answer	Mark
4(a)	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. • $AD = C + I + G + (X - M)$ (1) • Total amount of planned spending on goods and services at any price level in an economy (1)	(1)

Question Number	Answer	Mark
4(b)	Application 2 Application 2 marks for, • Correct leftward shift of SRAS (1) • Correct new equilibrium point showing higher price level and lower real output (1) © Learnogic	(2)

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

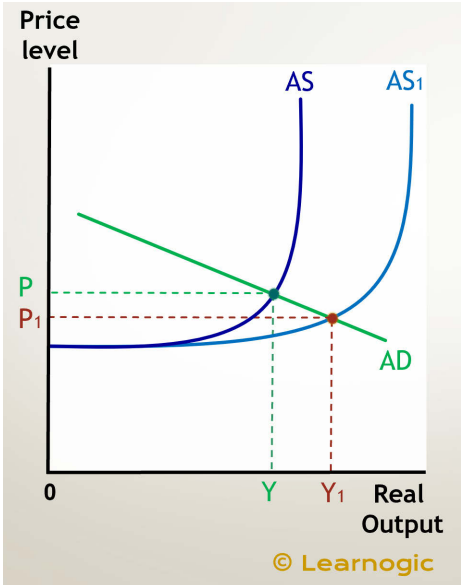


Question Number	Answer	Mark
3(a)	The only correct answer is C A is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap B is not correct because it shows actual GDP growth below trend GDP growth, therefore negative output gap D is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap	(1)

Question Number	Answer	Mark
3(b)	Knowledge 2 Knowledge/understanding: Up to 2 marks for, e.g. • There may be inaccurate data on the labour force (1) for e.g. the difficulties in measuring the size of labour migration / the number of people who may have left the labour market as 'discouraged workers' / amount of under-employment in the labour market (1) • There may be problems in accurately measuring level of productivity/asymmetric information (1) particularly in the service/technology sector (1) • Surveys of producers about level of spare capacity may be inaccurate (1) for e.g. due to misreporting, human error, time lags or survey bias (1) • Difficulty in measuring actual GDP/potential GDP (1) e.g. hard to measure hidden economy (1)	(2)

Question Number	Answer	Mark
3(c)	Knowledge 1 Knowledge/understanding: 1 mark for definition, e.g. • Trade cycle shows movements/fluctuations in economic activity (1) • Boom, recession, trough and recovery (1)	(1)

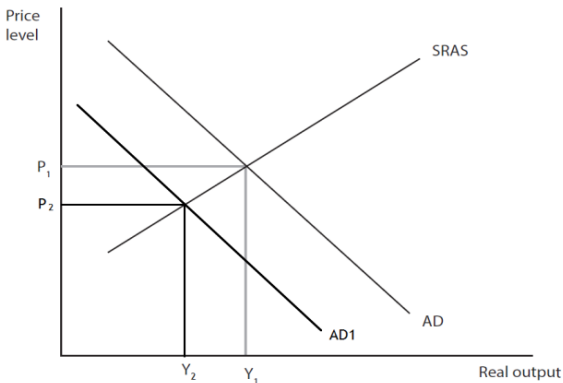


Question Number	Answer	Mark
4(a)	Knowledge 2, Application 1, Analysis 1 Knowledge 2 marks e.g. • Aggregate supply will increase (1) • Improvement in UK's capital (1) • Increase in productivity/efficiency of UK economy (1) • Correct diagram illustrating an increase in AS (2), e.g.:  Application 1 mark, e.g. • Reduce journey times by as much as 50% • £56bn spending Analysis 1 mark for linked development e.g. • Faster journey times means people can get to work quicker, increasing their productivity • Moving freight more quickly will increase efficiency for firms	(4)

Question Number	Answer	Mark
4 (b)	The only correct answer is B <i>A is not correct because it is a decision by the government to spend this money</i> <i>C is not correct because this is capital, not current, expenditure</i> <i>D is not correct because this is not an example of transfer payment</i>	(1)



Question Number	Answer	Mark
4(a)	Knowledge 1 Knowledge/understanding: 1 mark for definition, e.g. • Increase in the capital stock of the economy (1) • An injection into the circular flow of income (1) • Spending by firms on capital goods (1)	(1)

Question Number	Answer	Mark
4(b)	Application 2 Application: 2 marks for, • Correct leftward shift of AD (1) • Correct new equilibrium point showing lower price level and lower real output (1) 	(2)

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



Question Number	Answer	Mark
2(a)	The only correct answer is A <i>B is not correct because this is a Classical LRAS curve</i> <i>C is not correct because this shows AD decreasing</i> <i>D is not correct because this is a Classical LRAS curve</i>	(1)

Question Number	Answer	Mark
2(b)	Knowledge 1, Analysis 1 Knowledge/understanding (1): There would be no change in real output (1) Analysis (1): E.g. since classical economists believe the economy will be at full employment in the long run Diagram to illustrate this:	(2)

Question Number	Answer	Mark
2(c)	Knowledge 1, Analysis 1 Knowledge/understanding (1): Identification of likely impact: - Aggregate demand will fall/decrease Analysis: 1 mark for linked development, e.g. - Negative wealth effect - Reduction in consumer confidence and consumption	(2)

Question Number	Answer	Mark
3(a)	The only correct answer is B <i>A is not correct because the pound has fallen in value</i> <i>C is not correct because the pound-dollar is a floating exchange rate system</i> <i>D is not correct because the pound-dollar is a floating exchange rate system</i>	(1)



Question Number	Indicative content	Mark
2(c)	Knowledge 2, Application 2, Analysis 4 Knowledge and analysis - Might mean costs rise in the short run and/or - Costs fall in the long term – fixed or variable - Demand for products might increase as firms improve product quality and choice Application - Some firms in Germany are expecting higher long-term profits from the investment (Extract C) - Germany still far behind other countries in the area of technology especially broadband (Extract C) Analysis Example of diagram (can use AC or ATC or not shift MC): The top graph shows a downward shift in demand and marginal revenue. The initial equilibrium is at Q^* where $MC = MR_1$, with price P^* on the demand curve $AR_1 = D_1$. The profit area is $SNP_1 = P^*ABC$. After the shift, the new equilibrium is at Q_1 where $MC = MR$, with price P_1 on the demand curve $AR = D$. The profit area is $SNP_2 = P_1KJH$. The profit decreases. The bottom graph shows an upward shift in demand and marginal revenue. The initial equilibrium is at Q^* where $MC = MR_1$, with price P^* on the demand curve $AR_1 = D_1$. The profit area is $SNP_1 = P^*ABC$. After the shift, the new equilibrium is at Q_1 where $MC = MR$, with price P_1 on the demand curve $AR = D$. The profit area is $SNP_2 = P_1EFG$. The profit increases.	



	NB for a level 3 response there must be at least one valid diagram. The diagram can show either a rise in AR/MR or a fall in costs, or both.	(8)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no 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. 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	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(c) continued	Evaluation 4 • Discussion of whether costs would rise (short term) or fall if successful (long term) • It depends on how labour intensive the production is • It depends on what competitor countries are doing • New technology needs highly skilled labour and cannot be discussed in isolation	(4)

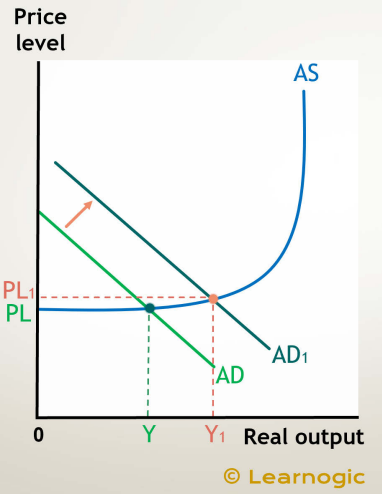
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference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



Question Number	Answer	Mark
6(b)	Knowledge 2, Application 2, Analysis2, Evaluation 2 Knowledge/Understanding: Two relevant factors identified (1+1), e.g. • Regulations • Over-reliance on gas imports • Labour market shortages • Technological issues • Costs of raw materials/energy/infrastructure projects • Change in exchange rates • Change in tax rates • Increase in wages • Business confidence Analysis: Linked development of each cause (1+1), e.g.: • It takes a very long time for constructions projects to complete (1) • Higher prices/shortage of gas reduce firms' ability to produce (1) • Firms are unable to produce as much as they lack the workers they need (1) • Technological constraints reduce productivity / drives up cost (1) • Labour market inflexibility/shortages drives up wage cost (1) • SRAS/AD diagram/ SRAS shifts in (1) • Depreciation of the Euro causes import prices of raw materials/capital equipment to rise (1) Application: 2 marks (1+1) for reference to Extract A/own knowledge, e.g. • 'lengthy planning procedures' (1) • 'short of up to 7 million workers by 2035' (1) • 'ageing population' (1) • 'lack of skilled workers' (1) • 'excessive bureaucracy' (1) • 'lack of technological advances' (1) • 'volatile global energy prices' (1) • 'fossil fuels such as coal and gas still provide 75% of energy needs' (1) • 'weakening euro' (1) • 'higher interest rates in the USA compared to the Eurozone' (1) • 'The German economy entered a recession in 2023' (1)	



	• 'business confidence in the economy fell at the fastest pace since 2021' (1) Evaluation: 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment (1+1), e.g. • German government has plans in place to reform the economy • German government planning large-scale expansion of renewable energy projects • Increased immigration can help to address the problem of an ageing population • A combination of factors that affect SRAS and it's not possible to focus on just one as the main factor • Short run vs long run - significance of factors change over time • Relative significance of points	(8)
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Question Number	Indicative content		Mark
6(b)	Knowledge 2, Application 2, Analysis 2 • An increase in real wages will lead to an increase in consumer expenditure • Consumption is a component of aggregate demand • Aggregate demand will increase from AD to AD₁ • Inflationary pressures will increase from PL to PL₁ • Real output will increase from Y to Y₁ • Consequently, unemployment will decrease • Figure 1: In 2019, real wage growth increased by 2% Diagram, e.g.:  NB Candidates must answer with an AD/AS diagram presenting an increase in AD to access Level 3		(6)
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.	
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.	
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.	



Question Number	Indicative content		Mark
6(b) continued	Evaluation 4 • Consumption is largest component of aggregate demand, therefore will have a significant impact • Significance of the elasticity of the AS curve and the state of the UK economy • 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 • Depends on other factors in the economy, such as net trade and investment • Nominal wage growth may be more significant in determining impact on consumption: Figure 1		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.	



Question Number	Indicative content	Mark
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Understanding that oil has a macroeconomic consequence through the effect on the net trade component of AD and/or shifting the costs of production for all firms as SRAS or LRAS shift. Possible macroeconomic consequences may include: • An increase in overall economic activity (real GDP) as the cost of production decreases for businesses, especially for those that are heavily dependent on oil inputs. Application, e.g. a 10% fall in oil prices boosts growth by 0.1 to 0.5 percentage points. • Some sectors such as agriculture, air transport, services involving other travel and oil-intensive manufacturing sectors will benefit as the price of their key input falls. • Benefits for consumers, e.g. real household incomes after essential costs also rise as oil prices fall, which may increase consumer spending, but this is not automatically awarded as a factor increasing AD. The connection involves two possible mechanisms: overall consumer prices fall as cost savings are passed on to households which spend more in domestic markets, and real wages increase as demand for labour rises in fast-expanding sectors. • Oil importing countries e.g. S Korea can stop subsidising energy, enjoy reduced external debt • As a result of growing economic activity, government tax revenues may rise as the tax take from corporate and personal income taxes increase • The fall in the oil price should also have a small impact in narrowing the UK trade deficit. • Application, e.g. prices have fallen by over 75% in 18 months	

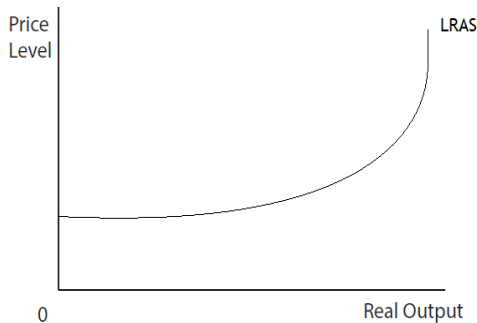


	Possible evaluation points include: • Problems for oil producers, with macro effects on employment, tax revenue etc. • The problems in the financial sector – stock markets respond by seeing most prices collapse, especially fuel producers, and stock markets might collapse • Increased external debt for oil exporting countries (and gas, as gas prices are also falling) e.g. Russia, Venezuela • Negative effect on consumer confidence, political instability with impact on markets • Reduced research into new exploration of oil • Reduced investment into new technologies to replace oil (\$380 billion) • Externalities might increase or decrease (depending on effect on carbon fuels, fracking firms etc) • Depends on how long the oil prices stays low, and how much further it went/will go • Risks from 'sectoral stagnation' in developed economies or continued problems in the Eurozone e.g. the oil and gas extraction sector is negatively affected by the reduction in the oil price • Government experiences declining tax revenues from the oil and gas sector. NB For a Level 4 response there must be a logical connection for a change in aggregate demand – do not automatically award an increase/decrease in AD.	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

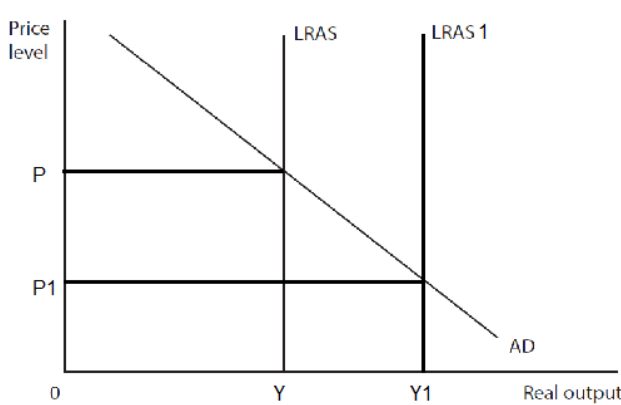


Question Number	Answer	Mark
2(a)	Knowledge 1 Knowledge: e.g. possible diagram  (1)	

Question Number	Answer	Mark
2(b)	Knowledge 2 Knowledge/understanding: 2 marks (1+1) for, e.g. • Equilibrium level of output can occur below the full employment level of output / the economy is not operating at full capacity/employment (1) • There is a negative output gap in the economy (1) • Award use of a LRAS diagram to illustrate spare capacity / the economy is operating at the elastic segment of LRAS (1) • Award the use of a PPF diagram to illustrate spare capacity / economy is operating inside the PPF (1) • Under-utilisation of the factors of production / the resources not being used to their full potential (1) so there is room to increase supply/output (1) (2)	

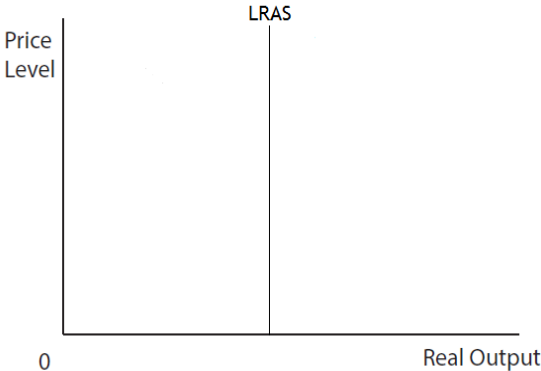
Question Number	Answer	Mark
2(c)	The only correct answer is D A is not correct because changes in competition policy shifts the long-run AS B is not correct because changes in relative productivity shifts the long-run AS C is not correct because changes in the cost of raw materials shifts the short-run AS (1)	

Question Number	Answer	Mark
4(a)	Knowledge 1 Knowledge/understanding: 1 mark for definition, e.g. - Price level is the average of the current prices of goods and services in the economy (1) - CPI or RPI (1) NB Do not accept inflation	(1)

Question Number	Answer	Mark
4(b)	Application 2 Application: 2 marks for, - Correct rightward shift of LRAS (1) - Correct new equilibrium point showing lower price level and higher real output (1) 	(2)

Question Number	Answer	Mark
4(c)	The only correct answer is A B is not correct because an increase in indirect taxation is an example of contractionary fiscal policy C is not correct because an increase in interest rate is an example of contractionary monetary policy D is not correct because an increase in the regulation of markets is example of market-based supply side policy	(1)



Question Number	Answer	Mark
2 (a)	Knowledge 1 Knowledge:  (1)	

Question Number	Answer	Mark
2 (b)	Knowledge 2 Knowledge/understanding: 2 marks for, e.g. - Economy operates at full capacity/no spare capacity (1) so there are no unused factors of production/ resources (1) - Wages and prices are seen as flexible, and markets efficient (1) so that the labour market adjusts to maintain full employment (1) (2)	

Question Number	Answer	Mark
2 (c)	The only correct answer is A B is not correct because this is an interventionist supply-side policy C is not correct because this is an interventionist supply-side policy D is not correct because this is an interventionist supply-side policy (1)	



Question Number	Answer	Mark
1(a)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding: 1 mark for, e.g. - Aggregate supply will increase (1) - Diagram showing rightward shift of AS (1) Application: 1 mark for, for e.g. - Between 2019 and 2020, Government expenditure on healthcare increased by 25.6%/£44.8 billion (1) Analysis: 1 mark for linked development, e.g. - People will be healthier, therefore increasing their efficiency (1) - More people attend/do not miss work, increasing productivity (1) - Lower price level/higher real output (may be shown diagrammatically) (1)	(3)

Question Number	Answer	Mark
1(b)	The only correct answer is C A is not correct because this is a market-based supply-side policy B is not correct because this is a market-based supply-side policy D is not correct because this is a market-based supply-side policy	(1)



Question Number	Indicative content	Mark
2(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis: • Definition of an output gap: e.g. the difference between actual output (or growth) and potential/trend output (or growth), an economy which is operating at less than full potential • Use of AD/AS diagram to show either demand deficiency (static diagram where AD crosses AS below full potential) or a short term movement along SRAS (AD shift left). • Shift of AS leftwards on a diagram that shows full employment (note that this can cause a fall in output gap) • Other diagrammatic analysis can be used to support explanation e.g. PPF / trade cycle but 2 marks are reserved for AD/AS Application • Use of Extract D and/or Figure 6, e.g. ◦ evidence of immobility of labour and under-employment, ◦ there is a negative output gap in the UK Fig 6 ◦ 'weak demand conditions' ◦ fall in labour productivity • The gap is negative e.g. the sense there is less being produced that could be produced, and is therefore inefficient. • Use of diagram to show the gap on horizontal axis between equilibrium output and potential output. E.g. 1 mark for equilibrium output compared to full employment output NB award a maximum of 4/5 if there is no use of Extract D or other data provided. NB Reserve 2 marks for the AD/AS diagram. Award either as 1 K/AN and 1 AP or as 2 AP. NB either a vertical LRAS (Classical) or Keynesian LRAS is acceptable, and the equilibrium may be shown with AD and either LRAS or SRAS.	(5)



Question Number	Indicative content	Mark
2 (a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis (3 marks): e.g. • Productivity must be GDP / input (or per hour worked) to have sense of output relative to input (1) sense of relative efficiency (1) • Nominal values meaning e.g. inflation is included in the figures (1) so useful firms when calculating how much revenue they have earned (1) • PPPs means e.g. that the relative cost of living is taken into account, or the figures are adjusted according to the relative purchasing power (1) • Makes comparison easier across countries (1) and time (1) and meaningful in the same currency (1) Application (2 marks for 1 point, or 1 + 1) Award valid data use only e.g. • US produces 28% more per hour (1) than the UK (1)	(5)



Question Number	Indicative content	Mark
2 (b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Knowledge/implicit understanding of one reason - Higher employment/employment has not fallen in line with falls in GDP (productivity puzzle) - Inefficient businesses e.g. zombies - Costs of laying off workers is high e.g. labour hoarding – both in terms of severance and loss of human capital - Workers do not want to leave, because of pensions/higher living costs/lack of confidence about finding another job after the biggest crash since the 1930s - Low interest rates have meant workers can be kept on despite falling sales and output, as profits are kept positive - Later retirement age - Lack of investment/FDI in UK (1) e.g. in advanced technology (1) - Numbers in higher education NB do not award longer working hours unless clearly linked to hourly impact (Figure 4 is hourly productivity) e.g. diminishing marginal productivity. Award only the one best reason given. Analysis - Development of one point, up to two marks for one valid factor e.g. the firm firms cannot reach their potential (1) at their predicted level (1) Application: (2 or 1+1) - Use of Figure 4 to show difference between actual and potential figures - This might be shown using a PPF or AD/AS diagram (1) - Use of UK recent events e.g. financial crisis (1) NB At least one application mark is reserved for use of Figure 4.	



	Evaluation (2 marks for any relevant point, or two points 1 +1): • Problems in data – productivity is being measured the wrong way • Trend likely to reverse after recovery from downturn 2020/2021 • As employment falls from events in 2020 the trend might reverse (output per worker will rise if there are fewer workers) • Magnitude of productivity gap is cause for alarm • Reasons why productivity is growing in other countries – or other comment e.g. that the relative productivity (Fig 3) is more significant	(8)
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Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Policies may include: • Improved education/training to increase skill level of workforce • Increase in provision and quality of apprenticeships • Improved healthcare to ensure workers take less time off/are healthier at work • Improved infrastructure, e.g. roads, railways, ports, airports, to reduce delays in transporting goods around the country/abroad • Improved telecommunications infrastructure (e.g. faster broadband internet) so businesses can work quicker, communicate with foreign firms better, etc. • Relaxing the planning system to improve house-building and efficiency in construction industry; improve labour mobility NB For a Level 3 response, answers must make clear links to increases in productivity rather than production or output	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 Points may include: • Many of these policies will have quite a long time lag e.g. nursery school vouchers will have short term and long term impacts on different stakeholders • Magnitude of the impact of the policies e.g. Crossrail just affects London • Opportunity cost of the policies • Conflicts between objectives e.g. impact on the environment • Conflicts between policies e.g. increased spending on apprenticeships may have fiscal implications	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.



Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Effects for employment: • “Work remains the most common reason for long-term migration (312 000)” – this is most likely to lead to an increase in employment • “182 000 of these coming with a definite job” – these migrants could fill those vacancies that cannot be filled by indigenous workers • Increased size of population means that there is increase in supply of labour, thus reducing wage rate and increasing demand for labour • Increased consumer spending from an increased population means more jobs are created • Increased demand for public services creating an increased demand for public sector workers Effects for unemployment: • “130 000 looking for work” – these migrants could displace the current indigenous workers • “10 547 people granted asylum” / 80 000 family members – surplus labour in the market as they might attempt to join the labour market but with inappropriate skills NB Answer must refer to both <i>employment and unemployment</i> to access Level 3	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 Points may include: • Magnitude and the significance of net migration – the figures on emigration have not been provided • “Long-term migration to the UK for study was estimated to be 163 000” – so may only be short-term migrants; also it is not sure they will remain in the UK after study • If the UK economy starts to grow, it can take on more labour without increasing unemployment • Evidence might be inaccurate, e.g. reason for migration is a very loaded question/inadequate data – it does not indicate if there has been an increase or decrease in the figures shown • Depends on the skills of migrants • “Dependents” may or may not have an effect • Depends on the percentage of asylum seekers granted leave to remain (Extract B) • Different industries may be affected differently	(6)
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.



Question Number	Indicative content		Mark
6 (e)	Knowledge 3, Application 3, Analysis 3 Understanding of long-term trend rate of growth Possible factors include: • Fall in relative productivity, “the fall in the level of productivity is a long-term issue” – costs per unit rise and export prices increase; exports fall • Lower technological advances will reduce efficiency and raise the cost of supplying goods and services; lack of innovation due to less R&D spending • Slow growth in the level of UK’s investment into capital goods since the “financial crisis” – due to lack of business confidence • Lack of government spending on education and training – has a negative impact on the skills of the workforce, thereby reducing human capital • Slower rate of immigration – fewer workers coming into the country as a result of the UK’s decision to leave the EU; this decreases growth of the active labour force and hence lower rate of output produced • Stricter government regulations – markets are less flexible and reduces competition in industries • External factors, e.g. slow global growth rates • Accept demand side factors if linked to growth		(9)
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.	
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.	
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.	



Question Number	Indicative content	Mark
6 (e) continued	Evaluation 6 Points may include: • Significance of the most important factor affecting growth; “productivity is a long-term issue” • Depends on the size of the fall in UK productivity and on the productivity of the UK’s main trading partners, such as the US and EU • Uncertainty over the UK’s decision to leave the EU is more important than the financial crisis as this was over 10 years ago; effects of the lower investment may not yet be seen • Inaccuracies/inadequacies of data may mean that the UK’s long-term growth might not be low as it has been estimated • Uncertainty of world economy	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.



Question Number	Indicative content	Mark
2 (e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • Loss of human capital and therefore lost incomes, consumer welfare • Firms may have unfilled vacancies. Effects on costs • Falling incomes in the UK mean reduced sales • Skills shortages may create a need for employment of migrant workers • Extra costs associated with training staff to up skill them Macroeconomic effects may include: • Shift in SRAS or LRAS might be drawn as costs of production rise, productivity worsens, capacity reduces • Effects of immigration to fill gaps in labour market • Effect on current account as UK economy becomes uncompetitive • Falling tax revenues and increased G – fiscal implications NB for a Level 4 answer there must be reference to the context of young workers in the specific country's context (UK or any other) NB for a Level 4 response there must be micro and macro effects. Possible evaluation points include that the effect depends on: • Effects of Brexit may mean it is harder to fill vacancies for firms using skilled EU labour • Data may be misleading – difficult to measure human capital • Comment on the priority literacy/numeracy is vital to long term viability of workforce. Should funding increase for education? • There will always be a demand for low skilled workers • Some evidence that most UK young people are better educated 2016 data- improvements likely with reforms to KS2, GCSE and A Levels focusing more on literacy and numeracy/quantitative skills. • Some with poor literacy and numeracy have been highly successful entrepreneurs - there are famous (but statistically rare) examples!	(25)



Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.



Question Number	Indicative content	Mark
2(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • Higher wages – might include a supply of labour diagram • Rising costs to firms • Firms may close/leave markets • Use of cost/revenue/profit diagram (accept fixed or variable cost rising e.g. wages) • Lack of provision/availability of a service e.g. - waiting lists in hospitals, levels of social care • Greater migration to fill vacancies • Movement towards more capital-intensive production • Relocation arguments to find more available labour Macroeconomic effects may include: • Use of AD/AS analysis e.g. output gap • Inflation – cost push • Inflation - demand pull • Changes in equality • LRAS / productive potential / PPF arguments e.g. higher immigration/change in migration laws • Impact on international competitiveness NB for a Level 4 response, there must be micro and macro effect(s) NB for a Level 4 answer there must be reference to the UK or another developed country NB some factors such as standard of living, education/skills, migration or tax could be counted as macro or micro 9 marks for evaluation – points might include: • Consideration of skilled labour • Discussion of robotic replacement for unskilled labour • Consideration of PES of labour • Time lag arguments • Depends on type of labour required • Depends on labour costs as % of TC • Position of AD on LRAS • Short run long run effects • Non-wage benefits might be considered as contrast • Depends on migration and other demographic factors • Monopsony vs. monopoly power	(25)



	Extent of impact depends on government policy making e.g. trade bloc membership, education & training policy, immigration policy	
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
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Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

