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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Economic Growth (2.5)

A Level Economics Theme 2

50 questions · 466 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
2.5.1 CAUSES OF GROWTH		20 Qs · 265 marks	3
1. Q3(c)	A Level Paper 2 June 2023	1	4
2. Q3(a)	A Level Paper 2 June 2023	2	5
3. Q6(a)	AS Paper 2 June 2025	4	9
4. Q6(d)	AS Paper 2 June 2022	5	10
5. Q3	A Level Paper 2 June 2023	5	13
6. Q6(d)	AS Paper 2 June 2017	6	15
7. Q6(b)	AS Paper 2 June 2018	10	18
8. Q6(d)	AS Paper 2 June 2019	10	24
9. Q6(d)	AS Paper 2 October 2020	10	30
10. Q6(c)	AS Paper 2 June 2023	10	35
11. Q6(c)	A Level Paper 2 June 2023	12	40
12. Q6(e)	A Level Paper 2 June 2017	15	46
13. Q6(e)	AS Paper 2 October 2020	15	52
14. Q6(e)	A Level Paper 2 June 2024	15	58
15. Q6(f)	AS Paper 2 October 2020	20	65
16. Q7	A Level Paper 2 June 2018	25	71
17. Q1(e)	A Level Paper 3 October 2020	25	75
18. Q2(d)	A Level Paper 3 November 2021	25	82
19. Q1(e)	A Level Paper 3 June 2024	25	89
20. Q1(e)	A Level Paper 3 June 2025	25	99
2.5.2 OUTPUT GAPS		10 Qs · 33 marks	103
21. Q3(a)	AS Paper 2 June 2017	1	104
22. Q3(c)	AS Paper 2 June 2017	1	105
23. Q2(c)	AS Paper 2 June 2018	1	106
24. Q3(a)	AS Paper 2 June 2025	1	107
25. Q3(b)	AS Paper 2 June 2017	2	108
26. Q3(b)	AS Paper 2 June 2025	2	109
27. Q3	AS Paper 2 June 2017	4	110
28. Q3	AS Paper 2 June 2025	4	112
29. Q2(a)	A Level Paper 3 June 2017	5	114
30. Q2(c)	A Level Paper 3 June 2022	12	118



QUESTION	SOURCE	MARKS	PAGE
2.5.3 TRADE (BUSINESS) CYCLE		13 Qs · 66 marks	124
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32. Q5(a)	AS Paper 2 June 2023	1	126
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35. Q3(a)	A Level Paper 2 June 2025	1	129
36. Q2(b)	AS Paper 2 June 2018	2	130
37. Q2	AS Paper 2 June 2018	4	131
38. Q5	AS Paper 2 June 2023	4	133
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42. Q6(e)	AS Paper 2 June 2022	15	142
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2.5.4 THE IMPACT OF ECONOMIC GROWTH		7 Qs · 102 marks	154
44. Q3(b)	A Level Paper 2 June 2023	2	155
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46. Q5(b)	AS Paper 2 June 2023	3	157
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QUESTIONS

50 questions · 466 marks · 4 sub-topics

SUB-TOPIC 2.5.1

CAUSES OF GROWTH

Sub-topic 2.5.1 · 20 questions · 265 marks · lowest tariff first



3 UK real GDP, 2020–2022

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

*2022 figures are forecast

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

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

(1)

An increase in:

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

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



3 UK real GDP, 2020–2022

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

*2022 figures are forecast

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

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

(2)

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.....

.....

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

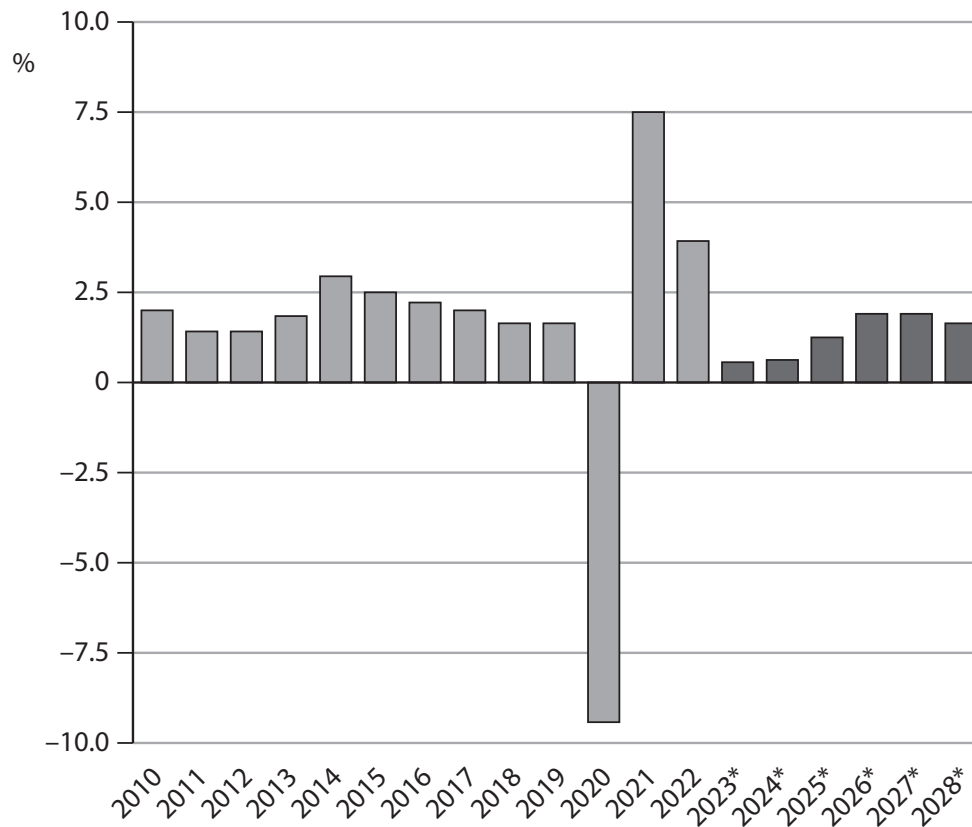


Sources for use with SECTION B

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

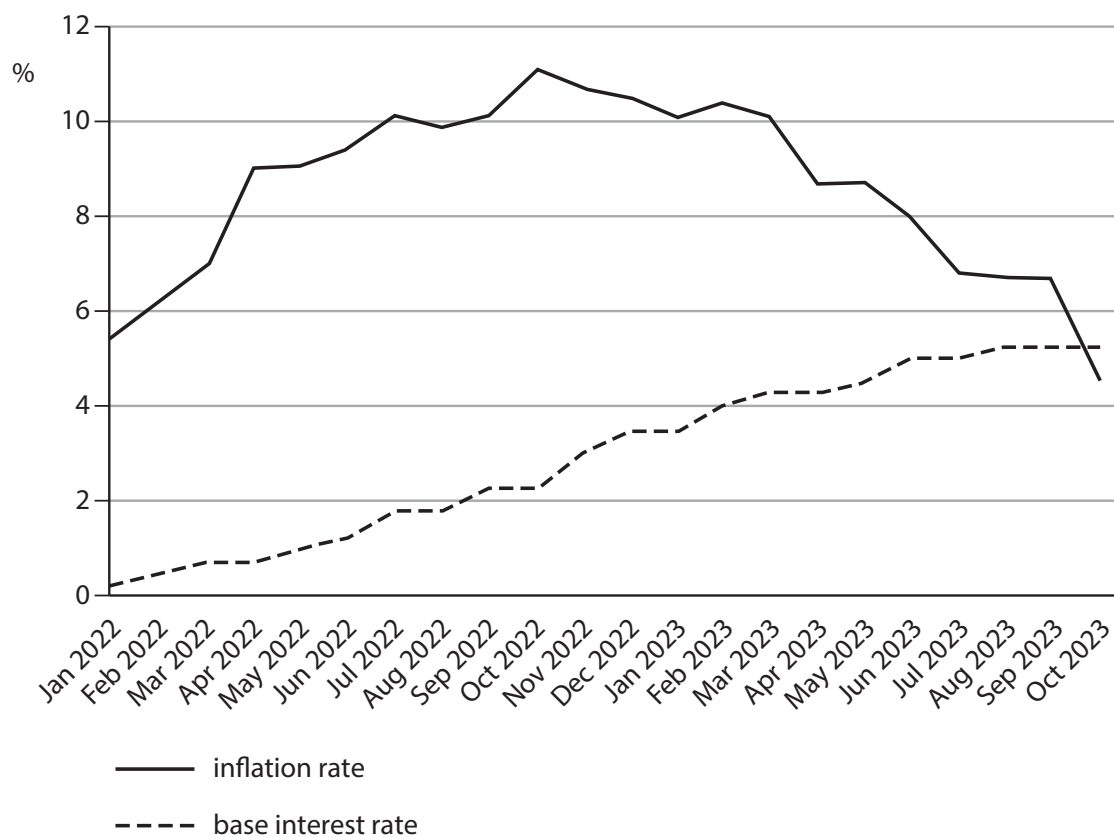
UK living standards and supply-side policies

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



* Data from 2023 to 2028 are forecast figures

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

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

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

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

Extract A**Economic reforms**

Economists forecast that the UK will experience a slower rate of economic growth between 2024 and 2028. They also expect a high rate of inflation due to rising import prices of food, fuel and energy, and a strong demand for consumer goods. As a result, real income per household is estimated to decrease by around 0.9% in 2024. This decrease would be the largest reduction in living standards since the Office for National Statistics records began in the 1950s. 5

However, the UK government argues that there are some limitations of using GDP to compare living standards over time. One main reason is the fact that GDP figures are in nominal terms. The government questions the reliability of inflation data as it believes that the Monetary Policy Committee (MPC) of the Bank of England will keep a high base interest rate to control inflation. The government also claims that the forecast by economists fails to consider the market-based supply-side policies it introduced in November 2023 to improve living standards. 10

The government's £10.4 billion cut to National Insurance contributions for employees is the most significant policy, expected to increase employment and living standards. It is forecast to bring additional people into work and encourage more people to work longer hours. This is likely to result in an extra 94 000 full-time workers. 15

The government has also taken measures to encourage more out-of-work benefits claimants into jobs. It introduced stricter benefit rules for people who can work but do not take a job offered to them. This includes stopping people's benefits if they do not actively engage in seeking employment in six months. This is likely to result in a further increase in employment figures. But economists claim that its impact on GDP will be relatively insignificant. This is because most of those affected by this policy will take on work with limited hours and very low pay. 20 25

These market-based supply-side policies, combined with measures centred on childcare subsidies for working parents, are expected to increase total employment by 200 000 between 2024 and 2028. The government argues that the expected increase highlights that it is better to "unlock the potential we have at home", rather than encouraging migration. However, several economists suggest that a rise in net migration is contributing more to an increase in the UK's potential economic growth. 30

Furthermore, the UK government's decision to offer 100% tax relief on investment in capital machinery will increase overall investment by 0.5% by 2028. The benefits of this effective tax cut for firms are estimated to increase over time, as technology advances and productivity improves. However, this tax cut will not prevent business investment falling in the short term, as higher interest rates are making it more expensive for firms to borrow. 35

Economists suggest that this tax cut can only be funded by decreasing government expenditure on public services in the long run. Government expenditure will need to decrease by a third, as a proportion of GDP, between 2024 and 2028. 40

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



(4)



SECTION B

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

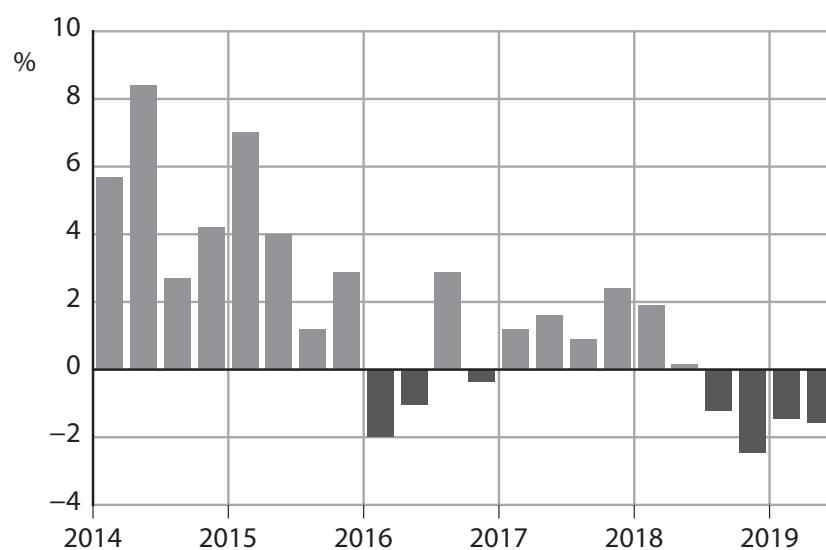
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

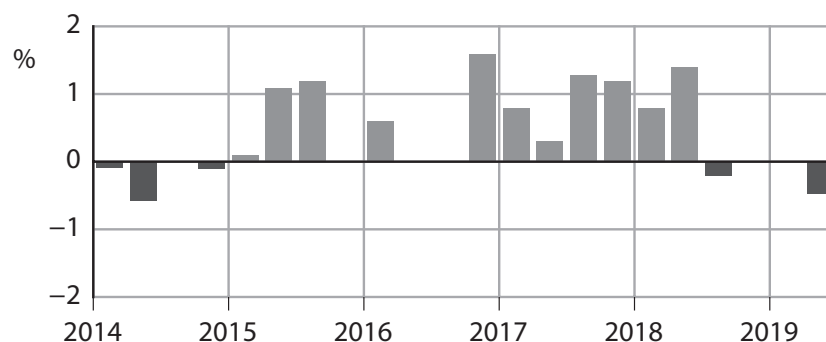
UK investment and productivity

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



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

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



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



Extract A**Another recession?**

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

Business investment has been weak across the world, but it is particularly low in the UK. Firms are reluctant to commit to capital spending while there is economic uncertainty. Growth in investment, in areas such as transport and machinery, has slowed. Global trade tensions are also affecting investment decisions. 5

Labour productivity decreased by 0.5% in the second quarter of 2019, the worst performance since mid-2014. Declining productivity is a concern especially as it comes at a time when the unemployment rate has been one of the lowest. The rate of unemployment decreased from 6% in July 2014 to 3.8% in July 2019. 10

The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting technology. This has decreased the prospects for increases in workers' pay. Without business investment and improvements in productivity, short-term growth in real GDP is likely to slow further and reduce living standards. 15

However, the UK Government expects the UK economy to perform better than Germany and Italy. These export-focused countries are highly exposed to the slowdown in world trade and the fall in average global incomes. 20

The UK economy is seeing continued strength in consumer spending. Consumption will support growth, provided there is no sudden shock to the UK labour market. Household incomes are strong, primarily due to high employment. Government expenditure has also been rising since the end of 2018. The UK Government has promised more money for schools and infrastructure improvements. 25

Despite this, some economists believe that the UK economy is likely to experience another recession. They claim that low income households cannot cope with a new downturn. The overall picture for the UK economy does not look promising because most businesses are reluctant to invest, productivity is low and economic growth relies on continued consumption. 30

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

(5)



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

(1)

An increase in:

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

(Total for Question 3 = 5 marks)

SECTION 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

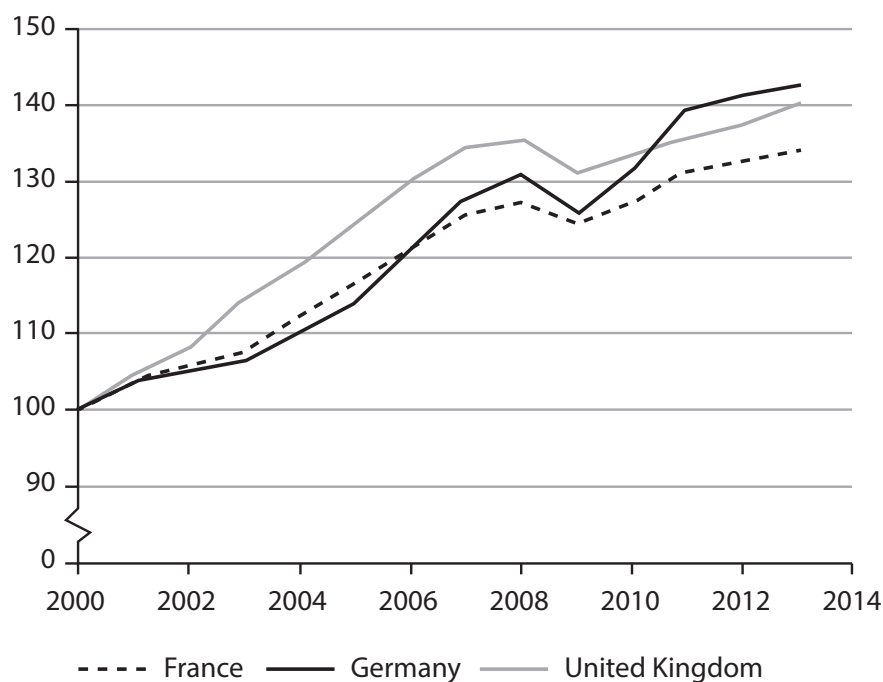
Figure 1: Components of aggregate demand in selected countries 2014

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)



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

(6)



SECTION B

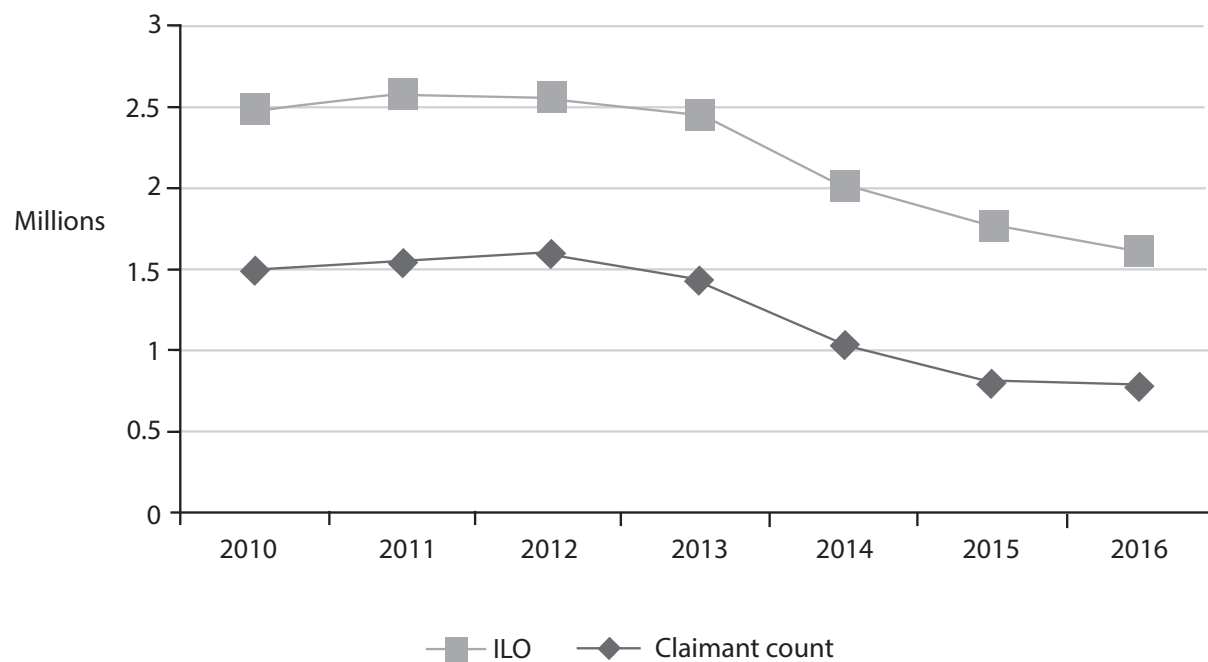
Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

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

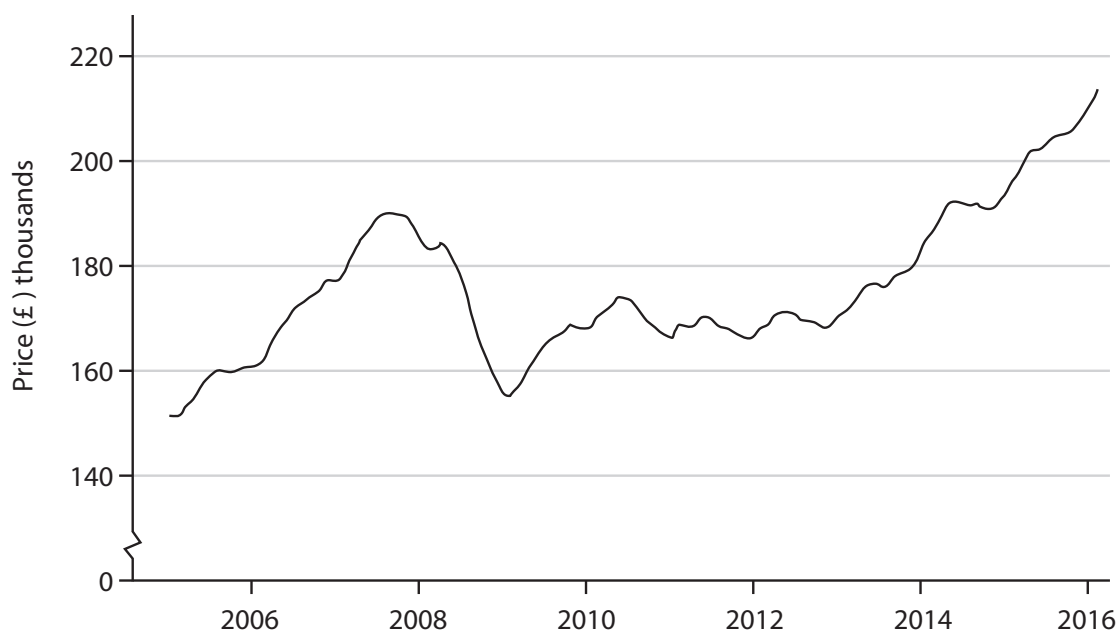


(Source: ONS Datasets, <https://www.ons.gov.uk/>)

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>)



(10)







SECTION B

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

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

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

Question 6**UK inflation and economic growth**

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

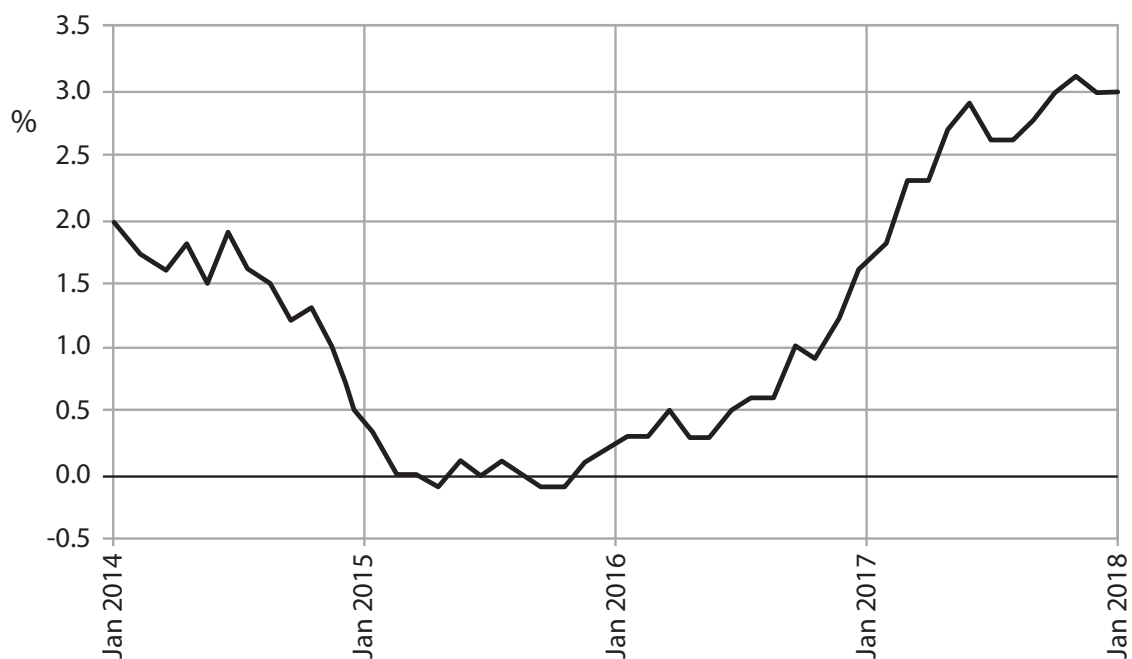
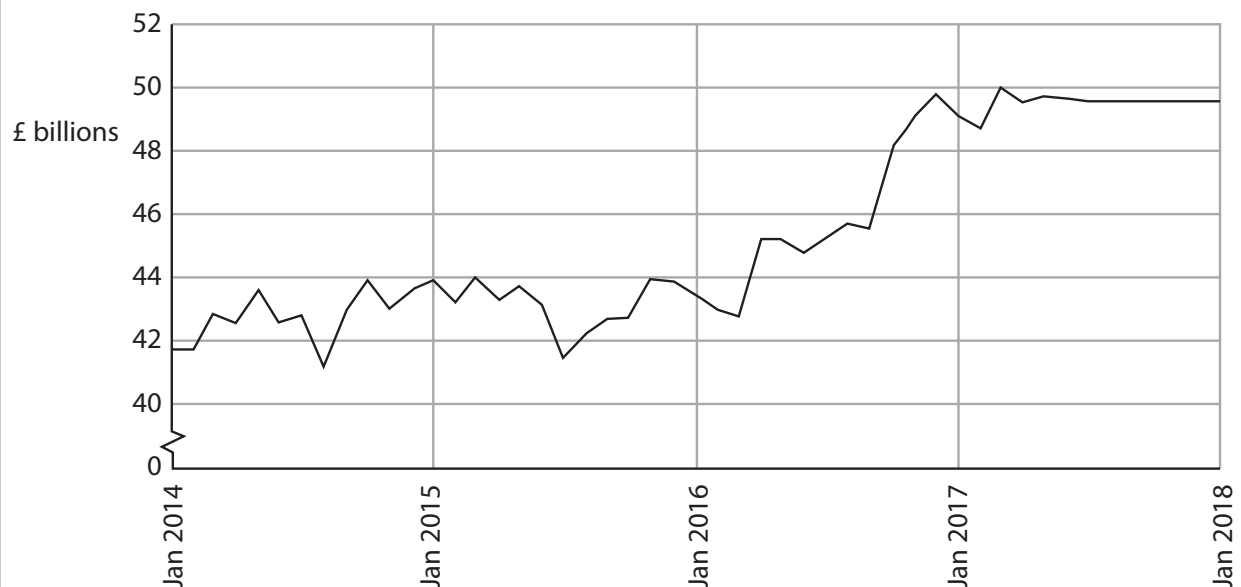


Figure 2: Selected changes to the CPI basket of goods and services, 2017

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

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

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

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

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

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

(Source: IMF, World Economic Outlook 2017)



Extract A**Rising inflation**

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points. 5

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending. 10

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households. 15

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket. 20

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

Extract B**Economic growth and living standards**

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth. 5

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK. 10

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



(d) With reference to Figure 3, assess the likely impact of the change in the value of exports, since mid-2016, on the economic growth of the UK. Use an aggregate demand and aggregate supply diagram in your answer.

(10)



[illegible]



SECTION B

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

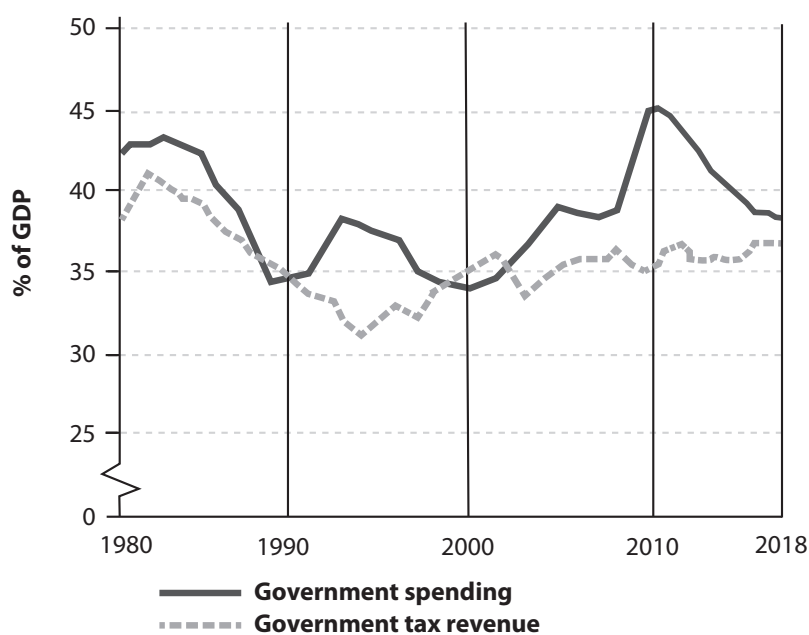
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Question 6

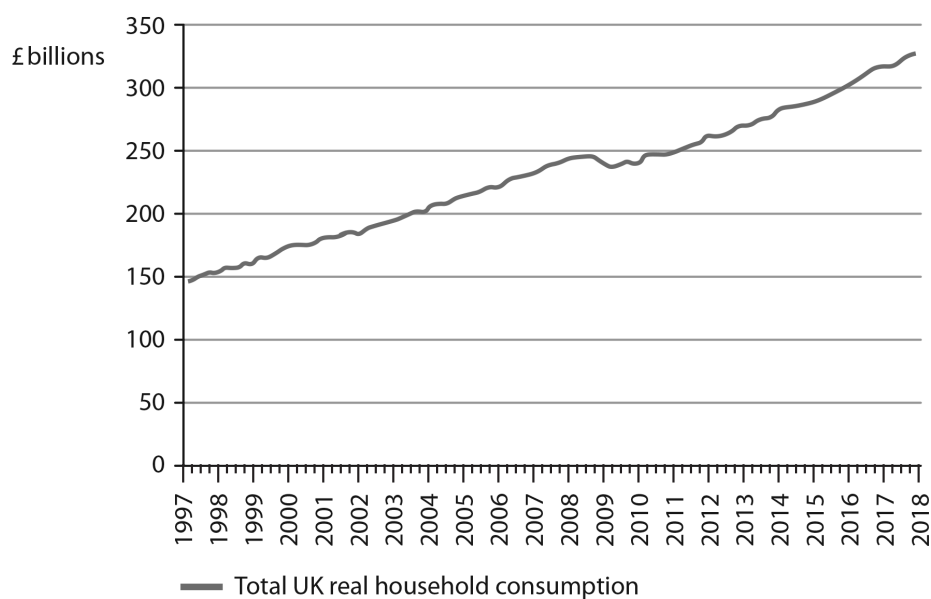
UK government budget and household consumption

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



(Source: adapted from Office for Budget Responsibility (OBR), http://cdn.obr.uk/EFO-MaRch_2018.pdf © 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>)







SECTION B

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

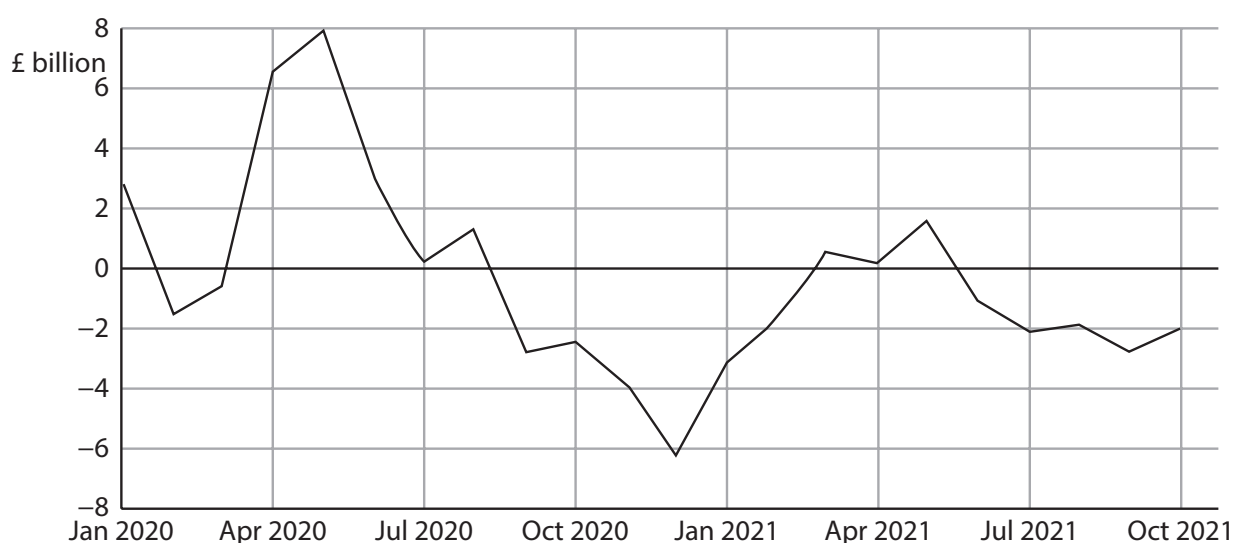
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

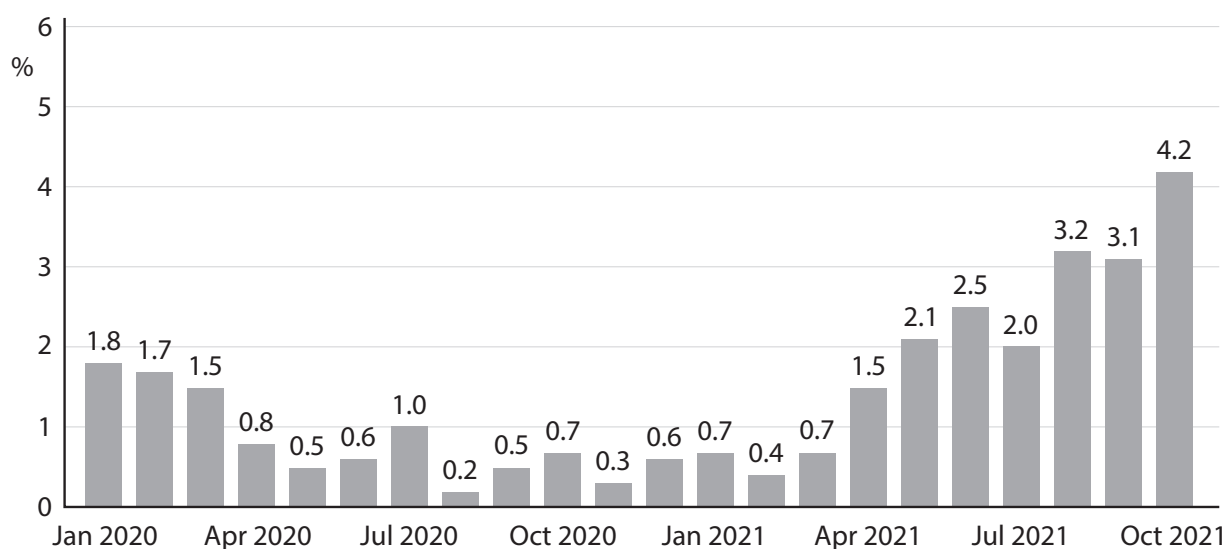
UK balance of trade and inflation

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



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

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



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



Extract A**Balance of trade in goods and services**

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

5

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

10

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

Extract B**Inflation**

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

5

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

10

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

15

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

(10)



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SECTION B

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

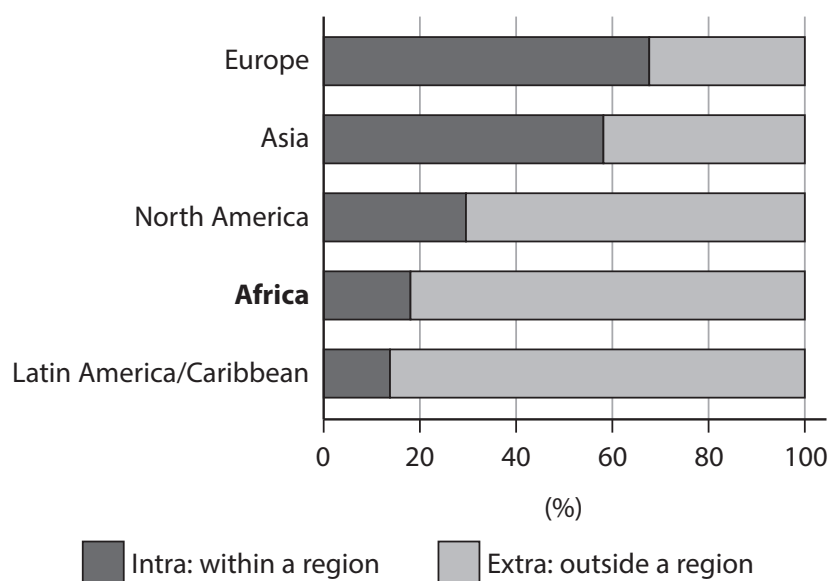
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Trade and development in Africa

Figure 1: Intra- and extra-regional exports as a percentage of total exports, 2020



(Source: adapted from <https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa>)

Extract A: Why it costs so much to move goods around Africa

Lorries carrying, among other things, cobalt from Congo, copper from Zambia and tea from Malawi queued for miles as they waited to cross the Limpopo river into South Africa. Many were there for days. Some drivers bribe their way to the front; 1 000 rand (£49) is the going rate. Others cannot afford to.

5

African politicians say they want to end such delays. The African Continental Free Trade Area (AfCFTA) regional trade agreement, so far agreed by 41 of Africa's 55 countries, could boost the region's economies by making it easier to trade between themselves. In 2020 just 18% of exports were to other African countries (see Figure 1), lower than the equivalent in North America (30%), Asia (58%) or Europe (68%). More trade within the region could lead to more jobs, higher wages and less poverty.

10

The AfCFTA pledges to improve trade in two ways. The first is by reducing tariffs. This could boost intra-African trade by 15% to 25%, says the IMF. The second is to reduce non-tariff barriers which could cause a 50% rise in intra-African trade.

Poor infrastructure is a major barrier to trade. Africa's land area is bigger than China, India, the United States and much of Europe combined. Yet its railway network is not very much bigger than France's and Germany's put together. Many lines were built by colonial companies to link mines to ports, rather than countries to one another. Newer Chinese-built railways across African borders are under-used, either because they struggle to compete on price with road transport or because they lack additional services such as storage yards.

15

20

Ports are small and slow. Cargo waits for more than two weeks on average, compared to less than a week in Asia, Europe and Latin America. Handling costs are around 50% higher than in other parts of the world.

Nearly 90% of transport of goods goes by road, of which there are not enough. Road quality is poor. Just 800 000 km of the total of 2.8 million km in sub-Saharan Africa are paved.

25

The IMF estimates that if the quality of Africa's infrastructure were brought up to the global average this would increase intra-African trade by 7%. However, even bigger gains could be made by improving how trade flows. The key problem is a lack of information. In much of the world large firms can buy space on trains or lorries as they need it. But in Africa, where markets for this do not exist, firms such as miners have to sign long-term contracts with larger transport firms in which they agree to pay for capacity, whether they use it all or not.

30

(Source: adapted from <https://www.economist.com/middle-east-and-africa/2022/03/26/why-it-costs-so-much-to-move-goods-around-africa>)

Extract B: Economic reform in Angola

When the new president, João Lourenço, took power in the southern African country of Angola in 2017, he pledged to reform the economy. This is a challenging task. The oil industry accounts for nearly all of Angola's exports and two-thirds of government revenues. The government is heavily involved in oil production along with significant foreign direct investment from international firms such as Chevron and Total. Declining production and falling oil prices brought about a collapse in GDP and rapidly rising debts to China and the IMF. 5

To reduce the cost of debt repayments, improve the country's fiscal position, and support a steadily declining debt-to-GDP ratio, the government of Angola has opted for debt relief. Together with a complete stop on debt repayments for the next three years, Angola will gain additional cash flow of \$6.9 billion in 2020–22. This will help bring Angola's total annual borrowing to a much more manageable level of around 8.7% of GDP. With improved finances the government will have more money to spend supporting the economy and providing vital public services to its citizens, over 17 million of whom still live in absolute poverty. 10 15

The IMF, which has since 2018 agreed to lend \$4.5 billion to Angola, is also encouraged by the country's fiscal policies. The finance minister, Vera Daves de Sousa, wants the state oil firm to sell shares to the public and for over one hundred state firms to be privatised. There have been delays – just 34 sales have taken place so far. But, she says, private firms must be the 'main driver' of growth and the economy must diversify away from oil. 20

Since 2019 Angola has ended government intervention in the foreign exchange market and moved towards a floating exchange rate. This led to a rapid depreciation in the kwanza (the Angolan currency) before stabilising after a few months.

(Sources: adapted from <https://www.economist.com/middle-east-and-africa/2021/02/20/joao-lourencos-reforms-in-angola-are-pleasing-the-imf>, <https://www.cabri-sbo.org/en/blog/2021/country-spotlight-angolas-commitment-to-prudent-and-proactive-public-debt-management>, and <https://www.focus-economics.com/countries/angola/news/special/kwanza-dives-to-all-time-low-as-central-bank-floats-the-currency>)

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114



SECTION B

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

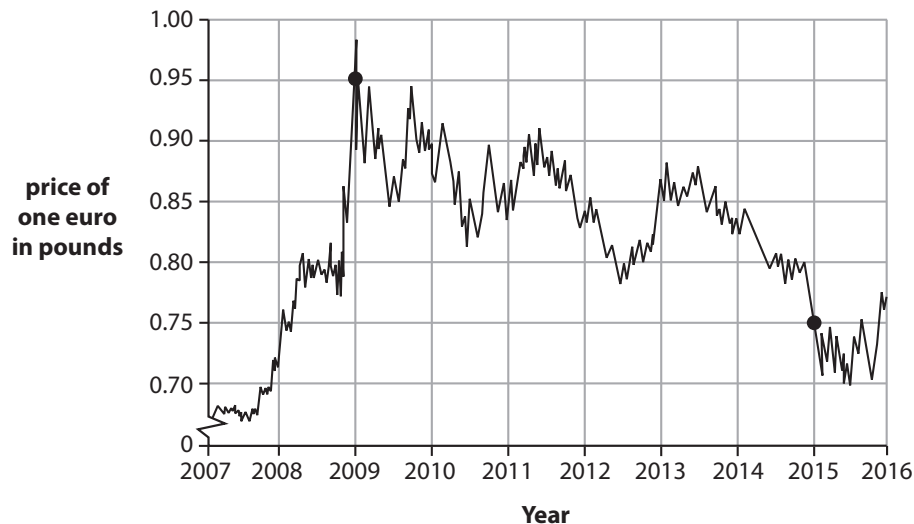
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

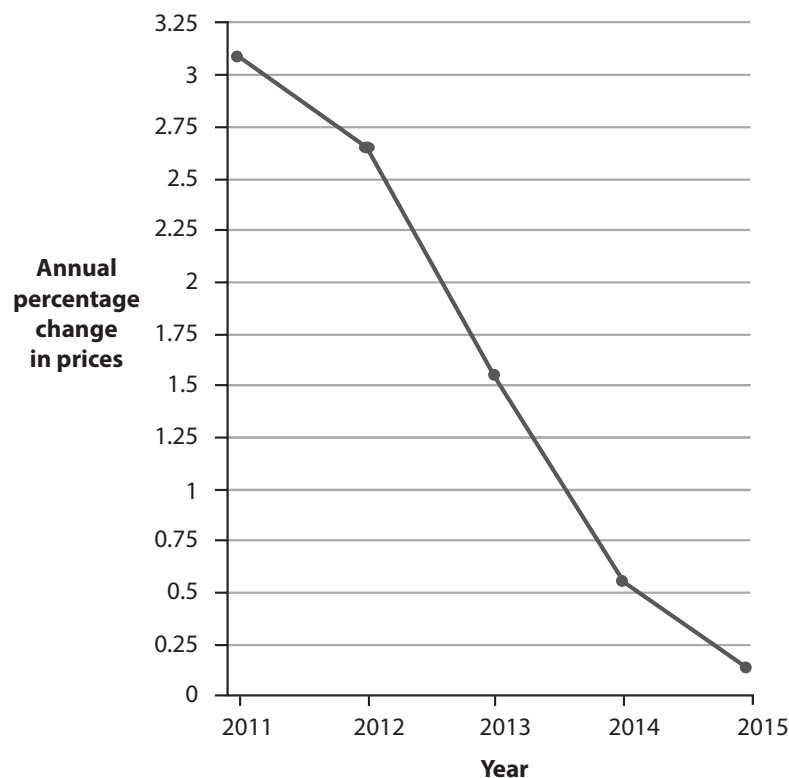
The Eurozone economy

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



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

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



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



Extract A**European Central Bank disappoints markets with weaker than expected stimulus**

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

The ECB cut its base interest rate by 0.1% to minus 0.3% in order to encourage private banks to lend funds to companies and households rather than deposit them at the central bank. The central bank agreed to extend its €60 billion (£45 billion) monthly bond-buying quantitative easing (QE) programme for a further six months. The ECB's €1.1 trillion QE scheme had originally been due to end in September 2016. 5

"We are doing more because it works," Mr Draghi said. Yet the ECB did not increase the size of its monthly asset purchases and also disappointed those expecting that it would cut interest rates more aggressively. 10

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

The ECB's economists reduced their inflation forecasts for the next two years. They now predict consumer prices in the Eurozone rising by just 1% in 2016 and 1.6% in 2017 – still below the central bank's ceiling of 2%. In November 2015, the inflation rate was just 0.1% and core inflation, excluding volatile items such as fuel and food, dropped to 0.9%. 15

Mr Draghi stressed again that monetary policy alone could not restore the Eurozone to economic health. He called for looser fiscal policy among member states to support aggregate demand and more rapid implementation of supply-side reforms. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively," he said. 20

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

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS



SECTION B

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

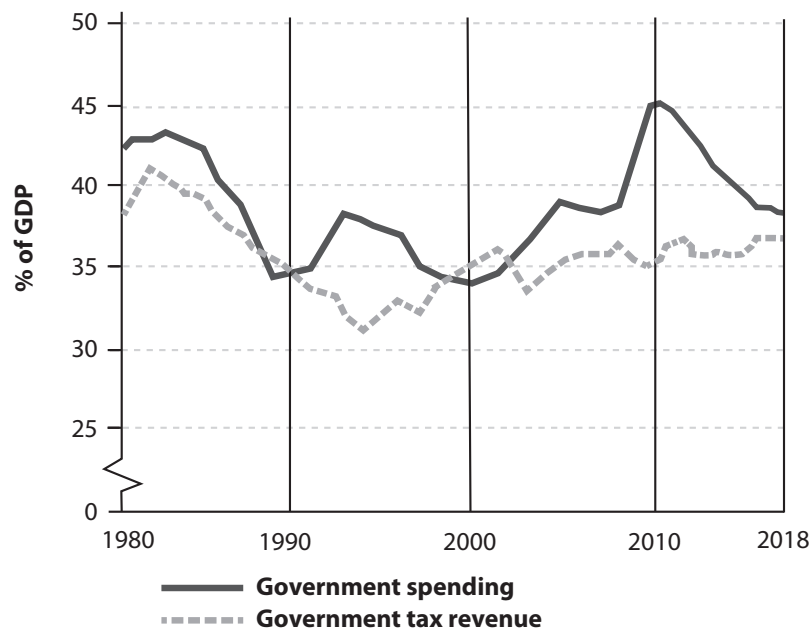
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

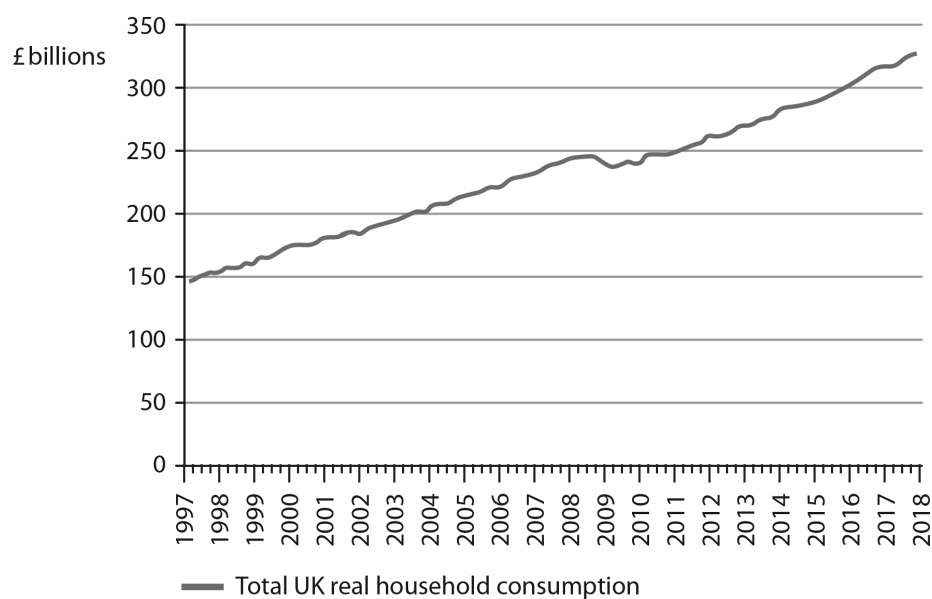
UK government budget and household consumption

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



(Source: adapted from Office for Budget Responsibility (OBR), http://cdn.obr.uk/EFO-MaRch_2018.pdf © 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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SECTION B

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

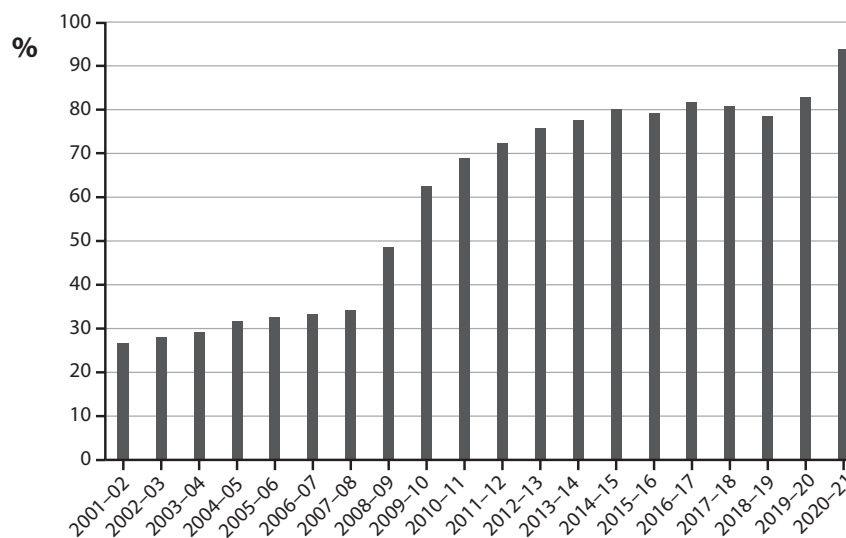
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

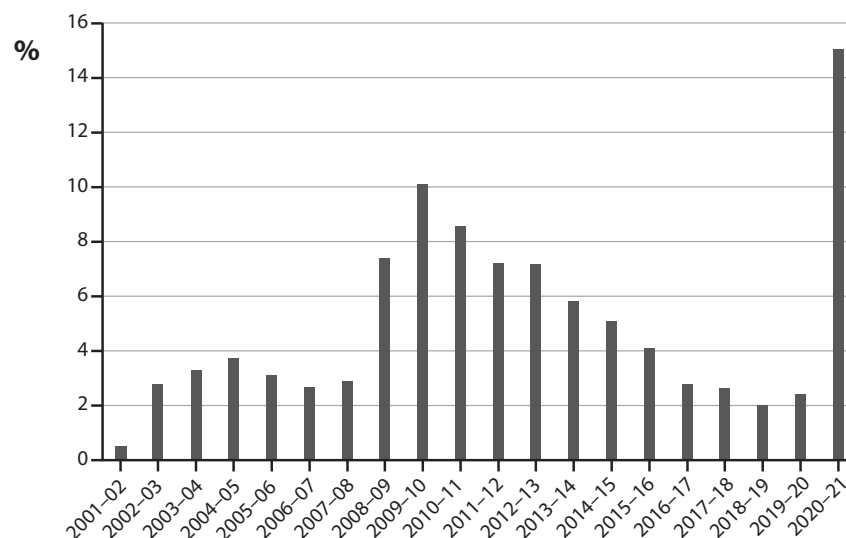
The UK Economy

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



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

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



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



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



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

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

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

(Source: Gov.uk)

Extract A

Freeze in income tax thresholds from 2023 onwards

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

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

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

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

Extract B

UK Monetary Policy Decisions

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

5

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

10

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

15

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

20

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

25

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

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64

SECTION B

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

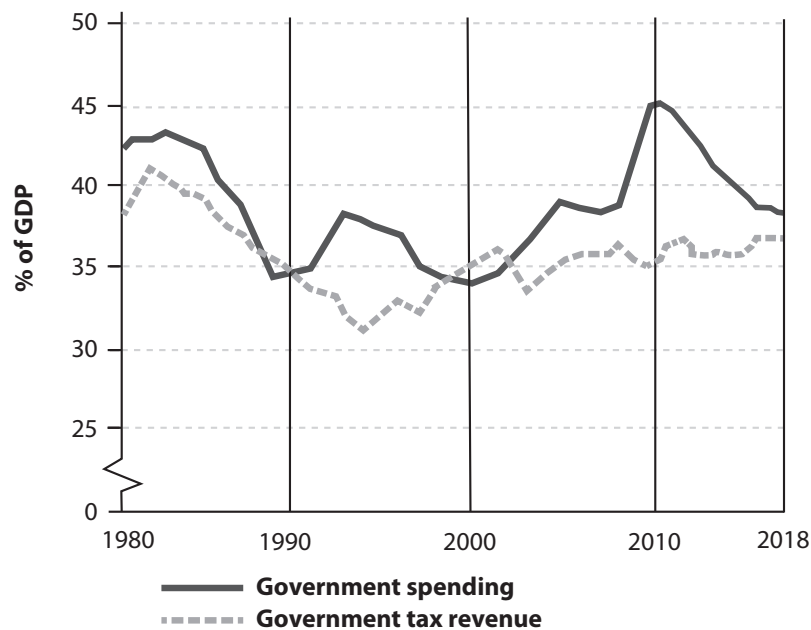
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

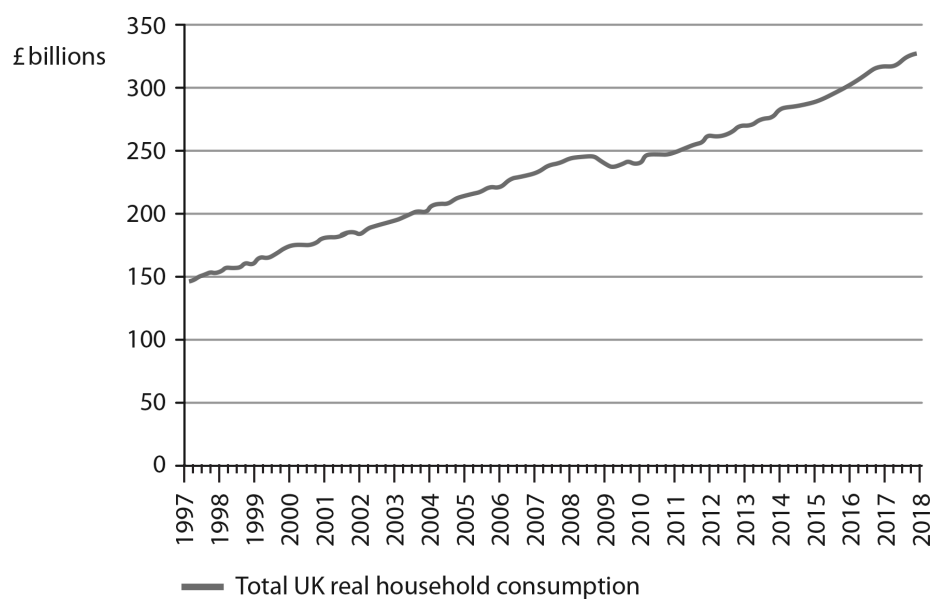
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(Source: adapted from 'Philip Hammond must ditch deficit reduction and invest. But will he?', The Guardian, <https://www.theguardian.com/politics/2017/nov/19/philip-hammond-must-ditch-deficit-reduction-and-invest-but-will-he>)



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(Total for this part = 20 marks)

Continue on separate paper if required.



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(Total for this part = 25 marks)

Continue on separate paper if required.



SECTION A

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Turkey – an emerging economy

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

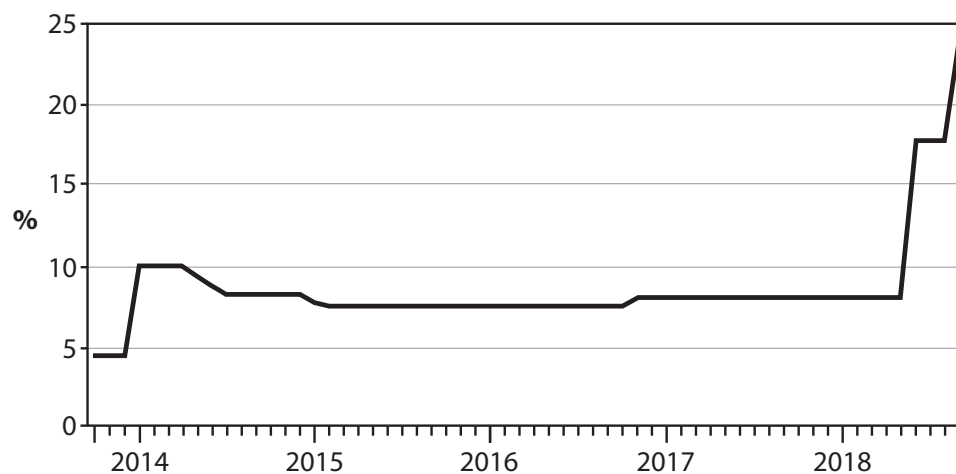
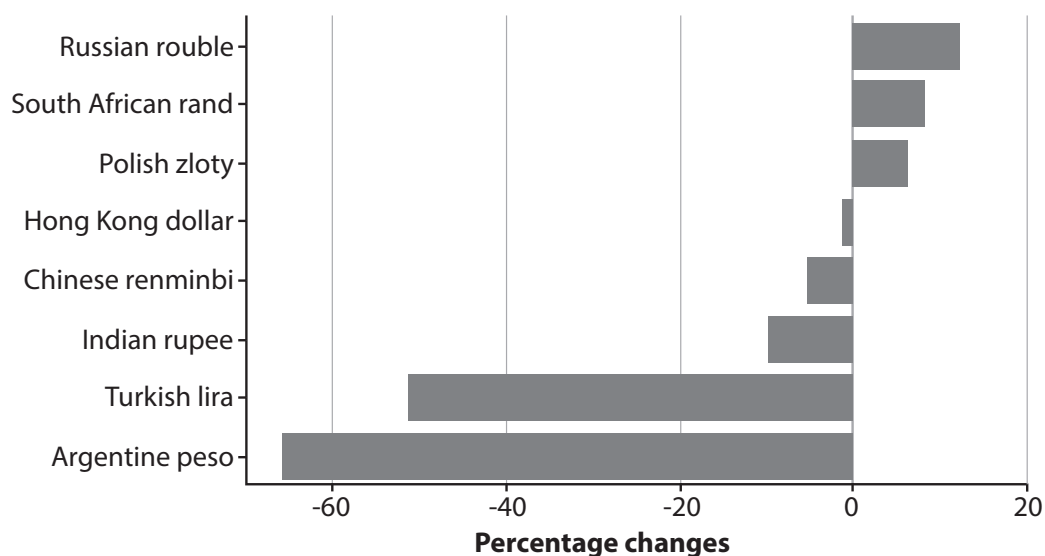


Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.



(Source adapted from: FT.com)

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

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

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

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

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



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

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

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

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

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

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

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

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

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



(25)







(Total for this part = 25 marks)



SECTION B

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

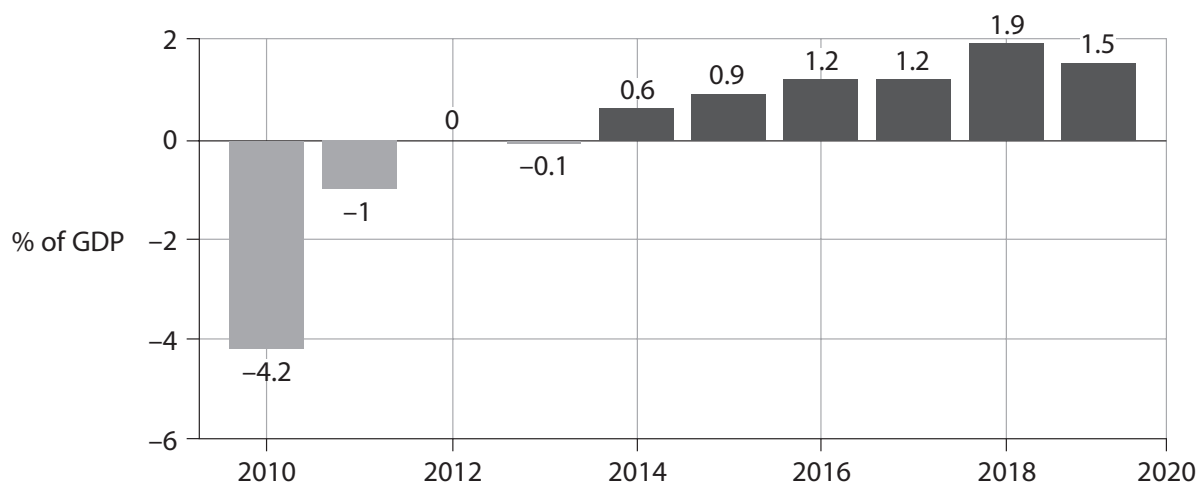
Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

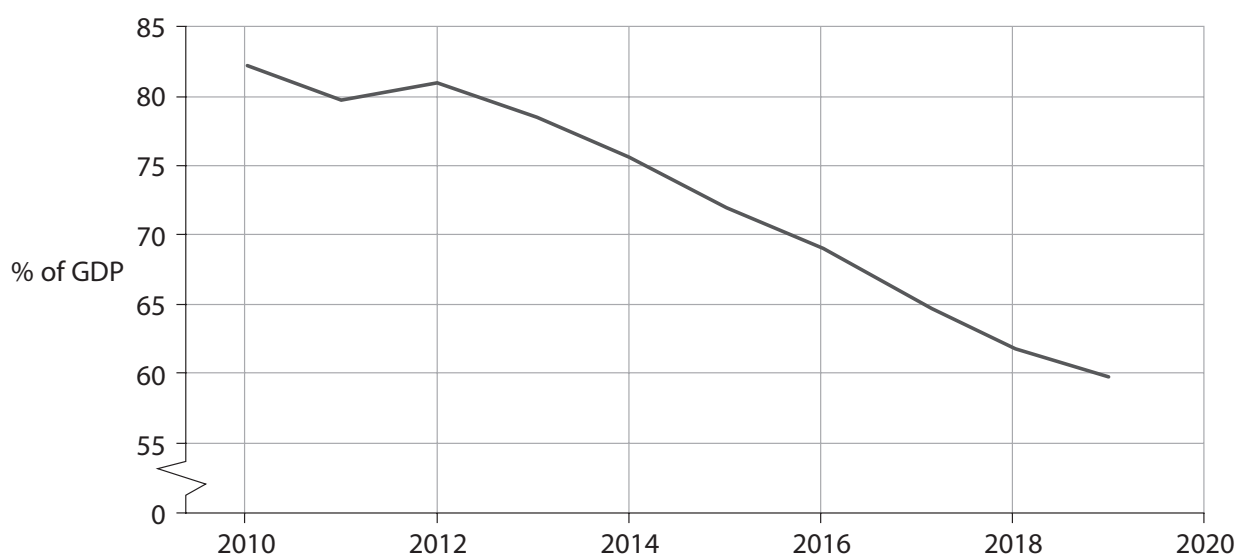
Question 2**The German economy**

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



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

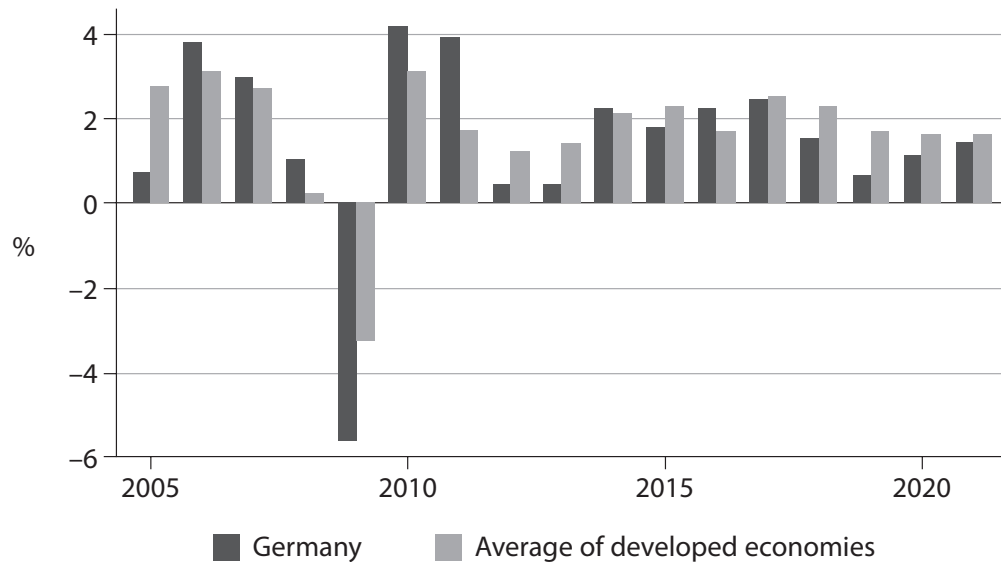
Figure 2: German national debt, percentage of GDP, 2010 to 2019



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

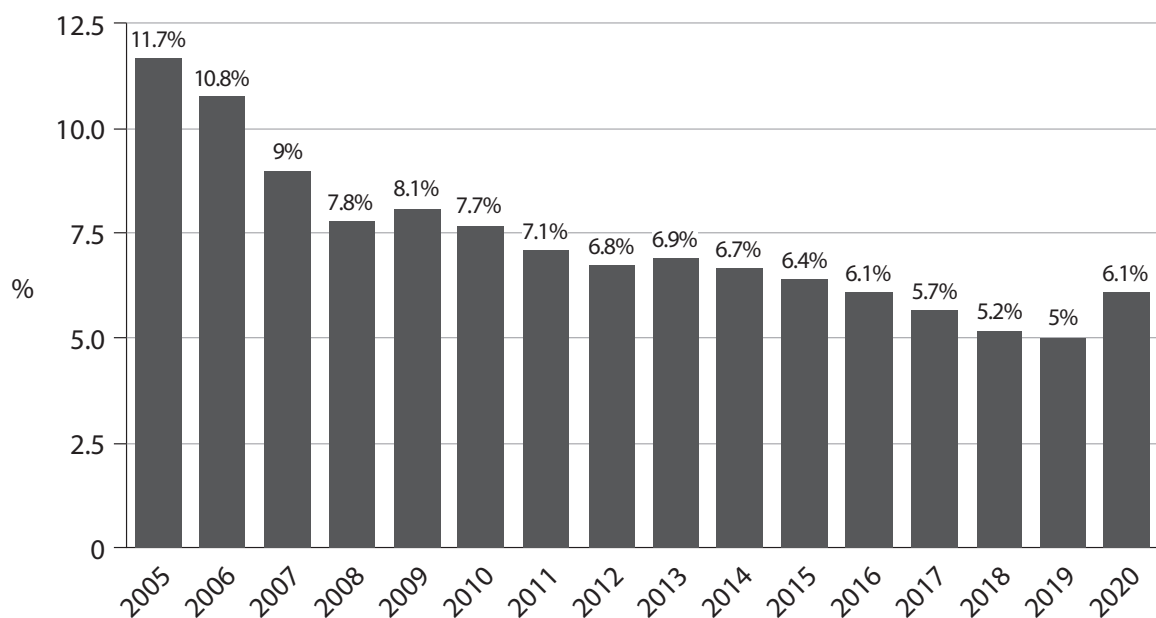


Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)



(Source adapted from: IMF and German Federal Statistical Office)

Figure 4: Unemployment rate in Germany, percentage of labour force, 2005 to 2020 (2020 figure is forecasted)



(Source adapted from: bundesagentur für arbeit.de and <https://www.ft.com/content/5486b247-c73e-4887-a2b2-528b23e301a6>)

Extract C**Why Germany keeps to budget rules despite a slowdown in growth**

Germany's economic boom is over, as it has entered recession. During the last ten years of economic growth well over 4 million jobs were created.

The fear of recession has revived a debate in Germany: should the government spend more to stimulate growth? It is written into the German constitution that the fiscal deficit cannot be greater than 0.35% of GDP, once the effects of the economic cycle have been removed. Germany's budget has been in surplus since 2014 and the government is always reluctant to increase spending which would create a deficit. In 2018, aided by booming employment and low interest costs on existing debt, the budget ran to a surplus 1.9% of GDP. 5
10

Germany's main trading partners have long been angered by German fiscal policy. The French President criticised Germany's budget and current account surpluses that "always occur at the expense of others".

Large parts of Germany's infrastructure need significant investment. As the economy has slowed, a decision to run a balanced-budget policy has become harder to defend. In wealthy regions of Germany, crumbling schools have been closed for fear of collapse, and information and mobile technology on a wide scale needs to be modernised. The World Economic Forum reported that accessibility of fibre optic broadband also "remains the privilege of the few". However, private sector firms, such as major motor manufacturers, are still willing to invest in new technology and the profitability of some of these firms, in the long run, benefits as a result. 15
20

The state development bank puts Germany's investment shortfall at €138 billion (£120 billion). Arguments for a much more expansionary fiscal policy have failed to influence government policy. Big government programmes, such as a recent package to reduce Germany's carbon emissions, are only implemented when they satisfy fiscal rules. 25

(Source adapted from: The Economist Nov 14th 2019
and <https://www.ft.com/content/3cec4908-d164-11e9-8367-807ebd53ab77> 7th September 2019
and <https://www.ft.com/content/198f072e-4e42-11ea-95a0-43d18ec715f5> and
<https://www.ft.com/content/d89d9404-c586-11e9-a8e9-296ca66511c9> and
<https://www.ft.com/content/8f87c03c-93dc-11e8-b67b-b8205561c3fe>)

Extract D**Germany drops to number 7 in the Global Competitiveness Index**

Despite being the largest economy in the European Union, Germany's competitiveness is declining, according to the World Economic Forum (WEF). Germany dropped four places in the WEF's Global Competitiveness Index, coming in as the seventh-most competitive economy. Out of the 103 indicators used in the report, Germany received lower scores in 53 areas in 2019. 5

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



(25)



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(Total for this part = 25 marks)

88

SECTION A

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

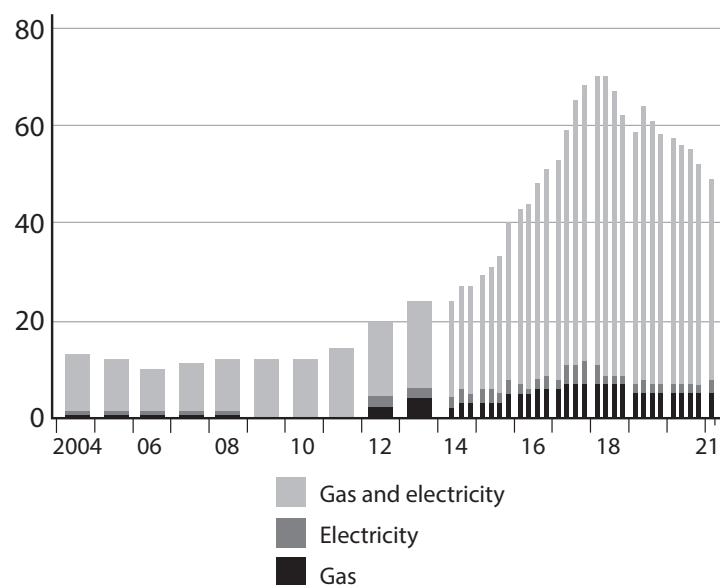
Question 1

The energy market

Figure 1: UK wholesale gas prices per therm, 2021, in pence



Figure 2: Number of firms supplying gas and electricity in the UK, 2004–2021



Extract A**Rising gas prices**

UK consumers are some of the biggest users of gas. 85% of homes use gas central heating, and gas generates a third of the country's electricity. North Sea gas is running out – and as Britain has replaced coal-fired energy production with wind power in order to reduce carbon emissions, it has become dependent on gas imports.

5

Almost all UK businesses face significant rises in fuel costs over the next few months, and there is no substitute for energy, at least in the short run – an almost perfect example of price inelastic demand.

(Source: adapted from <https://www.theecoexperts.co.uk/blog/reasons-for-uk-gas-price-increase>)

Extract B**The UK gas market is broken**

During the past decade the government has allowed new entrants into the retail energy market with business models that left them ill-prepared to achieve long term business growth. Now the UK must choose between letting its energy market collapse and offering large subsidies for energy retailers.

5

The problem began in the 1980s and 1990s, when privatisation created an oligopolistic energy market dominated by the “Big Six”, which paid their shareholders high dividends and their bosses excessive salaries. The government responded to anger over high energy bills with further liberalisation. Some of the new entrants were innovative, such as Bulb, which offered consumption-tracking apps, and Octopus, which discouraged consumption when demand was high with dynamic pricing. But most were under-capitalised and produced no energy, merely buying it on global wholesale markets and selling it on. Some paid little attention to ensuring continuity of supply or forward buying of gas.

10

The constraints on energy retailers worsened in 2017 with the closure of a big gas-storage facility, which left the UK able to store just 2% of its annual demand. Other big gas importing countries, by contrast, can store 20%–30%. The risks rose further in 2019, when the government capped consumer prices in response to continued complaints about high energy bills.

15

The perfect storm came in the summer of 2021. As economies opened up, global demand for energy rose. Gas supply in Russia, a big producer, was disrupted, and unusually calm weather reduced UK wind turbine energy production to 11% of capacity. In August Ofgem, the industry regulator, said that from October the firms would be able to raise prices for households by 54%. But since then the wholesale price of gas paid by UK energy firms has risen by more than 70%. The result is that UK energy firms are tied into contracts to supply gas to households at far less than they must pay to get it.

20

25

(Source: adapted from <https://www.economist.com/britain/britains-gas-market-is-broken/>)

Extract C

The gender pay gap in the oil and gas industry

Despite best efforts to try to attract more women into the oil and gas industry, females are still hugely under-represented in science, technology, engineering and maths careers, whether school leavers, graduates or experienced workers. Women hold under 25% of careers in these areas, and typically hold more non-technical roles, which can attract lower salaries than technical disciplines.

5

There is an even smaller female representation in the offshore workforce (3.6%) e.g. working on rigs in the North Sea, an area that pays higher salaries than onshore work. Despite continued efforts there is still a lack of female applications. Only 5% of the applications to the technical apprentice programme were female, of which half withdrew their applications at the first stage of the recruitment process.

10

There is also a low representation of females in senior leadership roles within the oil and gas industry, especially in technical positions. Women also generally take up part-time positions which are typically lower paid. This has resulted in the oil and gas industry having an average gap in hourly pay of 25%.

15

In the majority of developed countries, women have made substantial progress in the labour market since the 1970s, with both wages and labour force participation increasing relative to that for men. Notwithstanding these large improvements, women still earn less than 'comparable' men in all developed countries and, since the 2000s, progress for women in the labour market seems to have slowed.

20

(Source: adapted from <https://www.harbourenergy.com/media/2a2nmavb/chr-18311-01-gender-pay-gap-2020-v6-final.pdf> and <https://ftp.iza.org/dp10975.pdf>)



Q) 1 (e) Evaluate the microeconomic and macroeconomic advantages for a country specialising in energy production using gas.

(25)



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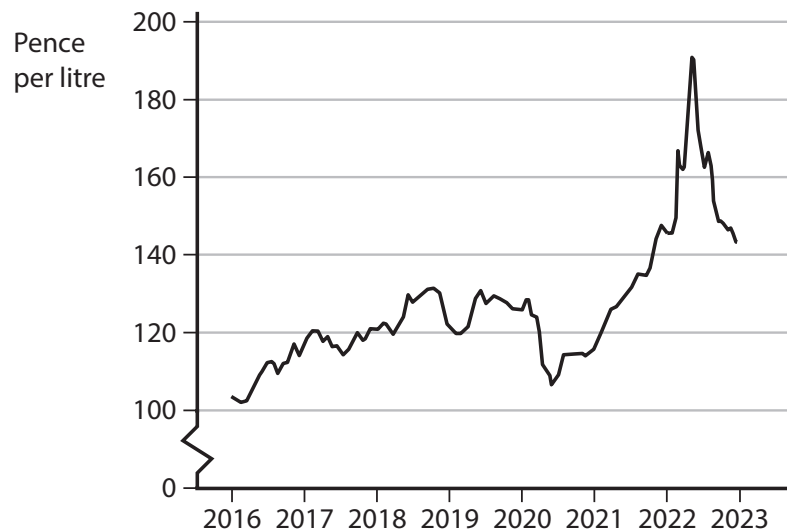


Sources for use with SECTION A

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

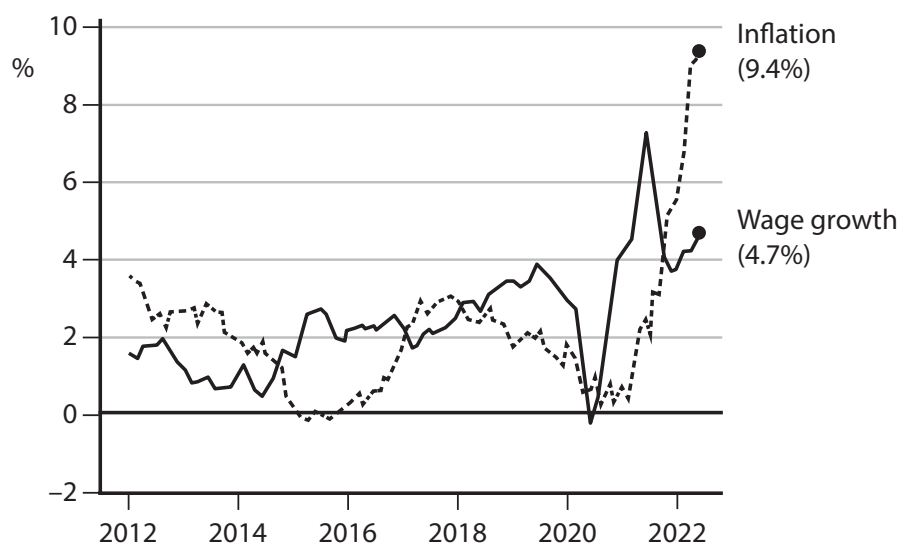
The cost of living in the UK

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



(Source adapted from: RAC)

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



(Source adapted from: ONS)

Extract A**Supermarket restrictions on multibuy deals and advertising**

Government rules limiting the location of unhealthy foods in shops began in 2022. Less healthy products are no longer promoted in key locations, such as checkouts, store entrances, aisle ends and their online equivalents. Rules banning multibuy deals on foods and drinks high in fat, salt or sugar (HFSS) – including buy one get one free (BOGOF), '3 for 2', and restrictions on free refills for soft drinks – were due in October 2023. The restrictions banning HFSS adverts on TV before 9pm and paid-for adverts online were set for January 2024. 5

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

Extract B**Supermarket pay in 2023**

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

Tesco made its biggest ever investment in employee pay in 2023, spending £230 million to finance an increase in its basic hourly rate of pay, to £11.02 per hour, rising to £11.95 in London. 5

The pay increase is the latest boost in employment benefits as supermarkets continue to compete for in-store workers, with Sainsbury's and Asda both increasing pay to above £11 per hour in July 2023, while Aldi pays £11.40 an hour. 10

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

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

Extract C**Supermarket petrol pricing**

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

5

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

10

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

15

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

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

Extract D**EU trade relations with the UK**

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

5

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

10

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

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



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(Total for this part = 25 marks)

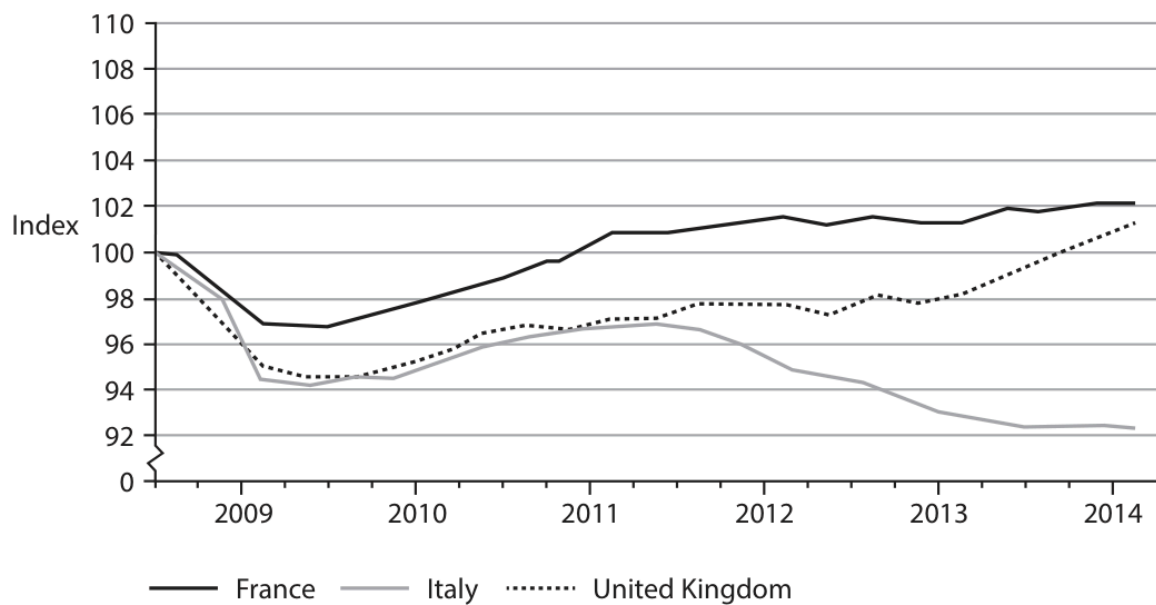


SUB-TOPIC 2.5.2

OUTPUT GAPS

Sub-topic 2.5.2 · 10 questions · 33 marks · lowest tariff first



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

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

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

(1)

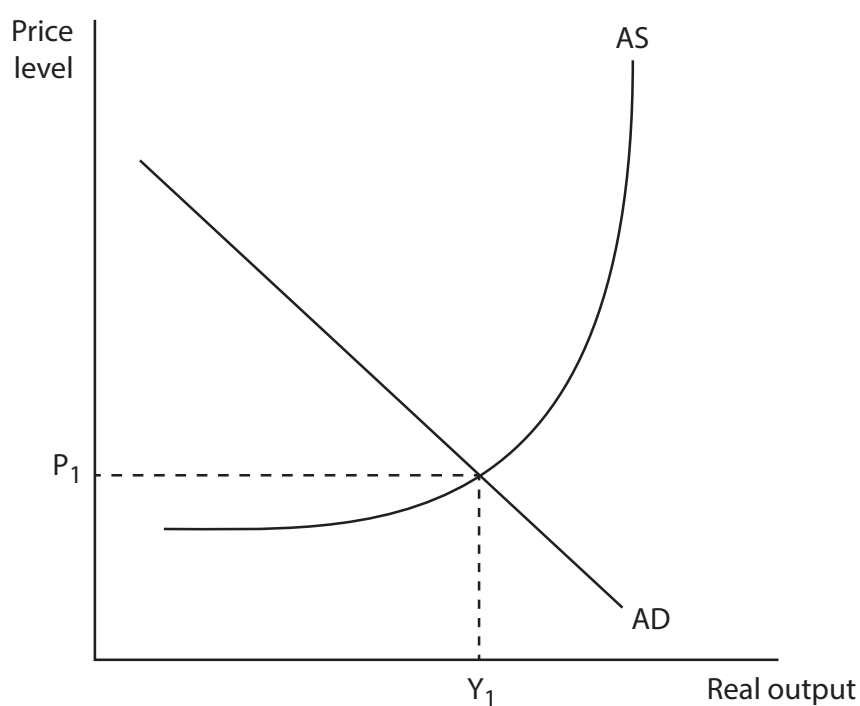
- ☒ **A** The UK's real GDP is smaller in 2014 than it was in 2008
- ☒ **B** Between 2008 and 2014 France's real GDP growth rate was higher than Italy's
- ☒ **C** Between 2008 and 2014 inflation was lower in France than in the UK
- ☒ **D** France experienced a greater fall in real GDP than the UK in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

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



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

(1)

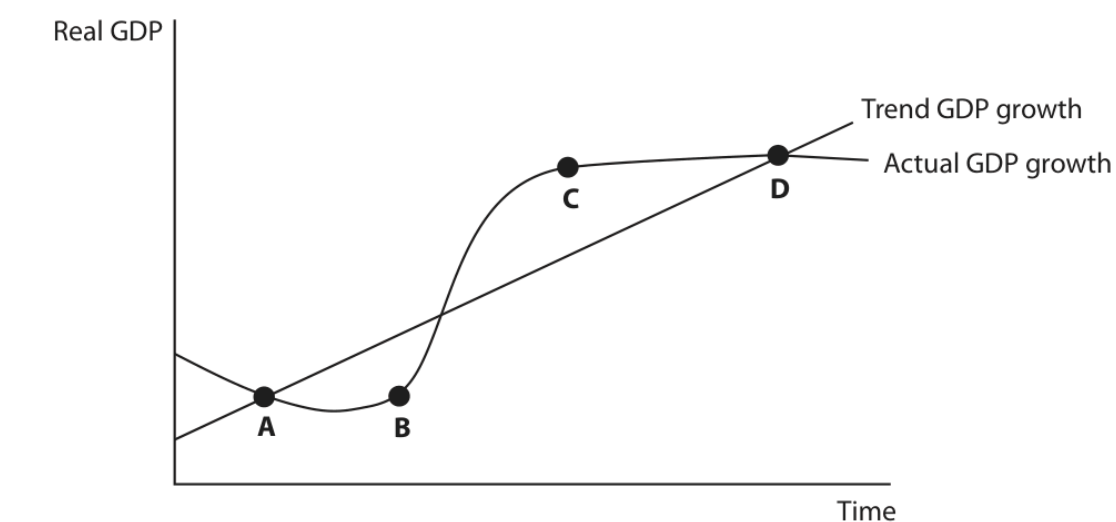


(Total for Question 3 = 4 marks)



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

(1)



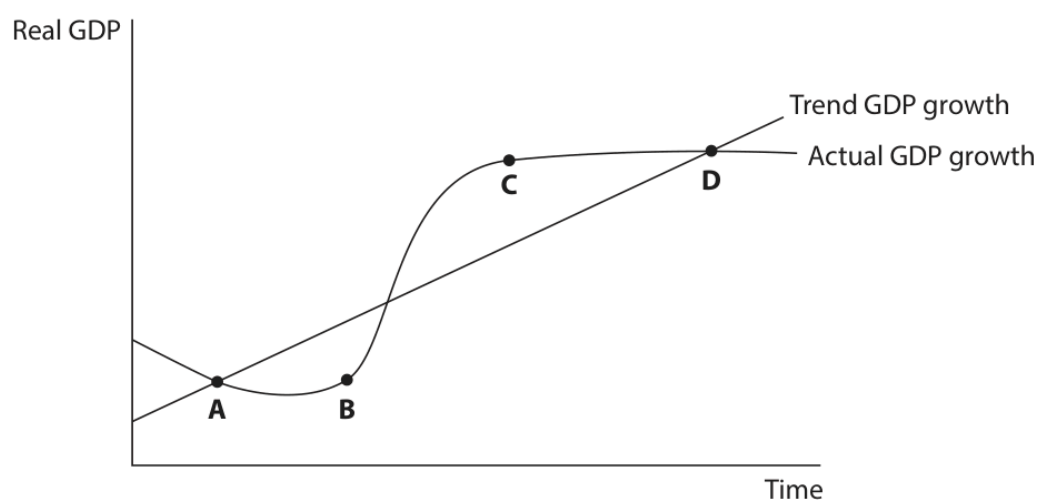
- ☐ A
- ☐ B
- ☐ C
- ☐ D

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

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

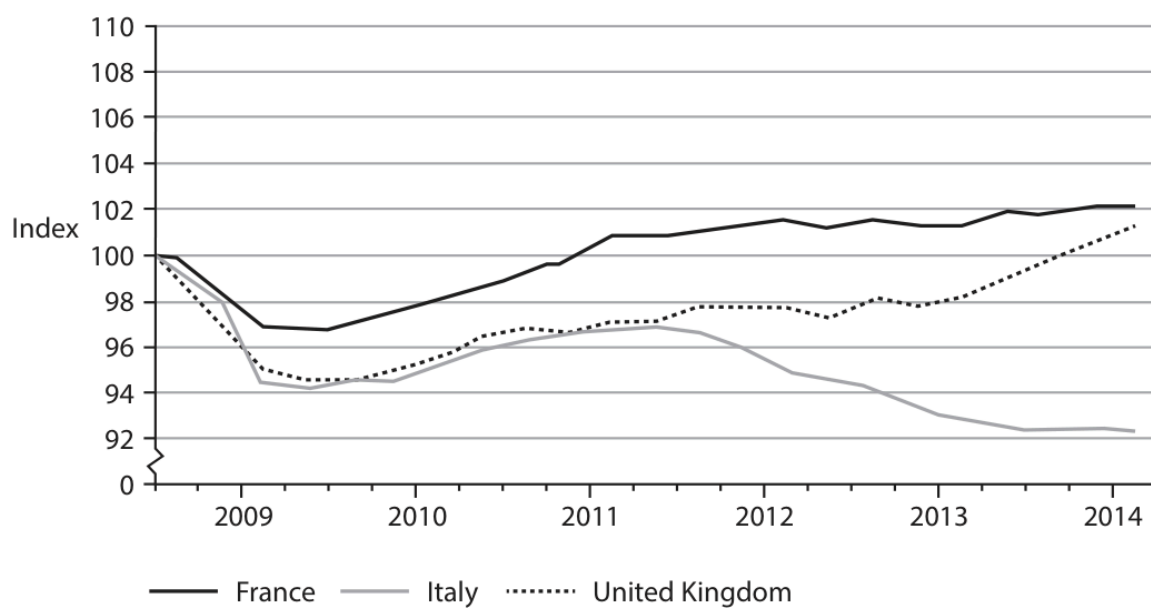
(a) Which point on the trade cycle diagram illustrates a positive output gap?

(1)



- ☒ A
- ☒ B
- ☒ C
- ☒ D

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

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

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

(b) Define the term 'real GDP'.

(2)

(Total for Question 3(b) = 2 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)

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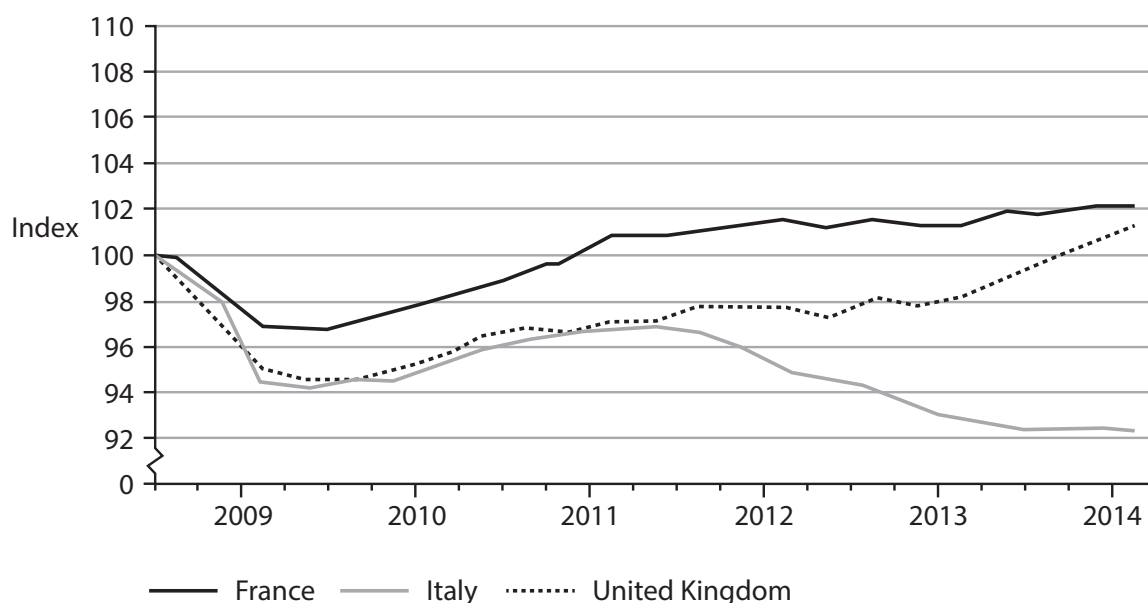
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(Total for Question 3(b) = 2 marks)

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



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

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

(1)

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

(b) Define the term 'real GDP'.

(2)

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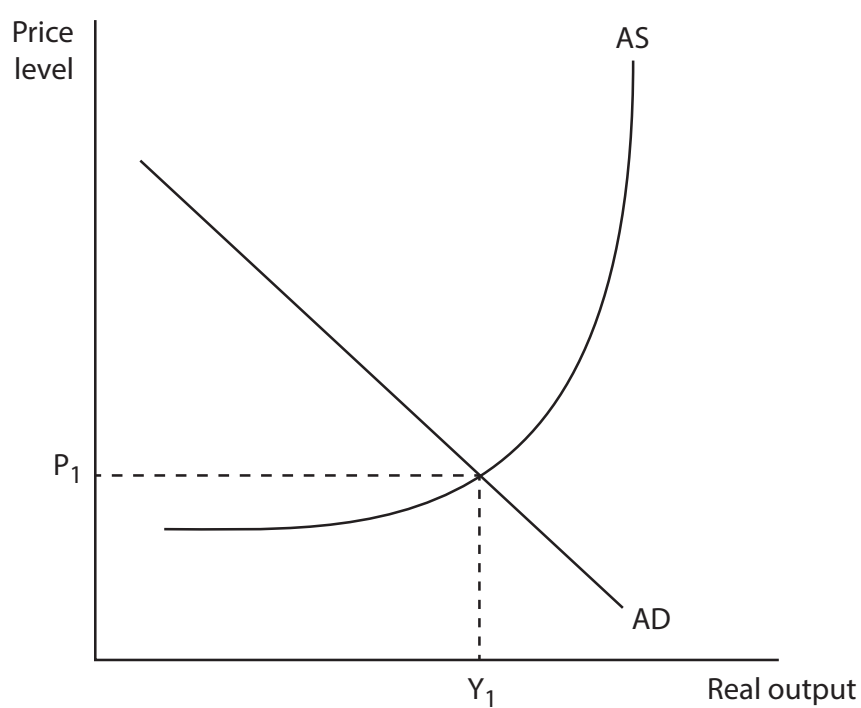
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(c) Illustrate a negative output gap on the diagram below.

(1)



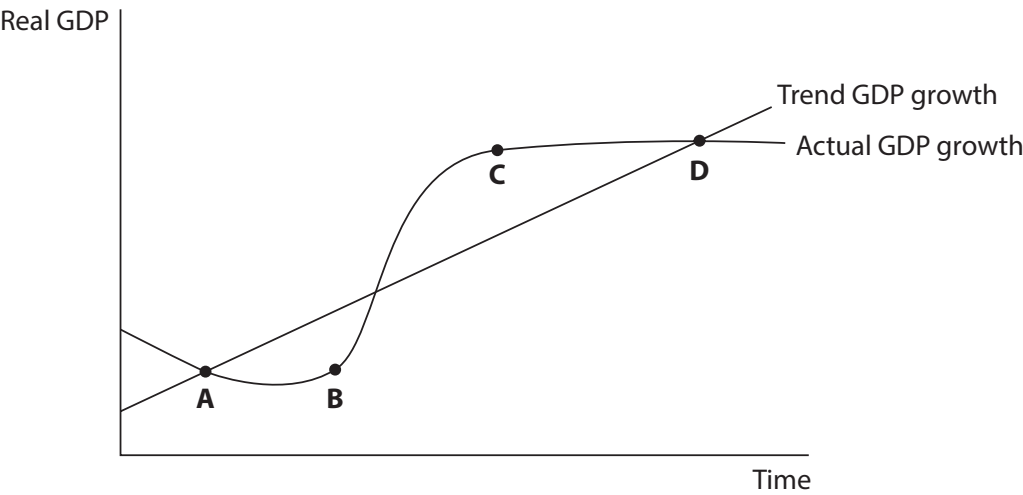
(Total for Question 3 = 4 marks)



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 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).

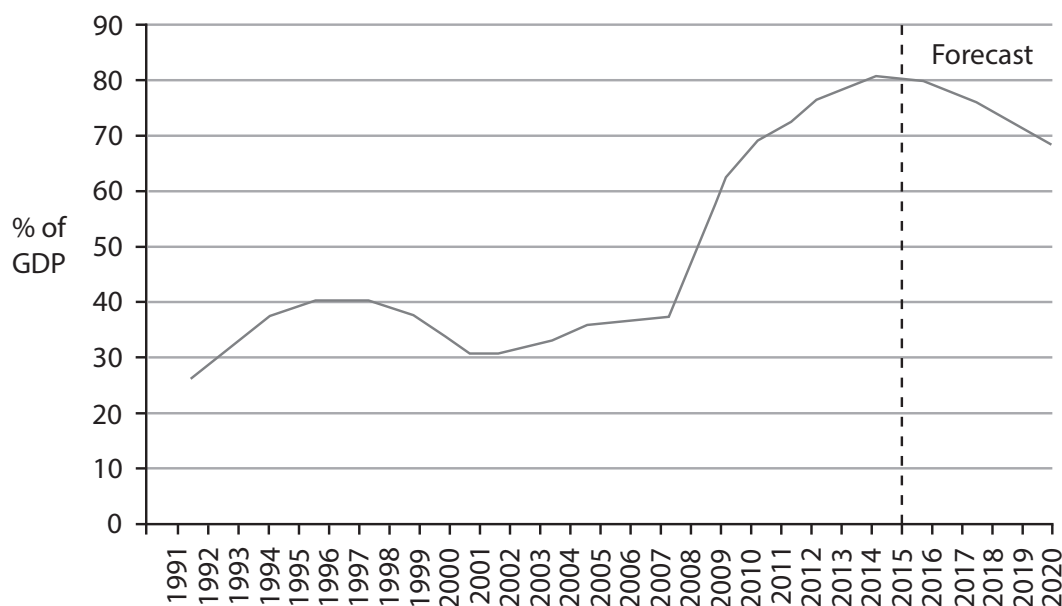
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

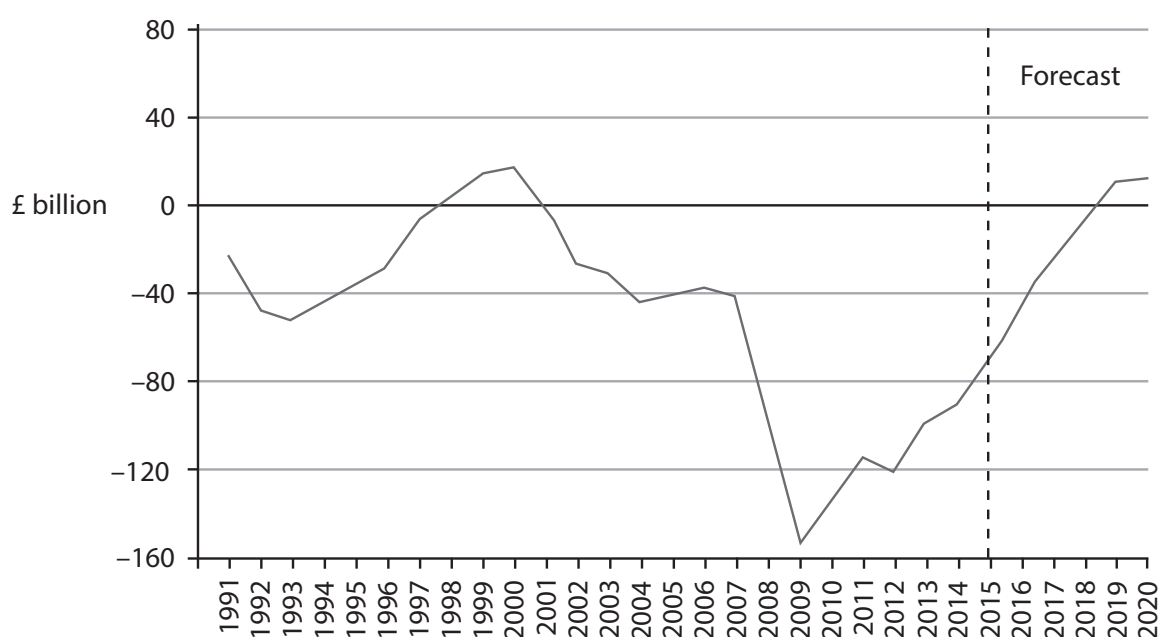
The UK economy

Figure 4: UK national debt as a percentage of GDP



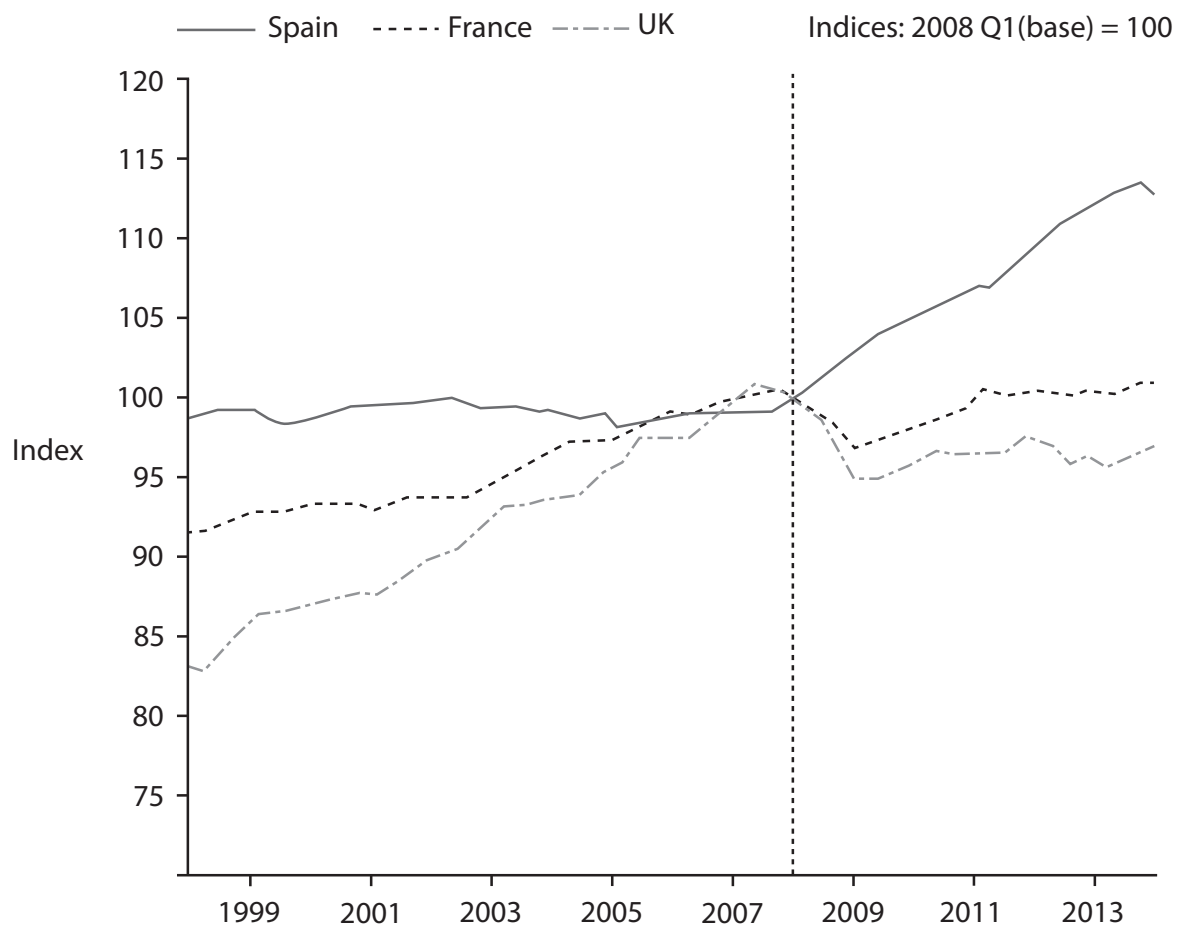
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

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>)





SECTION B

Read Figure 2 and the following extracts (D to G) before answering Question 2.

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

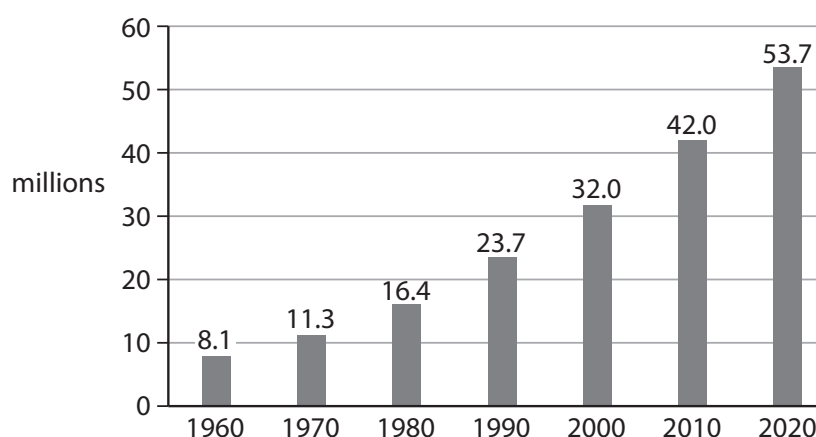
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Sub-Saharan Africa – growth and development

Figure 2: Kenya population, millions, 1960 to 2020



(Source: adapted from Population, total - Kenya | Data (worldbank.org))

Extract D

Growth and development in Africa: 'Africa has a massive opportunity as a low-cost provider of services'

The outlook for Africa's economies is not as simple as the Lewis model of growth and development implies: do more manufacturing or stay poor. Many countries are expanding into areas that economists are starting to call 'industries without smoking chimneys'. Some, such as flower-exports, may not be classified as manufactured goods in export statistics. But the process of producing flowers looks a lot like factory work and demands many of the same management skills. These industries also deliver many of the benefits of normal manufacturing, including many well-paid jobs, and greater opportunities.

5

10

(Source: adapted from <https://www.economist.com/special-report/2020/03/26/many-of-africas-economies-are-doing-well>)



Extract E**The demography of Kenya – ‘Demography will shape Africa’s future’**

Falling birth rates, when accompanied by rising literacy, can help kick-start growth. In Kenya 39% of the population is below the age of 15, falling from 43% in 2009. The labour force (15–64 years) is 57% and is the fastest growing population group. 6% of the population is over the age of 60. The number of children per family has fallen sharply, from 8.1 children in 1978 to 4.6 children in 2008, and it is projected to possibly reach 2.4 children by 2050.

5

In the 1970s little more than half of children in sub-Saharan Africa were enrolled in primary school. That share has shot up to almost 100%. The statistic is slightly misleading, since the percentage of children regularly attending schools is nearer 60%.

10

Why does Kenya’s population continue to rise rapidly, while family size declines? There are two reasons. First, due to high fertility in previous decades, there are many more families in Kenya today. So even though families are smaller, the total number of children continues to grow. Second, Kenyans are living longer, with better healthcare – for example, polio was eradicated in 2014. Life expectancy is projected to increase from 54 years today to 68 years by 2050.

15

28% of Kenya is urbanised, and is becoming rapidly more so. By the 2030s it is expected that 36% of Kenyans will live in towns or cities rather than the poorer rural areas. Rich countries are urban countries. No country has ever reached high income levels with low urbanisation. Large urban centres have two distinct economic advantages. First, as more people interact, there is more scope for innovation. Young people need jobs, but they also create jobs. Kenya has an educated workforce and a dynamic service industry, which typically has lower barriers of entry than agriculture or manufacturing, and provides opportunities for young entrepreneurs. Second, larger groups of population living in close proximity allow for economies of scale.

20

In light of these facts, Kenya’s future pattern of population growth can be a force of good. A large urbanising and well-educated population tends to generate a strong middle class and vibrant private sector. Economic development may be easier to achieve and sustain – though it is not guaranteed.

25

(Source: adapted from <https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050> and https://kenya.unfpa.org/sites/default/files/pub-pdf/state_of_kenya_population_report_2020.pdf and <https://www.worldbank.org/en/news/opinion/2010/04/28/demographic-transition-growth-kenya>)

Extract F**Kenya has an absolute advantage in cut flowers**

In the UK, 80% of cut flowers come via the Netherlands, although a significant proportion come from Kenya. Some Kenyan flowers come straight to the UK on direct flights from Nairobi, where entire terminals at certain airports are dedicated to flights exporting flowers.

5

Kenya flower production has three major advantages over the Netherlands: areas of high altitude with cool nights, which many flowers benefit from, proximity to the equator for maximum hours of sunlight, and cheaper labour. This means an end to seasonal production and the beginning of a 365-day-a-year absolute advantage. The Netherlands has cost advantages in machinery and transport equipment, not flowers.

10

Cut flowers are now Kenya's second largest export after tea, contributing around 1% of the country's GDP. They are also one of the country's largest sources of employment, with over 100 000 people working directly in the flower industry and an estimated two million indirectly.

(Source: adapted from: <https://www.economist.com/middle-east-and-africa/2021/02/11/kenyas-floral-exports-are-blooming-once-more>)

Extract G**Changes in interest rates in sub-Saharan Africa**

When Robert Matsiko was a young man his grain-milling business in eastern Africa was destroyed by fire. Now, after building it back up from the ashes, he is being hurt by high interest rates. To buy a new machine he must borrow from a bank at an annual rate of 22%. 'You fear to do that,' Mr Matsiko says. Many other entrepreneurs feel the same, which stops their businesses from growing, although very small firms can get help from microfinance schemes.

5

Kenya's central bank rate has fallen from over 20% to 7% in the last decade, but the rates charged to small businesses and individuals are much higher than the central bank interest rate. In sub-Saharan Africa, the gap between saving and borrowing rates is higher than anywhere else. The average bank lends at 6.8% above the central bank interest rate. Mobile banking, credit-information sharing and innovation have helped to bring borrowing costs down. But until birth rates fall, interest rates will stay relatively high, because families with many children cannot afford to save.

10

(Source: adapted from <https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa>)



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SUB-TOPIC 2.5.3

TRADE (BUSINESS) CYCLE

Sub-topic 2.5.3 · 13 questions · 66 marks · lowest tariff first



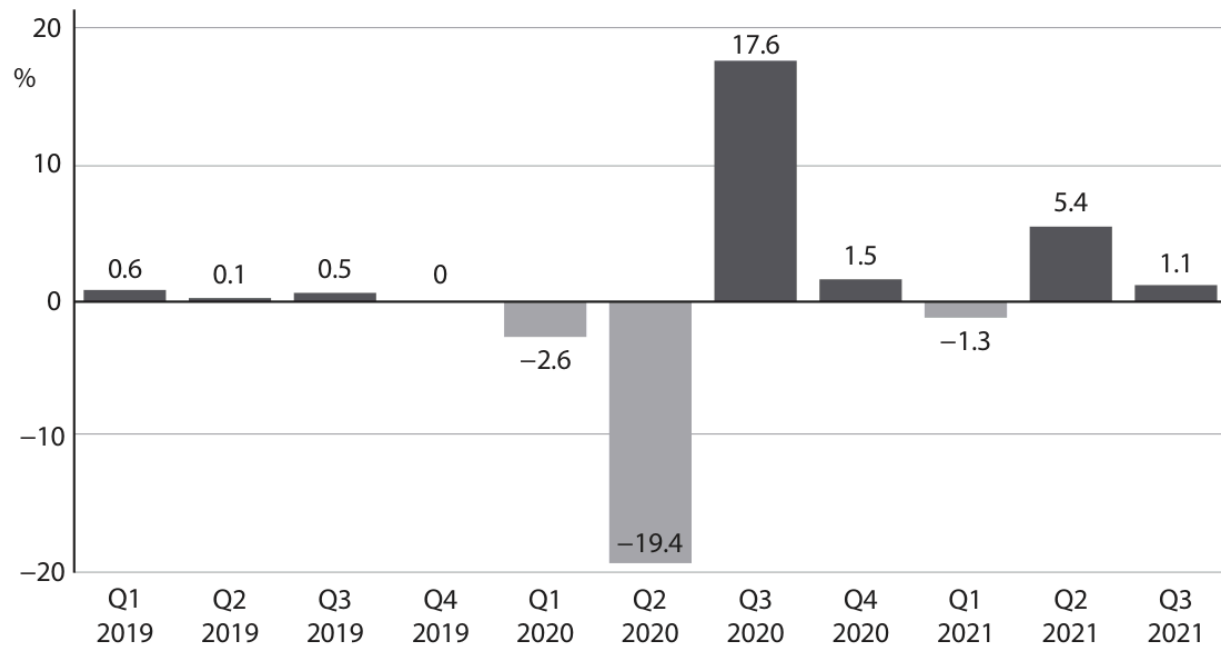
2 (a) Define the term 'recession'.

(1)

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



5 The chart below shows UK real GDP growth rate (%), Quarter 1 (Q1) 2019 to Quarter 3 (Q3) 2021.



(Source adapted from: <https://tradingeconomics.com/united-kingdom/gdp-growth>)

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

(1)

- ☒ A In Q4 2020 the level of real GDP fell by 16.1 percentage points
- ☒ B The price level was rising at a slower rate between Q1 2019 and Q2 2019
- ☒ C The UK economy experienced a boom between Q3 2019 and Q1 2020
- ☒ D The UK economy experienced a recession in the first six months of 2020

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



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

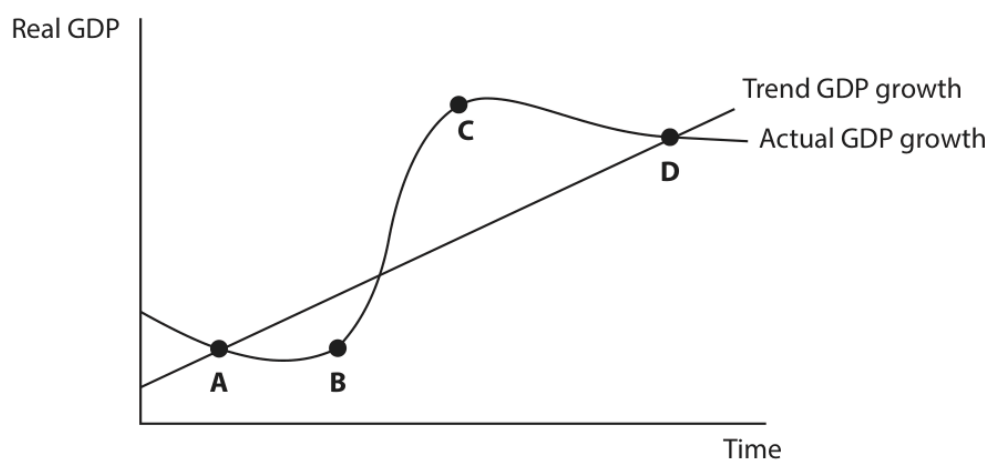
(c) Define the term 'trade cycle'.

(1)

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



4



(a) Which **one** point on the trade cycle diagram above illustrates a boom?

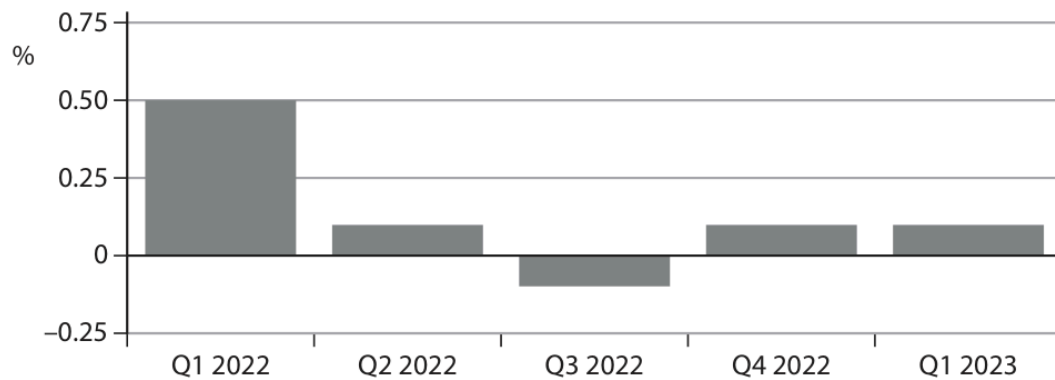
(1)

- ☐ A
- ☐ B
- ☐ C
- ☐ D

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



3 UK real GDP percentage growth, quarter 1 (Q1) 2022 to quarter 1 (Q1) 2023.



(Source adapted from: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2023>)

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

(1)

- ☐ **A** The UK economy grew the fastest in quarter 3 2022
- ☐ **B** The UK was in recession in quarter 2 2022
- ☐ **C** Total UK real GDP was larger in quarter 4 2022 than in quarter 1 2022
- ☐ **D** Total UK real GDP was the same in quarter 4 2022 as in quarter 1 2023

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



(2)



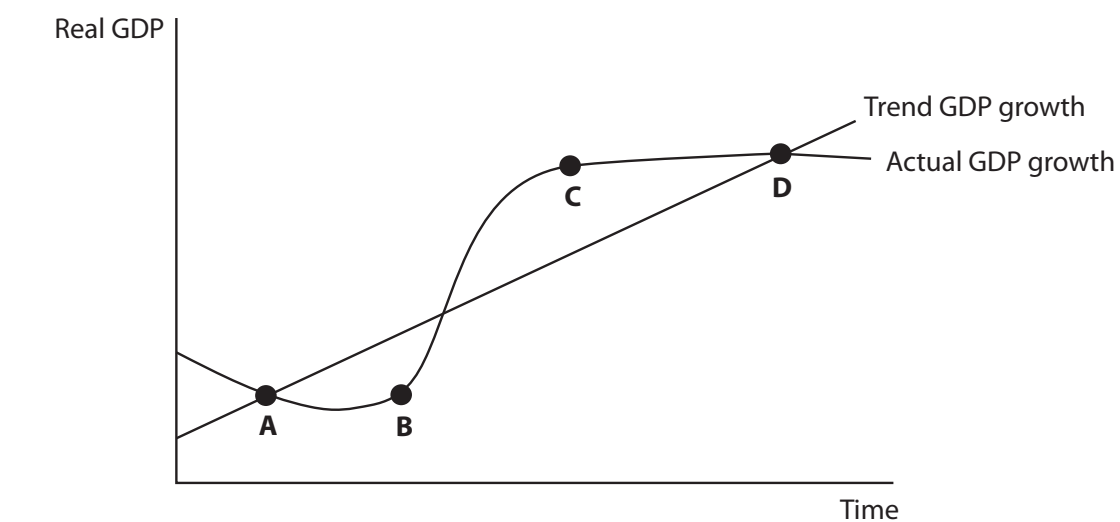
(1)

(2)

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

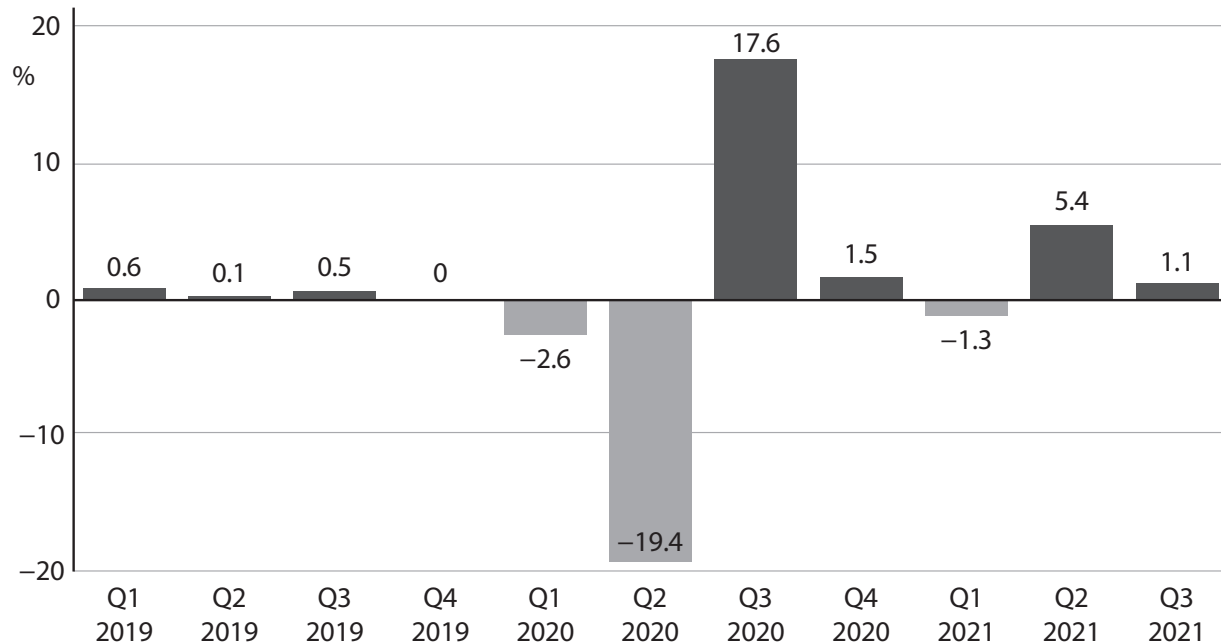
(1)



- ☐ A
- ☐ B
- ☐ C
- ☐ D

(Total for Question 2 = 4 marks)

5 The chart below shows UK real GDP growth rate (%), Quarter 1 (Q1) 2019 to Quarter 3 (Q3) 2021.



(Source adapted from: <https://tradingeconomics.com/united-kingdom/gdp-growth>)

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

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- ☒ B The price level was rising at a slower rate between Q1 2019 and Q2 2019
- ☒ C The UK economy experienced a boom between Q3 2019 and Q1 2020
- ☒ D The UK economy experienced a recession in the first six months of 2020

(b) With reference to the chart, explain **one** likely benefit of economic growth to firms.

(3)

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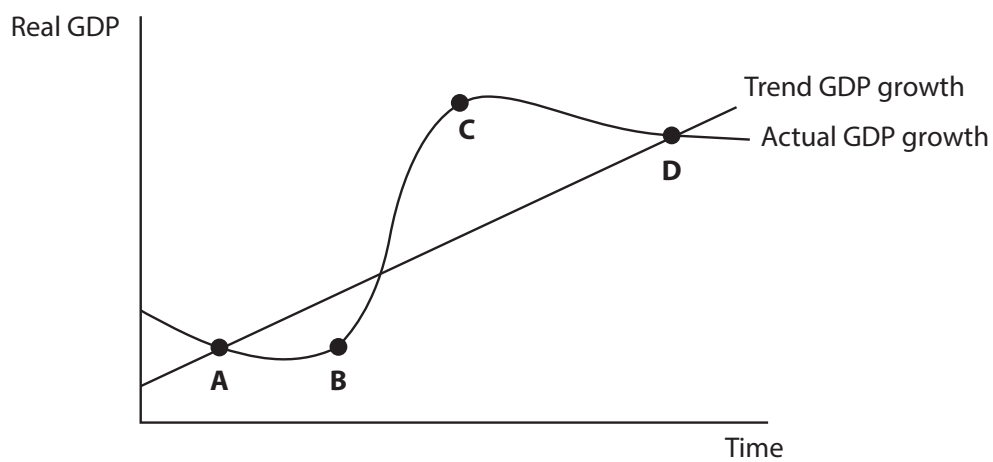
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(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS



4



(a) Which **one** point on the trade cycle diagram above illustrates a boom?

(1)

- ☐ A
- ☐ B
- ☐ C
- ☐ D

(b) In July 2020 a survey estimated that the marginal propensity to consume in the UK was 0.1.

(Source: adapted from <https://ifs.org.uk/uploads/WP202035-MPCs-through-COVID-spending-saving-and-private-transfers.pdf>)

Calculate the total increase in aggregate demand from an increase in government spending of £60 million.

(4)

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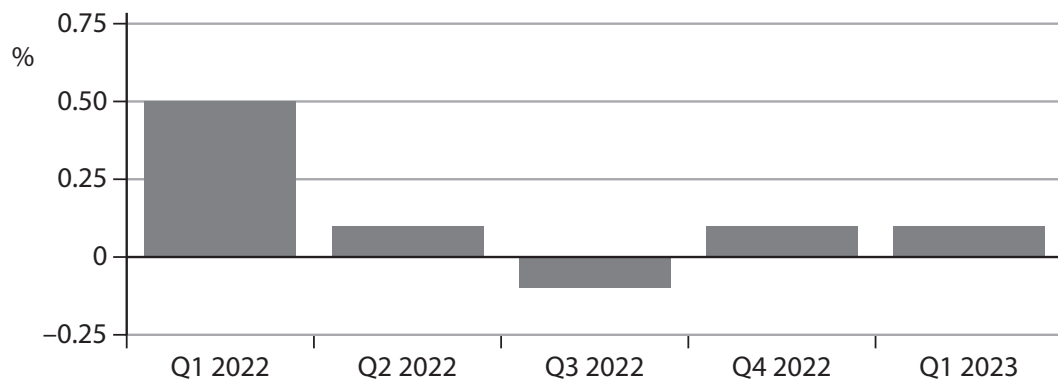
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(Total for Question 4 = 5 marks)

3 UK real GDP percentage growth, quarter 1 (Q1) 2022 to quarter 1 (Q1) 2023.



(Source adapted from: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2023>)

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

(1)

- ☐ A The UK economy grew the fastest in quarter 3 2022
- ☐ B The UK was in recession in quarter 2 2022
- ☐ C Total UK real GDP was larger in quarter 4 2022 than in quarter 1 2022
- ☐ D Total UK real GDP was the same in quarter 4 2022 as in quarter 1 2023

(2)

(2)

(Total for Question 3 = 5 marks)



SECTION B

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

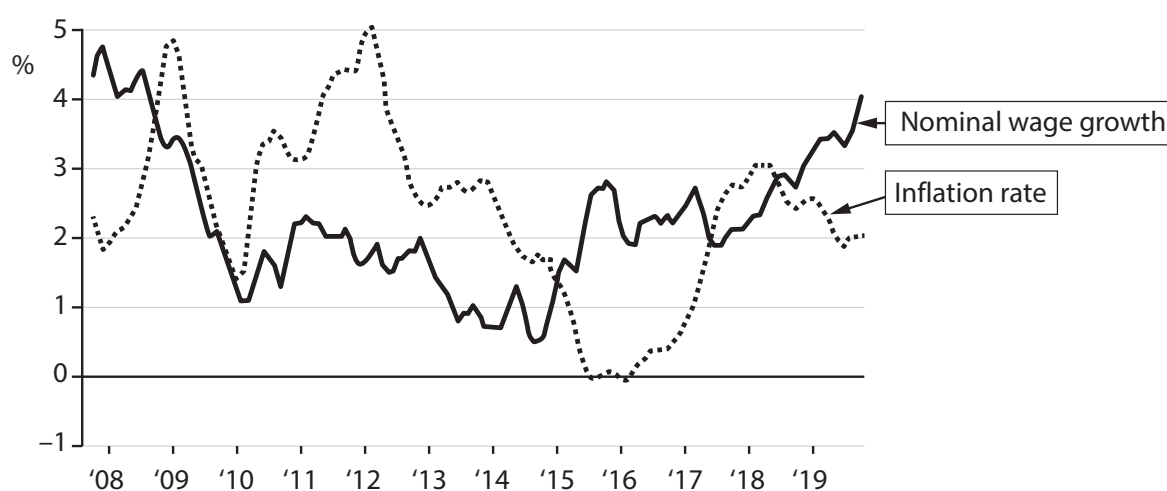
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

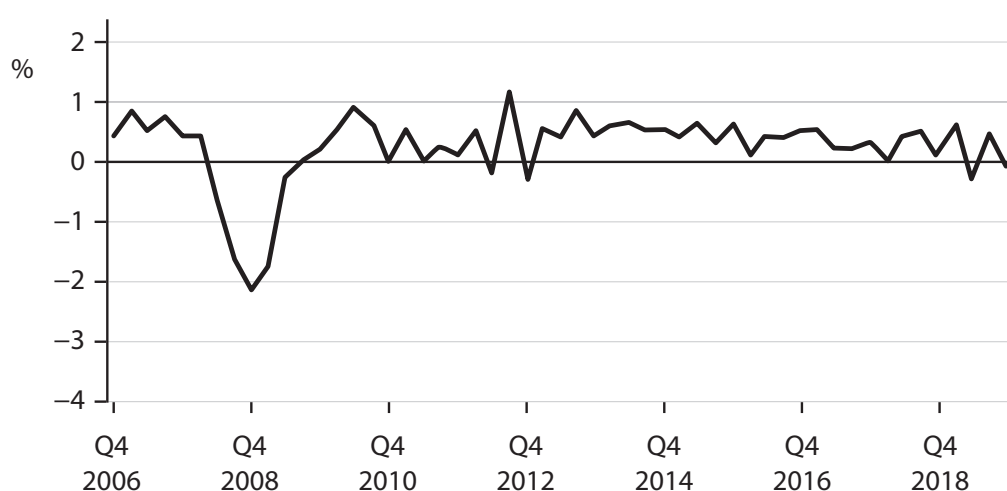
UK monetary policy since the Global Financial Crisis of 2008

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



(Source: adapted from ONS)

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



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



Extract A

Has monetary policy worked?

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

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

(6)



SECTION B

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

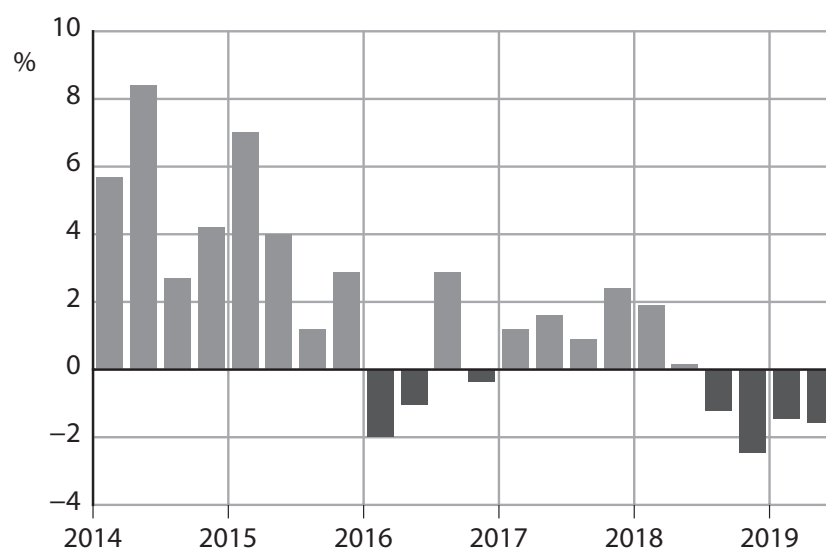
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

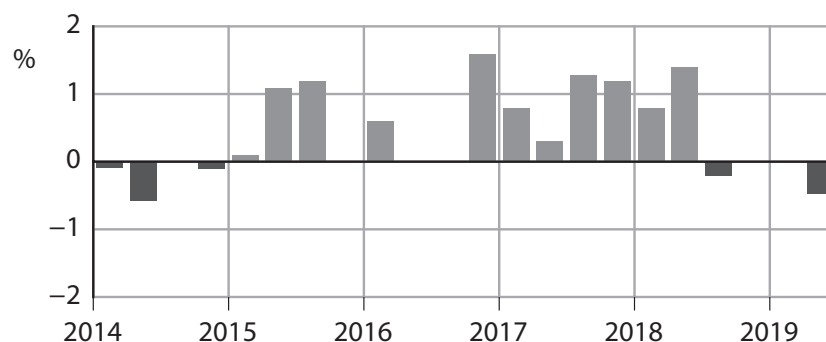
UK investment and productivity

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



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

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



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



Extract A**Another recession?**

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

Business investment has been weak across the world, but it is particularly low in the UK. Firms are reluctant to commit to capital spending while there is economic uncertainty. Growth in investment, in areas such as transport and machinery, has slowed. Global trade tensions are also affecting investment decisions. 5

Labour productivity decreased by 0.5% in the second quarter of 2019, the worst performance since mid-2014. Declining productivity is a concern especially as it comes at a time when the unemployment rate has been one of the lowest. The rate of unemployment decreased from 6% in July 2014 to 3.8% in July 2019. 10

The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting technology. This has decreased the prospects for increases in workers' pay. Without business investment and improvements in productivity, short-term growth in real GDP is likely to slow further and reduce living standards. 15

However, the UK Government expects the UK economy to perform better than Germany and Italy. These export-focused countries are highly exposed to the slowdown in world trade and the fall in average global incomes. 20

The UK economy is seeing continued strength in consumer spending. Consumption will support growth, provided there is no sudden shock to the UK labour market. Household incomes are strong, primarily due to high employment. Government expenditure has also been rising since the end of 2018. The UK Government has promised more money for schools and infrastructure improvements. 25

Despite this, some economists believe that the UK economy is likely to experience another recession. They claim that low income households cannot cope with a new downturn. The overall picture for the UK economy does not look promising because most businesses are reluctant to invest, productivity is low and economic growth relies on continued consumption. 30

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

(15)







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**

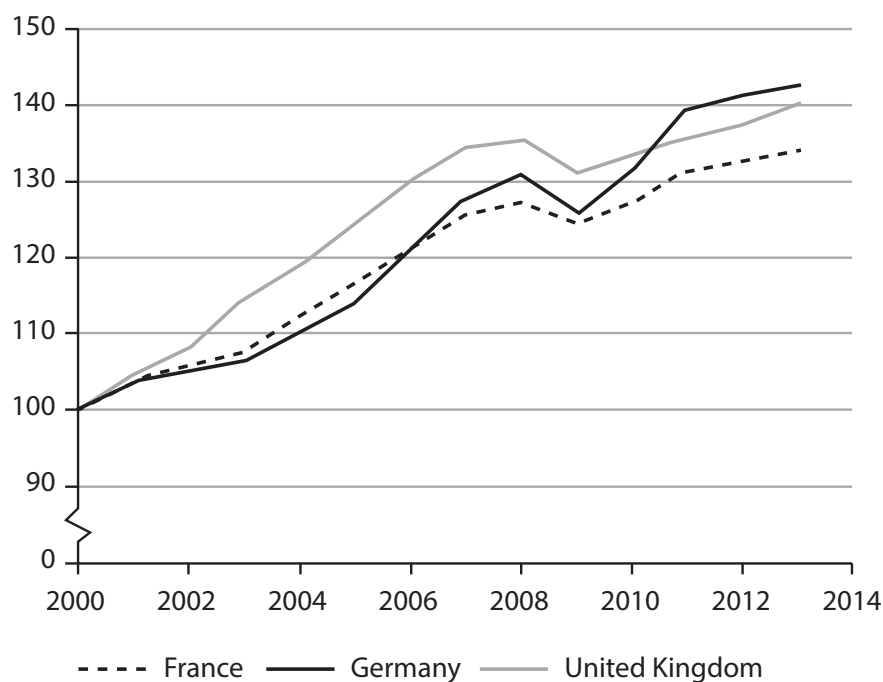
Figure 1: Components of aggregate demand in selected countries 2014

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)

(20)



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SUB-TOPIC 2.5.4

THE IMPACT OF ECONOMIC GROWTH

Sub-topic 2.5.4 · 7 questions · 102 marks · lowest tariff first



3 UK real GDP, 2020–2022

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

*2022 figures are forecast

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

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

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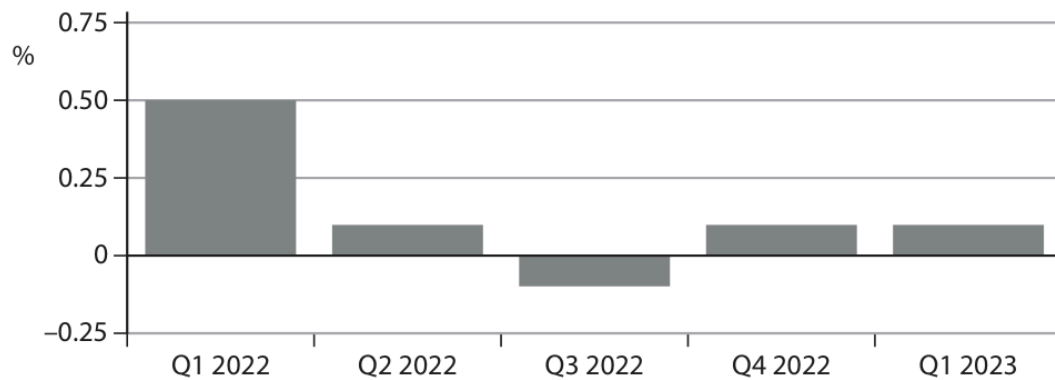
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(Total for Question 3(b) = 2 marks)



3 UK real GDP percentage growth, quarter 1 (Q1) 2022 to quarter 1 (Q1) 2023.

(Source adapted from: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2023>)

(b) Explain **one** likely disadvantage of a decline in GDP on:

(i) workers

(2)

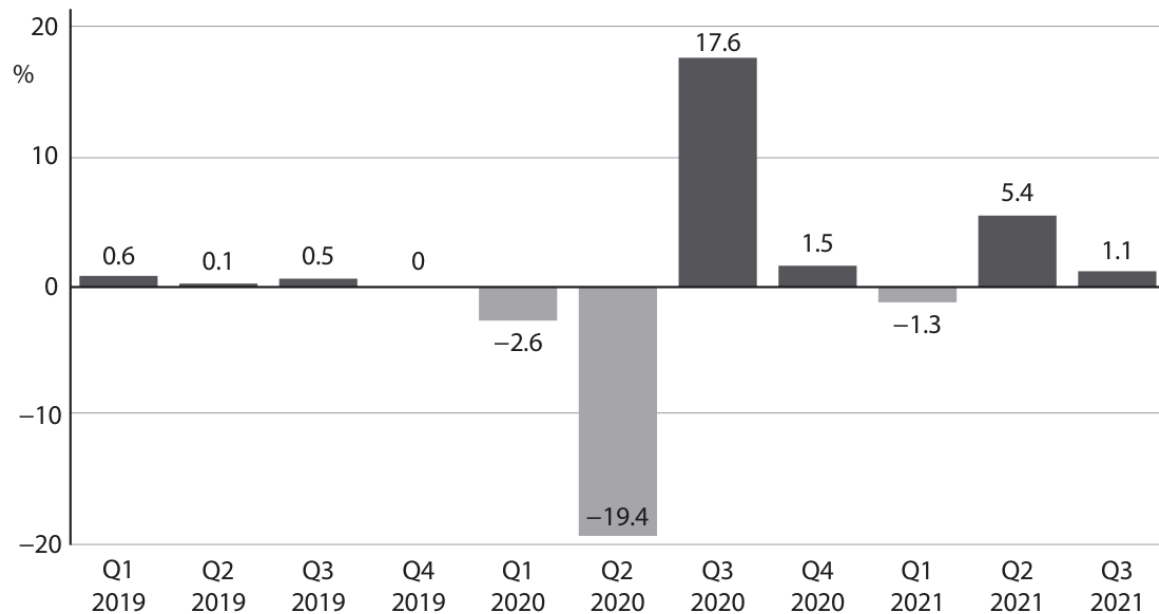
(ii) government.

(2)

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



5 The chart below shows UK real GDP growth rate (%), Quarter 1 (Q1) 2019 to Quarter 3 (Q3) 2021.



(Source adapted from: <https://tradingeconomics.com/united-kingdom/gdp-growth>)

(b) With reference to the chart, explain **one** likely benefit of economic growth to firms.

(3)

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

SECTION B

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

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

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

Question 6**UK economic recovery**

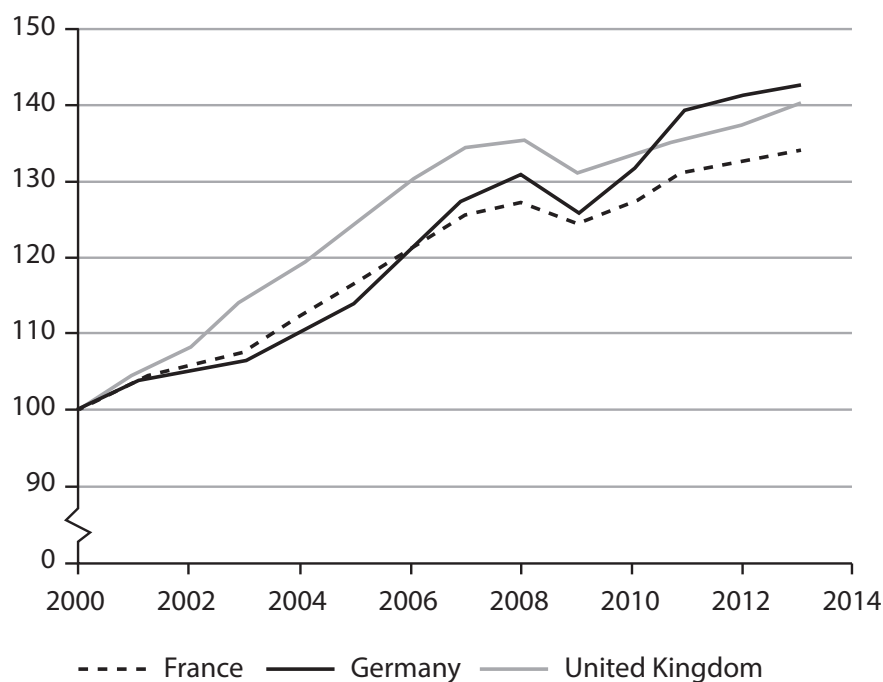
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(Source: World Bank 2014)

**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**

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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)



Q) 6 (f) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)



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SECTION A

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

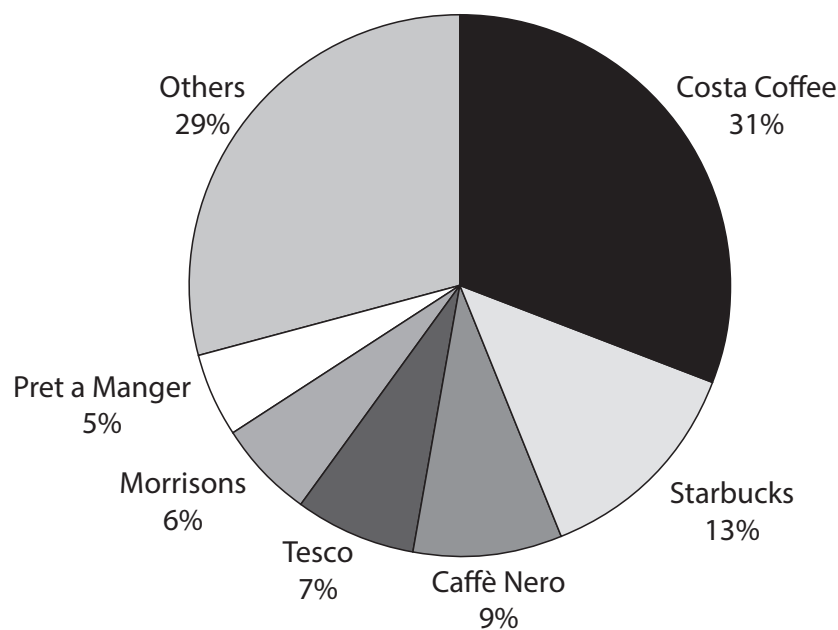
Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1**Branded coffee shops**

Figure 1: Market share of UK branded coffee shops, 2015, percentages

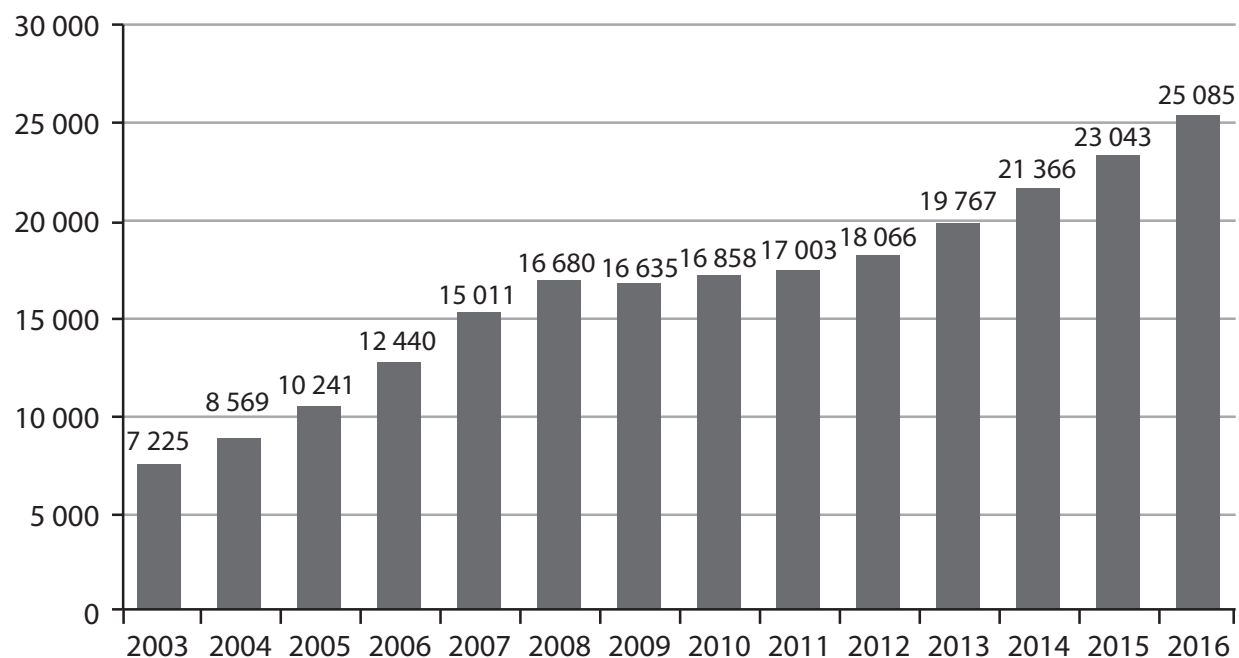


(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)



Figure 2: Number of Starbucks coffee shops worldwide, 2003–2016

Number of
coffee shops



(Source: <https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/>)

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)



Extract A**Starbucks in Britain – a loss-making business?**

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021.

5

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However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax.

15

Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published.

20

These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.

25

(Sources: adapted from *The Economist* 14 February 2015 <http://www.economist.com/news/business-and-finance/21643271-tax-and-starbucks-company-report-2016> and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)



Extract B**Tax on disposable coffee cups?**

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year. One environment spokesperson, Kate Parminter, said: "We've seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact."

In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: "My initial reaction is charging 5p or 10p for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2.60 to £2.65. I suspect a more technological answer is what we need – either the composition of the disposable cups being changed so they're more easily recyclable, or changing the technology in the recycling."

Disposable coffee cups contain a plastic coating inside the cups which prevent them from becoming soggy, making them difficult to recycle. There are just two specialist facilities in the UK that have the required equipment to separate plastic from paper for recycling. Almost no recycled paper is used in the production of disposable cups, meaning that some 43 000 trees must be cut down annually to keep up with the demand. CO₂ emissions of around 83 000 tonnes are generated every year for their production.

(Sources: adapted from <http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html> 05/09/16 and <https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups>)

Extract C**German city of Freiburg takes action on cutting the use of disposable coffee cups**

The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused. 56 coffee retailers have signed up, and 10 000 cups are being used.

One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.

(Source: adapted from <http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719>)



(25)



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8 It has been estimated that if climate change led to the world's temperature rising 2.5 °C compared to the temperature in 2010, then global GDP per capita would be 15% lower by 2100. If temperatures rise by 4 °C compared to the temperature in 2010, then by 2100 global GDP per capita would decline by more than 30%.

(Source adapted from: <https://www.nature.com/articles/s41586-018-0071-9>)

Q) Evaluate the potential trade-offs between environmental protection and other macroeconomic objectives.

(25)







(Total for this part = 25 marks)

Sources for use with SECTION B

Read Figure 3 and the following Extracts (E to G) before answering Question 2.

The economy of India**Figure 3: Selected economic data for India, 2006–2021**

Year	GDP per capita (US\$)	Human Development Index (HDI) value	% people living in absolute poverty
2006	820.0	0.611	55.1
2016	1 714.3	0.624	27.7
2021	2 238.1	0.633	16.4

(Source adapted from: <https://www.statista.com/statistics/1272613/india-multidimensional-poverty-index/>; <https://data.worldbank.org/indicator/>; UN Human Development Reports)

Extract E**135 million Indians escape absolute poverty in recent years**

Absolute poverty in India, measured by the number of people living on under US\$2.15 a day, has fallen dramatically over the last 15 years. The government's dedicated focus on improving access to sanitation, nutrition, cooking oil, banking services, drinking water and electricity has led to significant advances in these areas. The \$2.3 million provision of subsidised cooking oil has positively transformed lives, with a 14.6 percentage points improvement in the access to cooking oil.

(Source adapted from: <https://pib.gov.in/>)

5



Extract F**Buffer stocks in India**

The Indian government is required to maintain a buffer stock of 11 million tonnes of wheat and 10 million tonnes of rice. The grains are purchased from farmers at the minimum support price and stored in secure warehouses across the country. India, once troubled by famine, has more recently managed to remain self-sufficient in most food categories except edible oils, and is the world's largest rice exporter. Even during the global health crisis 2020-2022, when the government distributed free food to nearly 800 million people, buffer stocks ran down but not out. Farmers are encouraged to produce more without any consideration of sustainability.

5

(Source adapted from: <https://ig.ft.com/india-population/>)

Extract G**Population growth in India**

"The greatest obstacle in the path of overall economic development is the alarming rate of population growth," was one Indian government minister's view in 1967. In the 1970s, the Indian government took radical measures to try to prevent population growth, with little success.

5

Then, in the 1980s and 1990s, India began opening up its economy to the private sector. Policymakers began viewing a growing young population in the form of the so-called demographic dividend – when a majority of a country's population is of working age (15-64 years) – as an engine for further economic development. In May 2023 India took over from China as the country with the highest population reaching 1.4 billion. However, it needs enough well-paying jobs designed to serve the modern, urban economy.

10

(Source adapted from: <https://www.aljazeera.com/features/2023/4/18/overtaking-chinas-population-will-india-gain-or-lose>)



(25)



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MARK SCHEMES

official mark schemes



Question Number	Answer	Mark
3(a)	Application 2 2 198 473m X 1.035 (1) = 2 275 420m Answer= 2 275 420m NB Award full marks for correct answer Allow range 2 275 419m to 2 280 000m (2) Allow 2.28 trillion (2) If answer given without million units, then maximum 1 mark NB Million units is not allowed if answer is written in the table	(2)

Question Number	Answer	Mark
3(b)	Knowledge 1, Analysis 1 Knowledge: Identification of one likely cost for 1 mark, e.g. • Increase in unemployment (1) • Reduction in government tax revenue (1) • Reduction in investment from firms (1) • Fall in living standards (1) Analysis: Linked development 1 mark for e.g. • As there is less demand so firms will look to reduce their costs (1) • From consumers working less/firms making less profits (1) • Due to a drop in demand for goods and services (1) • Diagram e.g. showing fall in AD (1)	(2)

Question Number	Answer	Mark
3(c)	The only correct answer is D <i>A is not correct because this would cause AD to increase, leading to an increase in actual growth</i> <i>B is not correct because this would cause SRAS to fall</i> <i>C is not correct because this would lead to a reduction in economic growth</i>	(1)



Question Number	Answer	Mark
6(a)	Knowledge 2, Application 2 Knowledge/understanding 2 marks for, e.g. • It is the percentage (1) • increase/change in GDP/real output/total value of goods and services (1) Application 2 marks for 2 data references from Figure 1 (1+1), e.g. • Rate of economic growth was highest in 2021 (1) at around 7.5% (1) • Rate of economic growth was negative in 2020 (1) at -9.9% / due to the Global Health Crisis (1) • Reward for reference to two data points (1+1)	(4)

Question Number	Answer	Mark
6(b)	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding 1 mark, for understanding of real incomes, e.g., • Subjective happiness is likely to decrease (1) Application 2 marks (1+1), for e.g. • Real income per household is estimated to decrease by around 0.9% in 2024 (1) • Reduction/decrease/fall in living standards (1) Analysis 2 marks for (1+1), e.g. • People spend less on purchasing goods and services / less consumption (1) • People have lower purchasing power / may not be able to afford larger repayments on mortgages or loans for durable goods (1) • People may be anxious make future payments/about their ability to repay debts / less confidence (1) • Lower income may result in less wealth creation, e.g. might not be able to save for future/retirement (1)	(5)



Question Number	Answer	Mark
6(d)	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding and analysis 1 mark for identification of one reason and up to 2 marks for linked development (1+1), for e.g. - Export-led growth (1K): a decrease in net exports will decrease their AD (1AN), leading to lower real output/economic growth (this may be shown diagrammatically) (1AN) - Slowdown in economic growth of trading partners (1K): so when Germany and Italy encounter lack of demand for their exports (1AN) there is a fall in the net trade component of their AD (1AN) NB Answers can be analysed and explained in any combination of the above points Application 2 marks (1+1), for e.g. - Germany and Italy are export-focused (1) - The UK economy is consumption driven (1) - Highly exposed to the slowdown in world trade (1) - There has been a fall in average global incomes (1) - Contribution of exports to Germany's and Italy's GDP/economic growth is greater than that of UK (1) - Germany and Italy are more reliant/dependent on international trade than the UK (1)	(5)



Question Number	Answer	Mark
6(d)	Knowledge 2, Application 2, Analysis 2 Knowledge/understanding Identification of two reasons (1+1) • Rising UK population relative to Germany's • Falling productivity in UK • Lack of exports in UK • Increased imports in UK (largely due to increased domestic consumption) • Change in relative cost of living • Different inflation rates in UK and Germany • Changes to PPP method of calculation, e.g. items in basket of goods • Change in value of US Dollar used for PPP calculations Application 2 marks for two data references from Figure 2 and/or extract A, or application of a diagram (1+1), e.g. • UK current account deficit 6% of GDP in third quarter 2014 (1) • Identify difference in growth of GDP per capita in Figure 2 e.g. 7 percentage points between 2010 and 2013 for the UK (1) Analysis Linked development of reasons (1+1). e.g. • falling UK productivity increases average cost of UK exports, making them more expensive relative to Germany's	(6)

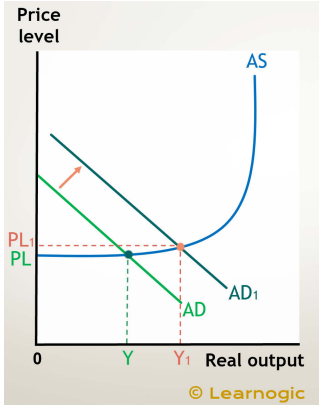


Question Number	Indicative content	Mark
6(b)	Knowledge 2, Application 2, Analysis 2 • Rise in value of houses will lead to wealth effect • An increase in householder's confidence • Encourage households to consume more (and/or save less) • Aggregate demand (AD) will increase • Lead to an increase in real output or a faster rate of economic growth • Credit for discussion of other effects besides wealth effect, e.g. impact on: • Balance of Payments • Unemployment • Budget deficit • Price level • Increase in investment from the construction industry • Diagram e.g. "£24 000 more than it was" / "annual growth increased from 5.2% in July 2016 to 5.6% in August 2016" / Data reference to Figure 1 data NB Candidates have to show impacts with accurate AD/AS diagram presenting a relevant change in AD to access Level 3 NB Benefits to rising house prices can be seen as KAA and negative effect as Evaluation, or vice versa	(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 - Houses are a significant component of consumers' wealth and effect large proportion of households (65% owner occupied) in the UK, which will have a major effect on AD - SR vs LR – "house prices will fall 1% across the UK in 2017" / wealth effects take time to trigger spending changes - Regional differences in impact – "House price growth was strongest in London" "home ownership has risen to 78.6% among those aged 65-to-74" – it may not raise AD / consumption - Discussion of the significance of falling real wages - Significance of the elasticity of the AS curve - Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship - Lower confidence for areas where it will be harder to move to find jobs, because of price differentials - Effect on first-time buyers – may lead to their consumption falling (discussion of real wages and home ownership)	(4)

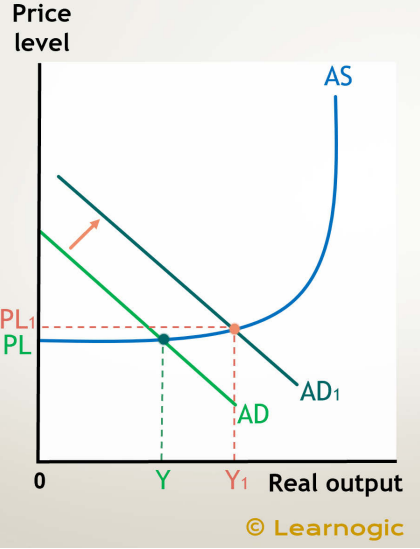


Question Number	Indicative content		Mark
6(d)	Knowledge 2, Application 2, Analysis 2 • An injection into the circular flow of income • Economic growth is the increase in real GDP / increase in productive capacity of the economy • Positive relationship between an increase in exports and economic growth • Reference to the multiplier • Exports is a component of AD • AD will increase • Economic growth / real output will increase • Figure 3: since mid-2016, exports grew due to the fall in the exchange rate of the pound as a result of the referendum vote  NB Candidates must answer with an accurately drawn 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(d) continued	Evaluation 4 - Exports are only a small component of AD - Investment might be more significant as it is 10% to 15% of AD – “Economic growth is expected to speed up again as investment rises” - Exporters are vulnerable to changes in demand in other countries and exchange rates which are out of UK's control – “which is largely due to the fall in the value of the pound” - Figure 3 – UK exports have not risen significantly since the start of 2017 - Depends on other factors in the economy, such as imports, government spending and consumption - Significance of the global economic recovery in increasing exports		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.	



Question Number	Indicative content	Mark
6 (d)	Knowledge 2, Application 2, Analysis 2 - Explanation of the term consumption, e.g. the expenditure on consumer goods and services - Consumption is a component of aggregate demand - Aggregate demand will increase from AD₁ to AD₂ - Inflationary pressures will increase from P₁ to P₂ - Real output will increase from Y₁ to Y₂ - Consequently, unemployment will decrease - Figure 1: household consumption has increased by nearly 117% between 1998 and 2018 - Extract A: spending per person increased by £589 Diagram, e.g.:  NB Candidates must answer with a valid AD/AS diagram showing 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.
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Question Number	Indicative content		Mark
6 (d) 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 rose by 9.6%”: it creates an unstable and unbalanced economy • Consumer spending could be constrained in the long term if the central bank raises the base interest rate – “more expensive credit could constrain the ability of households to spend” • Depends on other factors in the economy, such as net trade and investment		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.	



Question Number	Indicative content	Mark
6(c)	Knowledge 2, Application 2, Analysis 2 • Understanding/definition of exports • "exports to non-EU countries were £0.8 billion lower than exports to EU countries" • "increase in the export of financial services" • Exports represent an injection into the circular flow of income, therefore net injections increase • An increase in exports will increase net exports and this would increase AD, resulting in rising average prices and real output (can be shown via diagram) • This will lead to positive multiplier effect upon AD, further increasing real output • Rising real output could reduce unemployment, causing lower government spending on welfare • Could lead to rise in nominal wages (and also real wages depending upon inflation rate) • Increases living standards which could increase domestic demand and therefore consumption • Could lead to improvement in the current account if value of imports is lower than the value of exports • May have a positive long-term impact on the level of investment	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.



Question Number	Indicative Content	Mark
6(c)	Knowledge 2, Application 2, Analysis 4 Likely impacts include: • There are currently very low levels of intra-Africa trade (18% in 2020) and so there is large scope to develop economies by increasing trade, leading to an increase in economic growth • If firms can move their goods more quickly across borders they will be more able and willing to export, boosting economic growth • Cost of imports from other countries falls, reducing inflation rates/consumers can benefit from cheaper goods & services • An increase in trade will lead to an increase in demand for workers, boosting employment and therefore economic growth • Increase in LRAS of economy as infrastructure improves • Increase in productivity e.g. due to improved geographical mobility of labour or larger markets lowering unit costs • Increased foreign direct investment	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. 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.
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Question Number	Indicative Content	Mark
6(c) continued	Evaluation 4 - Improved transport may go underutilised/unused if it is too expensive such as new railways - It may be more important to improve access to information to make it easier and cheaper to transport goods across Africa - Reducing tariffs may be a quicker and simpler way to boost development than improving infrastructure, the IMF says this could boost trade by 15% to 25% - African governments are unlikely to have the funds to upgrade infrastructure, and doing so may only worsen national debts, which will hamper growth in the future - Different African countries may face different problems - Administrative problems e.g. in crossing borders - It may be difficult to improve transport links due to geographical factors - Other factors may be a bigger barrier to improving economic growth than transport links e.g. civil unrest	(4)

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



Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Potential policies may include: - Fiscal policies, e.g. reduced corporation tax to increase investment and therefore increase AD - Supply-side policies, e.g. increased investment in education to create a more highly-skilled and therefore more productive workforce N.B. Candidates may discuss more than one of each type of policy N.B. Candidates must discuss both fiscal and supply-side policies for 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 Evaluation of the policies, e.g. • Governments in many Eurozone countries are having to focus on reducing national debt and can't afford policies such as tax cuts • Supply-side policies take a long time to have an impact on the 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 recognises different viewpoints and/or is critical of the evidence.



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
6(e)	Knowledge 3, Application 3, Analysis 3 Explanation of how supply-side policies could stimulate economic growth, e.g. - Increased spending on infrastructure, e.g. carbon capture technology, increases the potential output of the economy - Increased spending on education/training/healthcare to increase productivity of workforce - Policies to increase competition between firms, such as privatisation/deregulation, to boost UK competitiveness - Reducing taxation, e.g. income tax/corporation tax - Reforming the labour market, e.g. reducing the cost/ paperwork of immigration, increasing size/productivity of the labour market, measures to reduce trade union power - Government subsidies for strategic industries e.g. electric cars - Protectionism - Impact on AD can be credited as a dual/short-run effect of supply-side policies on growth NB For Level 3, more than one policy required	(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 • Other policies, e.g. government's demand-side policies, might be more effective, or non-government policy such as interest rate cutting • Effectiveness of the individual policies discussed • Magnitude of government spending on supply-side policies • Interventionist supply-side policies could increase budget deficit and national debt, causing crowding out • Policies can take a long time to have an effect, e.g. time to build develop new, unproven carbon capture technology / time for a student to progress through education • Increasing labour force is only beneficial if there are jobs available for the new members of the workforce • Conflict between government policies / government failure	(6)

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



Question Number	Indicative content	Mark
6 (f)	Knowledge 4, Application 4, Analysis 6 KAA: • Understanding/definition of supply-side policies • Understanding/definition of economic growth • AD/AS diagram showing change in AS consistent with analysis / use of PPF diagram • Increased government spending on education and/or training - this would increase skills and productivity • Increased government spending on healthcare – this should reduce the number of days absent from work • Reducing level of benefits and/or income tax – this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work • Cutting cost of bureaucracy and/or reduce regulation of firms – this would raise productivity • Financial support for investment in the economically deprived regions – this may help overcome structural unemployment and increase the UK's total output • Improving regulation and/or competition of inefficient industries – this would increase the UK's productivity • Privatisation - this may lead to increased competition, innovation and efficiency in the UK • Increased government spending on infrastructure investment (e.g. broadband or roads) – this would reduce industry costs or improve access to market • Reducing corporation tax – therefore increasing the international competitiveness for investment • Government schemes to improve childcare provision • Increased flexibility and/or mobility of labour Evaluation 6 • Significant time lags for supply-side policies • Consideration of the effectiveness of supply-side policies such as infrastructure/ education/ healthcare at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Cut in the income tax designed as an incentive to work and investment may be ineffective if workers use it as an opportunity to work less for the same income	



	- Cut in corporation tax ineffective if companies use the cut in corporation tax to boost short-term profits rather investment - Increase in UK taxation elsewhere may have an effect on incentives to work	(20)
Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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



Question Number	Indicative content	Mark
7	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Likely effects might include: • Government spending is part of aggregate demand and increased spending will increase aggregate demand • Increase in injections into the circular flow of income and subsequent multiplier effects • Improvement in UK productivity- developing new, more efficient ways of working can boost growth/raise living standards • Improved innovation means UK may have more new goods and services that can be exported to other countries, improving current account and aggregate demand • Improved infrastructure will boost productivity- e.g. better transport means less time spent in traffic jams, fewer delayed trains, etc • Diagrammatic analysis may be used (e.g. AD/AS) Evaluation might include e.g.: • This is not really a very large amount of money, especially over five years and for the whole of the UK economy • Many significant issues with poor quality infrastructure that will need a lot more money to solve- e.g. average speeds falling on roads in London, ageing rail infrastructure causing lots of delays • UK productivity has lagged behind other countries for some time so will need a significant boost just to catch up with the rest of the world • No guarantee that innovation will boost growth • Depends on effectiveness of government at allocating resources	(25)



Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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



Question Number	Indicative content	Mark
1 (e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for effects of increased infrastructure spending Microeconomic effects may include: • Wages higher • Improved infrastructure affects firms e.g. businesses' fixed or variable costs fall as transport costs fall • Investment seen to boost business confidence, lead to further investment and spending within firms • External benefits/external costs associated with the project - especially given the size, number of runways and amount of traffic outlined in Extract C. • External economies of scale • Accept answers based on impact on costs and/or revenues if the building occurs in the private sector, with appropriate diagram Macroeconomic effects may include: • Redistribution of incomes • Outward shift of AD/injection (I or G) into circular flow (or further outward shift in AD) with multiplier effects, with macroeconomic impacts e.g. employment and incomes rising • AS shift right with a movement in capacity of the productive economy shown (Keynesian or Classical AS) • Fiscal loosening – effects of increased budget deficit if funded without increase in tax • Effects of a rise in tax, if linked to government decision to raise tax to fund the projects NB for a Level 4 response there must be micro and macro effect (s). Some factors could be seen as micro or macroeconomics, such as a rise in tax, increased FDI, redistribution and confidence. Up to 9 marks for evaluation. Points might include: • Opportunity cost of spending on infrastructure e.g. schools, or higher taxes, • Crowding out – financial or resource • Might be a white elephant project	



	• Depends on relations with EU/other countries as to whether the airport will reach full capacity • Depends on the size of the multiplier effect • Depends on the state of the financial sector • True costs not accounted for - externalities ignored • Large projects require a lot of coordination and getting behind schedule putting lives at risk. • Difficulty in placing value on external benefits and costs associated with the project	(25)
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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.
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
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic factors to explain low growth may include: • Labour force factors e.g. changing NMW will affect ULCs and therefore growth • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. schools crumbling, poor internet • Investment in education/skills or cutting/capping university fees • Low level of willingness to embrace modern technologies Macroeconomic influences may include: • Population changes • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness, changes in EU • Tax and benefit changes • Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation • Actions of other institutions e.g. banks, schools • Control of price level e.g. stop QE • Competitiveness – use of Extract D NB some points such as regulation, supply-side policies, changing the interest rate, can be regarded as micro or macroeconomics NB for a Level 4 response there must be reference to Germany in context Possible evaluation points include: • Degree to which the factors might be a success • Depends on other countries (relative competitiveness issue) – it could be that other countries have a comparative or absolute advantage/other trade pattern and trade bloc arguments • Depends on the value of the euro/ other currency of trading partners which cannot be directly controlled in Germany • Germany might be better protected from worldwide crises such as the recent Global Health Crisis • Growth is not the only desirable economic outcome (it might be argued that slower growth is better)	(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.



1(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic advantages may include: • Firms experience increased efficiency/ economies of scale • Lower costs for firms and higher profits (might be shown using cost/revenue diagram) • Greater revenue for firms from greater exports • Greater revenue for firms due to specialism adding value/demand more inelastic • Less dependence on energy imports • Efficient allocation of resources: refer to PPF • Consumers get energy at lower prices: impact on consumer surplus • External benefit • Impact on demand for labour & wages in the sector Macroeconomic advantages may include: • Export-led economic growth (link to AD) and multiplier effects • Benefits of comparative (Ricardo) or absolute advantage (Smith) • Greater output and living standards • More employment opportunities • Greater tax revenue to the government • Reduced inequality within the country • Energy security and supply stability • Impact on current account • Attracting Foreign Direct Investment boosts capital inflows • Lower costs increase short-run aggregate supply • Impact on inflation NB for a Level 4 response there must be use of both micro and macroeconomics and use of given data with reference to gas. Changes in growth, trade for example, can be used as either micro or macroeconomics.	
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	9 marks for evaluation – points might include: • Magnitude of use of gas by the country • Short run vs long-run considerations / finite resource • Depends on the availability of substitutes • Profits depend on both revenues and costs, • Comparative advantage arguments ignore the transport costs and the diseconomies of scale/ diminishing returns to scale arguments • Impact on economic growth depends on where the AD lies on Keynesian LRAS / level of spare capacity in the economy/size of multiplier • Over-reliance on imports for other goods could make a country vulnerable to supply disruptions or price fluctuations; can result in trade deficits • Job displacement in industries where a country does not have a comparative advantage • Specialisation in resource-intensive industries may lead to environmental degradation • Gas prices subject to price volatility • Declining terms of trade	(25)
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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.
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
1(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for effect(s) of a regional trade agreement Microeconomic effect(s) may include: • Higher revenues/retained profits for firms • Lower costs for business/economies of scale • Use of cost/revenue diagram to show impact on profit • Lower prices for consumers without tariffs • Higher disposable incomes for workers • More choice for consumers within EU / lower choice as less available from outside EU • Greater competition between firms • Labour market impact: supply of labour increases in certain occupations (incentive to work arguments) • Relocation of TNC arguments/regeneration of a specific area • Impact on welfare loss Macroeconomic effect(s) may include: • Lost government tax revenue from tariffs • Increase in foreign direct investment • Impact on employment/unemployment • Impact on economic growth with multiplier effects • Impact on exports/net trade/current account of the balance of payments/trade creation • Use of AD/AS diagram to show impact on economy • Impact on comparative advantage and specialisation • Impact on the environment NB for a Level 4 response there must be at least one micro and macro effect(s) and use of data with reference to a regional trade agreement (RTA) between the UK and EU. Employment / government tax revenues / tariffs could be seen as micro or macro effects. NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa 9 marks for evaluation – points might include: • RTA has smaller impact than being in a customs union • Excessive administrative costs • Problems of not having free movement of workers	(25)



	• Impact depends on how many goods meet the 'rules of origin' criteria • Short-run v long-run consideration: time consuming and complex: effects not seen immediately but over time • Impact depends on the position of AD on LRAS • Tariff costs as a proportion of overall costs for the firm • Depends on the type of trading bloc e.g existence of common external tariff. • Trade diversion	
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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.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.



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



Question Number	Answer	Mark
3(a)	B	(1)

Question Number	Answer	Mark
3(b)	Knowledge 2 Knowledge/understanding 1 mark for definition of GDP e.g. • Value of the total output (1) • Accept amount of final goods and services (1) • Total income / total expenditure (1) 1 mark for definition of real e.g. • Taking inflation into account (1) • Adjusted for changes in the price level (1)	(2)



Question Number	Answer	Mark
3(c)	Knowledge 1 Identification of a negative output gap on the diagram, either of those illustrated by the annotations below are acceptable (N.B. only ONE is required) Price level 0 Y_1 Y_{fe} Real output Negative output gap Price level 0 Y_1 Y_{fe} Real output Negative output gap © Learnogic (1)	

Question Number	Answer	Mark
2(a)	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. • Recession is negative economic growth/falling GDP for two successive/consecutive quarters (1)	(1)

Question Number	Answer	Mark
2(b)	Knowledge 2 Knowledge/understanding 1 mark for each characteristic and 1 mark for development, e.g. • Falling inflation (1) due to reduction in consumer expenditure (1) • Rising unemployment (1) due to less demand for workers caused by falling real output (1) • Falling profits/investment of firms (1) possibly leading to high level of business failures (1) • Increase in budget deficit/worsening of the fiscal position (1) due to a rise in government spending on benefits/a fall in tax revenues (1)	(2)

Question Number	Answer	Mark
2(c)	The only correct answer is B A is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap C is not correct because it shows actual GDP growth above trend GDP growth, therefore positive 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(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)

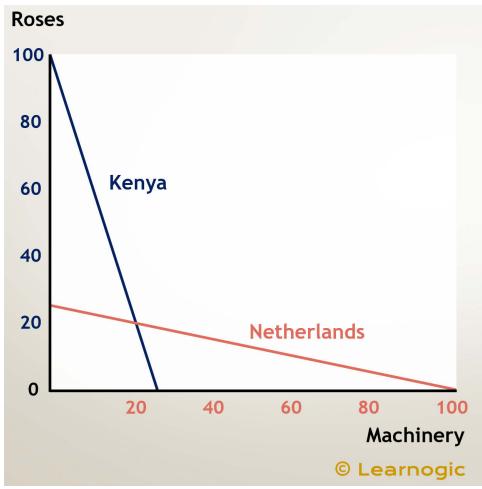
Question Number	Answer	Mark
3(b)	Knowledge 2 Knowledge/understanding: Up to 2 marks for, e.g. • There may be inaccurate data on the labour force (1) for e.g. the difficulties in measuring the size of labour migration / the number of people who may have left the labour market as 'discouraged workers' / 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)

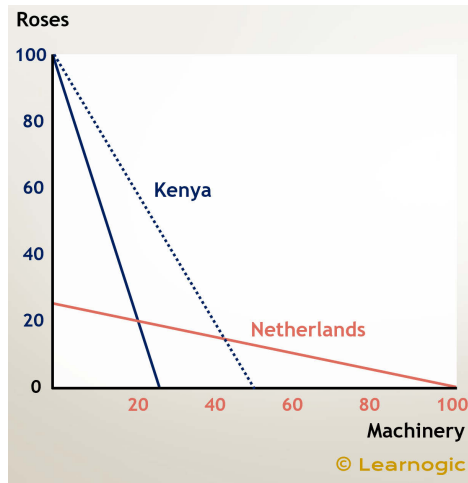
Question Number	Answer	Mark
3(c)	Knowledge 1 Knowledge/understanding: 1 mark for definition, e.g. • Trade cycle shows movements/fluctuations in economic activity (1) • Boom, recession, trough and recovery (1)	(1)



Question Number	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(c)	Knowledge 2, Application 2, Analysis 4 Knowledge and analysis - more flowers with a lower average cost than another country Application - heating costs make Dutch flowers more expensive to produce despite lower transport costs to the UK - high altitude with cool nights - proximity to equator and sunlight hours - cheaper labour - end to seasonal production 365-day a year absolute advantage - application marks may be awarded on the diagram/table - Creates additional employment (100,000 directly and two million indirectly) Analysis Example of analysis:  Diagram showing outward shift in Kenya's PPF e.g.	(8)



Numerical analysis e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	25
Netherlands	25	100

Output, after specialisation:	Flowers	Machinery
Kenya	200	0
Netherlands	0	200

Leads to growth: this might be shown by an outward shift of the PPF, or use of output table, e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	100
Netherlands	100	100

NB for a Level 3 response there must be at least one valid diagram or numerical example clearly linked to costs absolute or comparative advantage (i.e. relative costs/opportunity costs)

Other analysis:

- countries can focus all of their production in one product and swap/trade it for a greater quantity of the other good.
- Kenya may benefit from economies of scale as they produce more
- enables larger exports and GDP
- example of before and after output and then gains from trade e.g. pre-trade 125F and 125M, after trade (full specialisation) 200F and 200M, so gains from trade = 75F and 75M

	• terms of trade lie between opportunity cost ratios • calculation of a suitable terms of trade e.g. $F=2M$, meaning Kenya can swap 200F for 400M NB allow reference to comparative advantage also countries could have both absolute and comparative advantage. Allow diagrams/tables showing both concepts.	
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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 • limitations of the model e.g. immobility of factors/trade barriers, transport costs, more products/trade conflicts or dependence between countries in the world/can average costs be easily compared/are there constant returns to scale? • if energy costs change then the absolute advantage might be eroded • monopsony buyers e.g. supermarkets make a huge advantage and erode any benefits for Kenya • global health crisis has reduced international flights so costs have risen/no spare capacity on flights • other factors that could have a more significant impact on growth e.g. interest rates • only 1% of GDP so may not be that significant • short run/long run considerations e.g. in changing from one type of production to another	(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
5(a)	The only correct answer is D A is incorrect because real GDP increased at a slower rate in Q4 2020 B is incorrect because the data is on GDP growth rate and not on the rate of inflation C is incorrect because there was an economic decline between Q3 2019 and Q1 2020	(1)

Question Number	Answer	Mark
5(b)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding: 1 mark for identifying one benefit, e.g. - Firms make greater profits / - Increased revenue for firms (1) Application: 1 mark, for e.g. - UK GDP growth rate has increased in Q2 2021 and Q3 2021 (1) Analysis: 1 mark for linked development, e.g. - Consumer will have greater incomes and will increase their demand for firms' goods/services (1) - Firms' sales are likely to increase as a result of higher consumer demand (1)	(3)



Question Number	Answer	Mark
4 (a)	The only correct answer is C <i>A is not correct because this is trend GDP growth</i> <i>B is not correct because this is a recession</i> <i>D is not correct because this is trend GDP growth</i>	(1)

Question Number	Answer	Mark
4(b)	Knowledge 2, Application 2 Multiplier formula= $1 / (1 - mpc)$ OR multiplier = $1/mpw$ OR $1/(mps+mpt+mpm)$ (1) = $1 / (1 - 0.1)$ (1) OR = $1 / 0.9$ (1) Value of the multiplier = 1.11 (1) 1.11 recurring X £60m (1) = 66.6m Award full marks for correct answer 66.6m NB Allow in the range 66m - 67m NB Max 3 marks if incorrect units or missing units, e.g. 3 marks for £66.6 NB 3 marks for the correct value of multiplier	(4)



Question Number	Answer	Mark
3(a)	The only correct answer is C <i>A is not correct because the economy grew fastest in quarter 1 2022</i> <i>B is not correct because a recession is 2 consecutive quarters of negative economic growth</i> <i>D is not correct because the data is GDP growth, not total GDP</i>	(1)

Question Number	Answer	Mark
3(b)(i)	Knowledge 1, Analysis 1 Identification of one likely disadvantage for 1 mark with linked development for 1 mark, e.g. • Increase in unemployment (1) as there is less demand so firms will look to reduce their costs (1) • Increase in unemployment (1) due to a fall in derived demand for labour (1) • Lower wage growth or wage reduction (1) leading to a fall in living standards (1) • Lower wage growth or wage reduction (1) from consumers working less/firms making less profits (1) • Job insecurity (1) due to fall in AD (1)	(2)

Question Number	Answer	Mark
6(c)	Knowledge 2, Application 2, Analysis 2 Knowledge/understanding Identification of two characteristics (2) for, e.g. • Falling inflation (1) • Rising unemployment (1) • Falling profits/investment of firms (1) • Rising budget deficit/worsening of fiscal position (1) • Reduction in the base interest rate (1) • Loss of consumer/business confidence (1) Application 1 mark for each data reference (1+1), e.g. • Figure 1: inflation fell by around 3.3 percentage points between 2009 and 2010 (1) • Figure 2: UK was in recession between Q2 2008 and Q3 2009 (1) • Extract A: unemployment rate peaked at 8.5% in 2009 (1) • Extract A: Bank of England reduced the base interest rate from 5.25% in February 2008 to 0.5% in March 2009 (1) Analysis Linked development (1+1) e.g. • Falling inflation due to lower consumer confidence and a reduction in consumer expenditure (1) • Rising unemployment due to lower demand for workers caused by falling real output (1) • Falling profits/investment of firms possibly leading to high level of business failures (1) • Rising budget deficit/worsening of the fiscal position due to a rise in government spending on benefits/a fall in tax revenues (1) • Reduction in the base interest rate will encourage borrowing and consumption/investment (1) NB Award up to 4 marks for one characteristic well developed (1kn + 1ap + 2an)	(6)



Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Impact (cost) may include: • Consumers will receive lower average incomes and they will not be able to afford more goods/services nor increase their standard of living; poverty rates could potentially rise; house prices depressed • With lower real GDP, firms employ less workers creating unemployment; wages fall and creates greater inequality .. "low income households cannot cope with a new downturn" • Firms are likely to make less profits as consumer spending falls; less production implies lower future investment into R&D/innovation • With lower GDP, fewer resources can be devoted to promoting the use of renewable resources • Reduction in tax revenues and higher government spending on unemployment and welfare benefits; greater borrowing and debt to GDP ratios • High social dislocation/crime/civil unrest/stress issues/high divorce rates; worsens health; lower life expectancy NB Responses can discuss costs as KAA and benefits as EV (and vice versa)	(9)

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



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 Impact (benefit) may include: • Lower demand may reduce demand-pull and cost-push inflationary pressures; the central bank may decide to lower interest rates to control inflation • Lower external costs due to less output production by firms; less exploitation of finite resources and less depletion of non-renewable resources • Lower spending on imports as marginal propensity to import will fall, causing an improvement in the current account deficit of the balance of payments • Lower inequality: those with assets may witness a proportionally smaller rise in the market value of their income on their wealth • Depressed house prices make houses affordable to non-homeowners • Many problems of crime/excessive consumption of demerit goods are committed by people in work – this is likely to fall • <i>Other evaluative comments:</i> just a -0.2% contraction thus the impact will be relatively small/the size of the recession is important in terms of the impact • Recession did not occur in 2019 as there were no two quarters negative growth	(6)

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



Question Number	Indicative content	Mark
6(g)	Knowledge 4, Application 4, Analysis 6 • High percentage of consumption in UK's aggregate demand in contrast to other countries in Figure 1 • Lack of export-led growth, resulting from the state of the global economy so the UK government's £1 trillion target is unrealistic • Falling rate of return on investments abroad • Rising consumer indebtedness • Dependence of consumer confidence on rising house prices which may not be sustainable • Size of UK government budget deficit/national debt may create problems as interest rates start to rise • Relevant diagram e.g. trade cycle • Fall in real incomes NB One side of this argument should count as KAA and the opposing argument as Evaluation	(14)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.



		Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
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Question Number	Indicative content	Mark
6(g) continued	Evaluation 6 • UK has generally been a very consumer-driven economy • UK has persistently had a current account deficit/trade deficit and the economy has continued to grow • Financial reforms and increased oversight by the Bank of England have made a financial crisis less likely in the future • Falling commodity prices/low inflation generally benefits the UK economy as it is a net importer • Government is committed to a plan to get government debt under control in the long-term. This also increases confidence of UK government's lenders. • Macro policies, well timed, could prevent recession • Investment increasing 5% could counteract any recessionary pressures • Impact of Brexit / fall in the pound since 2016 • Global growth would have positive impact on UK especially service sector exports	(6)

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



Question Number	Indicative content	Mark
6(f)	Knowledge 4, Application 4, Analysis 6 • Explicit or implicit understanding of economic growth – a measure of the increase in either real GDP or real GDP per head or potential GDP • Relevant diagram e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Increased tax revenues for the government which may be used to improve public services or redistribute incomes • Higher profits for companies which may be used to improve quality products or to produce new products • Consumers' living standards improve e.g. can afford to buy more goods and services and/or have more leisure time • More employment opportunities/lower unemployment • If there is export-led growth, then the current account of the Balance of Payments would improve • Real economic growth increases LRAS and could lower inflation • An increase in business confidence which may lead to increase in investment • Investment in sustainable technology can have environmental benefits NB the benefits of growth can be seen as KAA or evaluation and the costs of growth vice versa. NB For a level 4 response there must be explicit reference to "a number of concerns" which include: • current account deficit • decline in rate of return on UK investments • low export growth • growth lower than target • struggling goods industries • output falling in construction/manufacturing • growing household debt • imbalance of consumer driven growth • low productivity • skills shortage • house shortages • burdens on UK manufacturers	(14)



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(f) continued	Evaluation 6 • Demand pull inflation – may be shown by a rightward/upward shift in AD curve • Greater inequality e.g. companies may not invest but distribute profits to shareholders • Growth might involve depletion of natural resources • External costs of growth • Lack of sustainability • Short run/long run effects e.g. technological unemployment • Growth could cause a deterioration in the Balance of payments since Britain has a high marginal propensity to import • Growth from supply side improvements may reduce inflationary pressure • Social impact of increased economic activity e.g. work-life balance	(6)

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



Question Number	Indicative content	Mark
1(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • Effects on consumers – e.g. higher prices (or lower prices if increased competition), more consumer spending on high street. Might include PED, YED (this might be developed as evaluation) • Effect on workers – higher incomes, more jobs • Effect on firms, e.g. increase in profits, revenue/decrease for independent non-branded coffee shops; cost of employing specific skilled workers e.g. baristas or other factors of production • Increase negative externalities e.g. more coffee cups • External economies of scale e.g. ancillary services such as cup manufacturers Macroeconomic effects may include: • Increased employment in service industry • Balance of payments e.g. outflow of profits to Starbucks • Effects on primary product producers • AD increase, negative/positive multiplier effects (local businesses might lose out to branded supermarket coffee outlets), inflation/growth • Tax implications e.g. transfer pricing • Income inequality • Environmental impacts NB environmental impacts, labour markets, taxation or incomes can be seen as a micro or macro approach. Evaluation points may include: • Extent of negative externalities depends on whether new processing plants for cups are set up/how alternatives are produced. • Depends on the extent of the increase in demand, PED, YED, XED – and if other areas are seeing declines. • Depends on the size of the multiplier • Depends on the level of spare capacity (LRAS for example) • Depends on growth levels, point at which AD and AS meet (if Keynesian approach) • Depends on the performance of other firms • Depends on the extent to which local shops are displaced	



	• Depends on the extent to which substitution can occur – e.g. people drink coffee instead of going to pubs • Depends on degree of profit repatriation, remittances, transfer pricing • Depends on whether coffee shops extends consumption spending or replaces demand for something else which might have different benefits/costs	(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 covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation

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



Question Number	Indicative content	Mark
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 There may be a trade-off between environmental protection and other macroeconomic objectives, e.g.: • Higher economic growth: this leads to more energy usage, much of this energy is still powered by non-renewable sources such as gas (especially in the UK) or coal (e.g. Germany) • Inflation: measures to protect the environment (e.g. packaging modifications, recycling costs) may increase costs for firms, pushing up prices & causing inflation • Income inequality: Replacing non-renewable energy requires huge capital expenditure which may increase energy costs for poorer people, especially in developing countries • Unemployment: Employees in polluting industries may lose their jobs if firms are forced to close due to government policies to reduce pollution The trade-offs may not occur: • Increased economic growth means governments have more money to invest in environmentally-friendly solutions such as better public transport • Firms may take this opportunity to increase their efficiency, e.g. new more environmentally friendly machinery may also be more efficient. Firms can make money from recycling products/using recycled products in production may be cheaper • In the long term renewable energy will be cheaper for consumers and isn't subject to fluctuating world oil & gas prices • Many new jobs have been created in sectors such as renewable energy, research into carbon capture, and recycling	(25)



Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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



Question Number	Indicative content	Mark
2(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • Labour market analysis/diagrams ◦ rightwards shift in supply/lower cost of labour ◦ demand/derived demand for labour • Use of cost/revenue/profit diagram e.g. lower wages as labour market becomes more flexible / higher demand for products • Increased demand for water, housing, food, energy, healthcare, transportation • Lack of provision/availability of a service e.g. - waiting lists in hospitals, levels of social care • Ecological degradation and other environmental pressures/depletion of resources/pollution/waste creation/external costs • Increased rise of large scale disasters • Increased tax revenue to the government • Changes in density/urbanisation/congestion • Greater migration • Movement away from capital-intensive production • Relocation arguments e.g. Lewis model Macroeconomic effects may include: • Use of AD/AS analysis e.g. output gap • LRAS / productive potential / PPF arguments e.g. higher immigration/change in migration laws • Inflation – cost push • Inflation – demand pull • Changes in wealth and income distribution/poverty levels • Impact on international competitiveness • Attract FDI, other investment • Economic development • Demographic dividend, Extract G • Comparison with China 1.4 billion population, May 2023 NB for a Level 4 response, there must be at least one micro and macro effect(s) and reference made to India or another developing country. Some factors such as environment, tax, infrastructure, inequality, employment levels, urbanisation or migration could be seen as either macro or micro NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa 9 marks for evaluation – points might include: • Consideration of speed of population growth e.g. 'alarming rate', Extract G • It depends on age structure/dependency ratio • Consideration of skilled labour	(25)

	• Depends on type of labour required/jobs available 'needs enough well-paying jobs', Extract G • Short-run v long-run effects / time lags/impact of government intervention to reduce birth-rate • Discussion of robotic replacement for unskilled labour • Depends on migration and other demographic factors • Extent of impact depends on government policy making e.g. freedom of movement of people across borders • Wage costs as a proportion of overall costs for the firm • Impact on growth/inflation depends on the position of AD on LRAS / level of spare capacity • Extent of environmental damage will depend on speed and planning/social 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.
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.

