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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Macroeconomic Objectives and Policies (2.6)

A Level Economics Theme 2

106 questions · 1168 marks · Mark schemes included

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info@guidemygrades.com
Piccadilly Business Centre, Unit C, Aldow Enterprise Park
Blackett Street, Manchester, M12 6AE

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
2.6.1	**POSSIBLE MACROECONOMIC OBJECTIVES**		14 Qs · 196 marks	**4**
1.	**Q4(a)**	AS Paper 2 June 2017	2	**5**
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4.	**Q2(a)**	A Level Paper 3 November 2021	5	**8**
5.	**Q6(b)**	A Level Paper 2 June 2017	8	**12**
6.	**Q6(b)**	A Level Paper 2 June 2024	8	**16**
7.	**Q6(c)**	A Level Paper 2 June 2024	10	**21**
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9.	**Q6(g)**	AS Paper 2 June 2018	20	**33**
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QUESTIONS

106 questions · 1168 marks · 4 sub-topics

SUB-TOPIC 2.6.1

POSSIBLE MACROECONOMIC OBJECTIVES

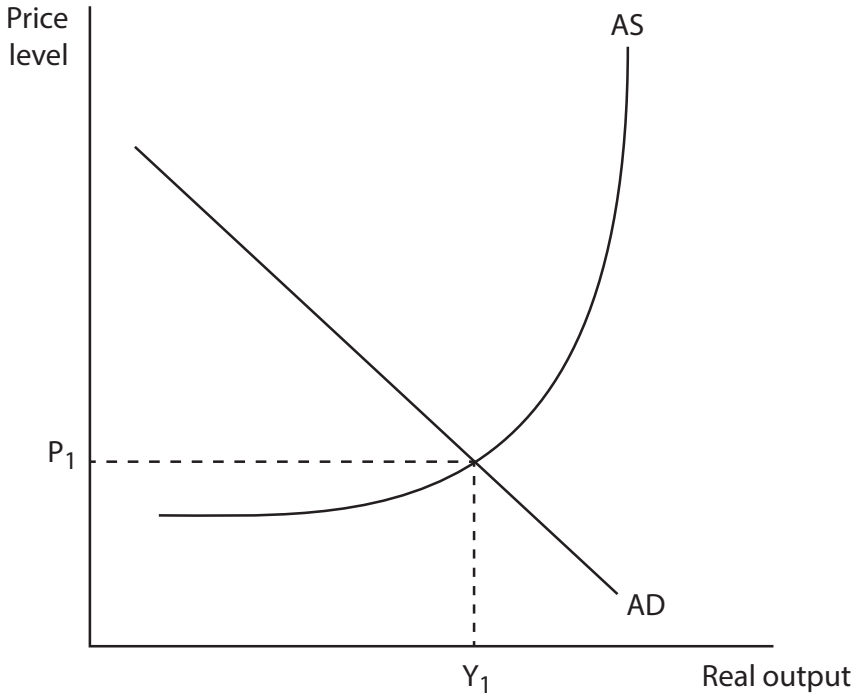
Sub-topic 2.6.1 · 14 questions · 196 marks · lowest tariff first

4 The Chancellor announced in the 2015 Budget that the personal allowance (the annual income that can be earned before starting to pay income tax) would increase from £10 600 to £11 000 in April 2016. This means most consumers will pay less income tax.

(Source: adapted from http://www.telegraph.co.uk/finance/personalfinance/how-budget-affect-me/11721785/Budget-2015-what-to-expect-for-income-tax-and-the-personal-allowance.html)

(a) Annotate the aggregate demand and aggregate supply diagram below to show the likely impact of the increase in the personal allowance on the UK's price level and real output.

(2)



(b) Define the term 'direct tax'.

(1)

.....

.....

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

(1)

- ☒ **A** Value Added Tax
- ☒ **B** Vehicle Excise Duty
- ☒ **C** Corporation tax
- ☒ **D** Alcohol duty

(Total for Question 4 = 4 marks)

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

(a) Define the term 'indirect tax'.

(1)

.....

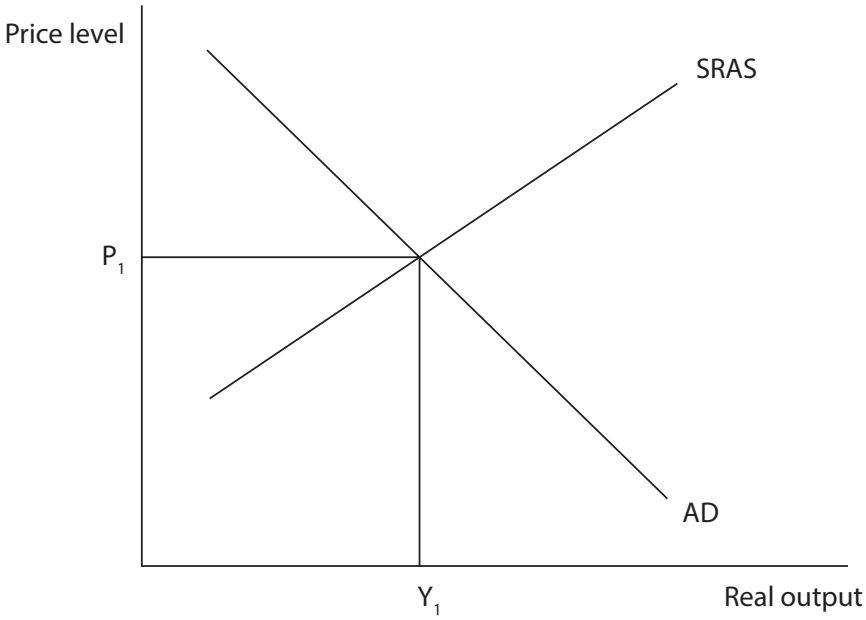
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a reduction in indirect tax on the equilibrium level of real output and the price level.

(2)

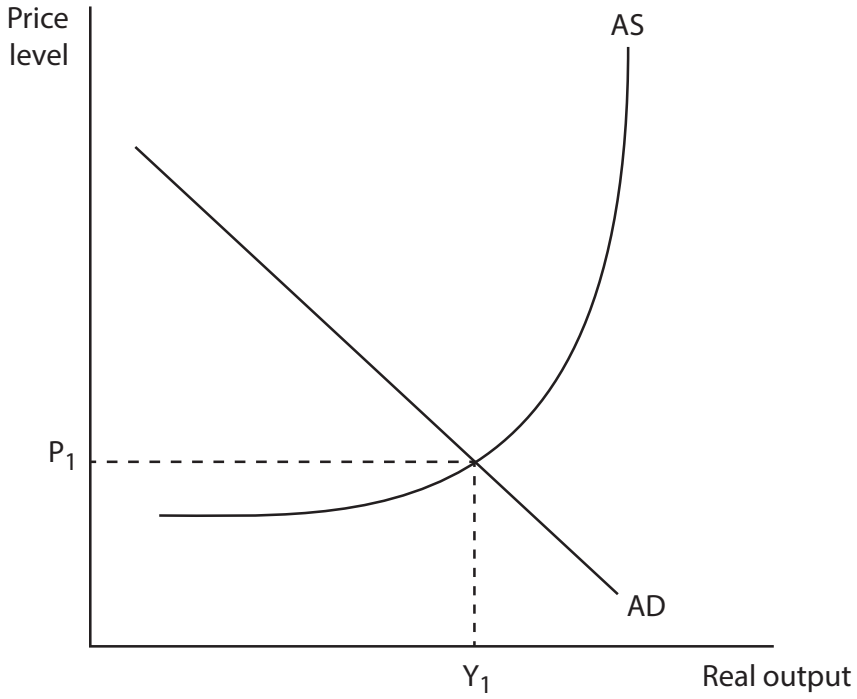


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(Total for Question 4 = 4 marks)

SECTION B

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

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

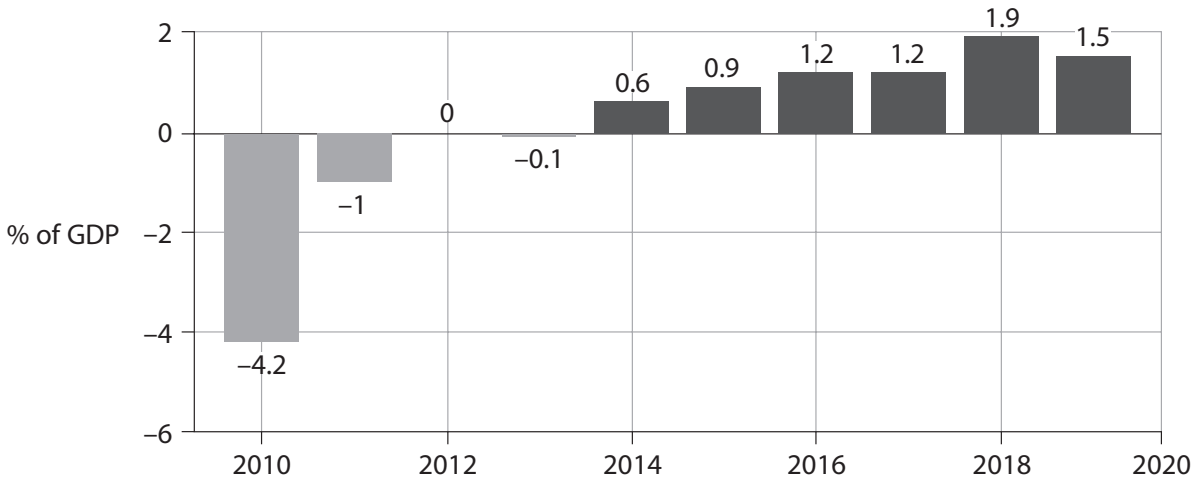
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

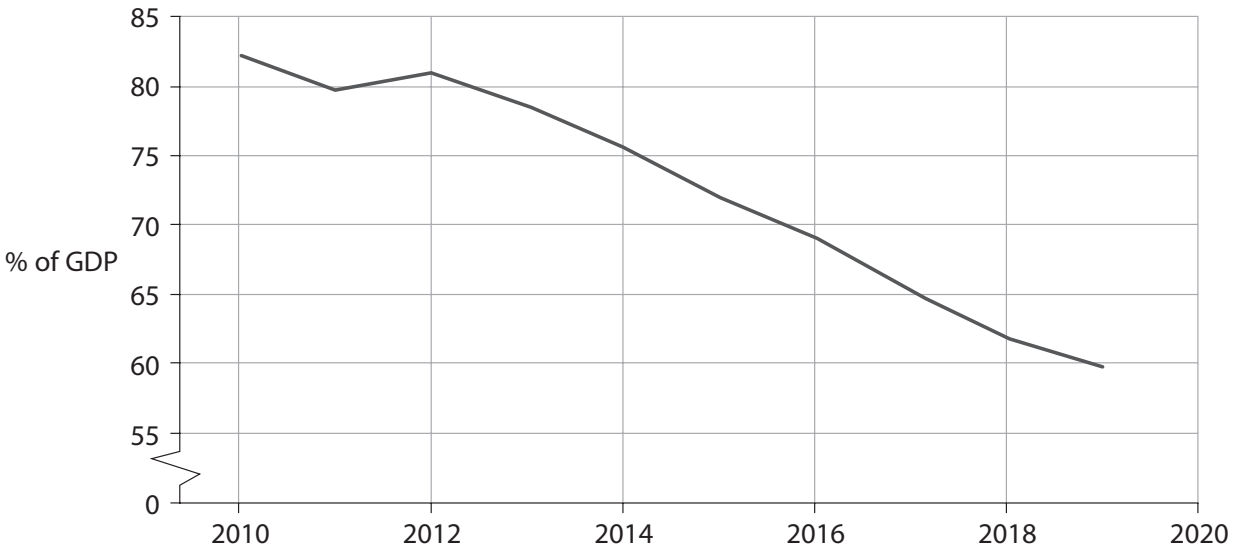
The German economy

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



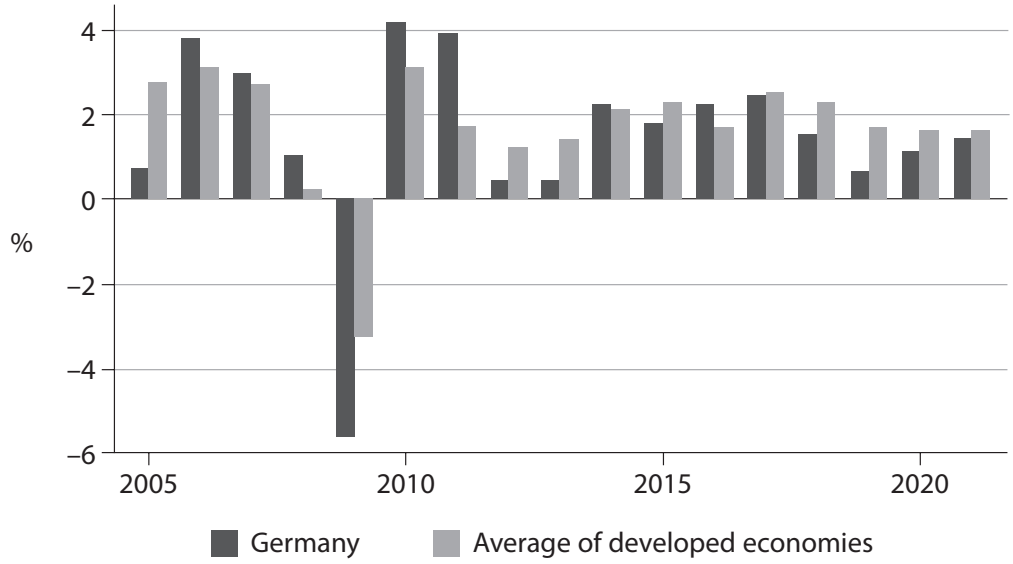
(Source adapted from: The Economist Nov 14th 2019)

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



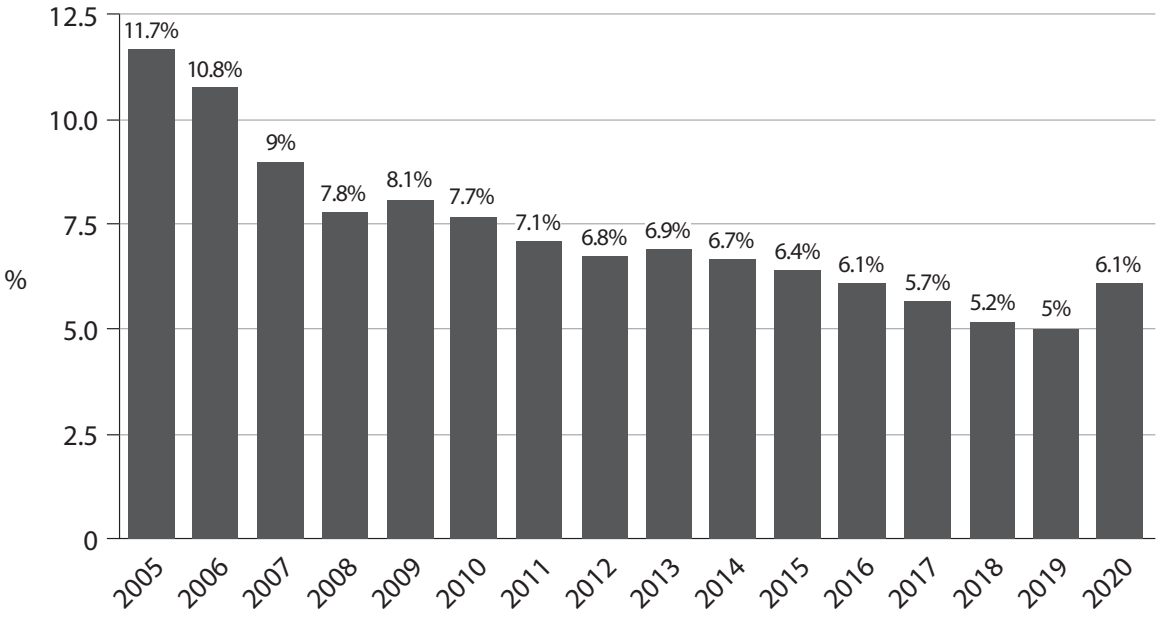
(Source adapted from: The Economist Nov 14th 2019)

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



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

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



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

Extract C

Why Germany keeps to budget rules despite a slowdown in growth

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

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

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

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

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

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

Extract D

Germany drops to number 7 in the Global Competitiveness Index

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

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

(a) Explain **one** reason why a country such as Germany wants to avoid an increase in the national debt relative to GDP (Figure 2).

(5)

SECTION B

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

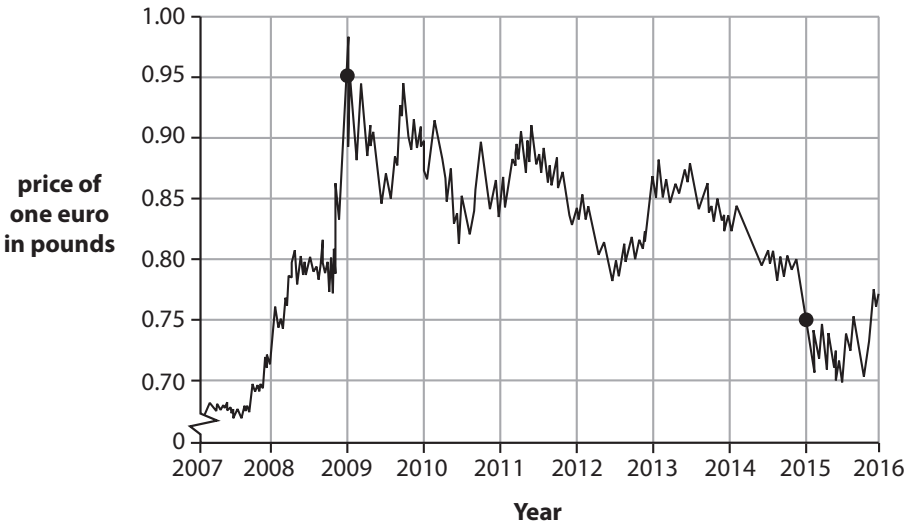
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

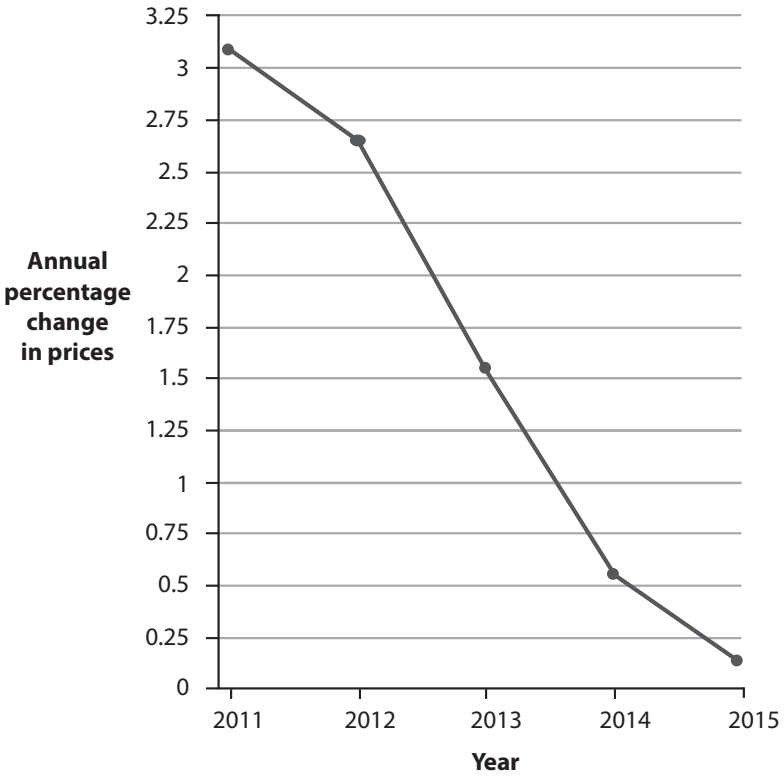
The Eurozone economy

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.

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

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

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

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

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

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

(8)

SECTION B

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

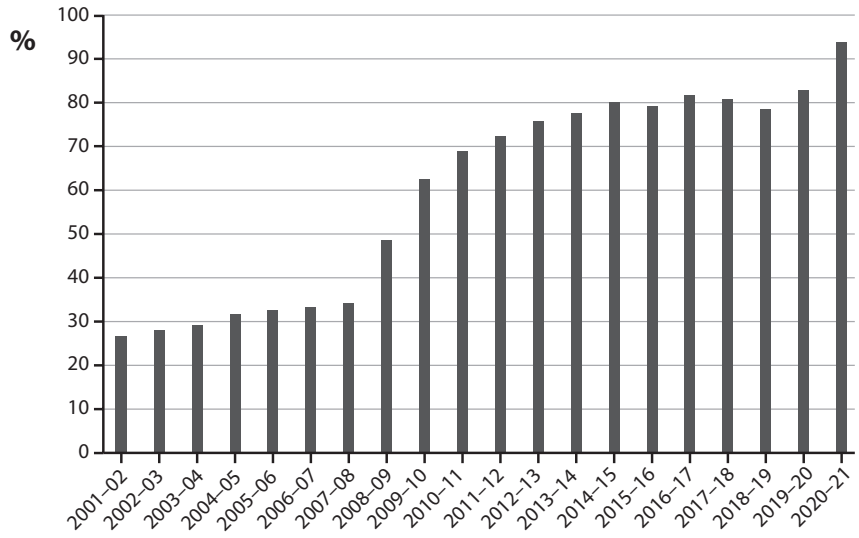
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

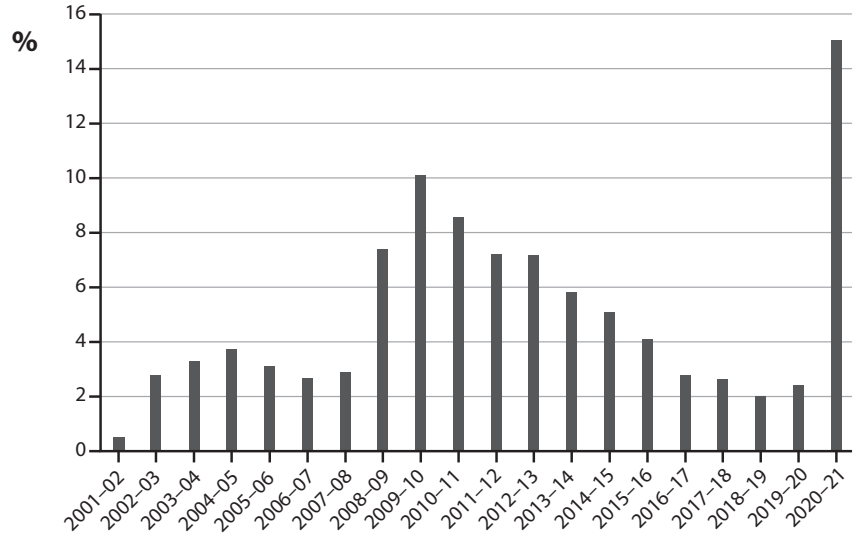
The UK Economy

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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.

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.

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'.

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.

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.

(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)

(b) With reference to Figure 4 and Extract A, examine the likely impact of the 'freeze in income tax thresholds' (Extract A line 1) on aggregate demand.

(8)

SECTION B

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

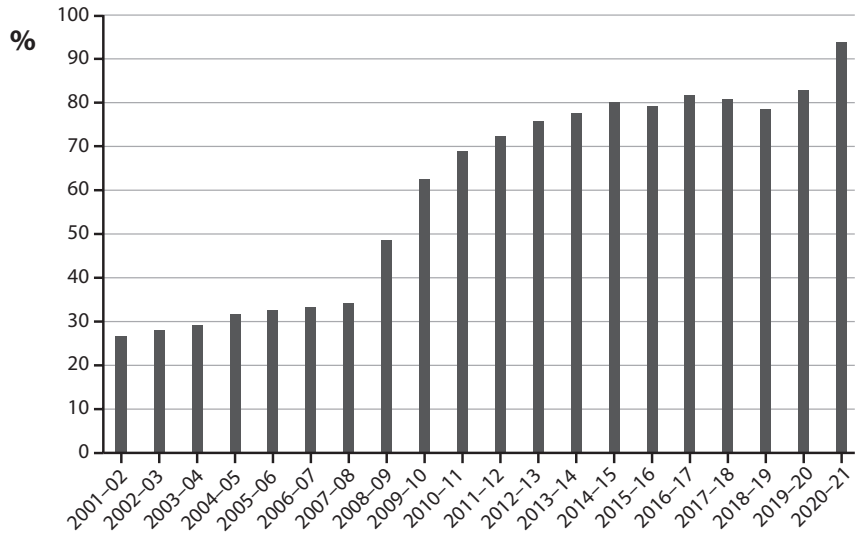
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

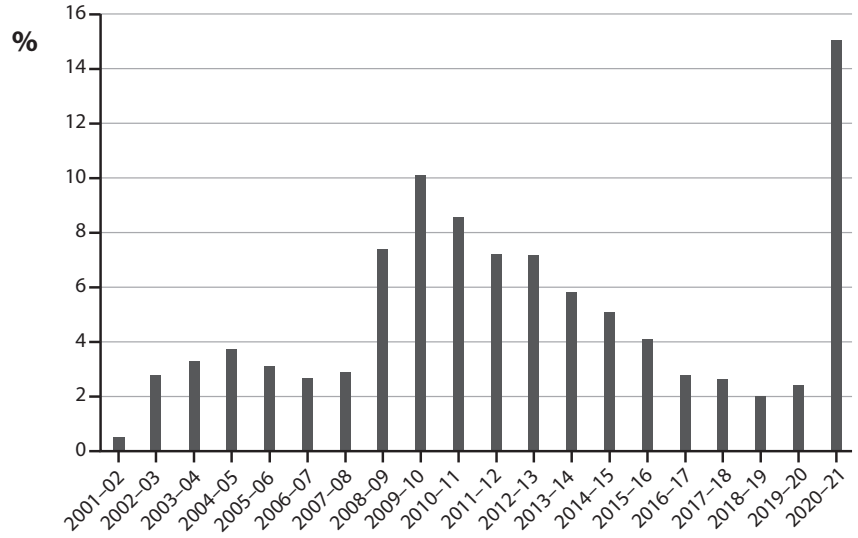
The UK Economy

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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.

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.

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'.

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.

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.

(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)

(c) Assess whether a fiscal deficit **and** national debt should be a cause for concern for the UK government.

(10)

SECTION B

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

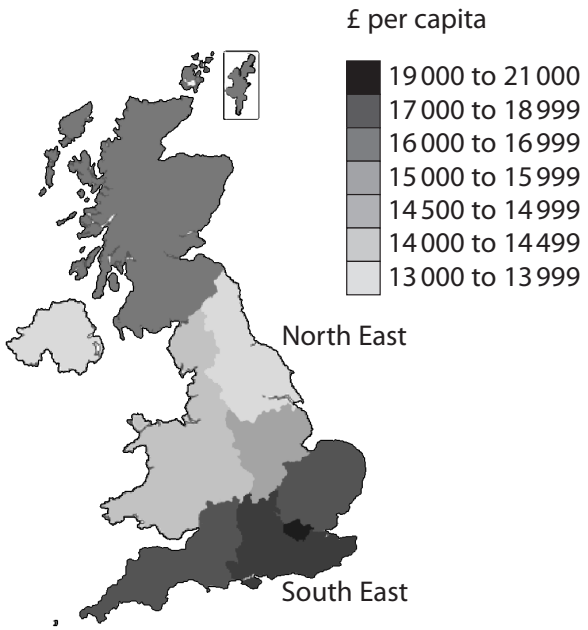
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK Government spending and inequality

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



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

Figure 2: UK subjective happiness by income, April 2021

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

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

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

Extract A

Regional inequality in the UK

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

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

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

Extract B

Public sector spending on infrastructure

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

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

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

Extract C

Options for UK tax rises in the future

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

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

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

(d) With reference to Extract C and your own knowledge, discuss methods the UK government could use to increase tax revenue.

(12)

SECTION B

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

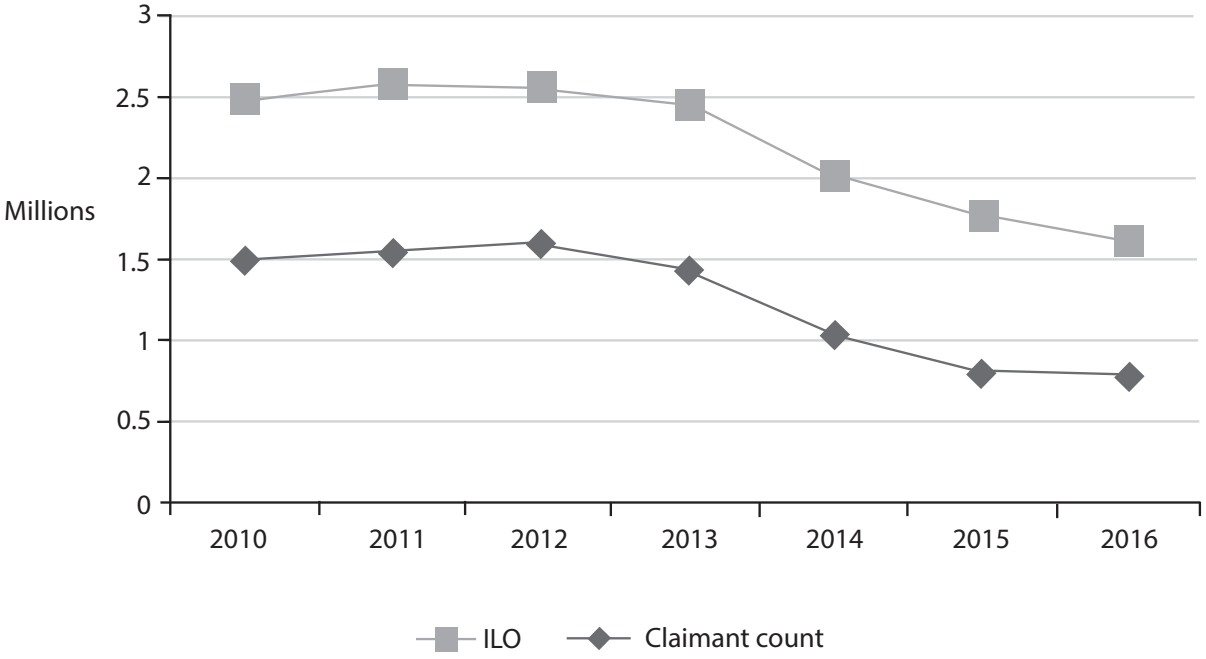
Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

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

Question 6

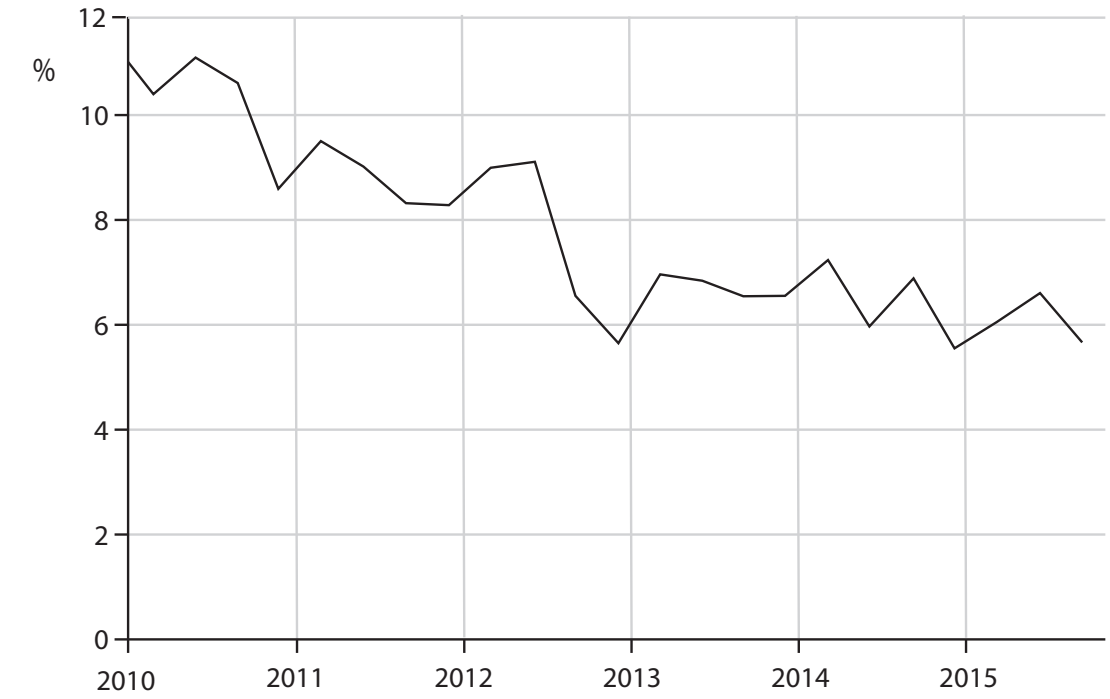
The UK economy

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



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

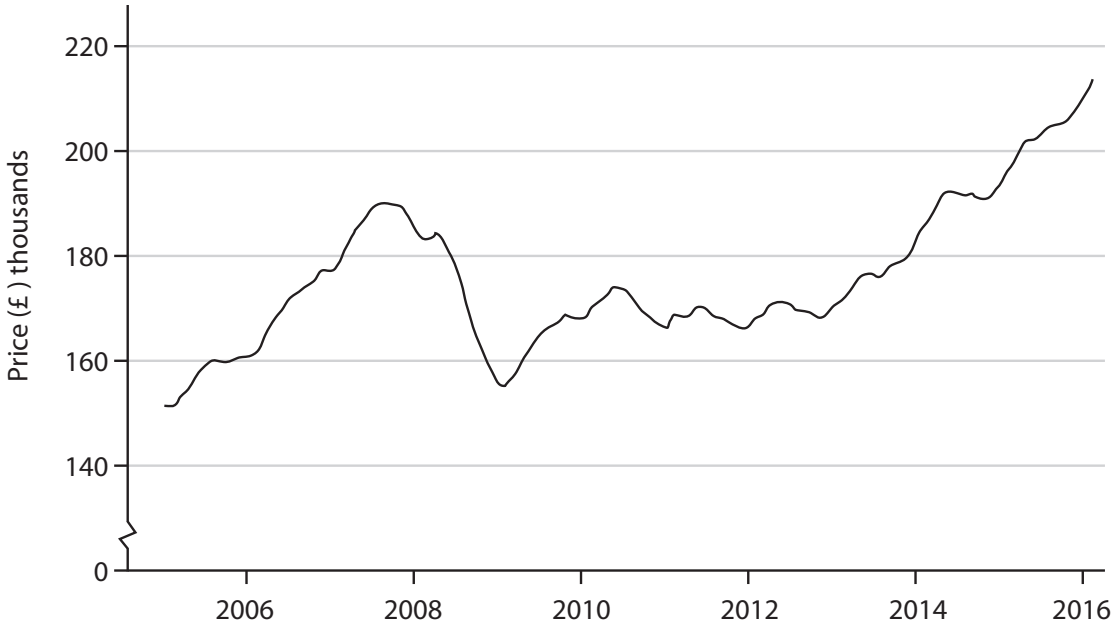
Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

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

Figure 3: UK average house prices, 2005–2016



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

Extract A

Soaring house prices

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

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

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

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

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

Extract B

UK migration trends in the year ending June 2016

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

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

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

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

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

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

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).

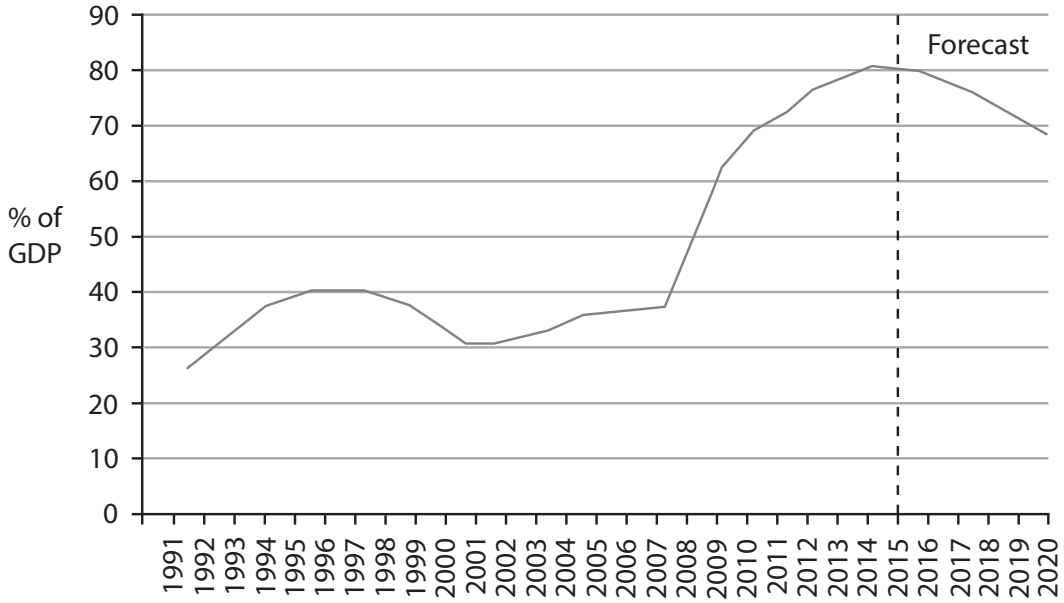
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

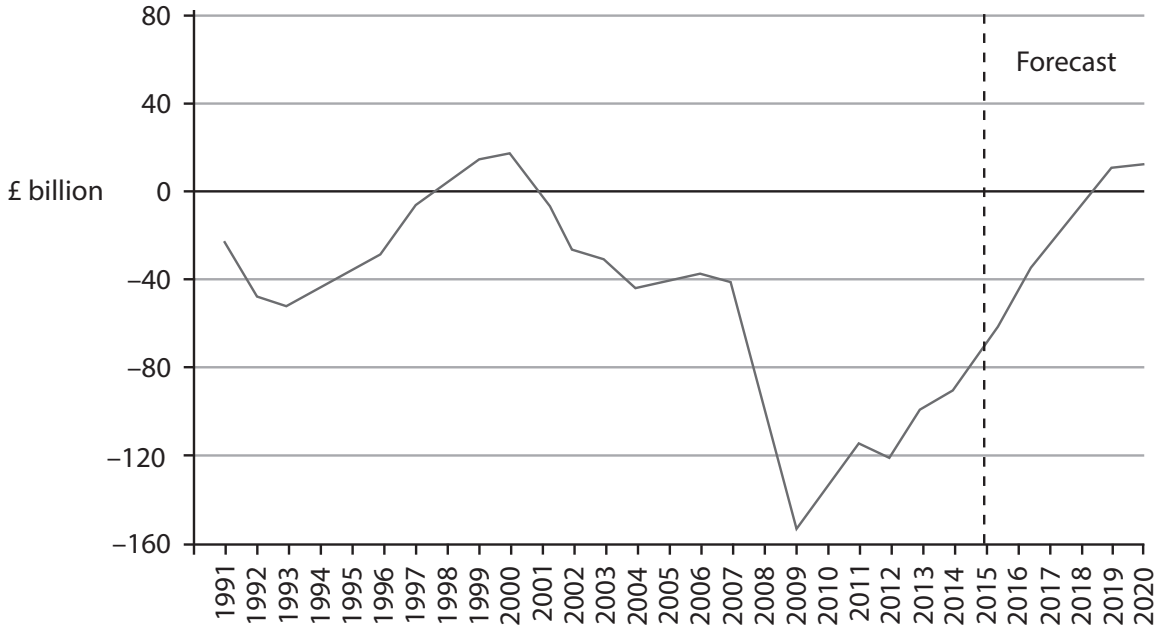
The UK economy

Figure 4: UK national debt as a percentage of GDP



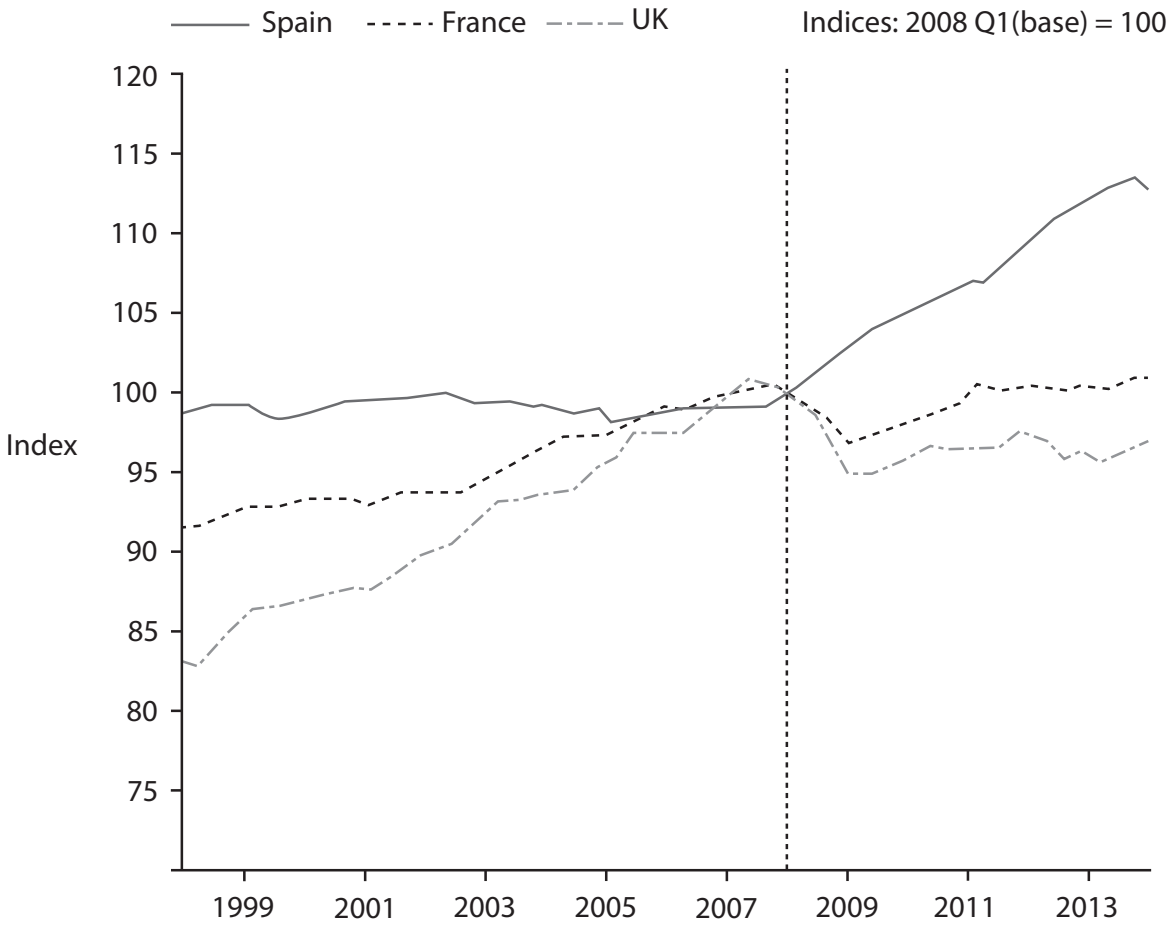
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

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.

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.

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.

(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'.

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.

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

Q) 2 (d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic influences on the UK's international competitiveness.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

Read Figure 1 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).

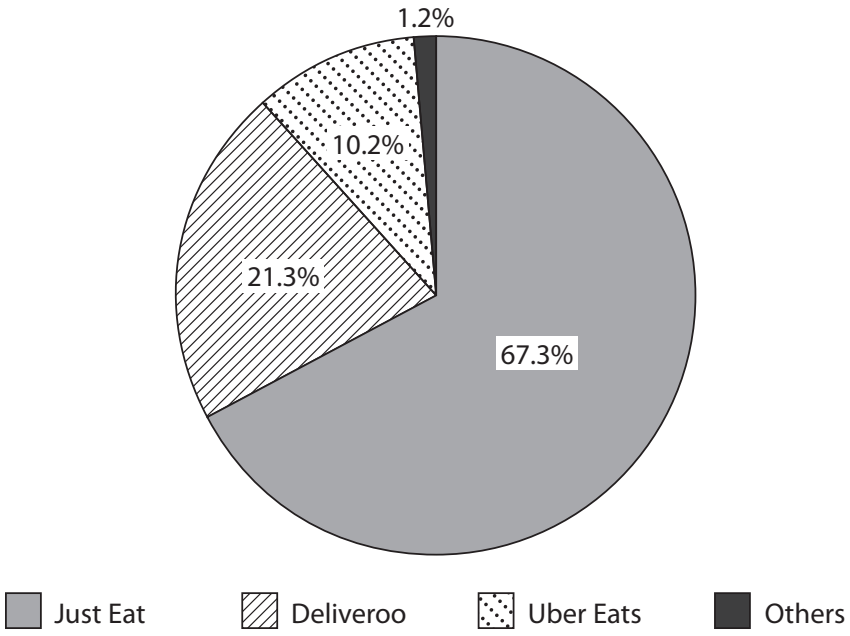
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

The food delivery industry

Figure 1: Market share for third-party food delivery services in the UK, 2019



(Source: adapted from https://onefourzerogroup.com/the-takeaway-takeover/)

Extract A

National Minimum Wage rises are more significant for 23 to 25-year-olds

In 2021, the National Minimum Wage main rate, also known as the National Living Wage, rose by 2.2% to £8.91, following a 6.2% rise in 2020. By reducing the age at which people are eligible for the National Living Wage to 23 in 2021, it is estimated that an additional 7.5% of 23 to 25-year-olds could get a 71p an hour pay rise. This amounts to an 8.7% increase, which may cause further financial worries for employers.

(Source: adapted from https://www.ndna.org.uk/NDNA/News/Latest_news/2020/Minimum_wages_to_rise_by_inflation_in_April.aspx)

Extract B

What is the true cost of the food delivery service?

The food delivery industry has boomed in recent years. Just Eat, Uber Eats and Deliveroo all offer very similar services – third-party food delivery firms that take up to 30% of the price of restaurant meals and deliver them to customers within a certain radius. The average spend per customer is around £15 with a £5 delivery fee, about five times more expensive than cooking at home and the same price as eating in the restaurant. Cash rich, time poor professionals increasingly turn to food delivery.

Food delivery comes with many layers of packaging. In the UK, there are 200 million meals annually with around 1.4 billion individual pieces of plastic for heat retention and protection when travelling, but does it really have to be plastic? People tend to order more food, often high in fat, sugar and salt, and don't even have to get up from their sofa.

But there are concerns that the delivery firms are exploiting employees who have no alternative. There is an issue of low pay and informal contracts. Delivery drivers are classed as 'independent contractors', and therefore not subject to some employment rights including a guaranteed minimum wage, sick pay, pensions or holiday pay. Drivers are paid either a flat hourly rate, or a fee per delivery. Factors such as delivery distance, speed, how busy it is and whether there are multiple drop-offs are all factored into how much a driver is paid. Deliveroo says its wages amount to around £10 per hour, but drivers say that during 2020 their pay has been as low as £1 per hour. Drivers are not paid extra for petrol or to maintain their vehicles. Many drivers are recent immigrants or students, who do not have property or savings to fall back on.

The government could address this with widening minimum pay legislation to contracted workers, by setting codes of practice, or by setting recommended wage targets. Furthermore, there are health and safety issues for workers. Vehicle safety checks, length of shifts and safety equipment are of concern. However, there are still people who take benefit from working flexibility.

(Source: adapted from https://www.theguardian.com/australia-news/2020/oct/25/home-food-delivery-what-is-the-most-ethical-way-to-order-in and https://digitalcommons.molloy.edu/cgi/viewcontent.cgi?article=1043&context=bus_fac)

Extract C

Integration in the third-party food delivery industry

The Competition and Markets Authority (CMA) is watching carefully to prevent any one firm having complete control of the food delivery industry. Just Eat, the market leader, agreed to merge with successful Dutch firm Takeaway.com in 2020, creating a new European leader by revenues. It also bought Grubhub in the US, with 20 million active users. Just Eat uses an aggressive pricing strategy, undercutting delivery fees below the average cost of other firms in the market, that will force them to merge in order to gain some economies of scale.

Amazon, having failed with its own delivery company Amazon Restaurants in 2018, has bought 16% of Deliveroo. The CMA took over a year to agree to the partial integration, on the argument that Deliveroo would close down without external investment. Amazon has unique expertise in marketing, increasing customer share and, most importantly, efficiency in delivering things. Food delivery is often uneconomical because a single household puts in a single order from a single restaurant at any one time. Tech companies such as Amazon can improve the business: once a meal has been ordered, an app often moves that restaurant to the top of the rankings for that neighbourhood, in the hope of getting a second and third delivery.

So why do restaurants turn to these delivery firms? The sheer volume of customers these delivery firms can hold makes it a difficult deal to turn down. But resentment from small business restaurant owners, angry at being wholly dependent on tech companies, is growing. Most restaurants would prefer that customers come in and pick up their orders themselves because they do not have to pay the 30% commission. Restaurant profit margins are small, and the effects of a 20% fall in the external value of the pound since 2016 on food costs are significant, given that over half of their food and drink is sourced outside the UK.

(Source: adapted from https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735 https://www.ft.com/content/edf8a144-a101-4ef8-80e3-7d2f1565d35c and https://www.thisismoney.co.uk/money/markets/article-8138703/Uber-set-sell-takeaway-division-rival-Deliveroo-two-years.html and https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735 and https://www.ft.com/content/bed7c4d8-28c1-11ea-9a4f-963f0ec7e134 and https://www.economist.com/1843/2021/01/26/gulp-the-secret-economics-of-food-delivery)

Q) 1 (d) Evaluate the microeconomic and macroeconomic effects of a depreciation of the pound. Refer to restaurants or other food delivery services in your answer.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

The UK economy

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

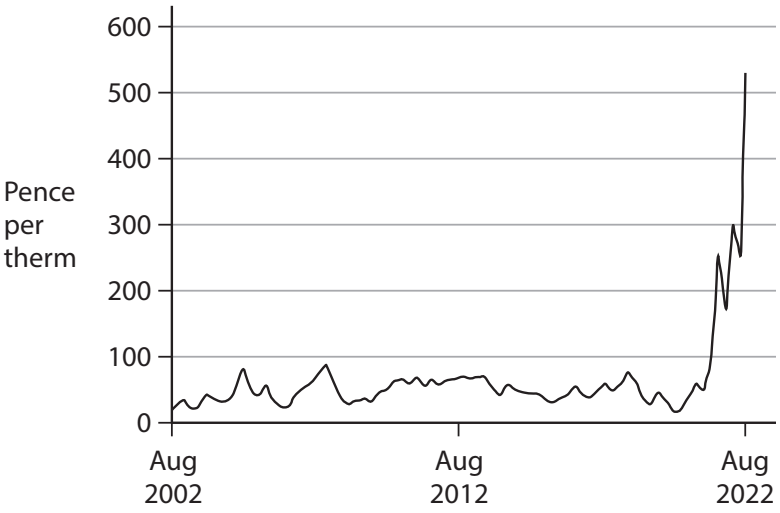
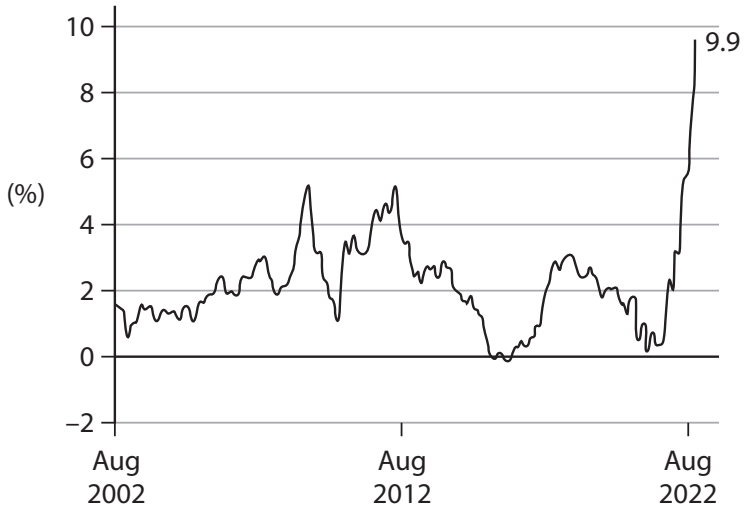


Figure 2: UK inflation, CPI, August 2002 to August 2022



Extract A

Fiscal policy changes in the UK, Autumn 2022

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

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

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

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

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

Extract B

Inequality to rise in the UK

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

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

Q) 1 (d) Evaluate microeconomic and macroeconomic policies that could be used to reduce inequality in the UK.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

7 In January 2023 the UK prime minister, Rishi Sunak, promised to halve inflation by the end of the year. In July 2023 the Bank of England governor, Andrew Bailey, said: "It is crucial that we... return inflation to its 2% target and provide the environment of price stability in which the UK economy can thrive. This is the best contribution monetary policy can make to the prosperity of the United Kingdom."
(Source adapted from: https://www.theguardian.com/politics/2023/jan/04/sunak-vows-to-be-steady-hand-on-tiller-but-are-his-pledges-all-sleight-of-hand and https://www.theguardian.com/business/2023/jul/10/inflation-bank-of-england-boss-andrew-bailey-speech)

Q) Evaluate the possible conflicts between macroeconomic objectives when seeking to control inflation.

(25)

(Total for this part = 25 marks)

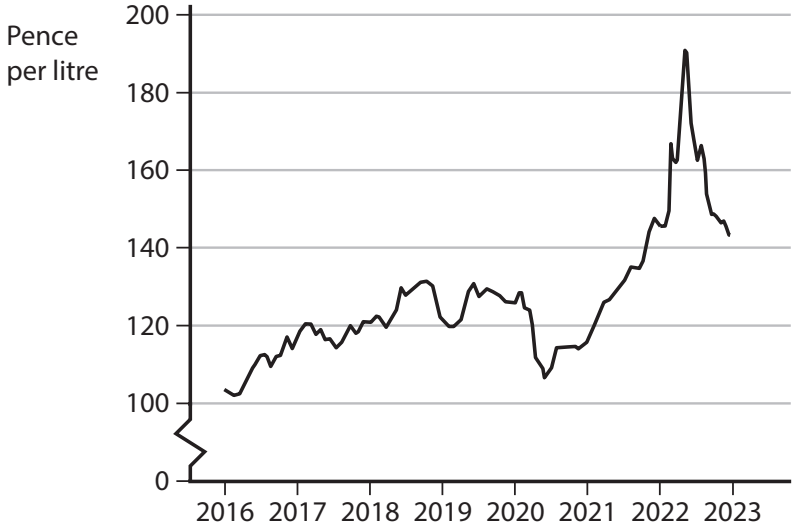
Continue on separate paper if required.

Sources for use with SECTION A

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

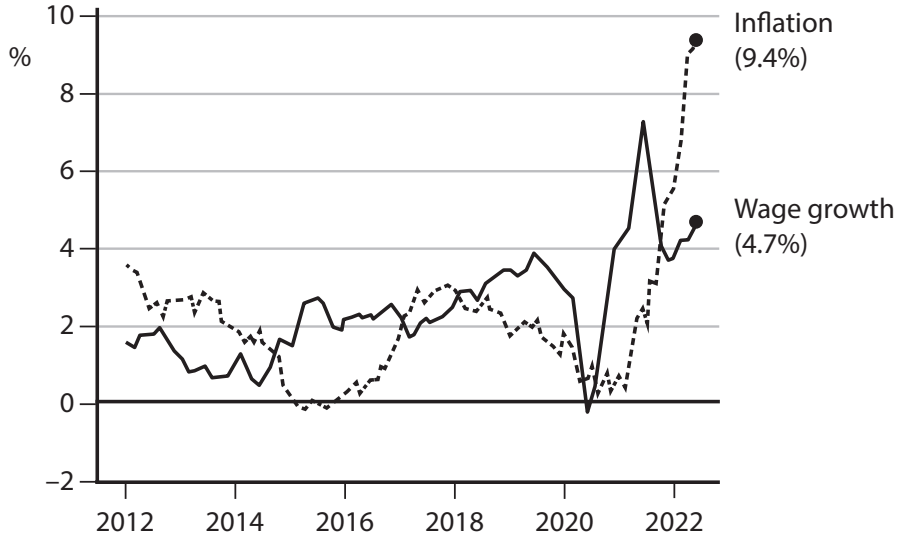
The cost of living in the UK

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



(Source adapted from: RAC)

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



(Source adapted from: ONS)

Extract A

Supermarket restrictions on multibuy deals and advertising

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

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

Extract B

Supermarket pay in 2023

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

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

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

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

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

Extract C

Supermarket petrol pricing

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

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

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

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

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

Extract D

EU trade relations with the UK

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

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

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

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

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

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

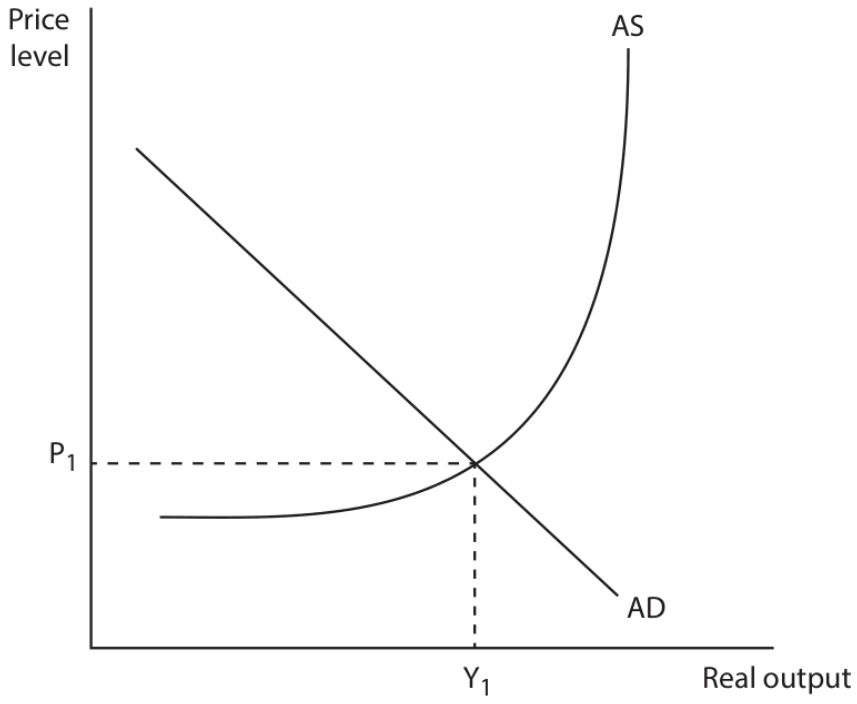
SUB-TOPIC 2.6.2

DEMAND-SIDE POLICIES

Sub-topic 2.6.2 · 71 questions · 607 marks · lowest tariff first

4 The Chancellor announced in the 2015 Budget that the personal allowance (the annual income that can be earned before starting to pay income tax) would increase from £10 600 to £11 000 in April 2016. This means most consumers will pay less income tax.

(Source: adapted from http://www.telegraph.co.uk/finance/personalfinance/how-budget-affect-me/11721785/Budget-2015-what-to-expect-for-income-tax-and-the-personal-allowance.html)



(b) Define the term 'direct tax'.

(1)

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

4 The Chancellor announced in the 2015 Budget that the personal allowance (the annual income that can be earned before starting to pay income tax) would increase from £10 600 to £11 000 in April 2016. This means most consumers will pay less income tax.

(Source: adapted from http://www.telegraph.co.uk/finance/personalfinance/how-budget-affect-me/11721785/Budget-2015-what-to-expect-for-income-tax-and-the-personal-allowance.html)

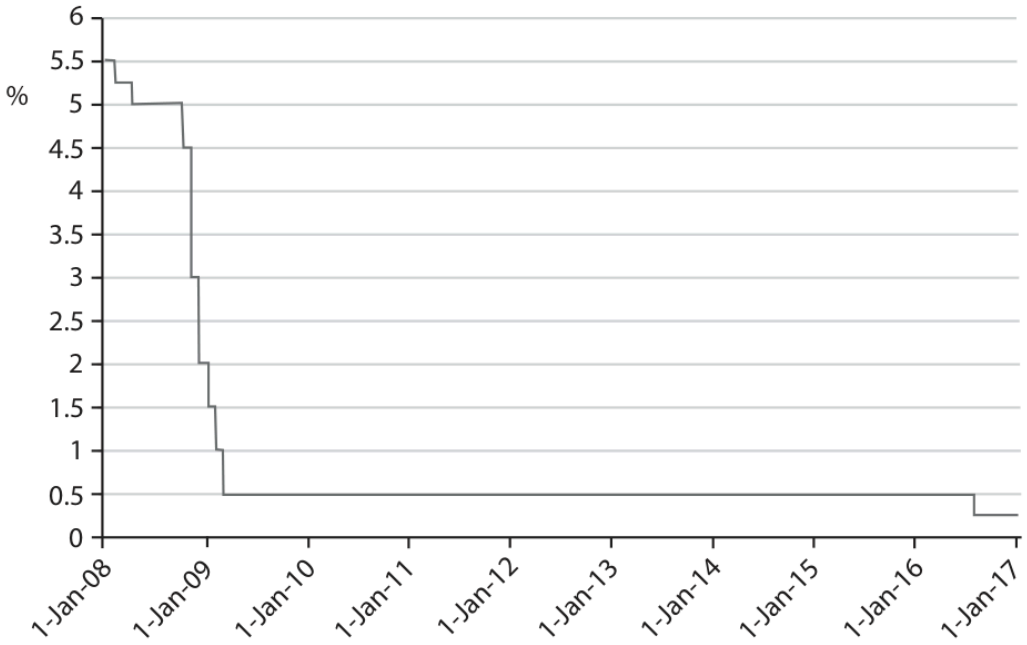
(c) Which **one** of the following is an example of a direct tax?

(1)

- ☒ **A** Value Added Tax
- ☒ **B** Vehicle Excise Duty
- ☒ **C** Corporation tax
- ☒ **D** Alcohol duty

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

3 UK base interest rate, January 2008 to January 2017



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

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

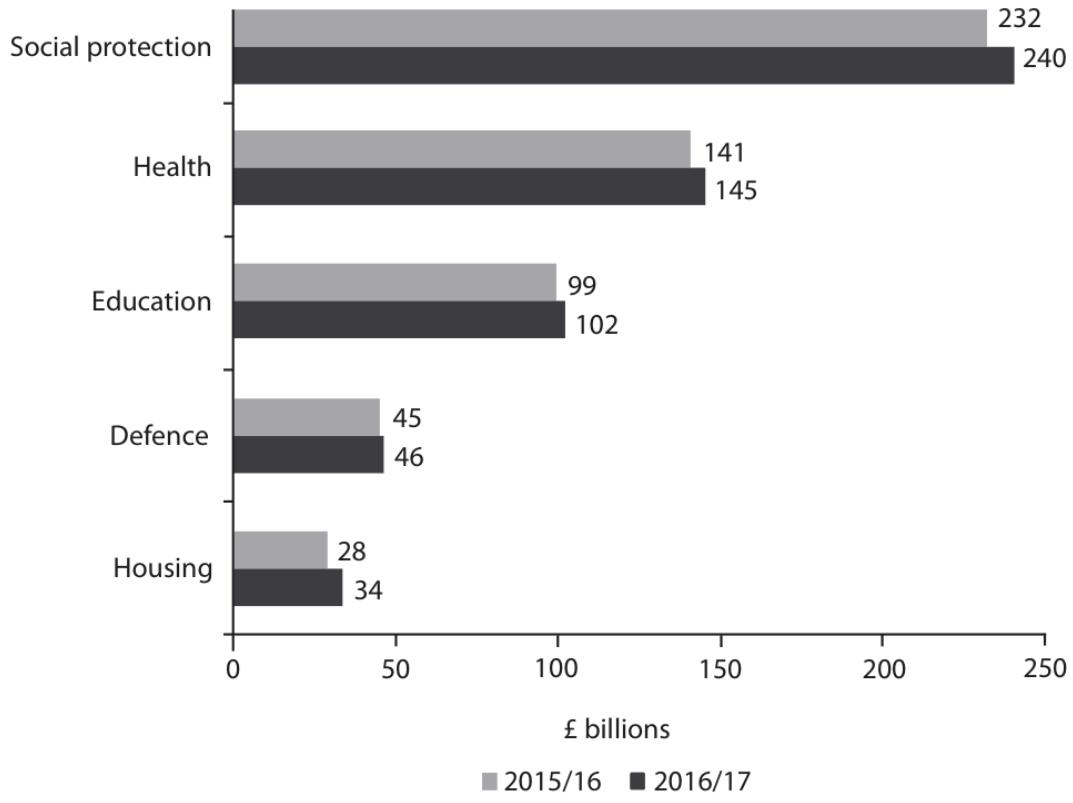
(b) Which **one** of the following is the most likely effect of the Bank of England's quantitative easing?

(1)

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

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

5 The chart below shows selected areas of forecast UK government spending for 2015/16 and 2016/17.



(Source: Budget 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf; Budget 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf)

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

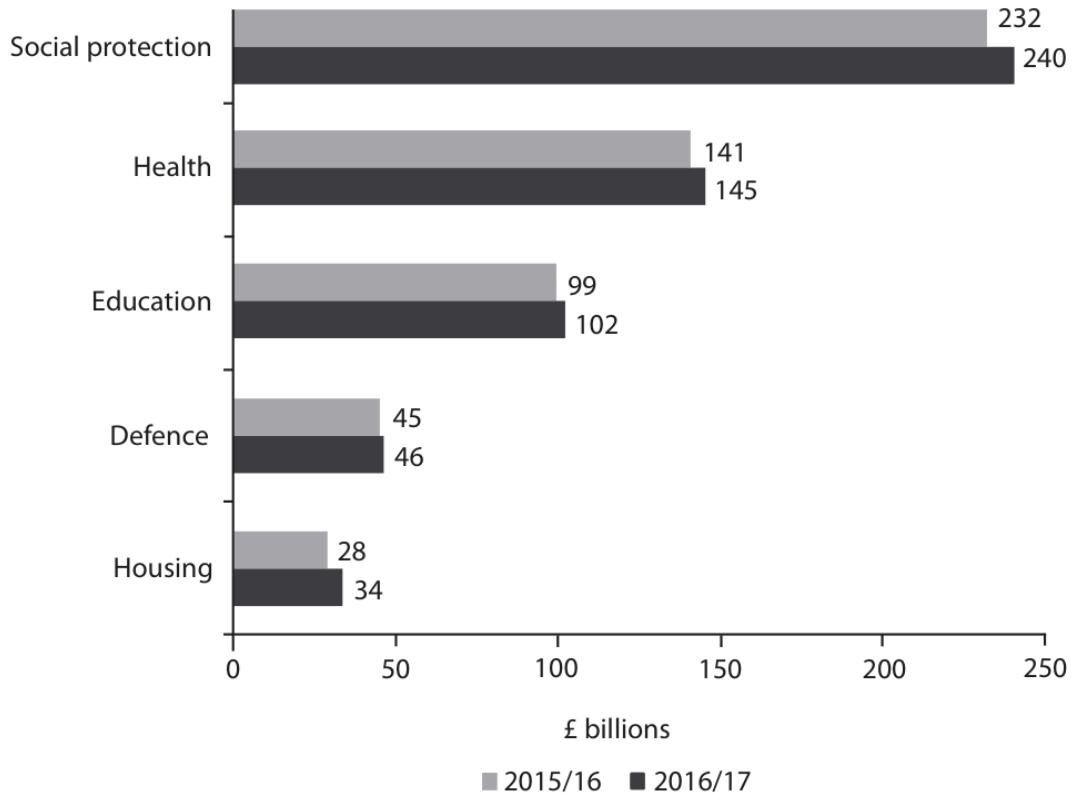
In 2016/17:

(1)

- ☒ **A** the change in forecast UK government spending is highest on education
- ☒ **B** the forecast UK government spending in all areas has fallen from 2015/16
- ☒ **C** the forecast UK government spending on defence is twice as much as the forecast spending on housing
- ☒ **D** the percentage change in forecast UK government spending on health, from 2015/16, is 2.84%

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

5 The chart below shows selected areas of forecast UK government spending for 2015/16 and 2016/17.



(Source: Budget 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf; Budget 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf)

(c) Define the term 'budget deficit'.

(1)

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

SECTION A

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

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

You are advised to spend 25 minutes on this section.

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

1 In March 2020 the Monetary Policy Committee (MPC) of the Bank of England reintroduced its quantitative easing programme.

(a) Which **one** of the following is the most likely effect of this quantitative easing?

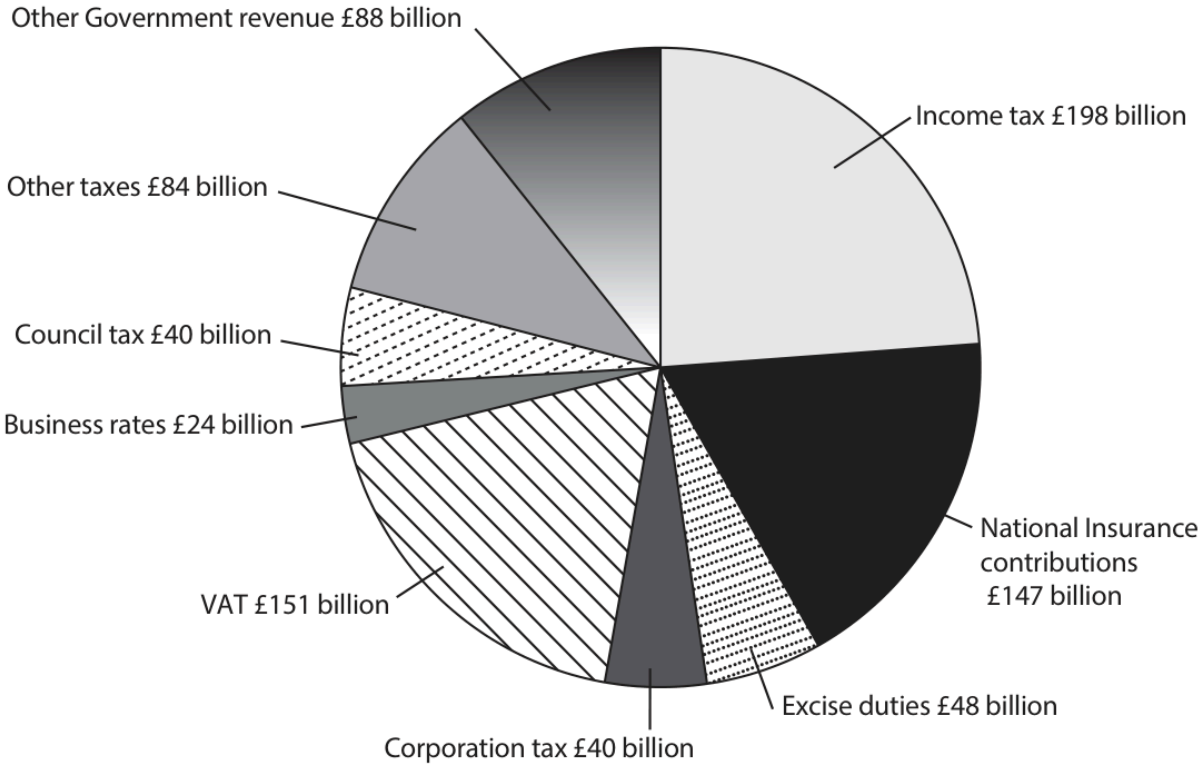
(1)

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

The MPC of the Bank of England also cut the UK's base interest rate from 0.75% to 0.1% in March 2020.

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

3 The chart below shows areas of UK Government tax revenues for 2021–22. The total tax revenue for the year was £820 billion.



(Source adapted from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf)

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

(1)

- ☒ **A** Corporation tax revenue is higher than excise duties
- ☒ **B** Income tax raises less revenue than Value Added Tax (VAT)
- ☒ **C** Tax revenue from business rates contributes to approximately 3% of the overall government tax revenue
- ☒ **D** Tax revenue from National Insurance contributions is five times greater than the tax revenue from council tax

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

5 The table below shows the UK's budget deficit between March 2016 and March 2019.

Year	Budget deficit (£ billion)
2016	83.6
2017	56.3
2018	56.0
2019	38.7

(Source: adapted from https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/september2019)

(a) Define the term 'budget deficit'.

(1)

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

5 The table below shows the UK's budget deficit between March 2016 and March 2019.

Year	Budget deficit (£ billion)
2016	83.6
2017	56.3
2018	56.0
2019	38.7

(Source: adapted from https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/september2019)

(c) Which **one** of the following will most likely lead to a reduction in the budget deficit?

(1)

- ☒ **A** An increase in government spending and a decrease in taxation
- ☒ **B** An increase in taxation and a decrease in government spending
- ☒ **C** An increase in the value of exports and a decrease in the value of imports
- ☒ **D** An increase in the value of imports and a decrease in the value of exports

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

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

(a) Define the term 'indirect tax'.

(1)

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

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

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

(1)

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

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

4 The UK has experienced a budget deficit since 2001. The government aimed to reach a budget surplus by 2019, but in 2016 this target was abandoned.

(Source: adapted from https://www.gov.uk/government/news/autumn-statement-2016-some-of-the-things-weve-announced)

(c) If a government takes decisions to target a budget surplus, this is an example of:

(1)

- ☒ **A** contractionary monetary policy
- ☒ **B** discretionary fiscal policy
- ☒ **C** expansionary fiscal policy
- ☒ **D** expansionary monetary policy

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

4 The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020.

(Source: adapted from https://www.ft.com/content/7579f124-5742-11e7-9fed-c19e2700005f)

(a) This would be an example of:

(1)

- ☒ **A** a contractionary monetary policy
- ☒ **B** an exchange rate policy
- ☒ **C** an expansionary monetary policy
- ☒ **D** a supply-side policy

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

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

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

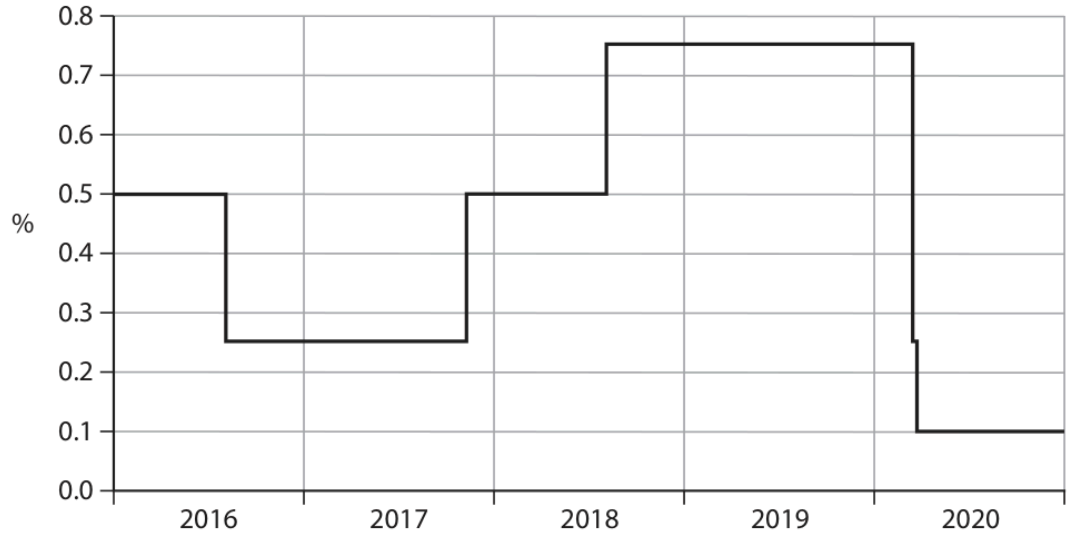
(b) Government spending on the High Speed 2 rail link is an example of which of the following?

(1)

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

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

3 Bank of England base interest rate, 2016–2020



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

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

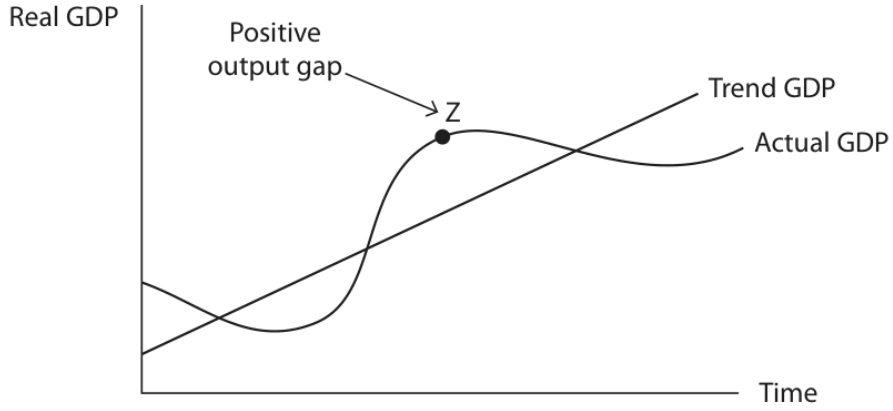
A fall in:

(1)

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

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

4 The trade cycle



(a) At point Z on the diagram, which **one** of the following is likely to occur?

An increase in:

(1)

- ☒ **A** absolute poverty
- ☒ **B** budget deficit
- ☒ **C** cyclical unemployment
- ☒ **D** inflation

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

SECTION A

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

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

You are advised to spend 30 minutes on this section.

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

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

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

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

(1)

A decrease in the:

☐ **A** level of demand pull inflation

☐ **B** marginal propensity to save

☐ **C** rate of cyclical unemployment

☐ **D** value of the pound against the dollar

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

5 In 2021, the US total GDP was $23 trillion and national debt was $28.4 trillion.

(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US and https://fiscaldata.treasury.gov/national-debt/)

(c) Which **one** of the following is the most likely consequence of an increase in the US national debt?

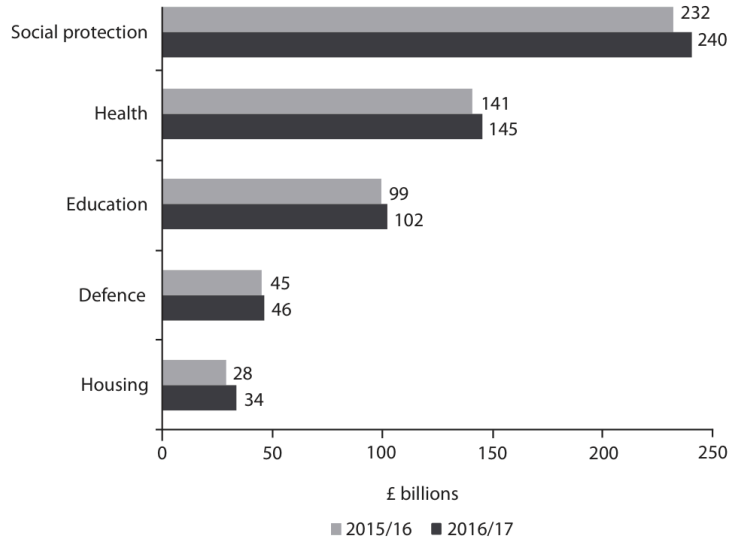
(1)

An increase in:

- ☒ **A** crowding out
- ☒ **B** inequality
- ☒ **C** poverty
- ☒ **D** unemployment

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

5 The chart below shows selected areas of forecast UK government spending for 2015/16 and 2016/17.



(Source: Budget 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf; Budget 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf)

(b) In 2016/17 total forecast UK government spending amounted to £772 billion and total forecast tax receipts amounted to £716 billion.

Calculate forecast UK government spending on social protection as a percentage of total forecast UK government spending in 2016/17. You are advised to show your working.

(2)

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

5 The table below shows the UK's budget deficit between March 2016 and March 2019.

Year	Budget deficit (£ billion)
2016	83.6
2017	56.3
2018	56.0
2019	38.7

(Source: adapted from https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/september2019)

(b) Using the above table, calculate the percentage decrease in budget deficit between March 2016 and March 2019. You are advised to show your working.

(2)

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

4 The UK has experienced a budget deficit since 2001. The government aimed to reach a budget surplus by 2019, but in 2016 this target was abandoned.

(Source: adapted from https://www.gov.uk/government/news/autumn-statement-2016-some-of-the-things-weve-announced)

(a) Explain **one** likely reason why the 2019 budget surplus target was abandoned.

(2)

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

4 The UK has experienced a budget deficit since 2001. The government aimed to reach a budget surplus by 2019, but in 2016 this target was abandoned.

(Source: adapted from https://www.gov.uk/government/news/autumn-statement-2016-some-of-the-things-weve-announced)

(b) Explain the likely impact of abandoning the budget surplus target on the UK national debt.

(2)

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

4 The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020.

(Source: adapted from https://www.ft.com/content/7579f124-5742-11e7-9fed-c19e2700005f)

(b) If a company makes £500 000 pre-tax profit in 2020, calculate how much corporation tax it will pay. Assume that the government cuts the rate of corporation tax as planned.

(2)

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

4 The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020.

(Source: adapted from https://www.ft.com/content/7579f124-5742-11e7-9fed-c19e2700005f)

(c) Explain **one** possible reason why the revenue from corporation tax could increase if the government cuts the rate of tax.

(2)

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

5 In 2021, the US total GDP was $23 trillion and national debt was $28.4 trillion.

(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US and https://fiscaldata.treasury.gov/national-debt/)

(a) Calculate the US national debt in 2021 as a percentage of GDP.

(2)

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

5 In 2021, the US total GDP was $23 trillion and national debt was $28.4 trillion.

(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US and https://fiscaldata.treasury.gov/national-debt/)

(b) Explain the relationship between a fiscal deficit and the national debt.

(2)

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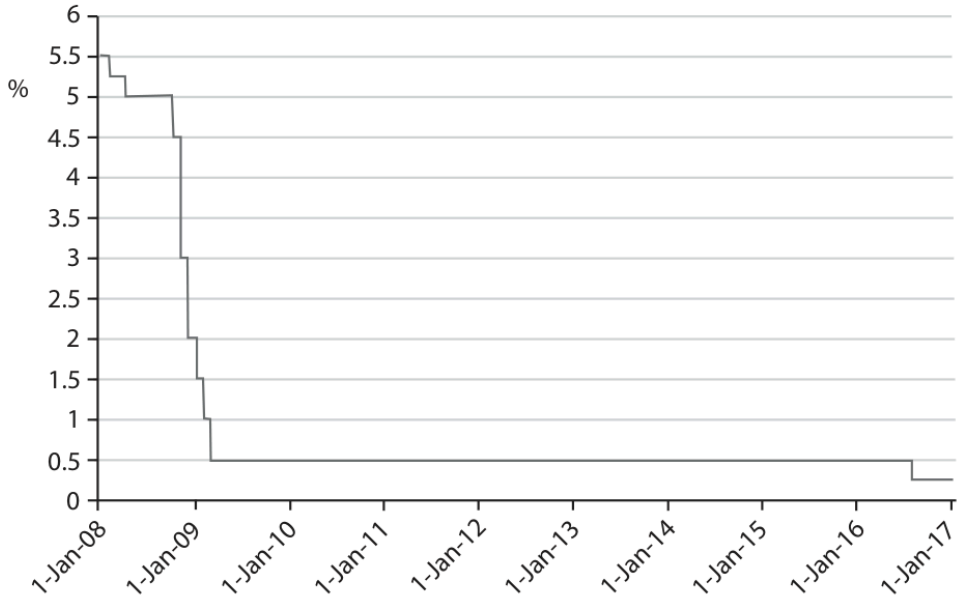
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(Total for Question 5(b) = 2 marks)

3 UK base interest rate, January 2008 to January 2017



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

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

(3)

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

SECTION A

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

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

You are advised to spend 25 minutes on this section.

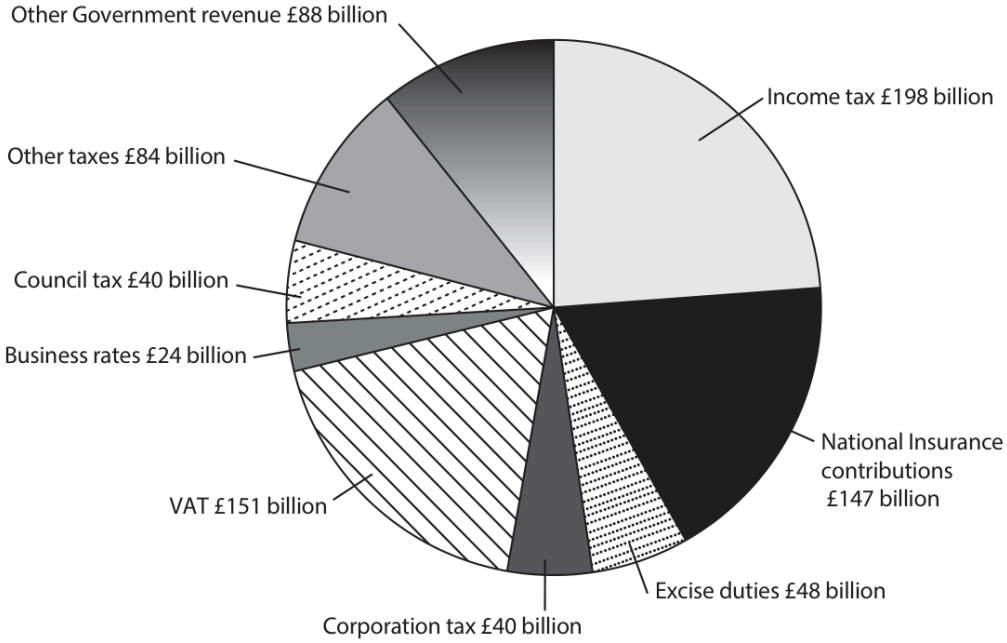
Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 In March 2020 the Monetary Policy Committee (MPC) of the Bank of England reintroduced its quantitative easing programme.

(b) Explain **one** likely impact of a decrease in the base interest rate on inflation. **(3)**

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

3 The chart below shows areas of UK Government tax revenues for 2021–22. The total tax revenue for the year was £820 billion.



(Source adapted from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf)

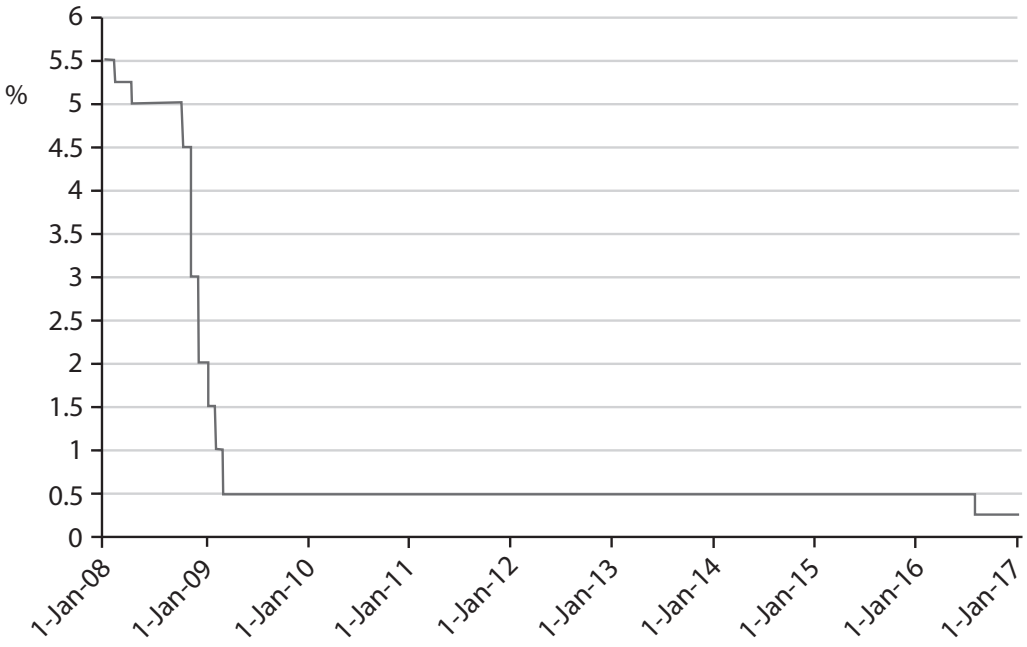
(b) Total UK Government tax revenue for 2021–22: £820 billion.
Total UK Government expenditure for 2021–22: £1 053 billion.

Using these figures, explain the likely impact of the above data on the UK Government's budget balance.

(3)

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

3 UK base interest rate, January 2008 to January 2017



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

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

(3)

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

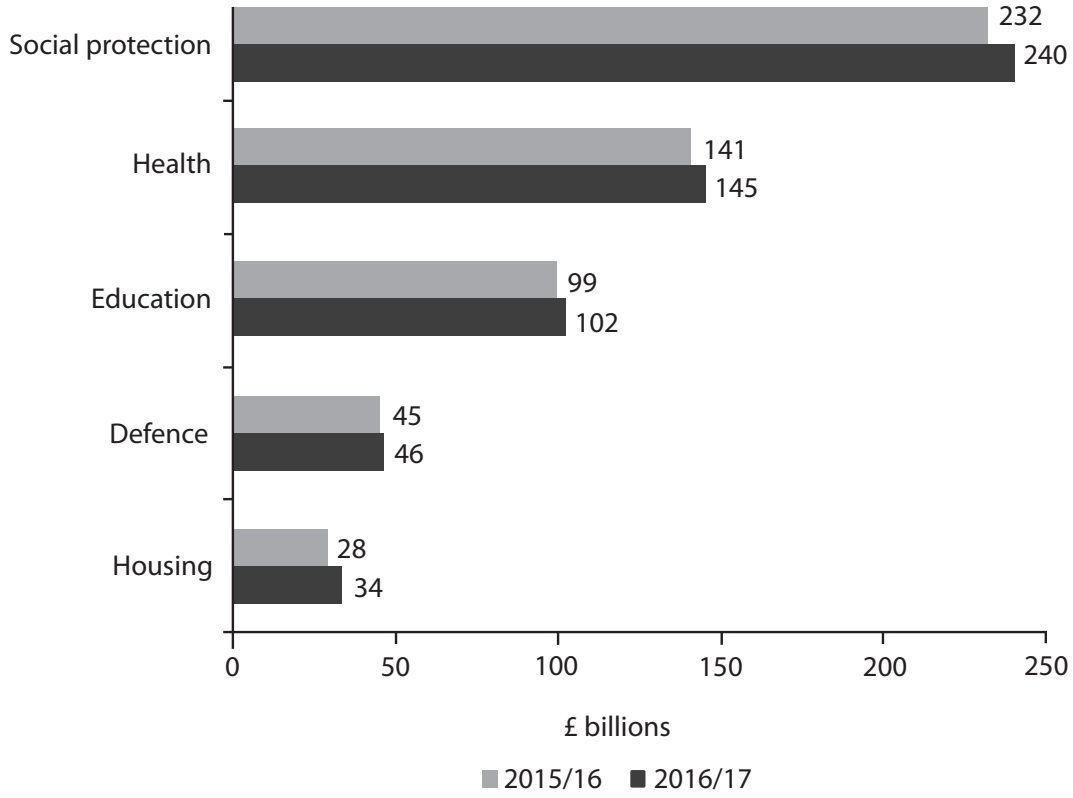
(b) Which **one** of the following is the most likely effect of the Bank of England's quantitative easing?

(1)

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

(Total for Question 3 = 4 marks)

5 The chart below shows selected areas of forecast UK government spending for 2015/16 and 2016/17.



(Source: Budget 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf; Budget 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf)

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

In 2016/17:

(1)

- ☒ **A** the change in forecast UK government spending is highest on education
- ☒ **B** the forecast UK government spending in all areas has fallen from 2015/16
- ☒ **C** the forecast UK government spending on defence is twice as much as the forecast spending on housing
- ☒ **D** the percentage change in forecast UK government spending on health, from 2015/16, is 2.84%

(b) In 2016/17 total forecast UK government spending amounted to £772 billion and total forecast tax receipts amounted to £716 billion.

Calculate forecast UK government spending on social protection as a percentage of total forecast UK government spending in 2016/17. You are advised to show your working.

(2)

(c) Define the term 'budget deficit'.

(1)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

SECTION B

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

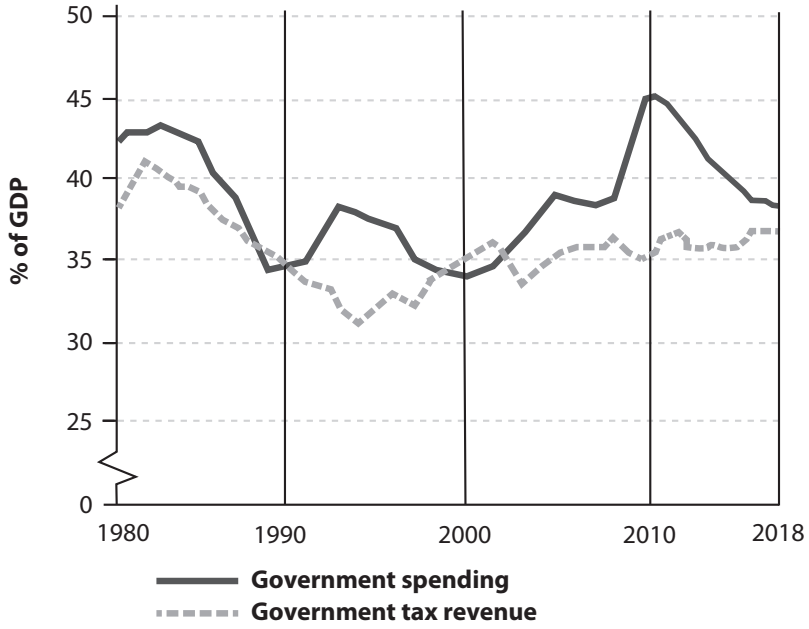
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

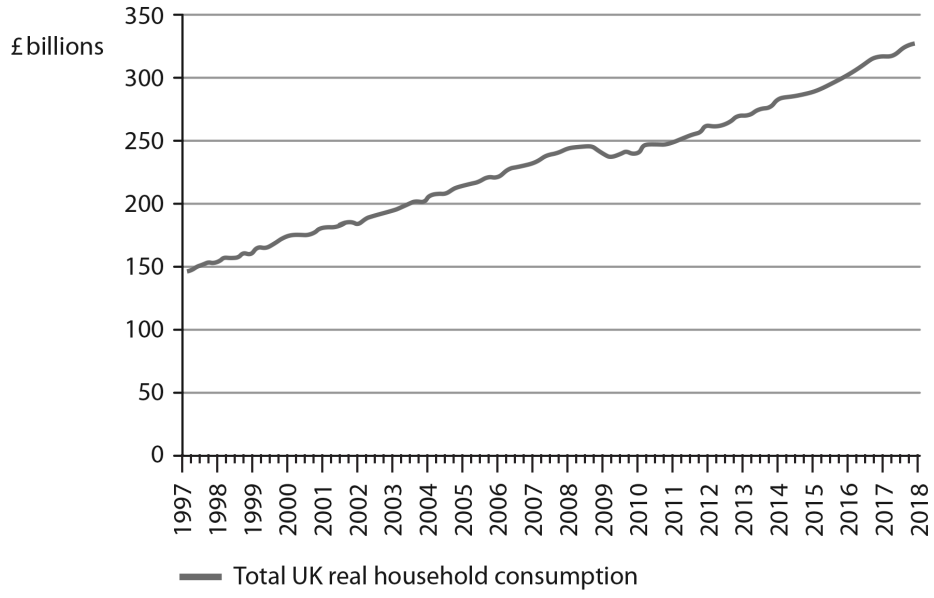
UK government budget and household consumption

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%.

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.

(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.

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.

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.

(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')

6 (a) With reference to Figure 1, explain the term 'balanced government budget'.

(4)

SECTION A

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

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

You are advised to spend 25 minutes on this section.

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

1 In March 2020 the Monetary Policy Committee (MPC) of the Bank of England reintroduced its quantitative easing programme.

(a) Which **one** of the following is the most likely effect of this quantitative easing?

(1)

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

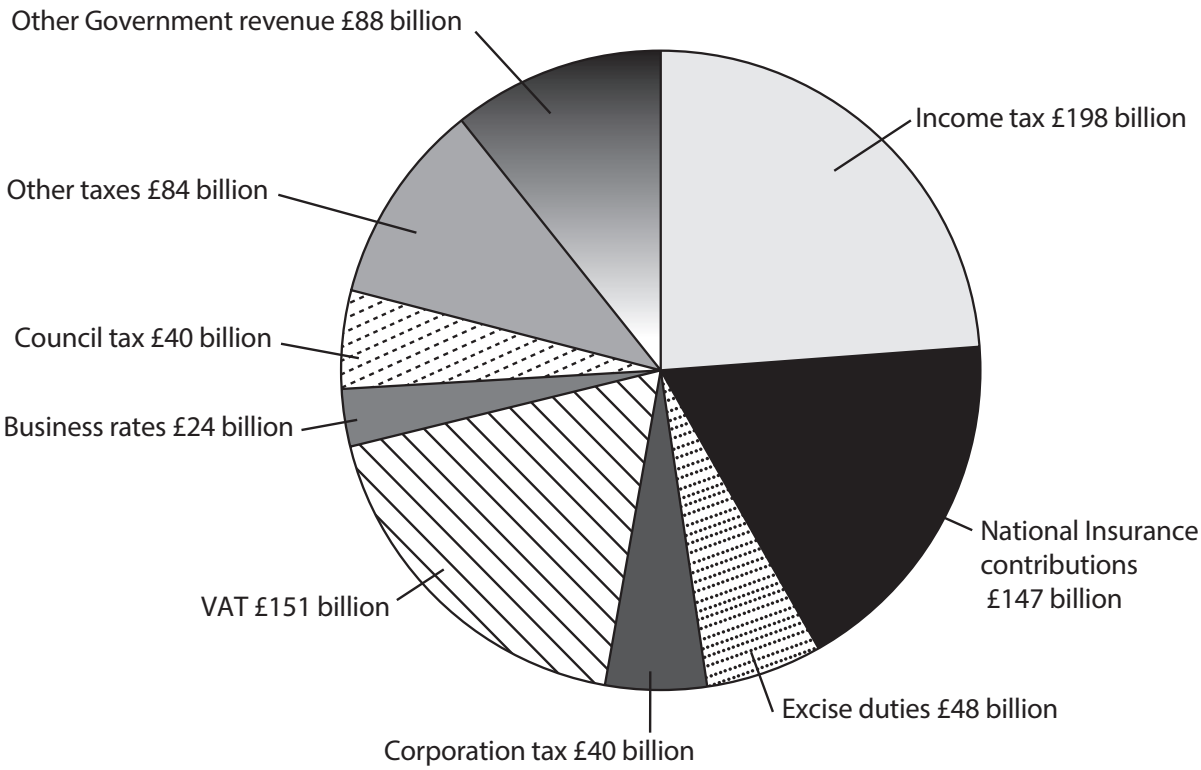
The MPC of the Bank of England also cut the UK's base interest rate from 0.75% to 0.1% in March 2020.

(b) Explain **one** likely impact of a decrease in the base interest rate on inflation.

(3)

(Total for Question 1 = 4 marks)

3 The chart below shows areas of UK Government tax revenues for 2021–22. The total tax revenue for the year was £820 billion.



(Source adapted from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf)

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

(1)

- ☒ **A** Corporation tax revenue is higher than excise duties
- ☒ **B** Income tax raises less revenue than Value Added Tax (VAT)
- ☒ **C** Tax revenue from business rates contributes to approximately 3% of the overall government tax revenue
- ☒ **D** Tax revenue from National Insurance contributions is five times greater than the tax revenue from council tax

(b) Total UK Government tax revenue for 2021–22: £820 billion.
Total UK Government expenditure for 2021–22: £1 053 billion.

Using these figures, explain the likely impact of the above data on the UK Government's budget balance.

(3)

(Total for Question 3 = 4 marks)

5 The table below shows the UK's budget deficit between March 2016 and March 2019.

Year	Budget deficit (£ billion)
2016	83.6
2017	56.3
2018	56.0
2019	38.7

(Source: adapted from https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/september2019)

(a) Define the term 'budget deficit'.

(1)

(b) Using the above table, calculate the percentage decrease in budget deficit between March 2016 and March 2019. You are advised to show your working.

(2)

(c) Which **one** of the following will most likely lead to a reduction in the budget deficit?

(1)

- ☒ **A** An increase in government spending and a decrease in taxation
- ☒ **B** An increase in taxation and a decrease in government spending
- ☒ **C** An increase in the value of exports and a decrease in the value of imports
- ☒ **D** An increase in the value of imports and a decrease in the value of exports

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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

(a) Define the term 'indirect tax'.

(1)

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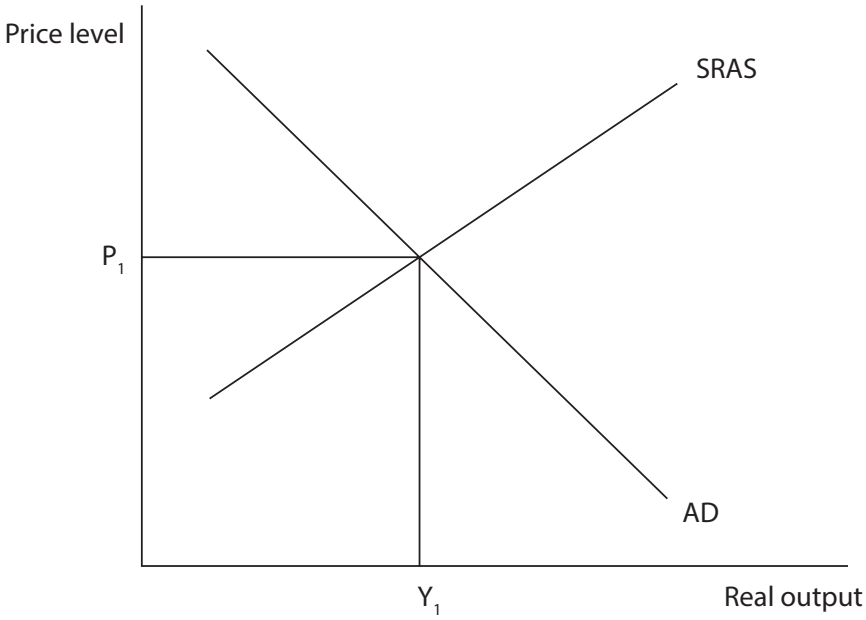
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a reduction in indirect tax on the equilibrium level of real output and the price level.

(2)



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

(1)

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

(Total for Question 4 = 4 marks)

4 The UK has experienced a budget deficit since 2001. The government aimed to reach a budget surplus by 2019, but in 2016 this target was abandoned.

(Source: adapted from https://www.gov.uk/government/news/autumn-statement-2016-some-of-the-things-weve-announced)

(a) Explain **one** likely reason why the 2019 budget surplus target was abandoned.

(2)

(b) Explain the likely impact of abandoning the budget surplus target on the UK national debt.

(2)

(c) If a government takes decisions to target a budget surplus, this is an example of:

(1)

- ☒ **A** contractionary monetary policy
- ☒ **B** discretionary fiscal policy
- ☒ **C** expansionary fiscal policy
- ☒ **D** expansionary monetary policy

(Total for Question 4 = 5 marks)

4 The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020.

(Source: adapted from https://www.ft.com/content/7579f124-5742-11e7-9fed-c19e2700005f)

(a) This would be an example of:

(1)

- ☒ **A** a contractionary monetary policy
- ☒ **B** an exchange rate policy
- ☒ **C** an expansionary monetary policy
- ☒ **D** a supply-side policy

(b) If a company makes £500 000 pre-tax profit in 2020, calculate how much corporation tax it will pay. Assume that the government cuts the rate of corporation tax as planned.

(2)

(c) Explain **one** possible reason why the revenue from corporation tax could increase if the government cuts the rate of tax.

(2)

(Total for Question 4 = 5 marks)

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

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

(a) Explain **one** likely impact of this project on aggregate supply in the UK.

(4)

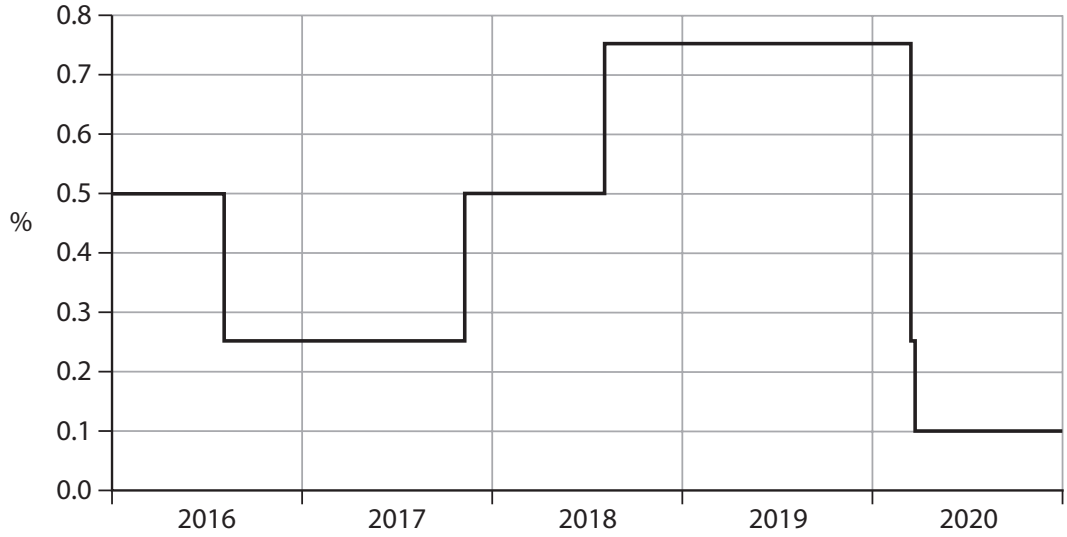
(b) Government spending on the High Speed 2 rail link is an example of which of the following?

(1)

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

(Total for Question 4 = 5 marks)

3 Bank of England base interest rate, 2016–2020



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

(a) With reference to the chart above, explain the likely impact of a reduction in the base interest rate on UK investment.

(4)

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

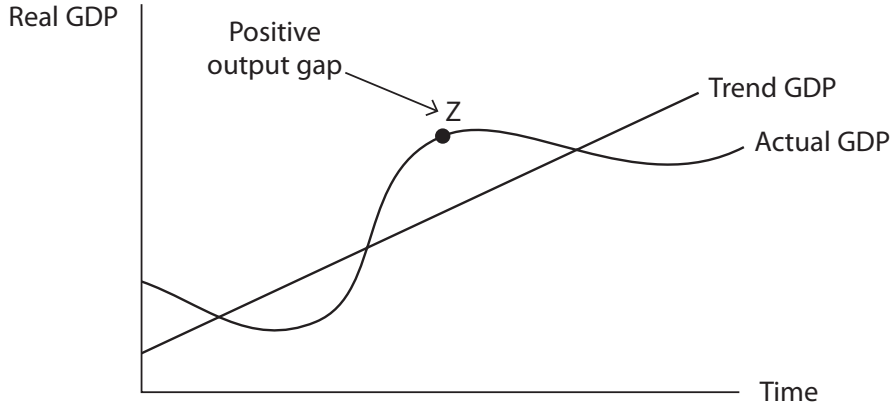
A fall in:

(1)

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

(Total for Question 3 = 5 marks)

4 The trade cycle



(a) At point Z on the diagram, which **one** of the following is likely to occur?

An increase in:

(1)

- ☒ **A** absolute poverty
- ☒ **B** budget deficit
- ☒ **C** cyclical unemployment
- ☒ **D** inflation

(b) With reference to the graph, explain the difference between automatic stabilisers and discretionary fiscal policy.

(4)

.....

.....

.....

(Total for Question 4 = 5 marks)

SECTION A

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

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

You are advised to spend 30 minutes on this section.

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

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

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

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

(4)

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

(1)

A decrease in the:

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

(Total for Question 1 = 5 marks)

5 In 2021, the US total GDP was $23 trillion and national debt was $28.4 trillion.

(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US and https://fiscaldata.treasury.gov/national-debt/)

(a) Calculate the US national debt in 2021 as a percentage of GDP.

(2)

(b) Explain the relationship between a fiscal deficit and the national debt.

(2)

(c) Which **one** of the following is the most likely consequence of an increase in the US national debt?

(1)

An increase in:

- ☒ **A** crowding out
- ☒ **B** inequality
- ☒ **C** poverty
- ☒ **D** unemployment

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

SECTION B

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

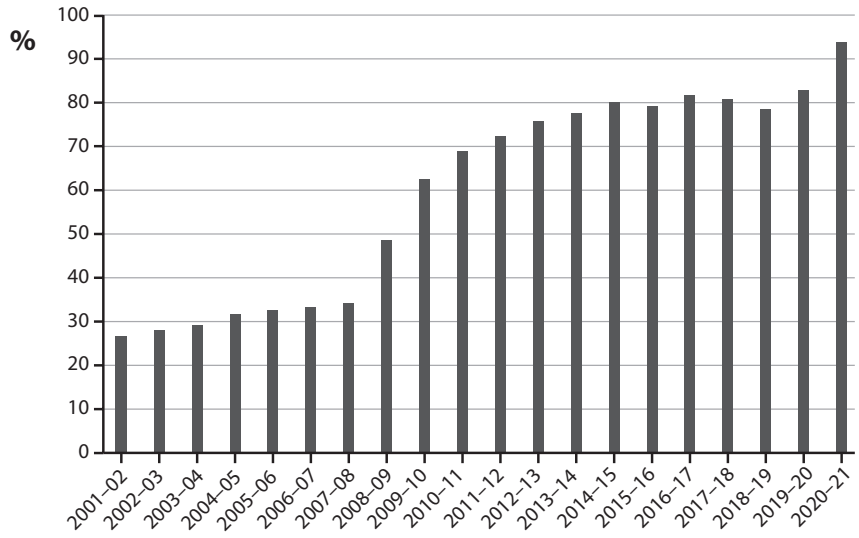
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

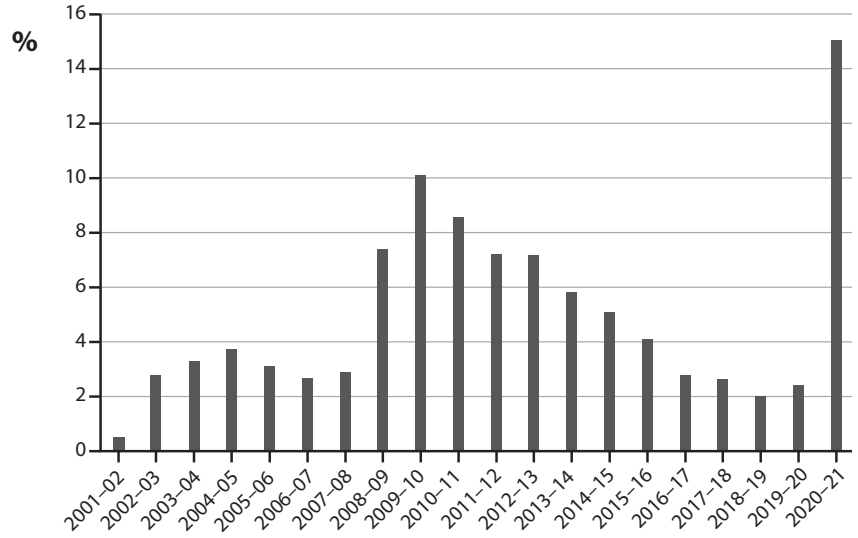
The UK Economy

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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.

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.

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'.

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.

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.

(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)

6 (a) With reference to Figure 4 and your own knowledge, explain the distinction between a progressive and a regressive tax.

(5)

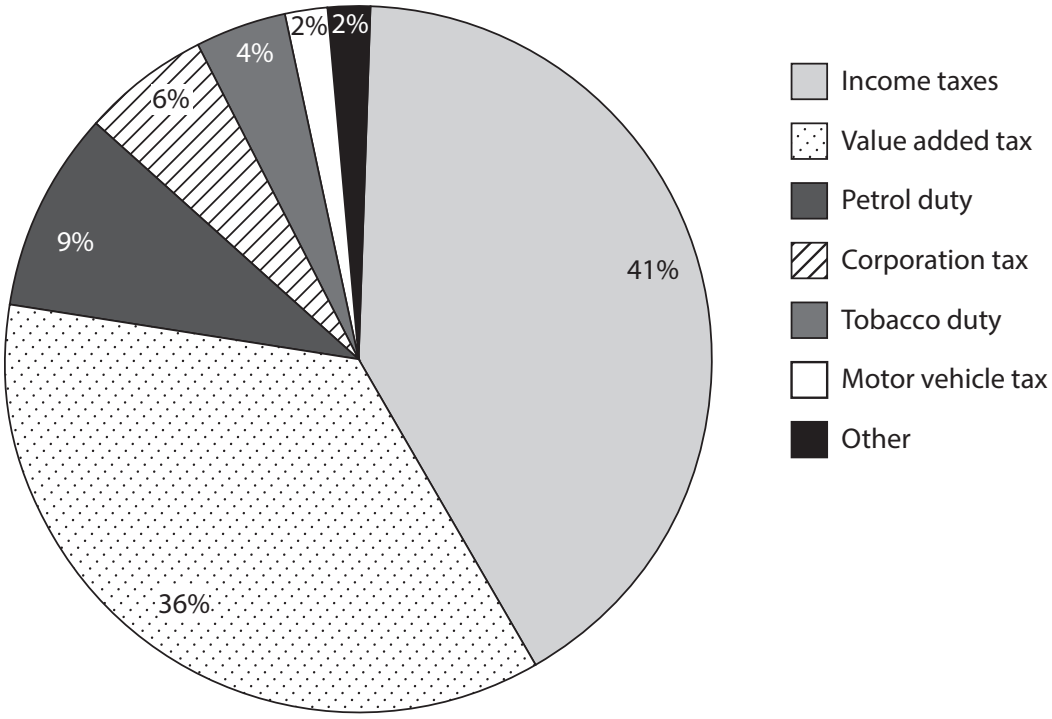
Sources for use with SECTION B

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

Question 6

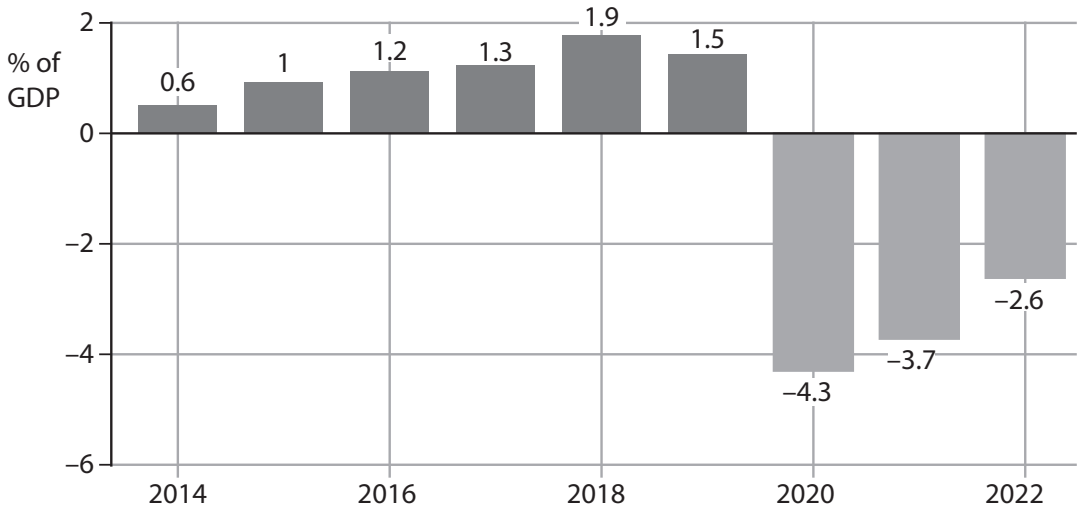
The German economy

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



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

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



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

Extract A

The opportunities and challenges facing the German economy

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

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

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

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

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

Extract B

US technology firm Intel invests in German semiconductor factories

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

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

6 (a) With reference to Figure 1, explain the distinction between direct and indirect taxation.

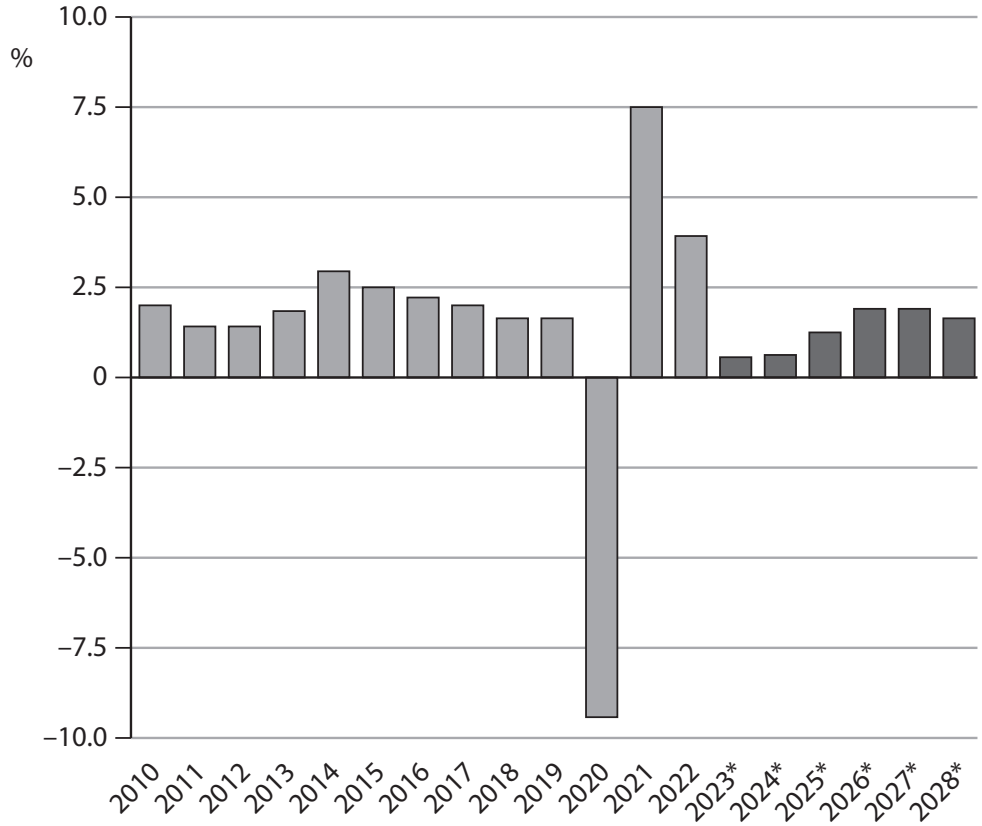
(5)

Sources for use with SECTION B

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

UK living standards and supply-side policies

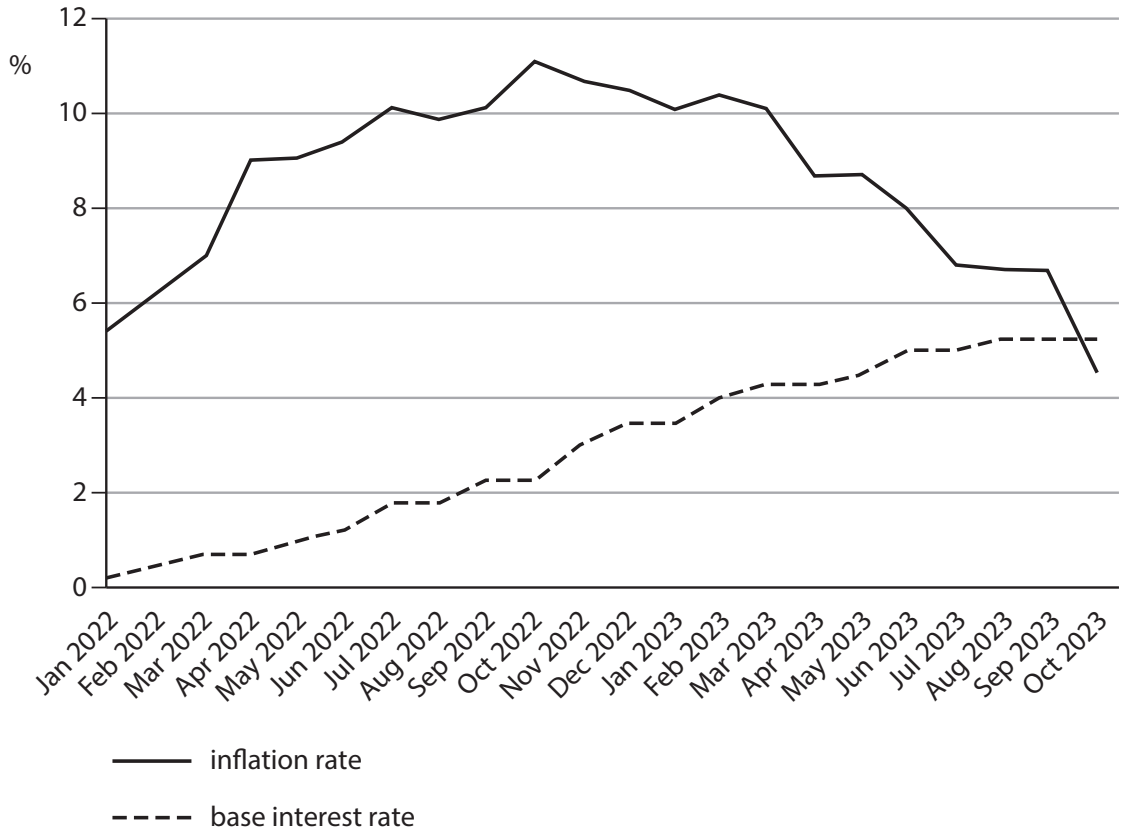
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

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

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



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

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

Extract A

Economic reforms

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

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

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

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

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

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

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

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

(d) With reference to the information provided, explain **two** factors that the Bank of England's Monetary Policy Committee may have considered when changing the base interest rate.

(6)

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).

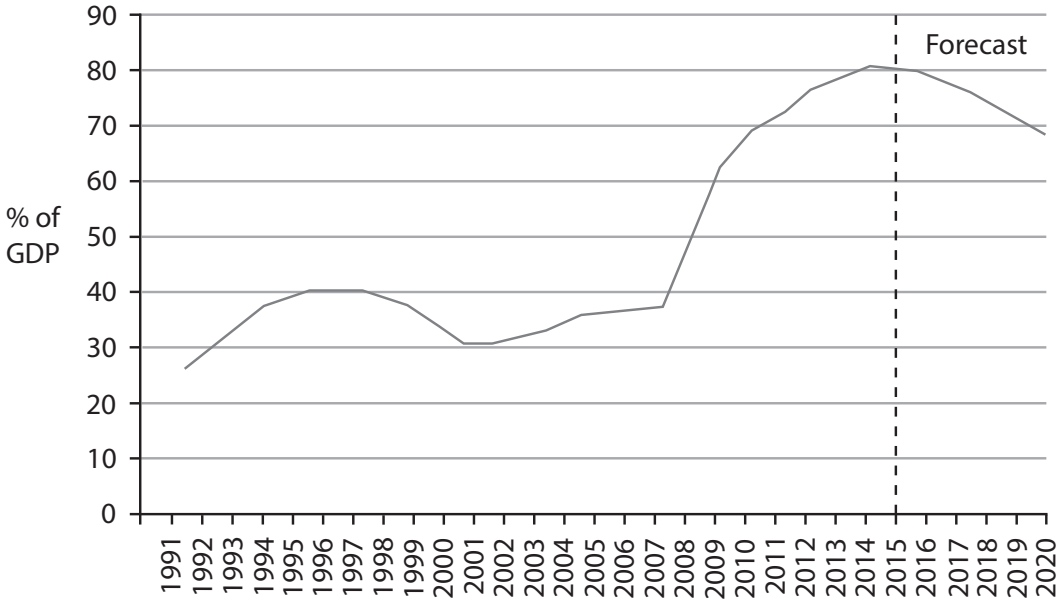
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

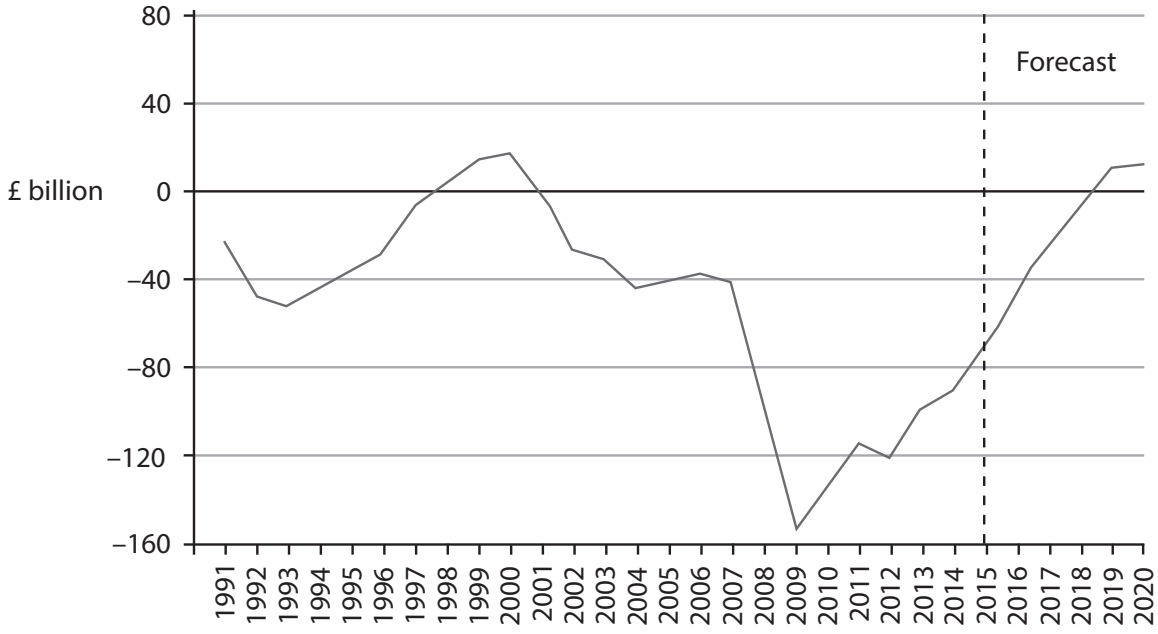
The UK economy

Figure 4: UK national debt as a percentage of GDP



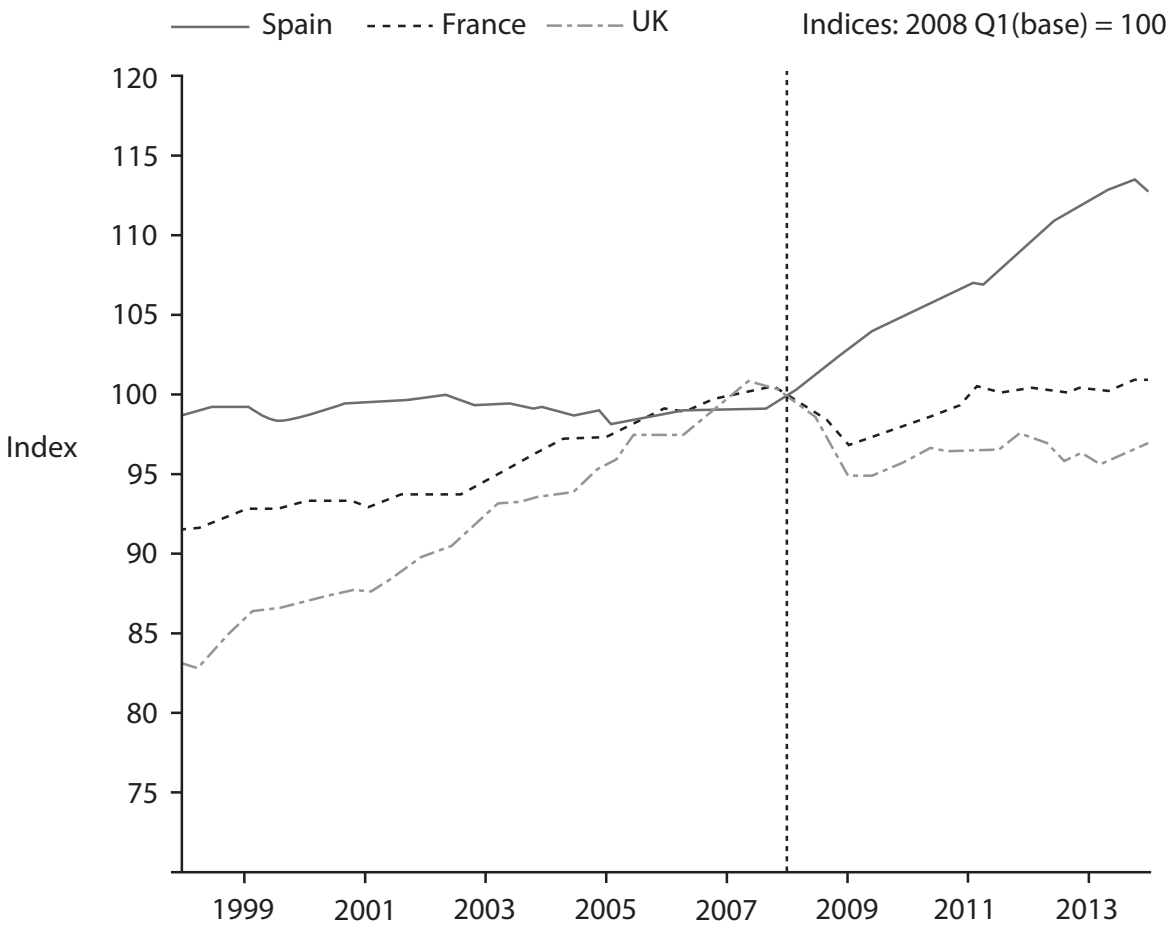
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

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.

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.

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.

(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'.

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.

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

(b) With reference to Figures 4 and 5 and your own knowledge, examine the relationship between the national debt as a proportion of GDP and the fiscal deficit.

(8)

SECTION A

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

The UK economy

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

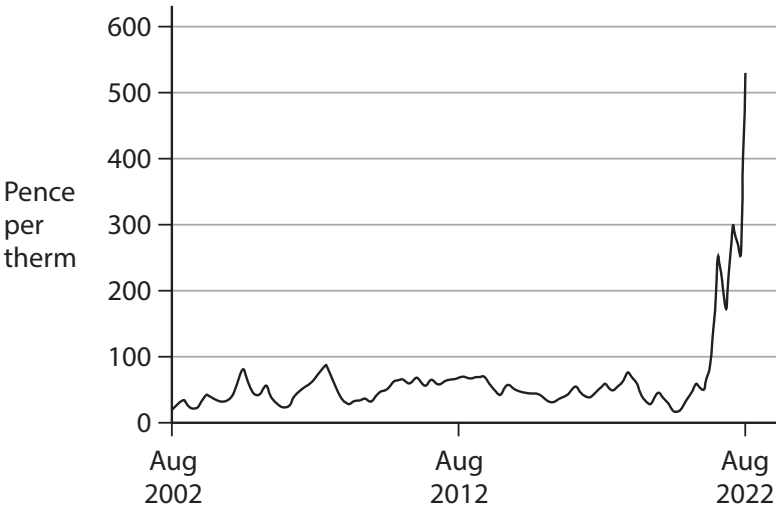
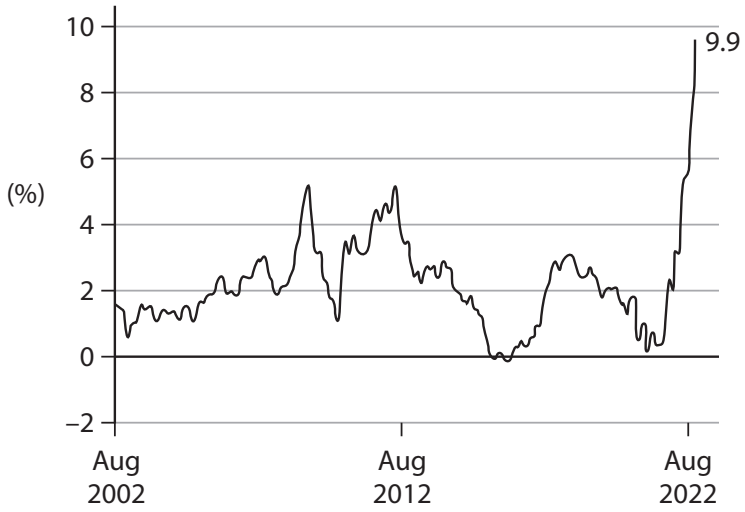


Figure 2: UK inflation, CPI, August 2002 to August 2022



Extract A

Fiscal policy changes in the UK, Autumn 2022

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

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

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

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

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

Extract B

Inequality to rise in the UK

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

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

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

(8)

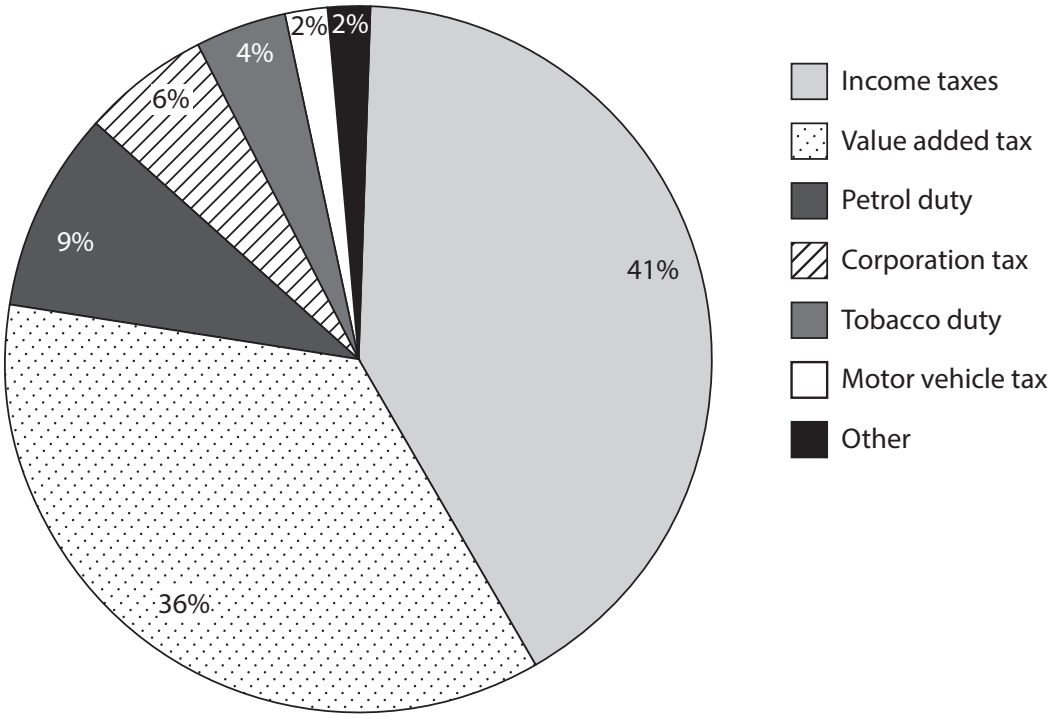
Sources for use with SECTION B

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

Question 6

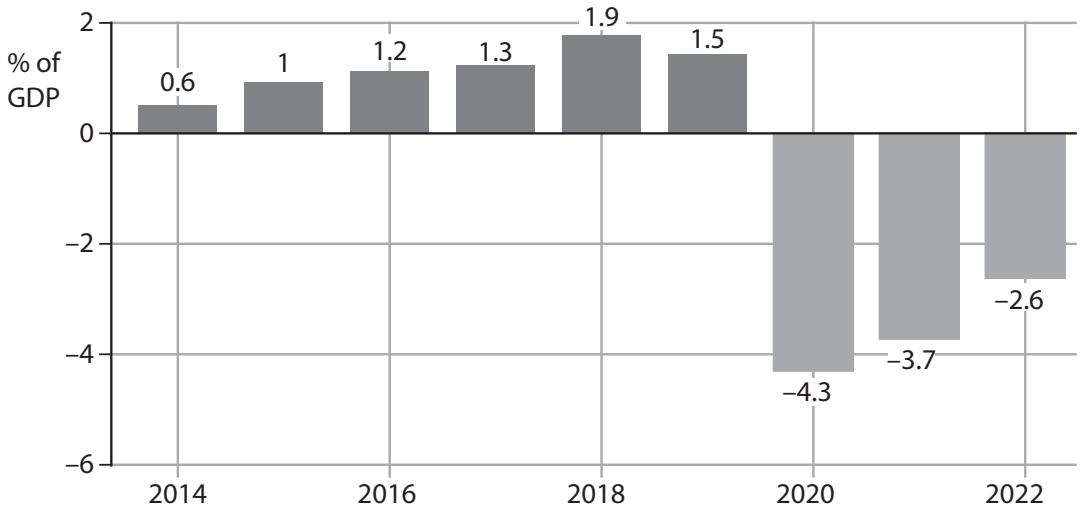
The German economy

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



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

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



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

Extract A

The opportunities and challenges facing the German economy

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

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

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

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

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

Extract B

US technology firm Intel invests in German semiconductor factories

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

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

(c) With reference to the information provided and your own knowledge, assess the likely macroeconomic effects of the German government's budget deficit.

(10)

SECTION B

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

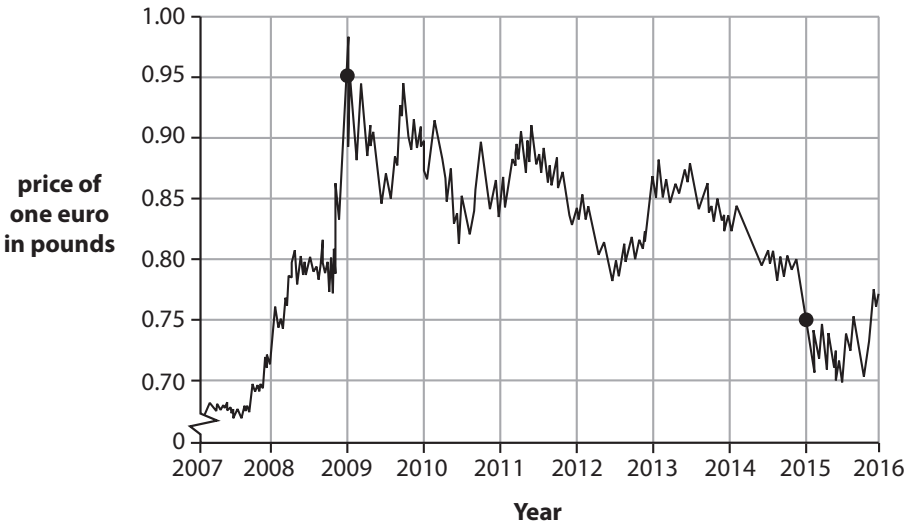
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

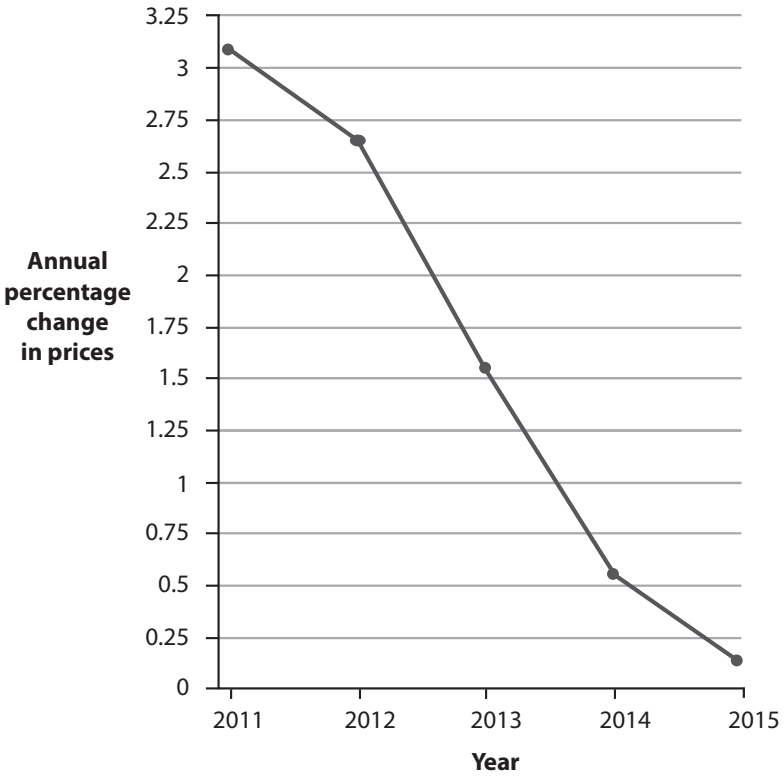
The Eurozone economy

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.

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

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

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

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

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

(d) Discuss the likely success of the ECB's quantitative easing programme in moving Eurozone inflation closer to 'the central bank's ceiling of 2%' (Extract A, line 17).

(12)

SECTION B

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

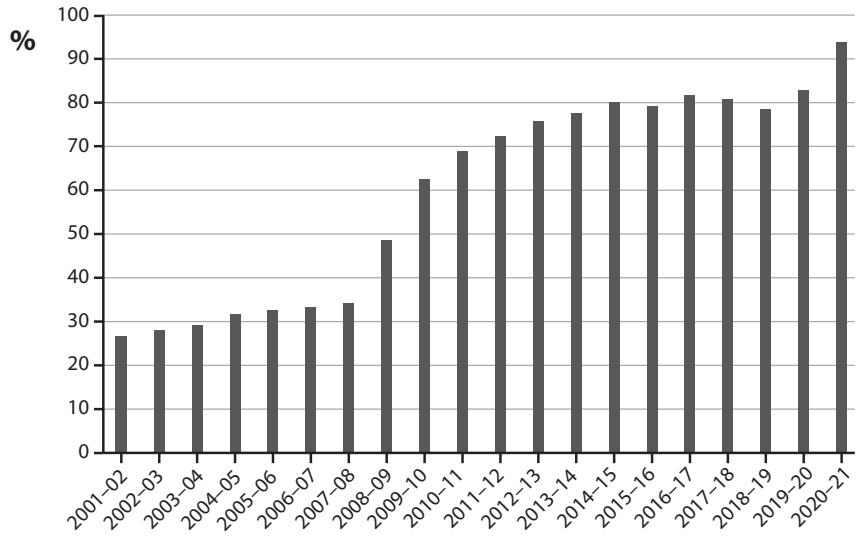
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

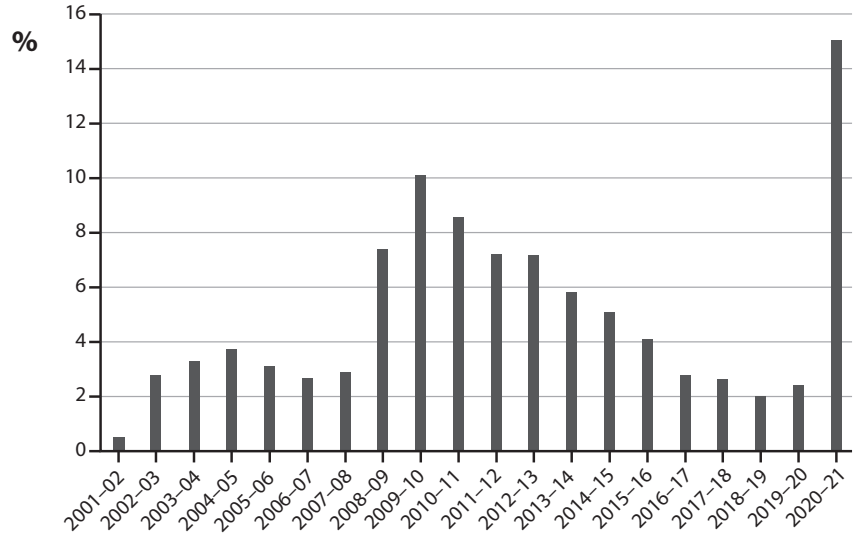
The UK Economy

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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.

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.

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'.

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.

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.

(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)

(d) With reference to Extract B, discuss the use of quantitative easing in preventing deflation.

(12)

SECTION B

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

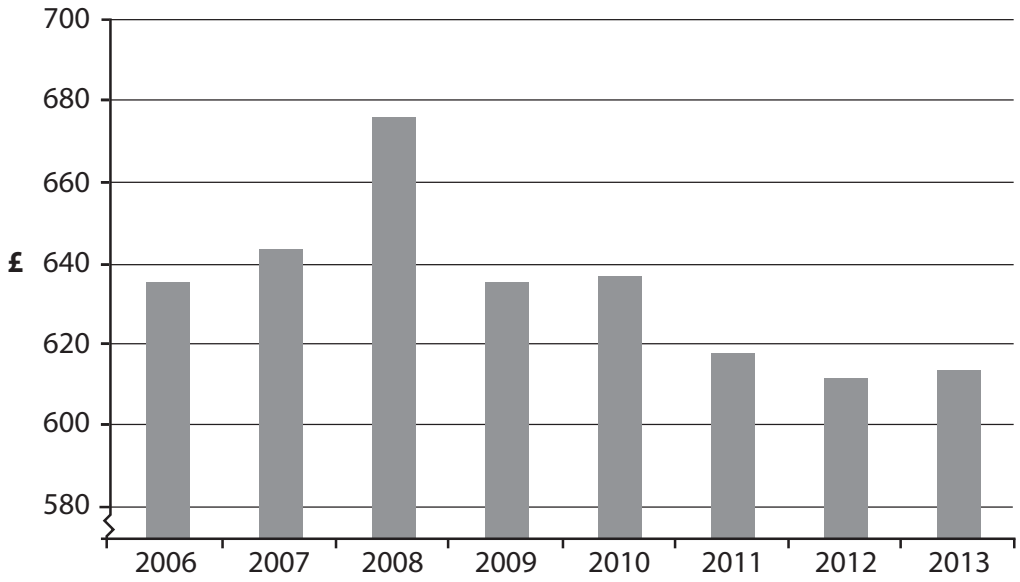
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

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

Question 6

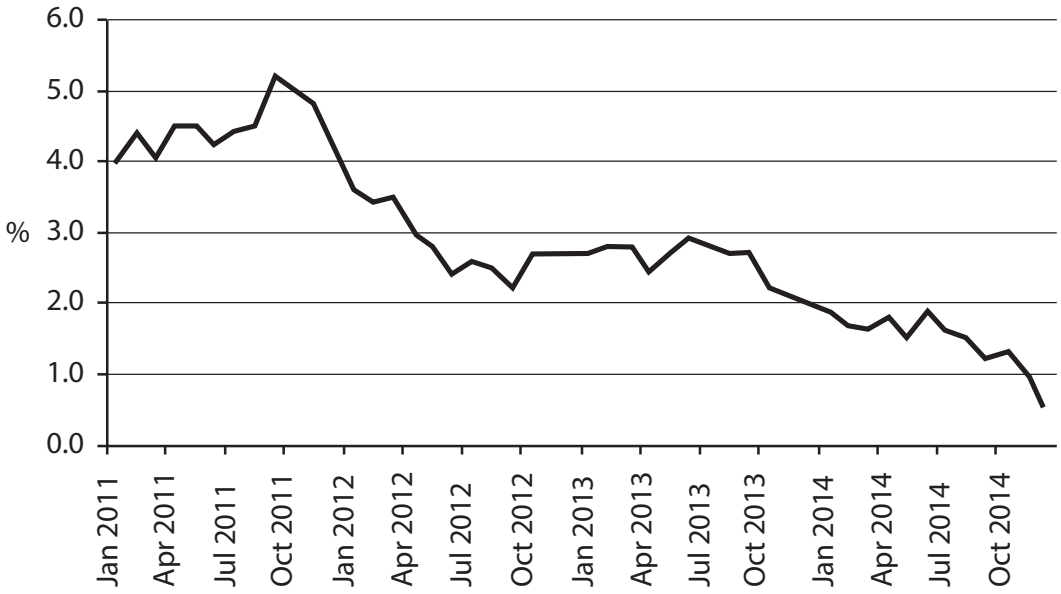
UK incomes, inflation and monetary policy

Figure 1 – UK average weekly household real income



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

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



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

Extract A

Britons should not fear rise in interest rates

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

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

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

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

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

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

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

Extract B

Deflation is bad news

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

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

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

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

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

(15)

SECTION B

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

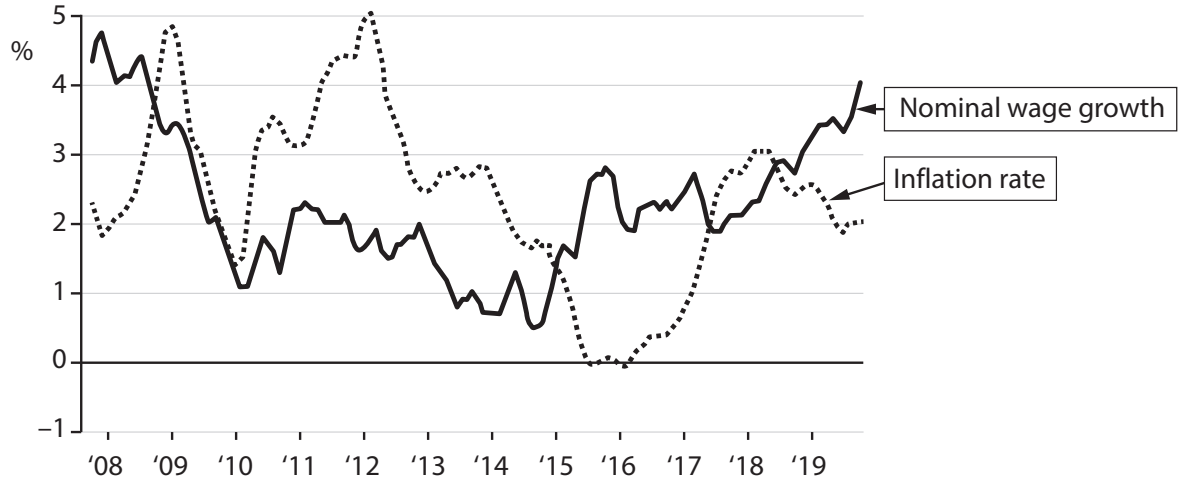
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

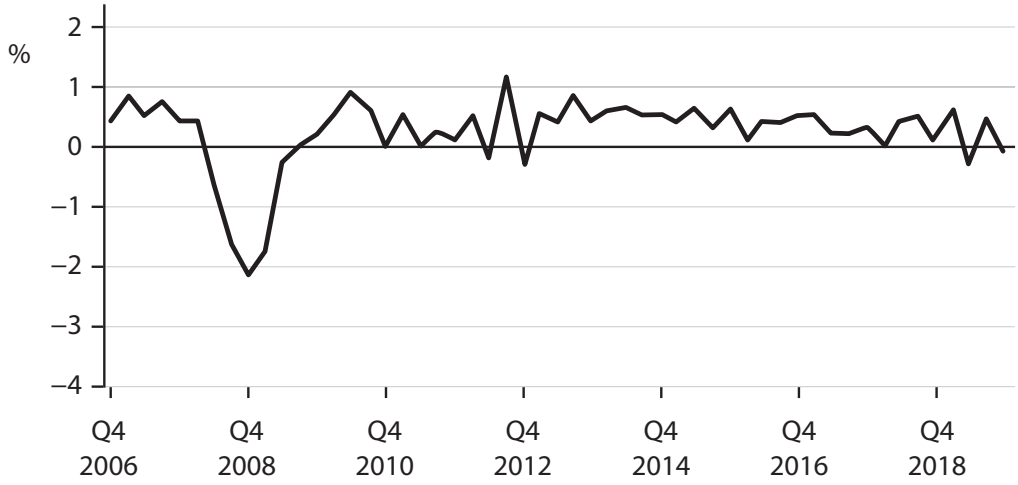
UK monetary policy since the Global Financial Crisis of 2008

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



(Source: adapted from ONS)

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



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

Extract A

Has monetary policy worked?

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

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

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

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

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

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

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

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

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

(e) Discuss factors, **apart from** changes in real wages, which the MPC may have considered when changing the base interest rate.

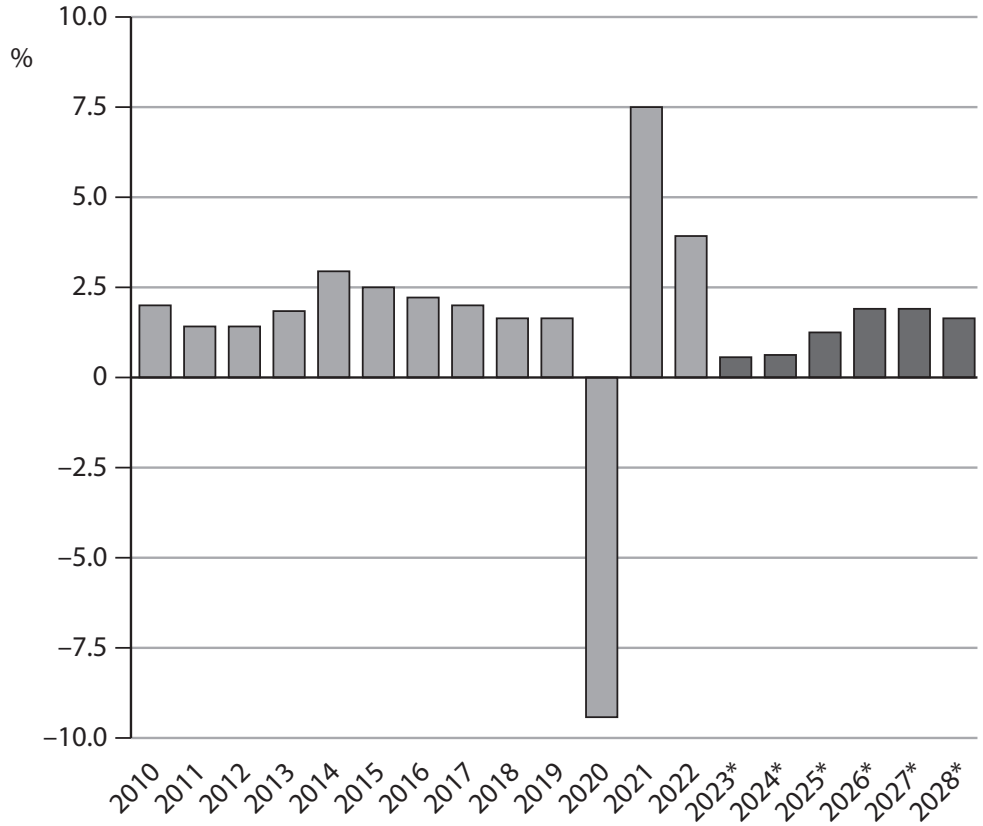
(15)

Sources for use with SECTION B

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

UK living standards and supply-side policies

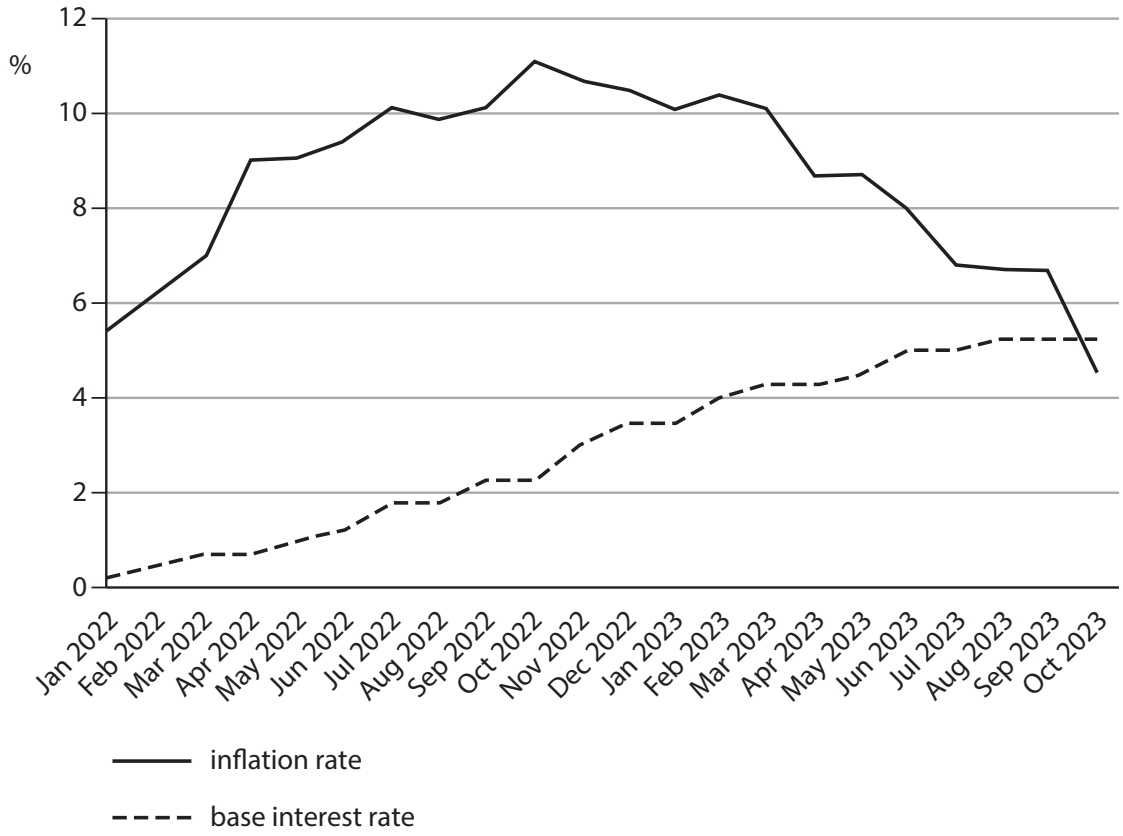
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

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

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



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

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

Extract A

Economic reforms

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

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

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

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

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

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

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

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

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

(15)

SECTION B

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

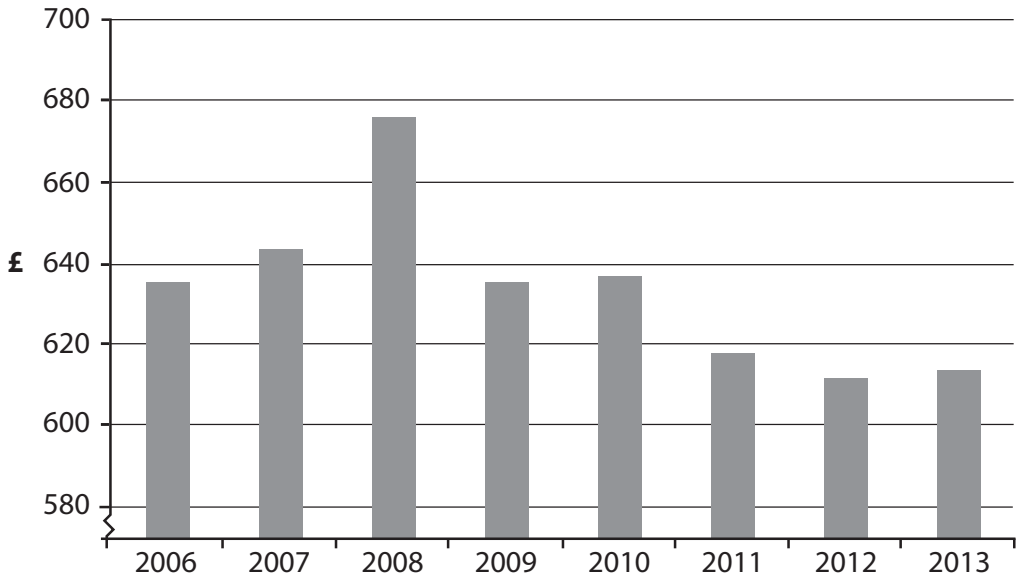
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

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

Question 6

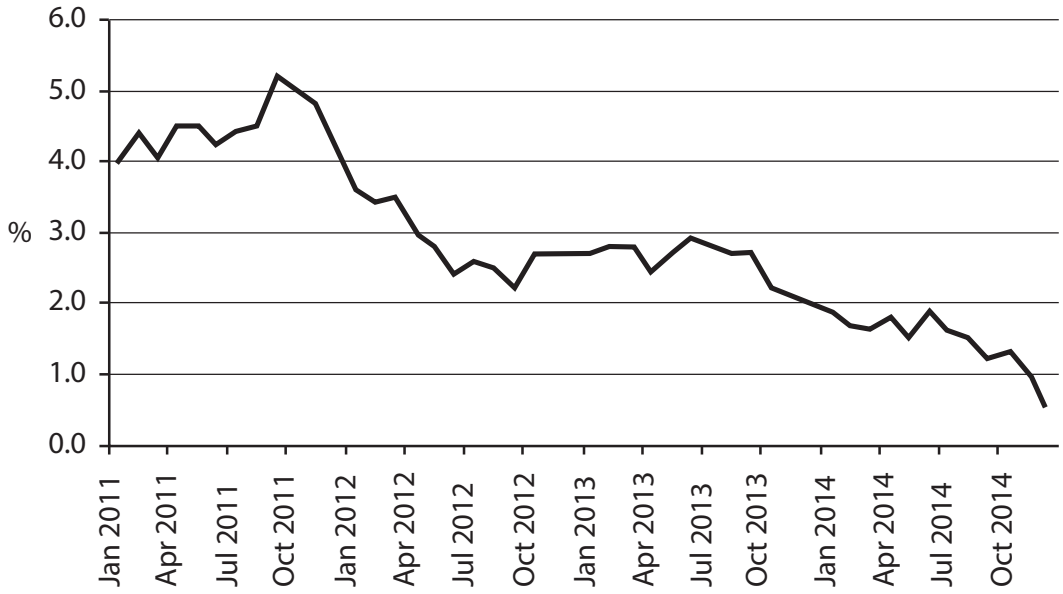
UK incomes, inflation and monetary policy

Figure 1 – UK average weekly household real income



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

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



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

Extract A

Britons should not fear rise in interest rates

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

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

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

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

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

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

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

Extract B

Deflation is bad news

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

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

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

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

Q) 6 (f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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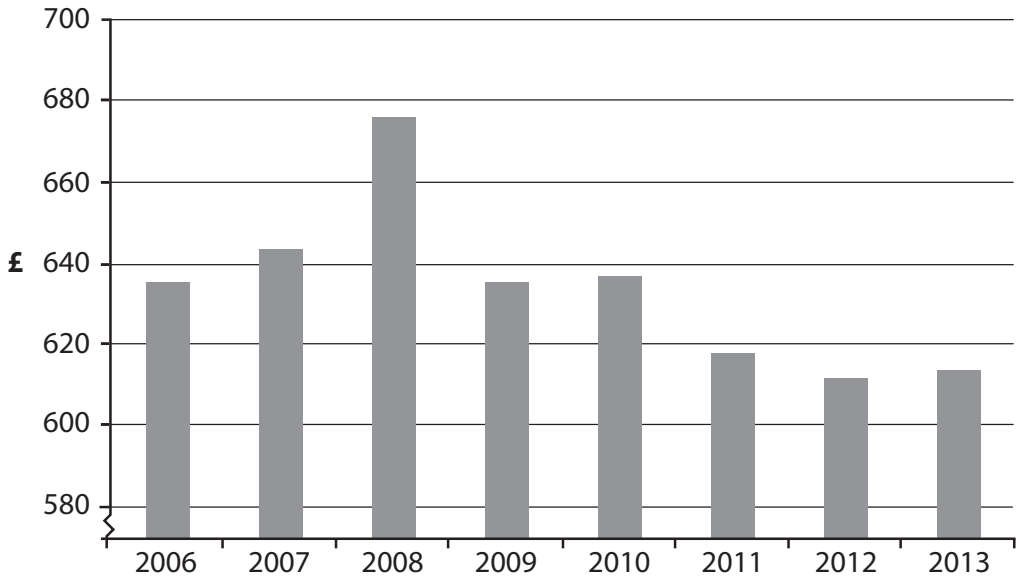
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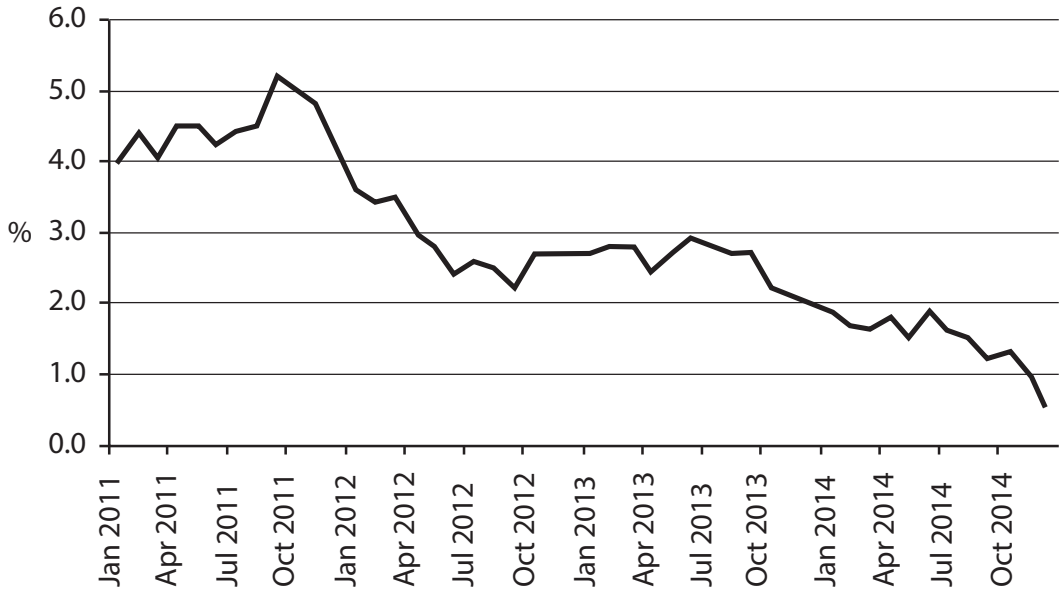
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Extract B

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Q) 6 (g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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

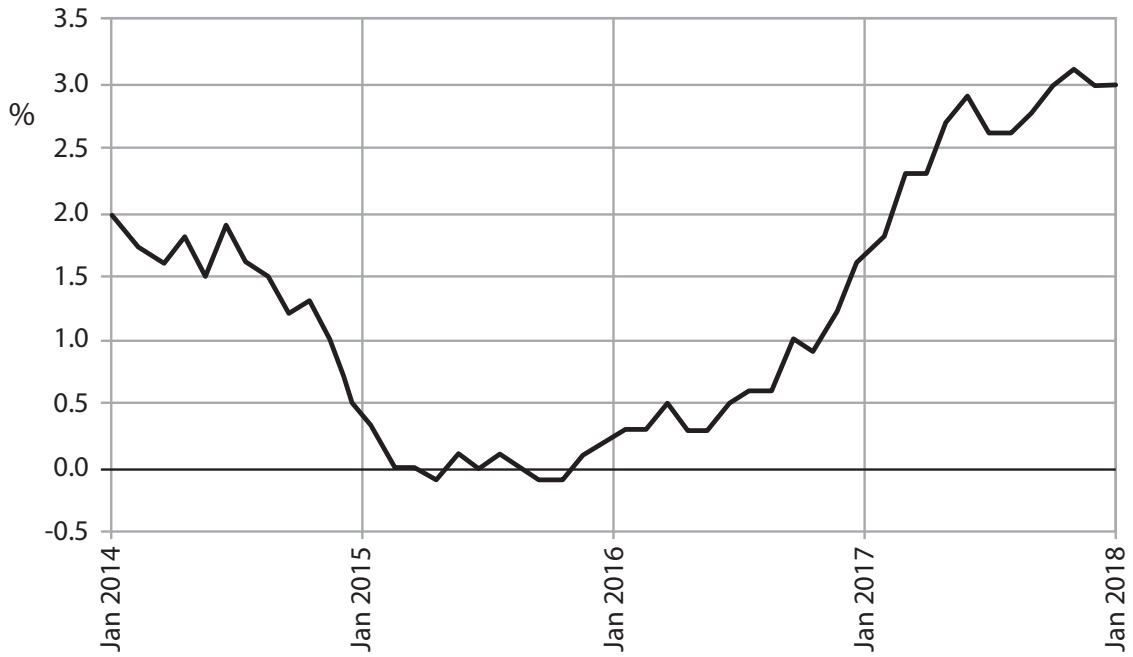
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

UK inflation and economic growth

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



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

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

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

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

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



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

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

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

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

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

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

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

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

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

Extract B

Economic growth and living standards

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

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

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

Q) 6 (f) Evaluate the use of interest rate changes as a means of controlling UK inflation.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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

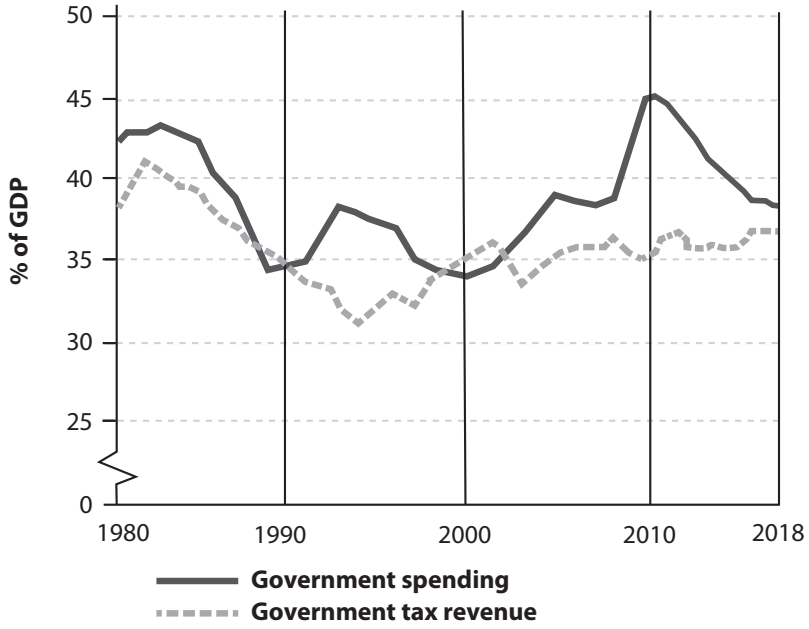
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Question 6

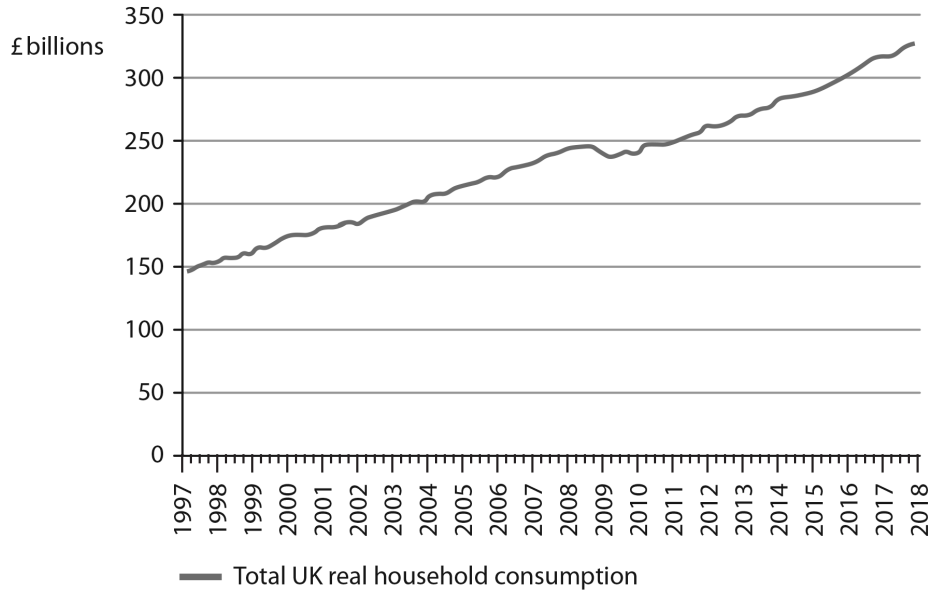
UK government budget and household consumption

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%.

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.

(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.

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.

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.

(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')

Q) 6 (g) Evaluate the likely macroeconomic effects of the UK government pursuing a policy of reducing its budget deficit.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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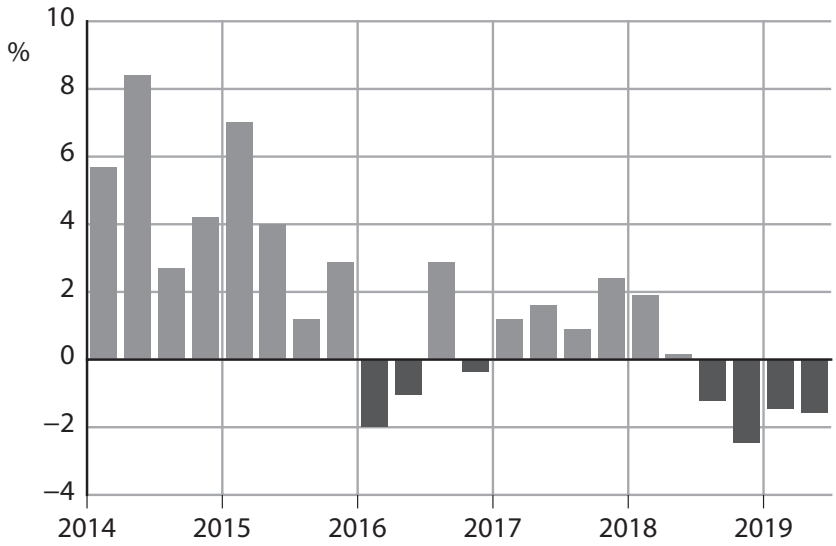
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Question 6

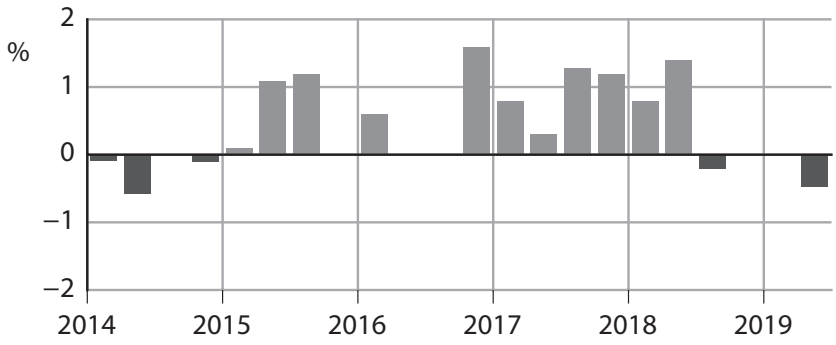
UK investment and productivity

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



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

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



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

Extract A

Another recession?

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

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

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

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

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

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

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

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

Q) 6 (f) Evaluate the fiscal policies the UK Government could use if it believes that 'the UK economy is likely to experience another recession' (Extract A, lines 27-28).

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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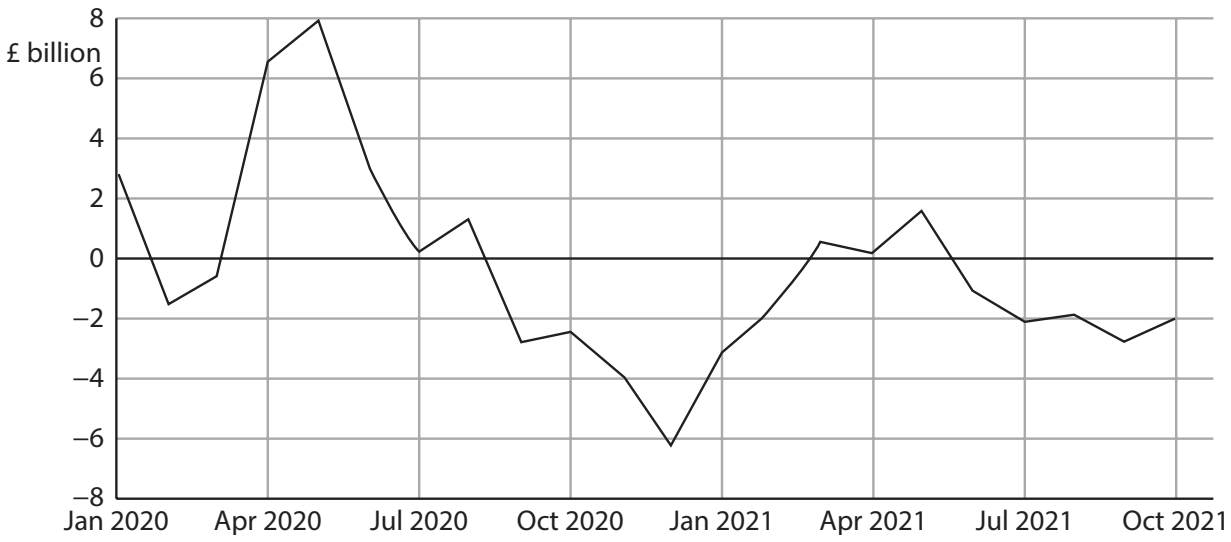
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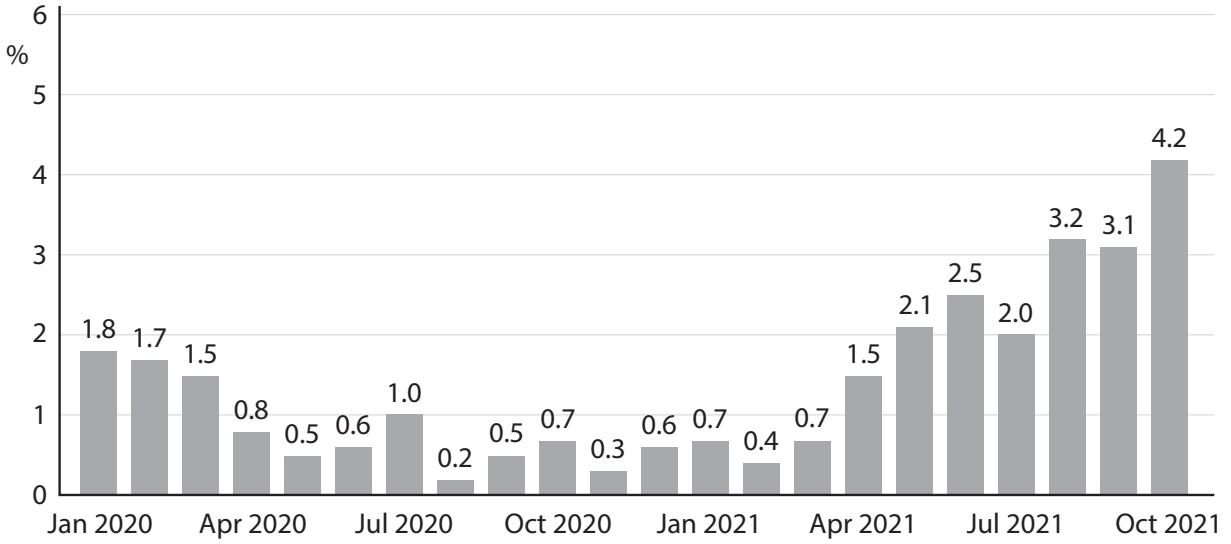
UK balance of trade and inflation

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



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

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



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

Extract A

Balance of trade in goods and services

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

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

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

Extract B

Inflation

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

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

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

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

Q) 6 (g) Evaluate how interest rates are used to control UK inflation.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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

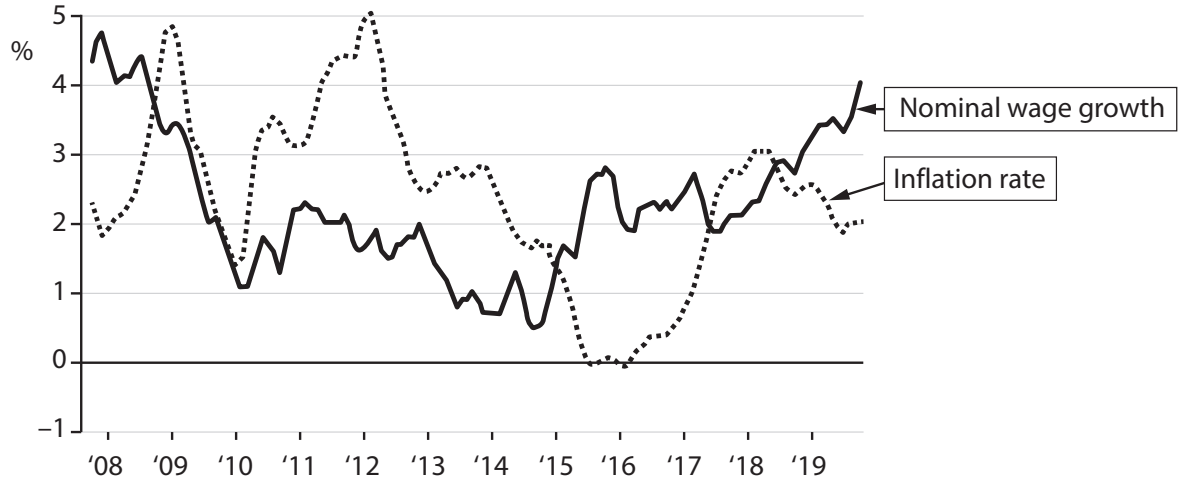
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

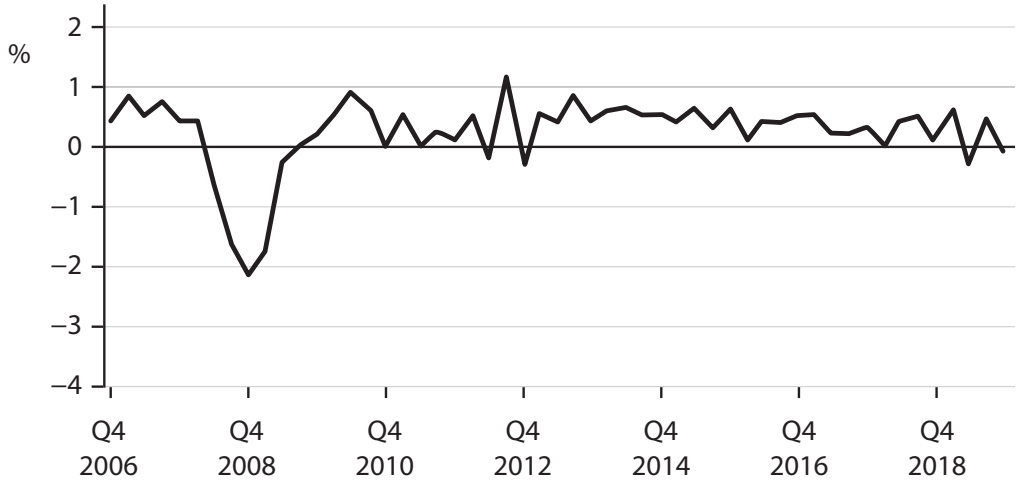
UK monetary policy since the Global Financial Crisis of 2008

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



(Source: adapted from ONS)

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



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

Extract A

Has monetary policy worked?

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

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

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

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

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

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

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

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

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

Q) 6 (g) Evaluate whether the MPC has been successful in meeting the UK's macroeconomic objectives between 2008 and 2019.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

Q) 8 Japan's budget deficit for 2017/18 is expected to be 4.6% of GDP. Its national debt is forecast to increase to above 250% of GDP by 2019. Evaluate the impact of a large fiscal deficit and national debt on a country's economy.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

Read Figure 1 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

Markets for food and drinks high in fat, salt or sugar (HFSS)

Figure 1: UK market share of potato crisps, 2017

Firm	Brand	Size	Market share of firm	Market share of product	Price (£)
Walkers	All Walkers		*55.3%*		
	of which: *Regular Standard*	35 g		28.1%	0.45
	Regular Max	50 g		7.4%	0.63
	Sensations	40 g		2.0%	0.59
	Doritos	40 g		4.7%	0.45
	Other			13.1%	
KP	KP	50 g	*22.7%*		0.52
Tayto	Golden Wonder		*4.2%*		
		<40g		3.1%	0.38
		40g+		1.1%	0.72
Other	Other		*17.8%*		

(Source: adapted from https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food 6 April 2017)

Extract A

The effects of a total ban on advertising of HFSS foods

Food and drinks which are high in fat, salt or sugar (HFSS) tend to be sold in highly concentrated markets. Tough new rules banning advertisements for HFSS products, such as those for confectionery, fizzy drinks and potato crisps, come into effect in July 2017 as a means to reduce consumption. The rules apply to media targeted at under-16s and will mean a major reduction in the number of advertisements children see for HFSS products in posters near schools, in films targeted at children, on catch-up television and in social media if it is directed at children.

There are three main factors that will determine the effectiveness of the intervention: first, whether advertising acts to expand the market share or steal rivals' market share. Secondly, how firms in the market adapt their behaviour in response to the ban. Thirdly, what substitute products do consumers turn to if they opted out of the targeted market.

Results from a recent survey in the UK suggest that the total quantity of crisps sold would fall by around 15% in the presence of an advertising ban, or by 10% if firms respond with price cuts, since the ban acts to make the market more competitive and firms respond to the ban by, on average, lowering their prices.

The survey showed that following a ban, consumers are more likely to switch to another junk food than to a healthy food, which (in addition to the pricing response of firms) acts to partially offset any health gains from the policy.

(Source: adapted from The Effects of Banning Advertising in Junk Food Markets, Dubois, Pierre; Griffith, Rachel, Review of Economic Studies Copyright © 2017, Oxford University Press https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food 6 April 2017 and https://www.asa.org.uk/news/tougher-new-food-and-drink-rules-come-into-effect-in-children-s-media.html 30 June 2017)

Extract B

Taxing HFSS foods and subsidising healthy eating widens inequality

Since low-income groups spend a higher proportion of their income on food and tend to eat less healthily, they are the main targets of taxes on products that are high in fat, salt or sugar (HFSS). Subsidies on healthy food are seen as an alternative policy approach to encourage healthy eating. While data on the impact of such policies are scarce, a recent study on the distributional impacts of HFSS taxes and healthy food subsidies found that these actually widened health and fiscal inequalities. The policies tend to be regressive and favour higher-income consumers. Taxes on unhealthy food increase prices which have a greater impact on low income groups rather than higher income groups. Lower income groups prefer to buy HFSS food.

Subsidies encouraged all income groups to buy more fruit and vegetables. However, those on higher incomes proved more responsive and the average share of budget spent on healthy food actually increased for the higher income groups who were more likely to buy the subsidised healthy food and then spend the savings they had enjoyed on yet more healthy food. The diets of the higher income groups before the subsidy tended to be healthier. The choices of the higher income groups are more responsive to price changes. By contrast, lower income groups, if they responded to lower prices, often used the money saved to buy unhealthy items or something else entirely. The long-term benefits of a healthier diet are harder to grasp for consumers when information gaps exist. Often the immediate boost of a tasty treat is more appealing. Taxes and subsidies do not change that. Other strategies are needed to promote healthy eating, especially education.

(Source: adapted from Economist 5 October 2017 https://www.economist.com/news/finance-and-economics/21730033-study-suggests-lower-income-families-end-up-paying-more-their-food-taxing-fat and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3031005 The Economic Journal September 2017 Vol 127 Issue 604)

Extract C

Tax on fatty foods in Denmark is an economic disaster

Denmark introduced a specific tax on saturated fat in October 2011. Recognised as a world-leading public health policy, it was abandoned just 15 months later having been both an economic and political disaster.

Indirect taxes of this sort are invariably regressive, disproportionately affecting the elderly and the poor. The specific tax led to prices rising on average 15% for highest-fat products, yielding a total decrease of 5% in the intake of saturated fat from products such as minced beef and cream. 80% of Danish consumers did not change their shopping habits at all. The behavioural change was economically damaging as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping. Danish tax revenue fell as a result.

(Source: adapted from https://iea.org.uk/in-the-media/press-release/evidence-shows-a-fat-tax-would-hit-poorest-the-hardest 25 May 2013 and https://www.cambridge.org/core/journals/public-health-nutrition/article/effects-of-the-danish-saturated-fat-tax-on-the-demand-for-meat-and-dairy-products/984CF03634C819D50E66C7B5DC5209DA/core-reader)

Q) 1 (e) Evaluate the likely microeconomic and macroeconomic effects of imposing a tax on HFSS foods.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

7 In 2018, the United States Government cut the corporation tax rate (tax on company profits) from 35% to 21%. Income tax rates for US citizens were also reduced: for example, the top rate of income tax was cut from 39.6% to 37%.
(Source adapted from: https://www.nytimes.com/)

Q) Evaluate the likely impact of cutting tax rates as a policy to increase economic growth.

(25)

(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

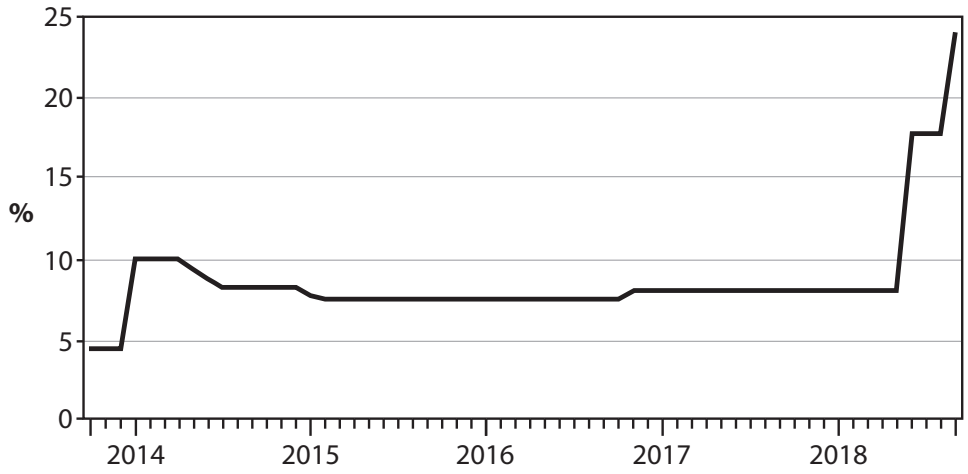
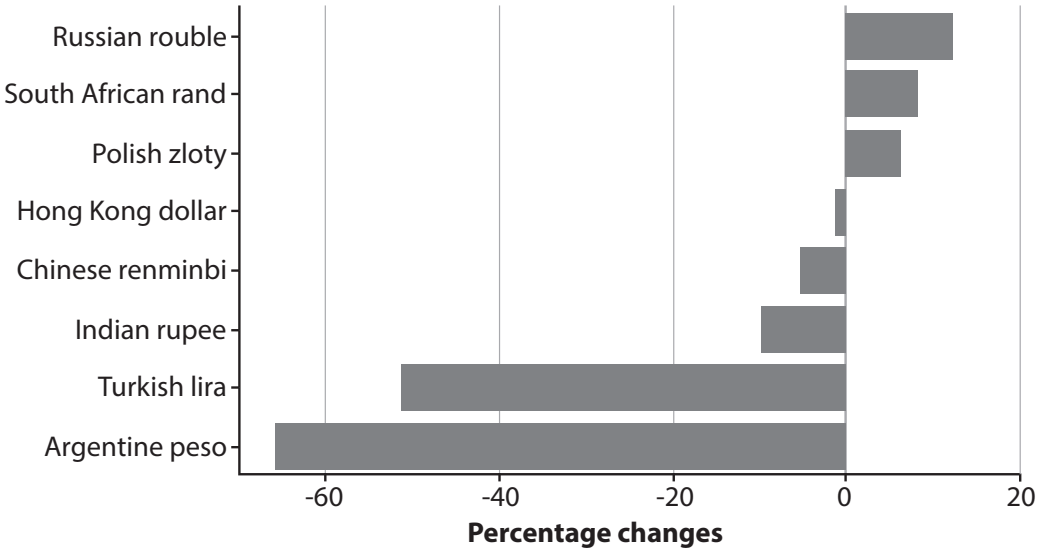


Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.



(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.

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.

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.

(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.

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.

(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.

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.

(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)

Q) 1 (d) Evaluate the likely microeconomic and macroeconomic effects of a rise in interest rates in Turkey.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

7 The European Central Bank introduced a new round of quantitative easing (QE) in March 2020, purchasing up to ·750 billion of assets. The objective of this QE was to reduce the serious risks to the effectiveness of monetary policy resulting from a significant recession. The European Central Bank's target for inflation remains at 'below but close to 2%'.
(Source adapted from: https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html)

Q) Evaluate the effectiveness of quantitative easing during 'a significant recession'.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

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

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

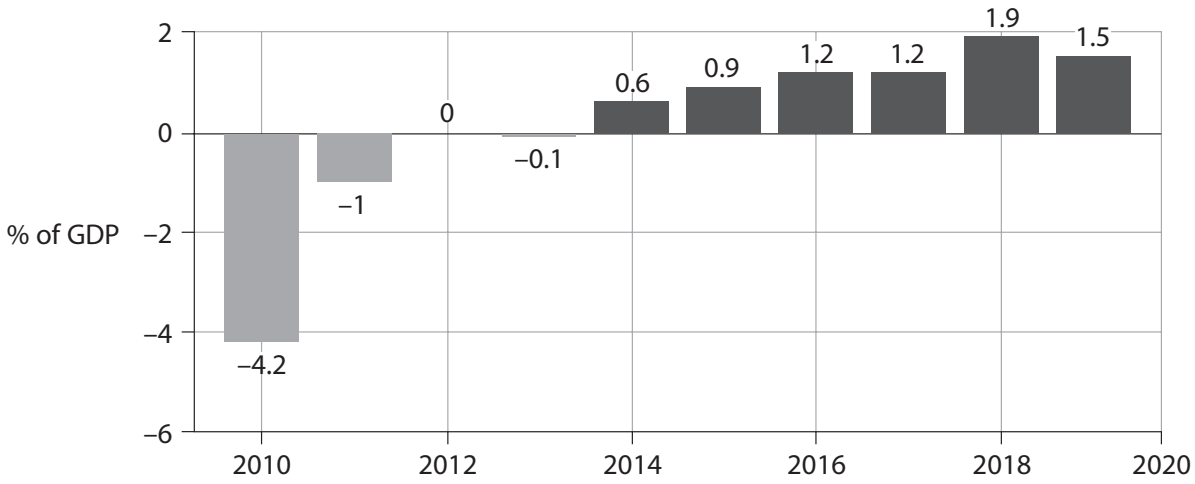
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

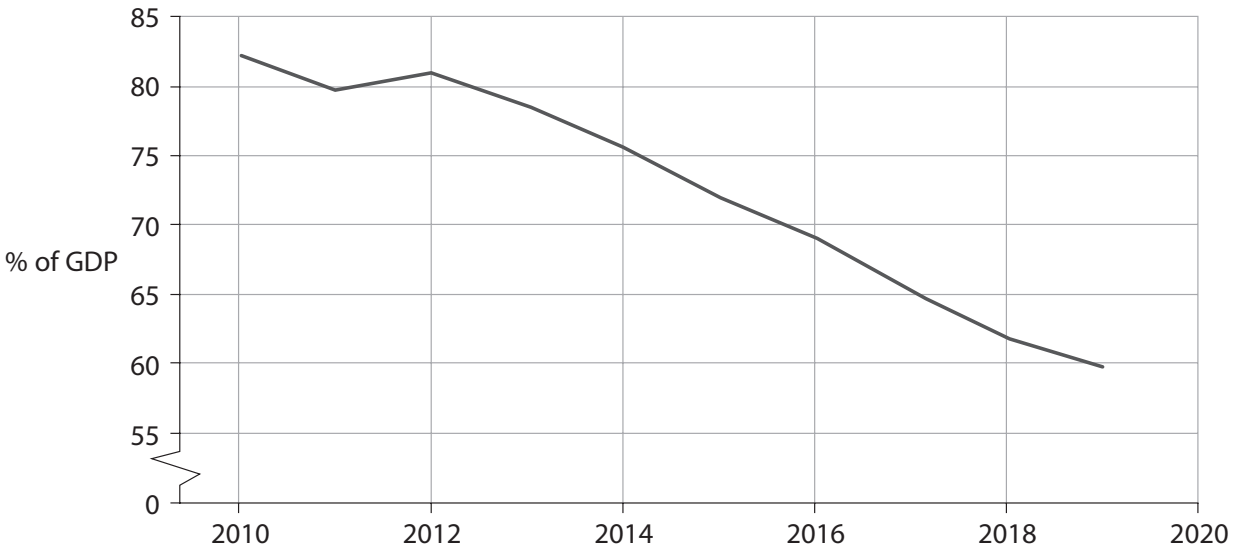
The German economy

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



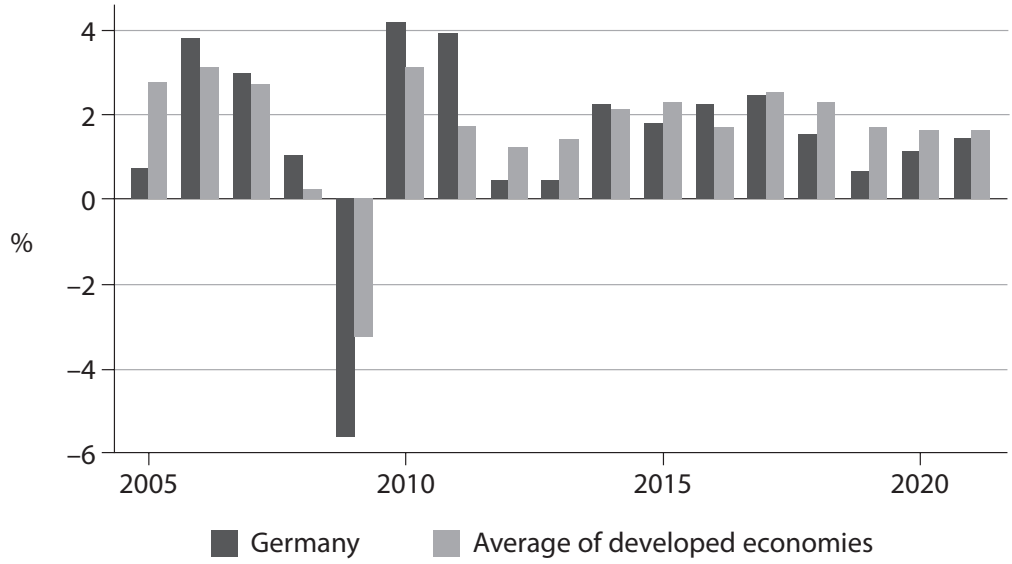
(Source adapted from: The Economist Nov 14th 2019)

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



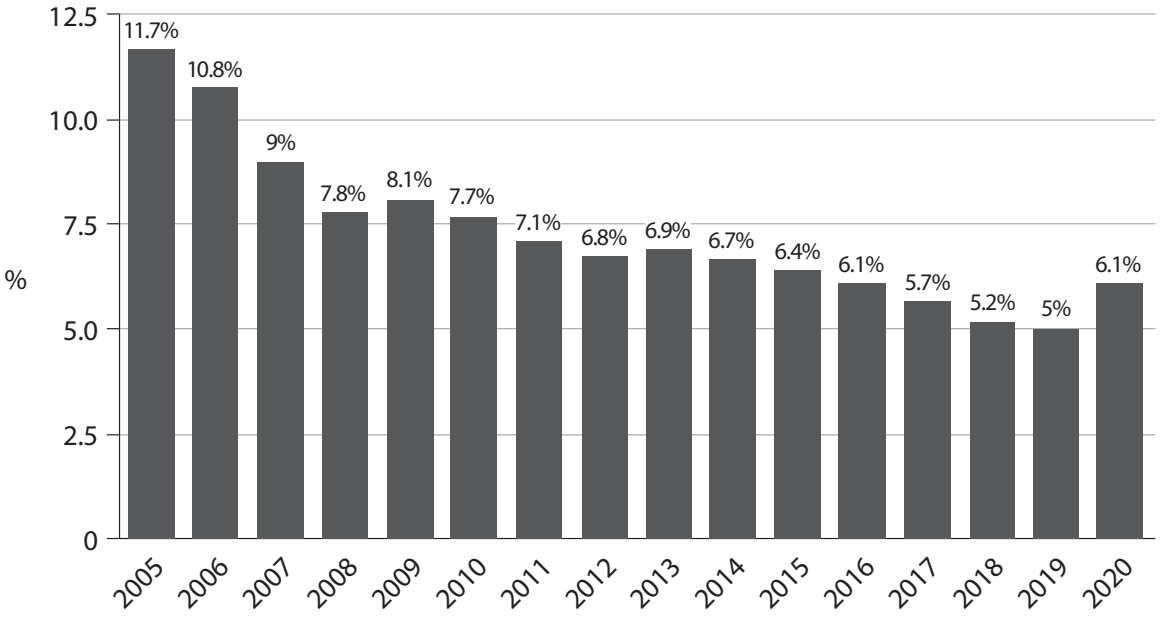
(Source adapted from: The Economist Nov 14th 2019)

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



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

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



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

Extract C

Why Germany keeps to budget rules despite a slowdown in growth

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

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

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

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

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

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

Extract D

Germany drops to number 7 in the Global Competitiveness Index

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

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

Q) 2 (e) Evaluate the microeconomic and macroeconomic impacts of 'a much more expansionary fiscal policy' (Extract C line 23) on the German economy.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

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).

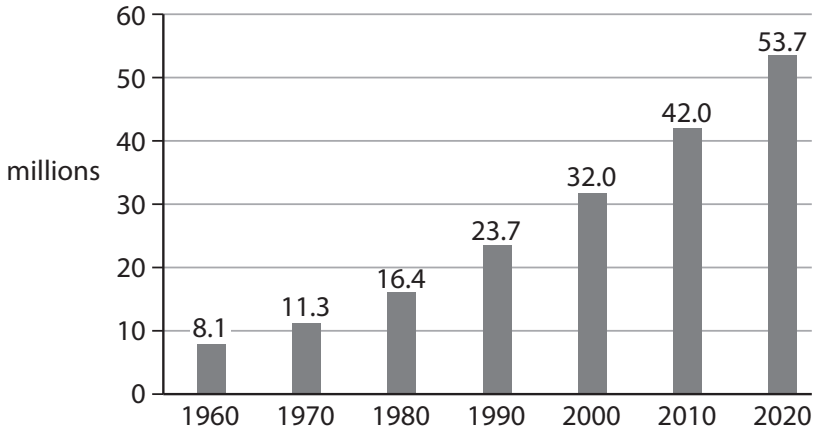
Write your answers in the spaces provided.

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.

(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.

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%.

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.

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.

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.

(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.

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.

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.

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.

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

Q) 2 (d) Evaluate the microeconomic and macroeconomic effects of decreasing interest rates in Kenya, or another developing country of your choice.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

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

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

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

The UK economy

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

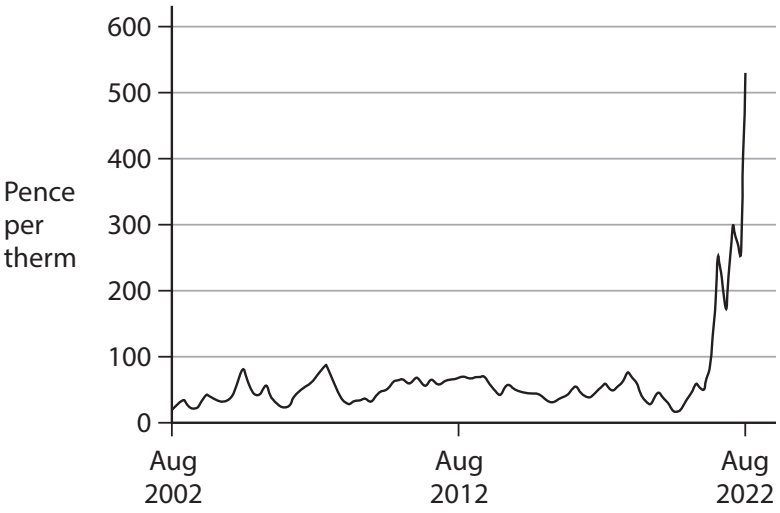
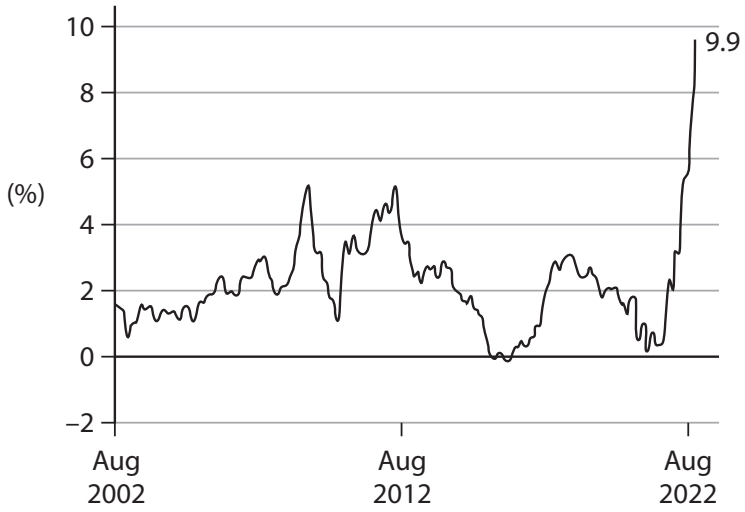


Figure 2: UK inflation, CPI, August 2002 to August 2022



Extract A

Fiscal policy changes in the UK, Autumn 2022

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

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

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

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

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

Extract B

Inequality to rise in the UK

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

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

Q) 1 (e) Evaluate the likely microeconomic and macroeconomic effect of tax cuts in the UK.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

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

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

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

Extract D

From a managed to a floating exchange rate

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

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

Extract E

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

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

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

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

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

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

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

Extract F

A new trade bloc for Africa

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

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

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

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

Q) 2 (d) Evaluate the microeconomic and macroeconomic effects of high interest rates in Ghana, or another developing country of your choice.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 2.6.3

SUPPLY-SIDE POLICIES

Sub-topic 2.6.3 · 18 questions · 313 marks · lowest tariff first

SECTION A

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

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

You are advised to spend 25 minutes on this section.

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

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

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

(1)

☒ **A** A decrease in the level of unemployment benefits

☒ **B** A decrease in the regulation of product markets

☒ **C** An increase in the provision of training programmes

☒ **D** An increase in the rate of corporation tax

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

SECTION A

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

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

You are advised to spend 25 minutes on this section.

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

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

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

(3)

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

SECTION A

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

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

You are advised to spend 25 minutes on this section.

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

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

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

(3)

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

(1)

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

(Total for Question 1 = 4 marks)

SECTION B

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

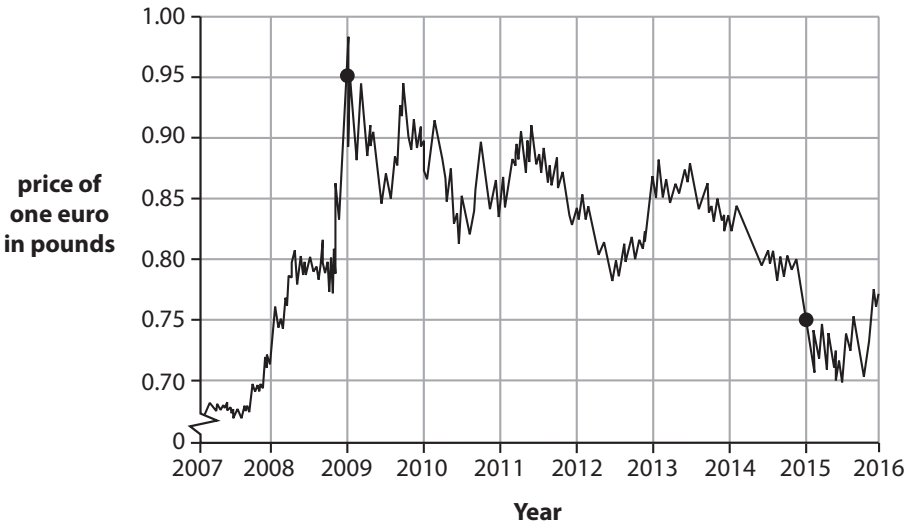
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

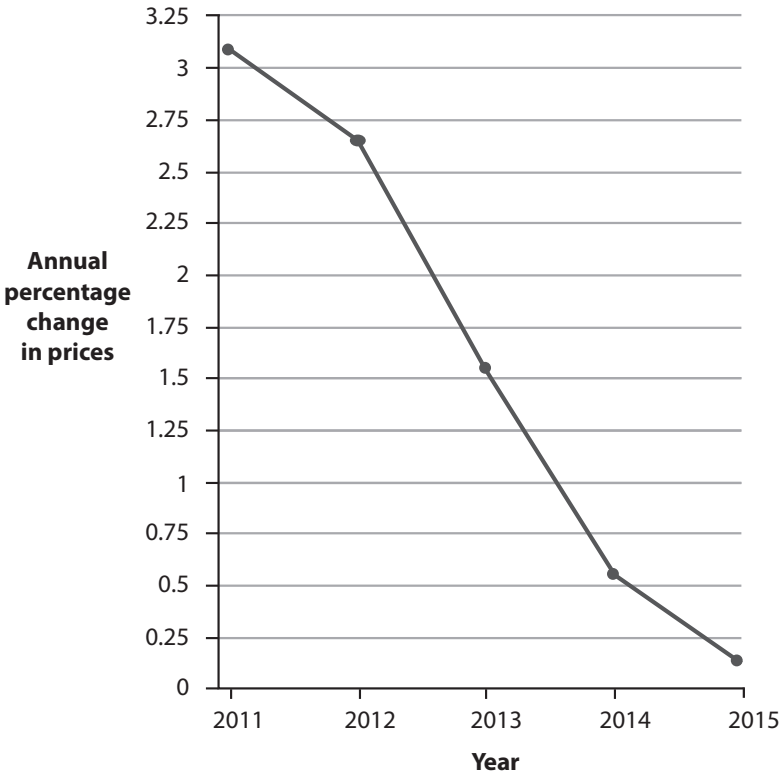
The Eurozone economy

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.

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

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

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

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

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

(e) Discuss 'looser fiscal policy' and 'supply-side reforms' (Extract A, lines 20 and 21) that may be used by governments of Eurozone countries to increase economic growth.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION B

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

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

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

Question 6

UK economic recovery

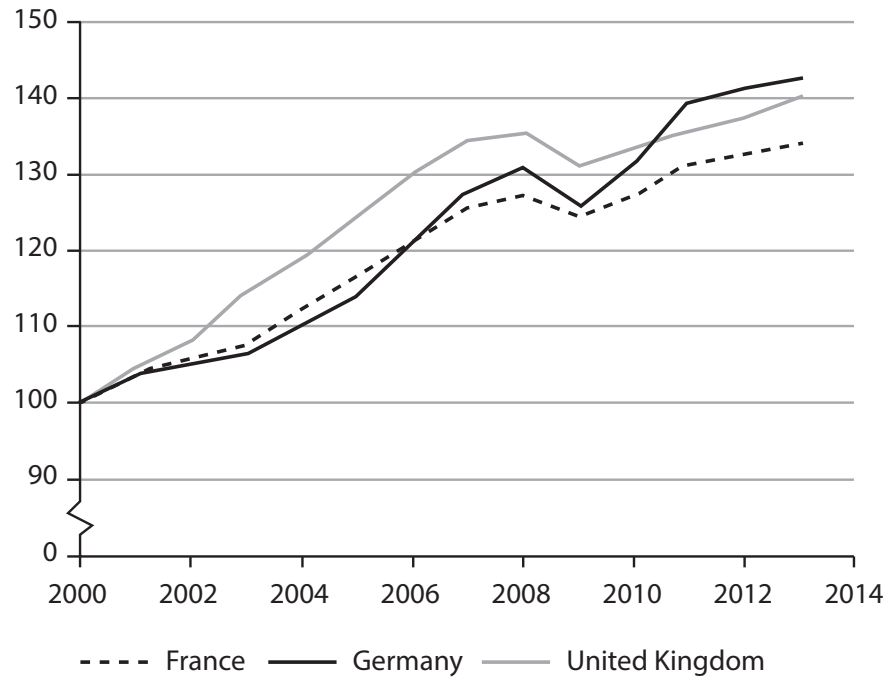
Figure 1: Components of aggregate demand in selected countries 2014

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

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

(Source: World Bank 2014)

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



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

Extract A

The UK economy – a strange recovery

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

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

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

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

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

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

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

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

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

(15)

SECTION B

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

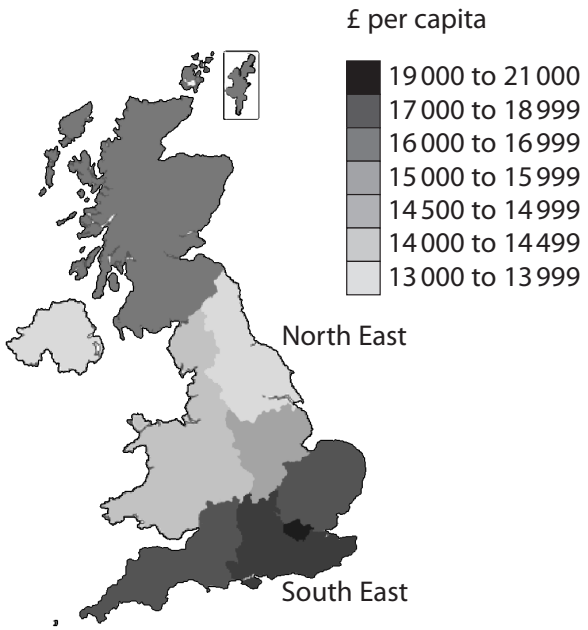
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK Government spending and inequality

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



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

Figure 2: UK subjective happiness by income, April 2021

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

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

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

Extract A

Regional inequality in the UK

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

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

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

Extract B

Public sector spending on infrastructure

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

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

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

Extract C

Options for UK tax rises in the future

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

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

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

(e) With reference to Extract B, discuss the benefits of an increase in infrastructure spending on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION B

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

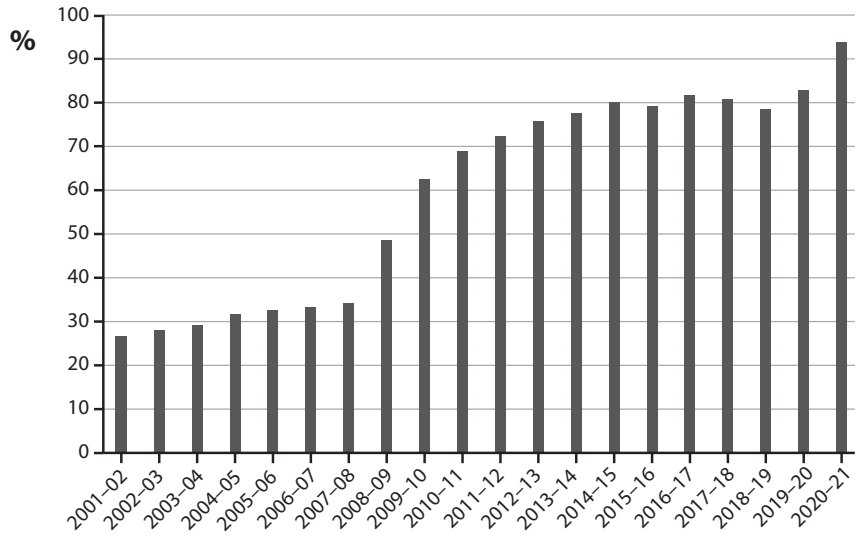
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

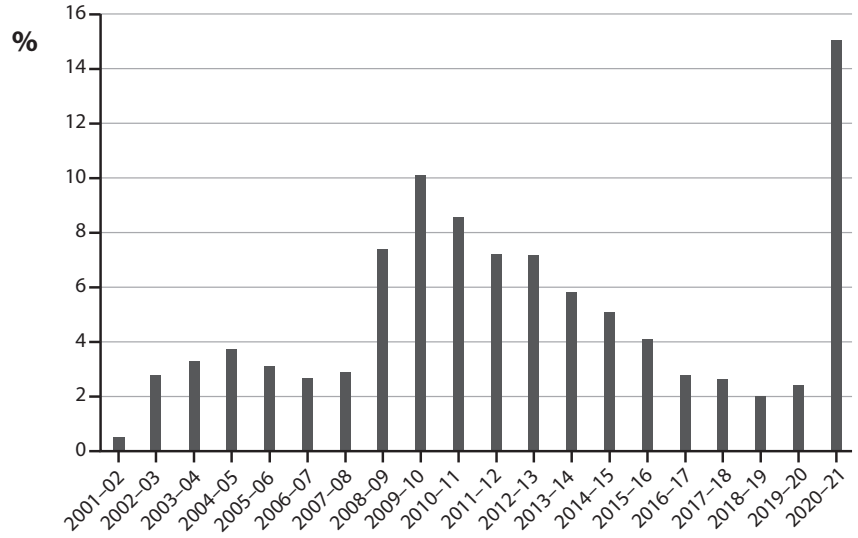
The UK Economy

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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



(Source: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/december2021)

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.

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.

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'.

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.

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.

(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)

(e) Discuss supply-side policies the UK government could introduce to stimulate economic growth.

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

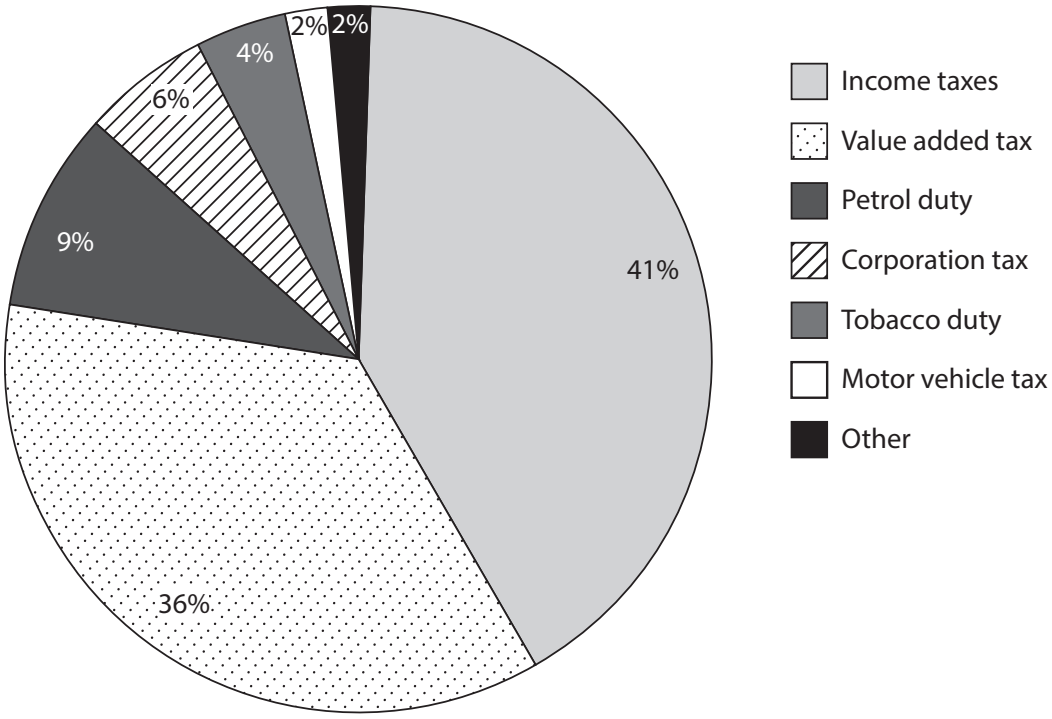
Sources for use with SECTION B

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

Question 6

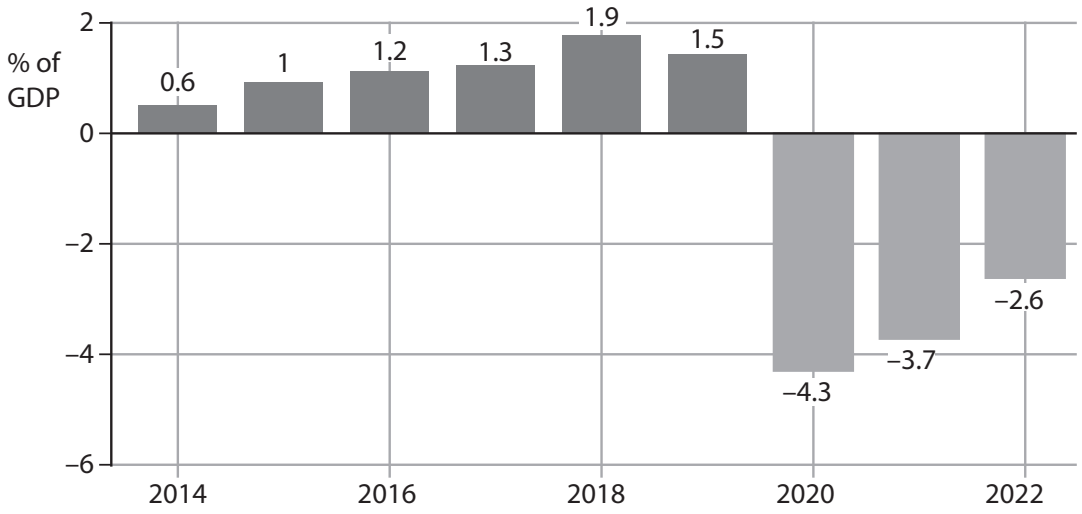
The German economy

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



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

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



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

Extract A

The opportunities and challenges facing the German economy

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

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

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

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

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

Extract B

US technology firm Intel invests in German semiconductor factories

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

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

(e) Discuss supply-side policies the German government could use 'to improve its economic performance' (Extract A, line 6).

(15)

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

SECTION B

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

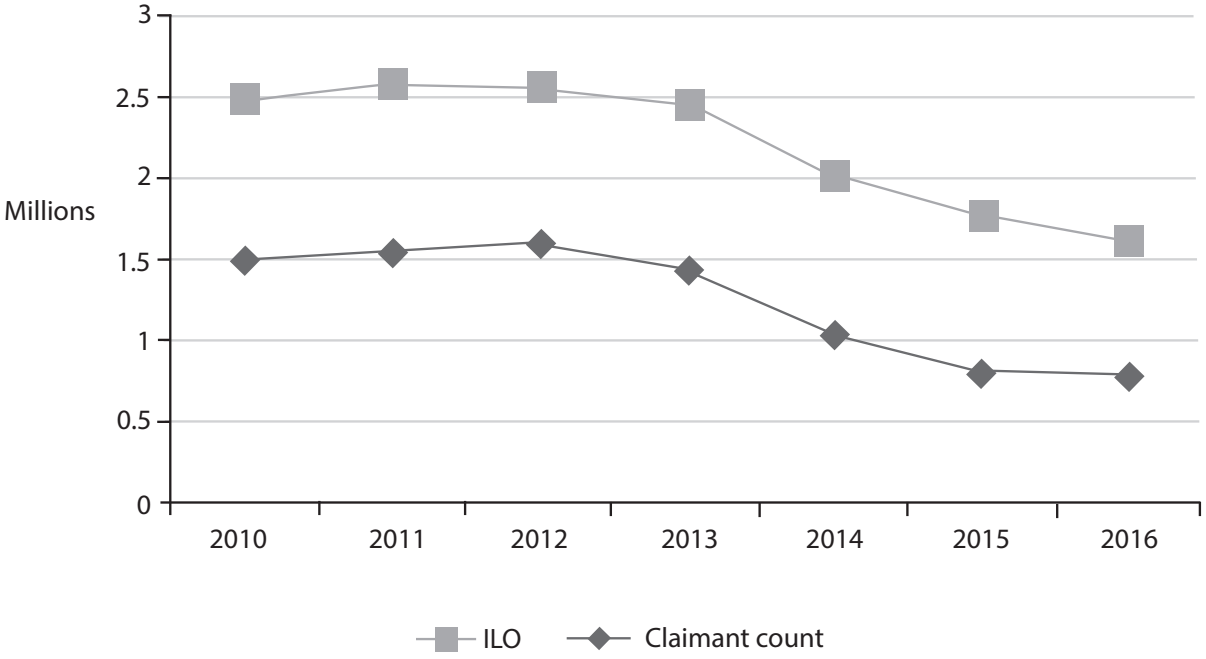
Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

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

Question 6

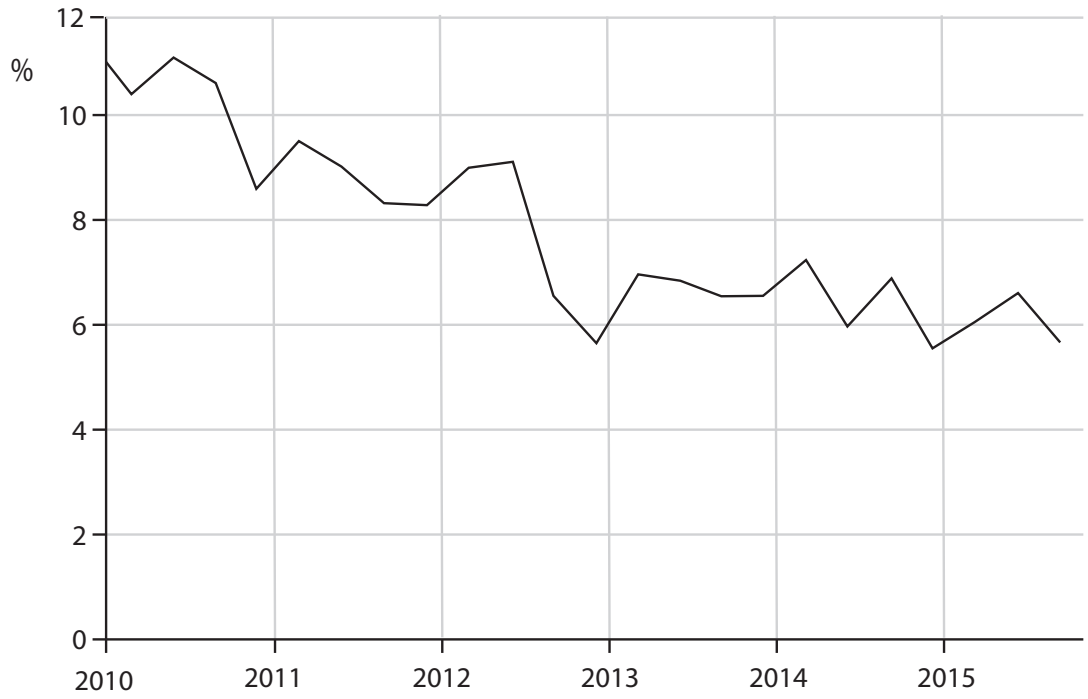
The UK economy

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



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

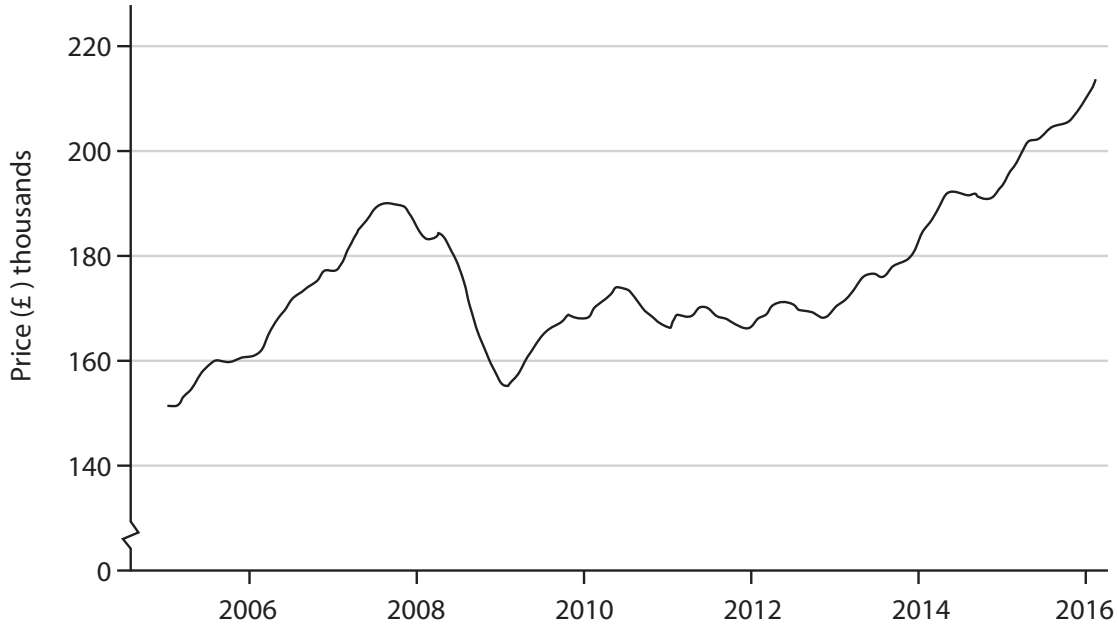
Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

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

Figure 3: UK average house prices, 2005–2016



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

Extract A

Soaring house prices

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

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

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

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

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

Extract B

UK migration trends in the year ending June 2016

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

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

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

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

Q) 6 (f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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

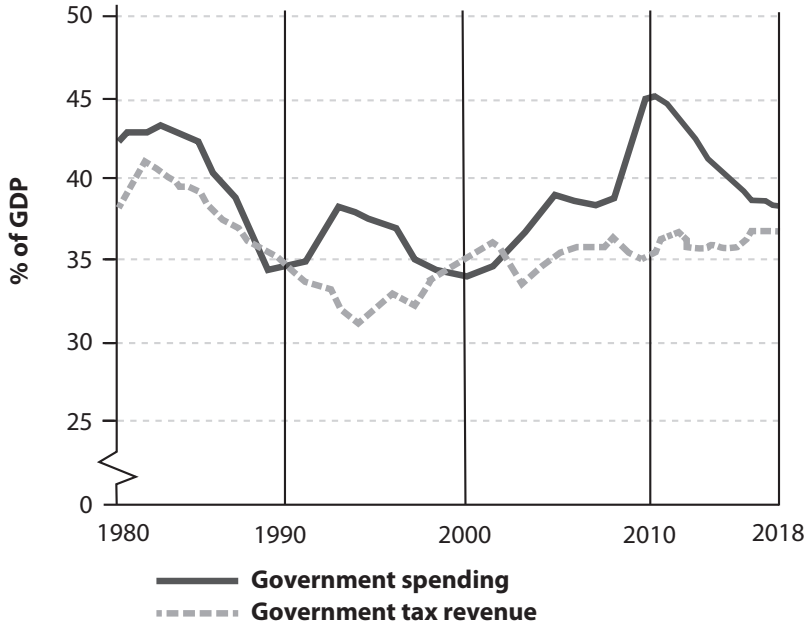
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

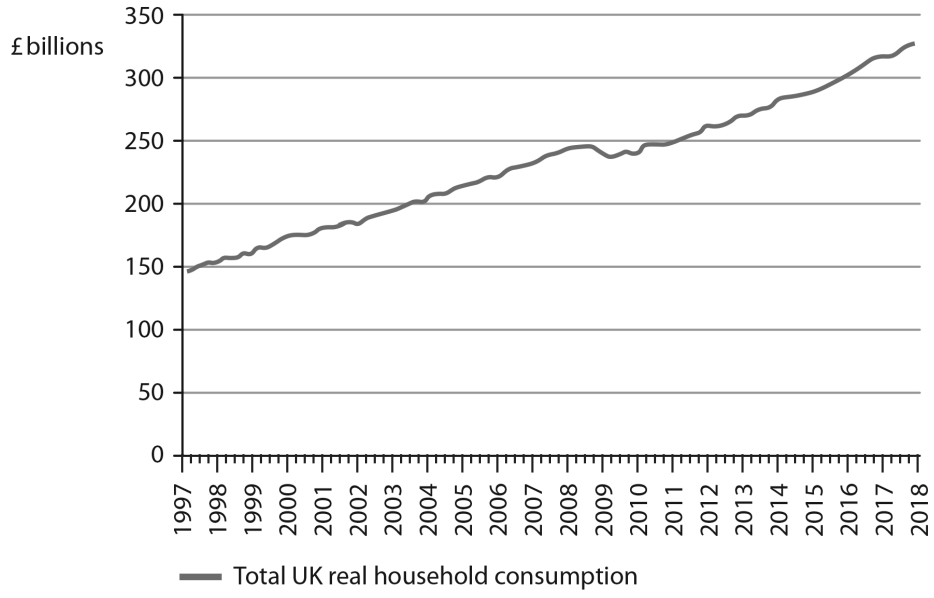
UK government budget and household consumption

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%.

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.

(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.

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.

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.

(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')

Q) 6 (f) Evaluate supply-side policies that could be used to increase the UK's rate of economic growth.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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

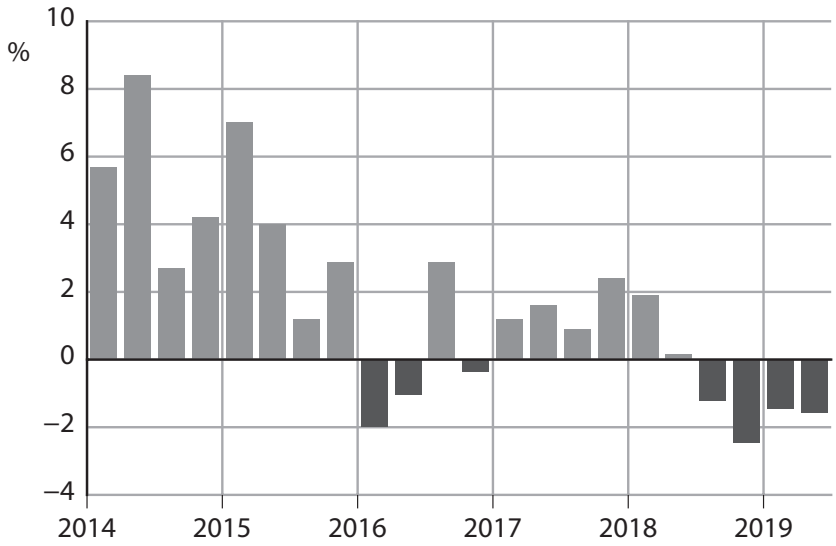
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

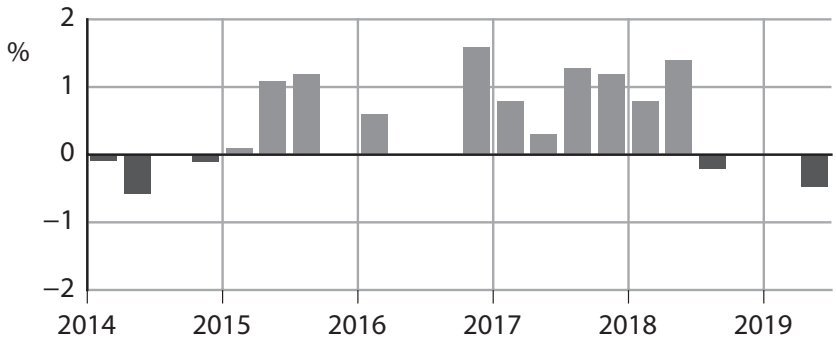
UK investment and productivity

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



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

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



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

Extract A

Another recession?

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

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

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

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

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

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

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

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

Q) 6 (g) Evaluate the supply-side policies the UK Government could use to increase the UK's productivity.

(20)

(Total for this part = 20 marks)

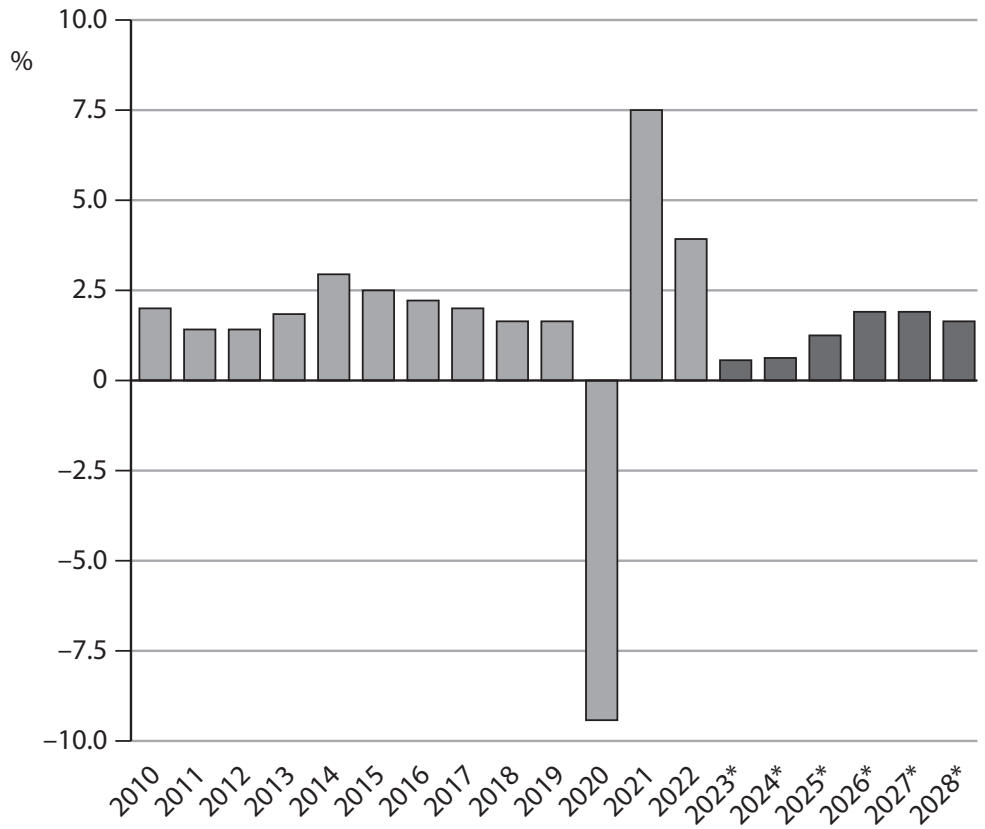
Continue on separate paper if required.

Sources for use with SECTION B

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

UK living standards and supply-side policies

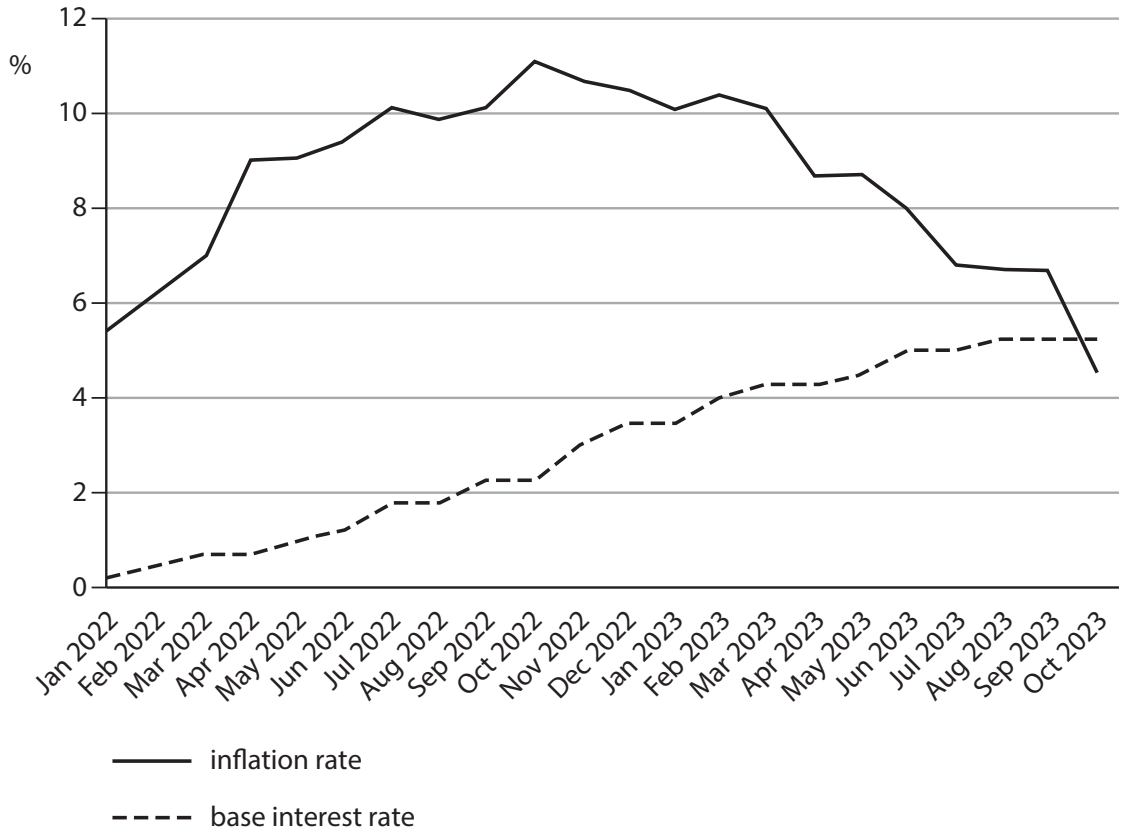
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

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

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



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

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

Extract A

Economic reforms

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

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

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

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

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

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

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

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

Q) 6 (g) Evaluate the use of market-based supply-side policies to increase UK employment.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION A

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

Answer ALL questions 1(a) to 1(c), and EITHER Question 1(d) or 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Chile

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



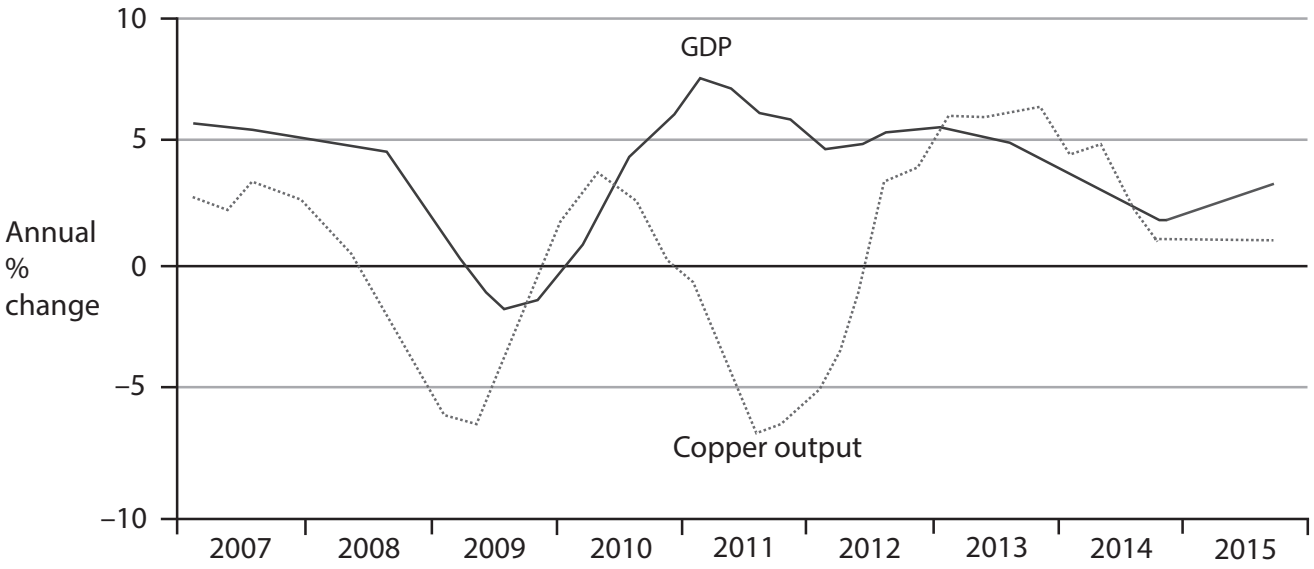
(Source: adapted from http://www.indexmundi.com/commodities/?commodity=copper&months=120)

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



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

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



(Source: adapted from FT.com sources below)

Extract A

Chile's economic outlook brightens

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

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

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

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

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

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

Extract B

Chile's copper mining on a downward track

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

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

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

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

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

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

Q) 1 (d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of policies that could be used to stimulate economic growth and development in Chile.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

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).

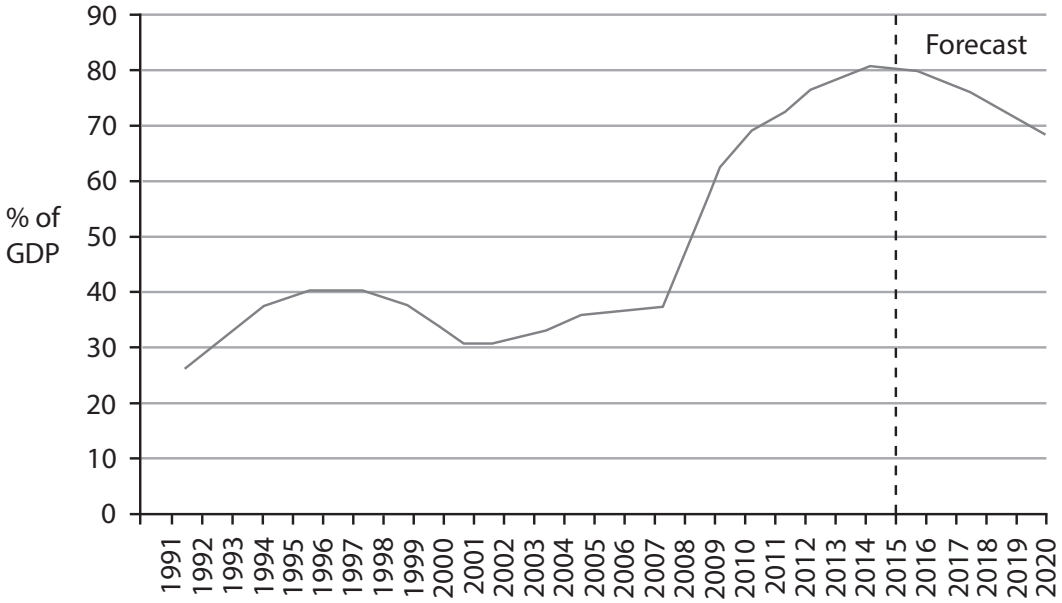
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

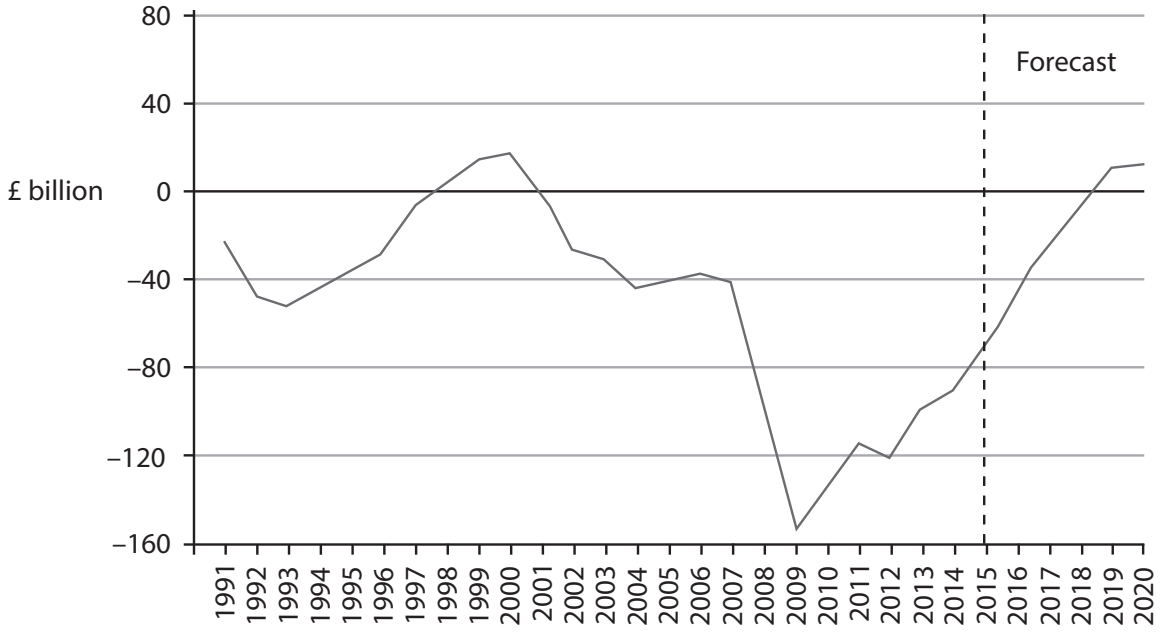
The UK economy

Figure 4: UK national debt as a percentage of GDP



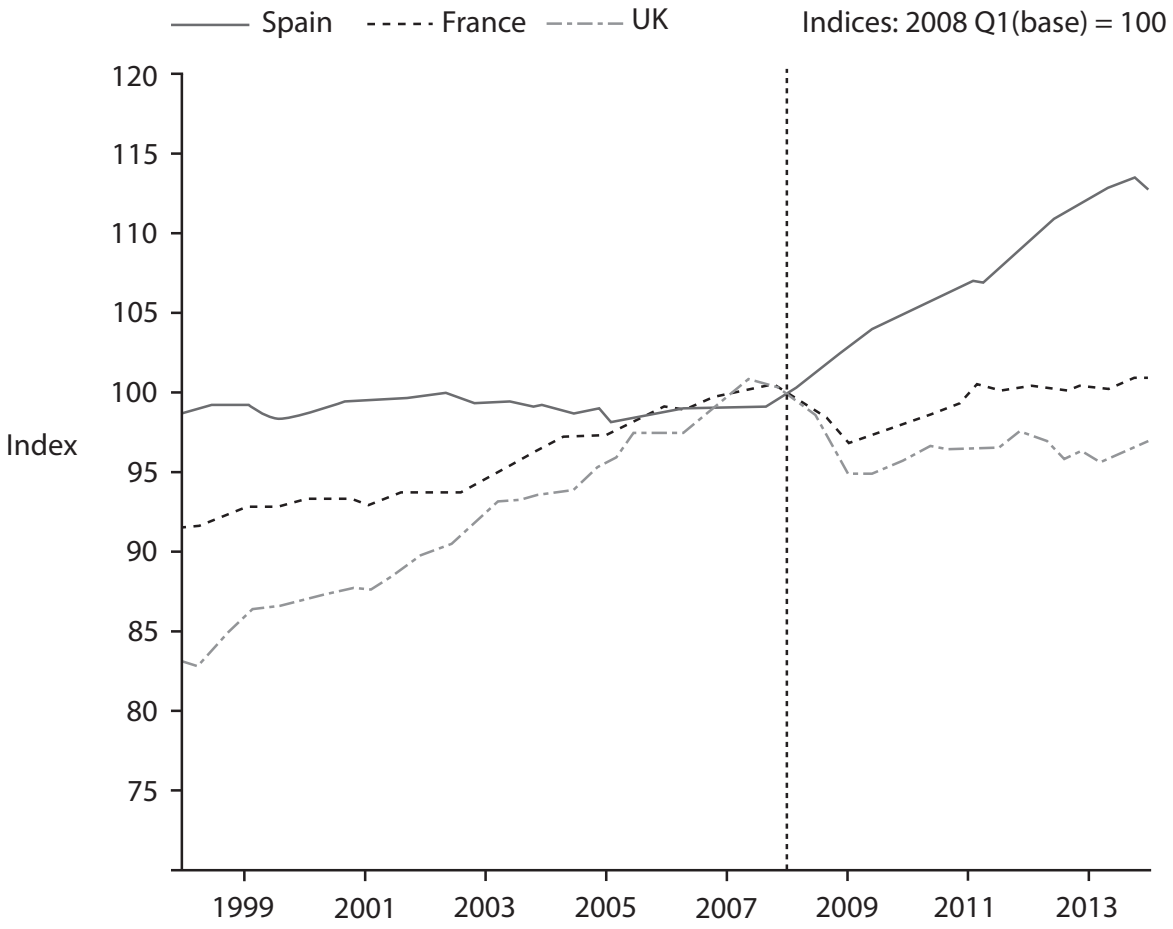
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

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.

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.

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.

(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'.

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.

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

Q) 2 (e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of a government policy of cutting public expenditure rather than raising taxes as a means of reducing a fiscal deficit.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

Q) 7 In 2016 the UK Chancellor of the Exchequer announced that the government would spend an extra £23 billion on innovation and infrastructure over the following five years. Evaluate the likely economic effects of this planned increase in government expenditure.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

Read Figures 4 and 5 and the following extracts (D and E) before answering Question 2.

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

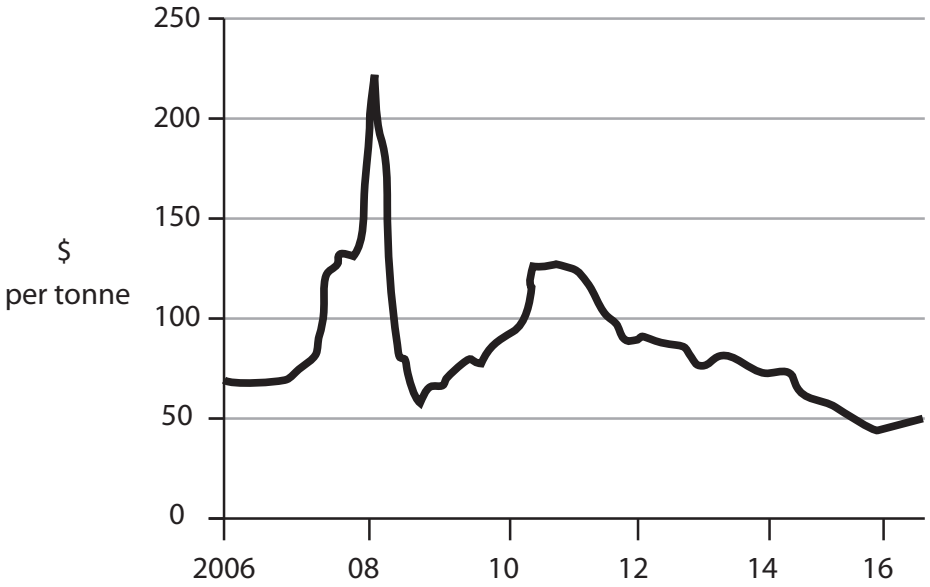
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

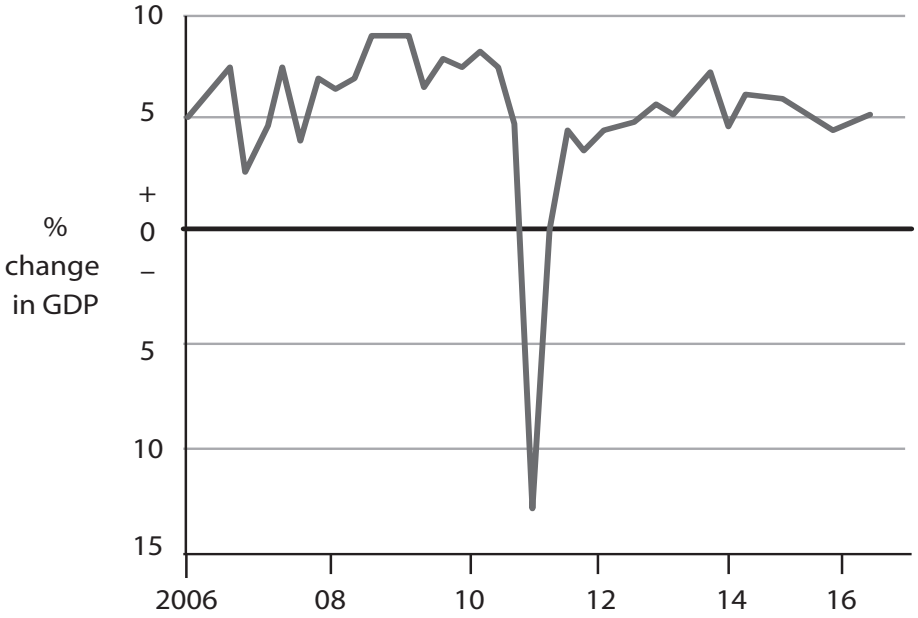
Indonesia

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: http://www.economist.com/news/world-week/21697025-business-week)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

Indonesia receives US$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US$14.37) a month. The World Bank has approved US$800 million in infrastructure loans to Indonesia, with another US$950 million as conditional loans. The Asian Development Bank has committed itself to lending US$2 billion. In December Japan's development agency lent Indonesia US$535 million to construct two power stations.

(Sources: adapted from http://country.eiu.com/Indonesia and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

Extract E

Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US$50 per tonne, against US$125 in 2011.

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly.

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP.

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields

were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

(Sources: adapted from http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out and http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last)

2 (a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

OR

(e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

Q) 2 (e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION A

Read Figure 1 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

Markets for food and drinks high in fat, salt or sugar (HFSS)

Figure 1: UK market share of potato crisps, 2017

Firm	Brand	Size	Market share of firm	Market share of product	Price (£)
Walkers	All Walkers		*55.3%*		
	of which: *Regular Standard*	35 g		28.1%	0.45
	Regular Max	50 g		7.4%	0.63
	Sensations	40 g		2.0%	0.59
	Doritos	40 g		4.7%	0.45
	Other			13.1%	
KP	KP	50 g	*22.7%*		0.52
Tayto	Golden Wonder		*4.2%*		
		<40g		3.1%	0.38
		40g+		1.1%	0.72
Other	Other		*17.8%*		

(Source: adapted from https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food 6 April 2017)

Extract A

The effects of a total ban on advertising of HFSS foods

Food and drinks which are high in fat, salt or sugar (HFSS) tend to be sold in highly concentrated markets. Tough new rules banning advertisements for HFSS products, such as those for confectionery, fizzy drinks and potato crisps, come into effect in July 2017 as a means to reduce consumption. The rules apply to media targeted at under-16s and will mean a major reduction in the number of advertisements children see for HFSS products in posters near schools, in films targeted at children, on catch-up television and in social media if it is directed at children.

There are three main factors that will determine the effectiveness of the intervention: first, whether advertising acts to expand the market share or steal rivals' market share. Secondly, how firms in the market adapt their behaviour in response to the ban. Thirdly, what substitute products do consumers turn to if they opted out of the targeted market.

Results from a recent survey in the UK suggest that the total quantity of crisps sold would fall by around 15% in the presence of an advertising ban, or by 10% if firms respond with price cuts, since the ban acts to make the market more competitive and firms respond to the ban by, on average, lowering their prices.

The survey showed that following a ban, consumers are more likely to switch to another junk food than to a healthy food, which (in addition to the pricing response of firms) acts to partially offset any health gains from the policy.

(Source: adapted from The Effects of Banning Advertising in Junk Food Markets, Dubois, Pierre; Griffith, Rachel, Review of Economic Studies Copyright © 2017, Oxford University Press https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food 6 April 2017 and https://www.asa.org.uk/news/tougher-new-food-and-drink-rules-come-into-effect-in-children-s-media.html 30 June 2017)

Extract B

Taxing HFSS foods and subsidising healthy eating widens inequality

Since low-income groups spend a higher proportion of their income on food and tend to eat less healthily, they are the main targets of taxes on products that are high in fat, salt or sugar (HFSS). Subsidies on healthy food are seen as an alternative policy approach to encourage healthy eating. While data on the impact of such policies are scarce, a recent study on the distributional impacts of HFSS taxes and healthy food subsidies found that these actually widened health and fiscal inequalities. The policies tend to be regressive and favour higher-income consumers. Taxes on unhealthy food increase prices which have a greater impact on low income groups rather than higher income groups. Lower income groups prefer to buy HFSS food.

Subsidies encouraged all income groups to buy more fruit and vegetables. However, those on higher incomes proved more responsive and the average share of budget spent on healthy food actually increased for the higher income groups who were more likely to buy the subsidised healthy food and then spend the savings they had enjoyed on yet more healthy food. The diets of the higher income groups before the subsidy tended to be healthier. The choices of the higher income groups are more responsive to price changes. By contrast, lower income groups, if they responded to lower prices, often used the money saved to buy unhealthy items or something else entirely. The long-term benefits of a healthier diet are harder to grasp for consumers when information gaps exist. Often the immediate boost of a tasty treat is more appealing. Taxes and subsidies do not change that. Other strategies are needed to promote healthy eating, especially education.

(Source: adapted from Economist 5 October 2017 https://www.economist.com/news/finance-and-economics/21730033-study-suggests-lower-income-families-end-up-paying-more-their-food-taxing-fat and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3031005 The Economic Journal September 2017 Vol 127 Issue 604)

Extract C

Tax on fatty foods in Denmark is an economic disaster

Denmark introduced a specific tax on saturated fat in October 2011. Recognised as a world-leading public health policy, it was abandoned just 15 months later having been both an economic and political disaster.

Indirect taxes of this sort are invariably regressive, disproportionately affecting the elderly and the poor. The specific tax led to prices rising on average 15% for highest-fat products, yielding a total decrease of 5% in the intake of saturated fat from products such as minced beef and cream. 80% of Danish consumers did not change their shopping habits at all. The behavioural change was economically damaging as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping. Danish tax revenue fell as a result.

(Source: adapted from https://iea.org.uk/in-the-media/press-release/evidence-shows-a-fat-tax-would-hit-poorest-the-hardest 25 May 2013 and https://www.cambridge.org/core/journals/public-health-nutrition/article/effects-of-the-danish-saturated-fat-tax-on-the-demand-for-meat-and-dairy-products/984CF03634C819D50E66C7B5DC5209DA/core-reader)

Q) 1 (d) Evaluate the microeconomic and macroeconomic effects of increased government spending on education to promote healthy eating in the UK.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SECTION B

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

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

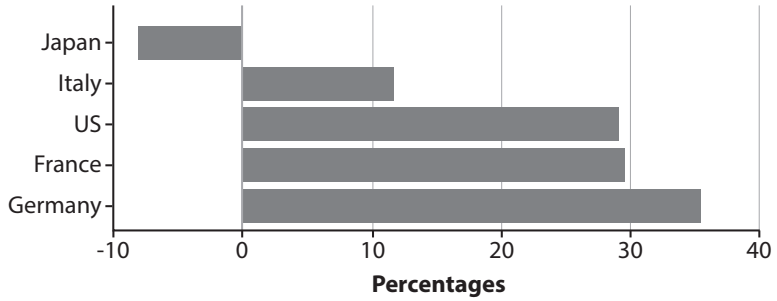
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

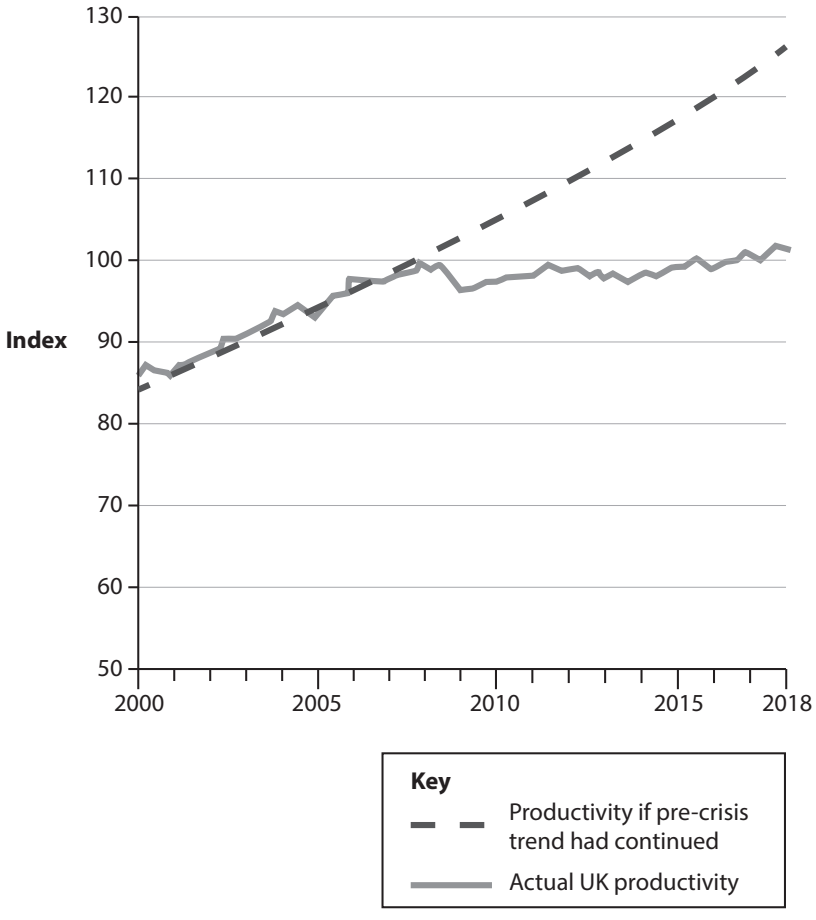
The UK economy

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



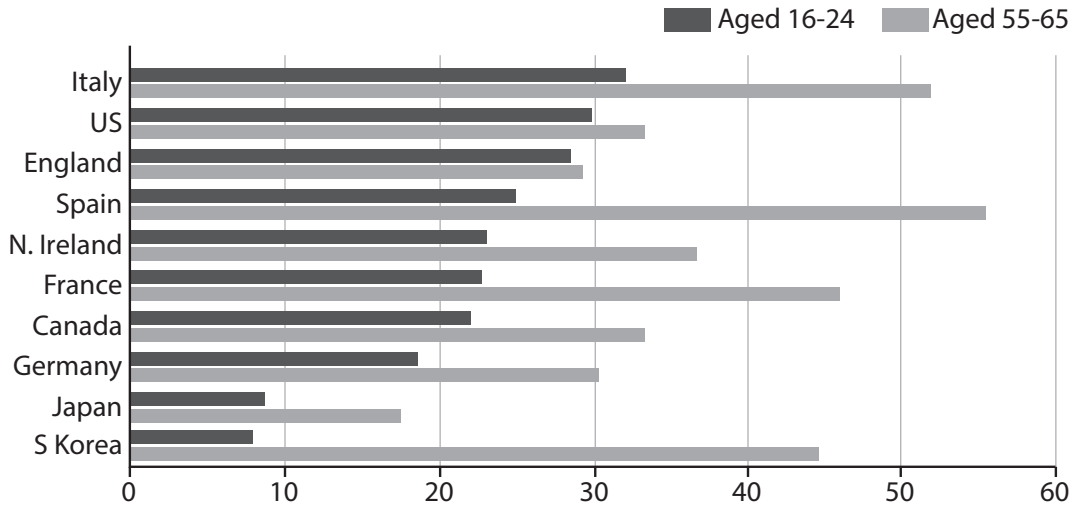
(Source adapted from: ONS.gov.uk)

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



(Source adapted from: ONS.gov.uk)

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



(Source adapted from: OECD.org)

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

Extract D

The end of the High Street?

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

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

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

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

Q) 2 (d) Evaluate possible microeconomic and macroeconomic policies which could be used to improve UK competitiveness.

(25)

(Total for this part = 25 marks)

Continue on separate paper if required.

SUB-TOPIC 2.6.4

CONFLICTS AND TRADE-OFFS

Sub-topic 2.6.4 · 3 questions · 52 marks · lowest tariff first

SECTION B

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

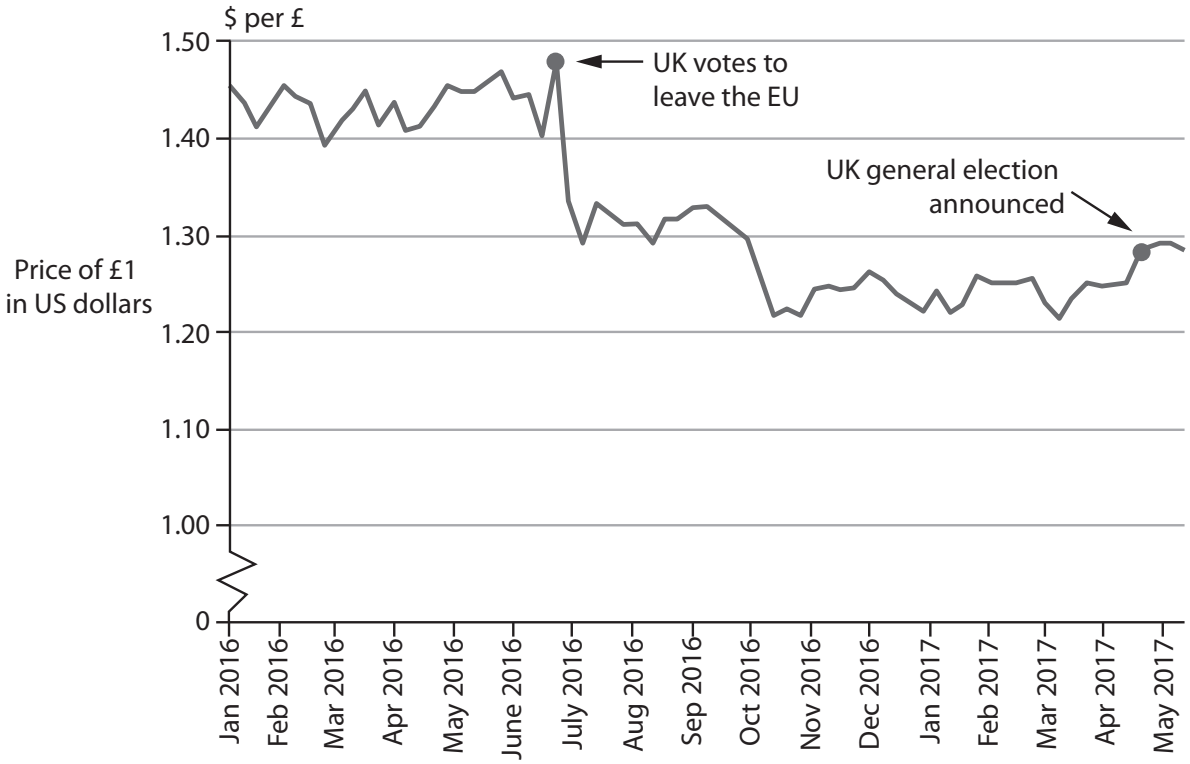
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The UK economy since the financial crisis

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



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

Extract A

UK companies use forward currency market

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

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

Extract B

Bank of England seeking to prevent future bank bailouts

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

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

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

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

Extract C

Bank of England tells lenders to increase capital reserves

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

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

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

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

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

(5)

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

(8)

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

(10)

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

(12)

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

(15)

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

(12)

SECTION B

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

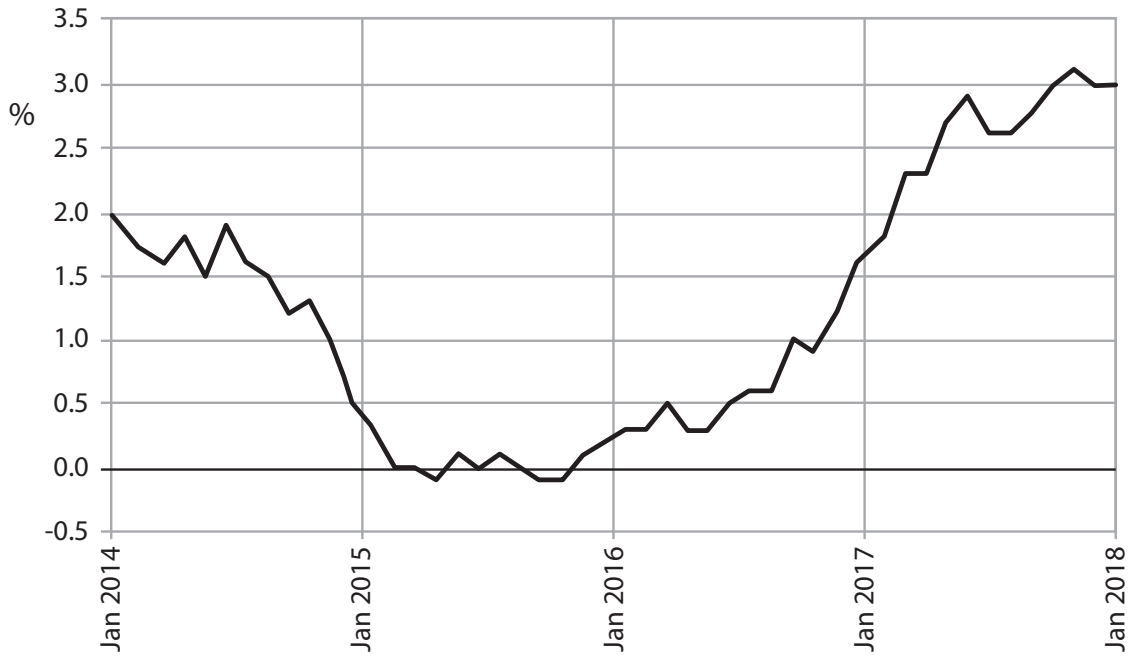
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

UK inflation and economic growth

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



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

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

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

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

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



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

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

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

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

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

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

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

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

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

Extract B

Economic growth and living standards

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

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

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

Q) 6 (g) Evaluate the potential conflicts between the objective of economic growth and two other UK macroeconomic objectives.

(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

SECTION B

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

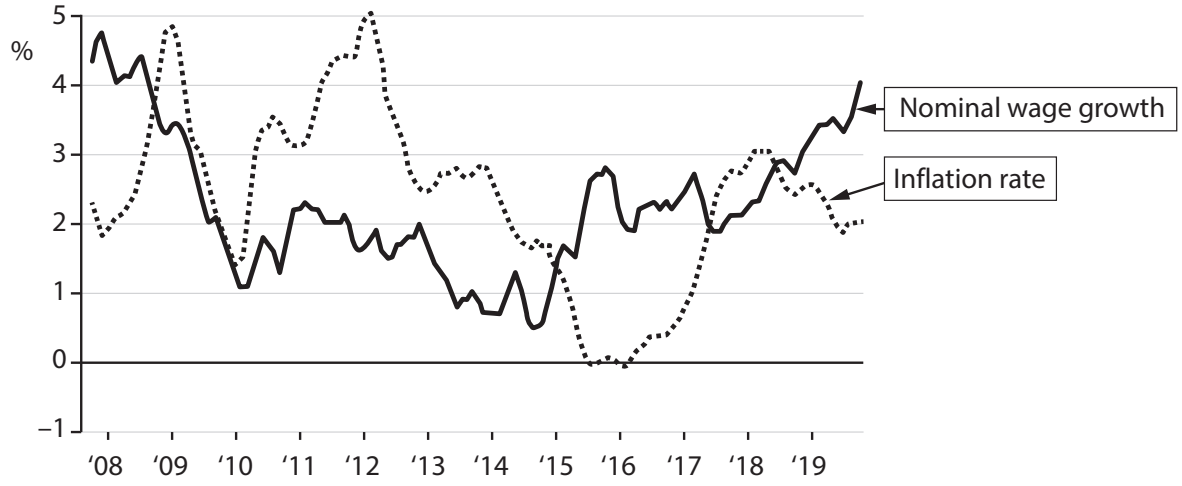
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

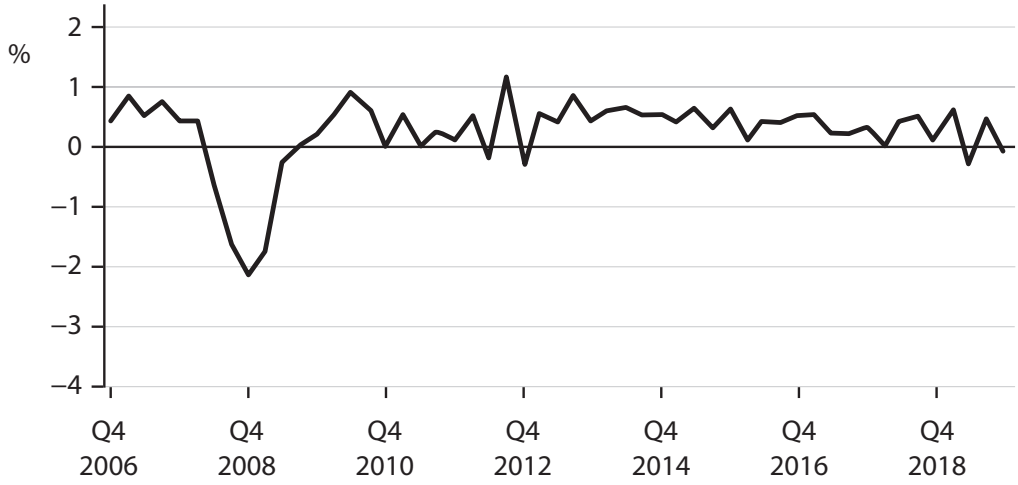
UK monetary policy since the Global Financial Crisis of 2008

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



(Source: adapted from ONS)

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



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

Extract A

Has monetary policy worked?

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

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

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

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

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

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

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

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

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

Q) 6 (f) Evaluate whether expansionary demand-side policies lead to conflicts between macroeconomic objectives.

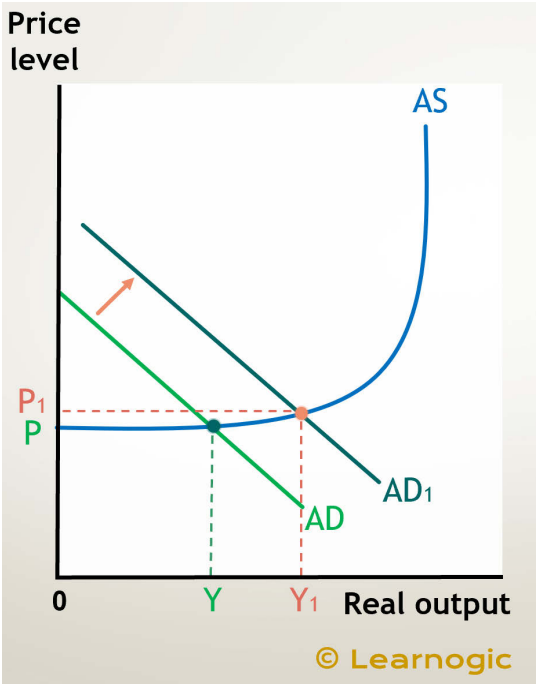
(20)

(Total for this part = 20 marks)

Continue on separate paper if required.

MARK SCHEMES

official mark schemes

Question Number	Answer	Mark
4(a)	**Application 2** **Application** 2 marks for, e.g. • Correct rightward shift in AD: (1) • Correct new equilibrium point showing higher price level and higher real output (1)  NB Allow shift in AS curve to the right with lower price level and higher real output (1 + 1)	**(2)**

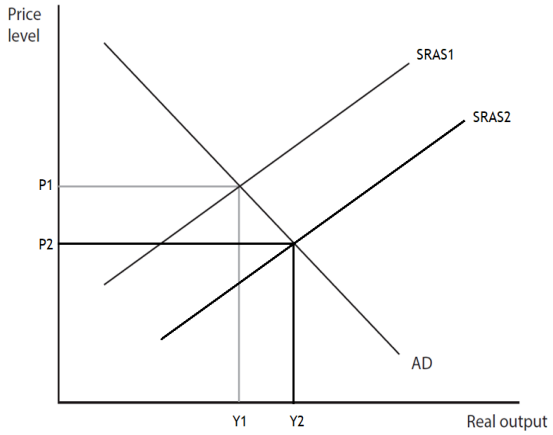
Question Number	Answer	Mark
4(b)	**Knowledge 1** **Knowledge/understanding** 1 mark for, e.g. • Tax on **income / earnings** (1) • Tax on business **profits** (1)	**(1)**

Question Number	Answer	Mark
4(c)	**C**	**(1)**

Question Number	Answer	Mark
5(a)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for identifying a reason e.g. • Falling unemployment (1) • Rising incomes / economic growth (1) • Lower inflation rates (1) **Application** 1 mark for identifying an **improvement** in consumer confidence (1) or other single use of figures from the chart e.g. a low of -25 in 2012 (1) **Analysis** 1 mark for linked development of reason (1) e.g. economic growth leads to more predictable job security	**(3)**

Question Number	Answer	Mark
5(b)	D	**(1)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Tax on expenditure/spending on goods and services • Tax on a product/good or service **(1)**	**(1)**

Question Number	Answer	Mark
4(b)	**Application 2** **Application:** 2 marks for, • Correct rightward shift of short-run AS **(1)** • Correct new equilibrium point showing lower price level and higher real output **(1)**  **NB: Accept AD shifting to the right with higher price level and higher real output**	**(2)**

Question Number	Answer	Mark
4(c)	**The only correct answer is D** **A** is not correct because this is an example of a direct tax **C** is not correct because this is an example of a direct tax **D** is not correct because this is an example of a direct tax	**(1)**

Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** 3 marks. Points might include: • Explanation that national debt is the accumulation of pas fiscal deficits (may be implicit) • National debt interest payments have an opportunity cost in terms of current spending • It may be harder to raise borrowing in the future • In case of a debt crisis, it might be impossible to raise new credit • Also could argue that increased debt worsens the fiscal deficit through debt repayments • 'Jam today not jam tomorrow' or similar idea that it's today's benefits paid for in the future **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • Reference to data in Figure 2 e.g. ratio falls (1) to 60% in 2019 (1) • Fig 2: debt is falling as a percentage of GDP which is either because there is a fiscal surplus (Fig 1) or because there is economic growth (Fig 3) • Use of other data, e.g. to keep surplus, 1.9% Fig 1 or Ext C • Want to stay the largest economy in the EU. Data from any of the sources can be credited, if relevant, not just Figure 2. • Maintain independence by not having to borrow	**(5)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of two factors (1+1), e.g. • falling oil prices • falling commodity prices • changing relative exchange rates • government fiscal tightening • low consumer or business confidence • increase in savings **Analysis:** 2 marks for linked explanation of how these explain the fall in Eurozone inflation (1+1), e.g. • Falling oil prices in the world economy reduce key costs of production such as transportation, reducing prices of many products in the economy **Application:** 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • From figure 2, Eurozone inflation 0.1% in 2015 (1) • ECB predicts Eurozone inflation to rise 'by just 1 per cent in 2016' (extract A) (1) • Figure 2 shows disinflation occurring (1) • Inflation fell from just over 3% in 2011 (1) to less than 0.25% in 2015 (1) **Evaluation:** 2 marks for evaluation (1+1 / 2) • Inflation likely to rise in the future, with ECB expecting 1.6% in 2017 • Oil prices are very volatile and could easily rise rapidly due to world events such as instability in the Middle East • Rising GDP in the Eurozone may mean more demand-pull inflation in the future • Depends on extent of fiscal tightening by government • Oil prices a significant cost of production for businesses	**(8)**

	Evaluation: 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment (1+1 or 2+0), e.g. • If government spends extra tax revenue (1) then that could create more employment (1) • Stealth tax? (1) • Depends on changes in other taxes/government spending that may offset higher income tax (1) • Inflation is expected to fall in 2023 so wages may rise more slowly in the future (1), limiting impact of freeze in tax bands (1) • Impact on economic growth depends on where the AD lies on Keynesian LRAS/level of spare capacity (1) • Depends on changes in other components of AD (1) • Time lags: Short run v long run considerations (1) • Consumers may not reduce consumption if they choose to save less instead (1) • Top income households disposable income does fall (1) • Depends on value of multiplier (1) • Impact on tax revenue may not be as expected (1) e.g. Laffer Curve (1) / possible tax avoidance (1)	**(8)**

Question Number	Indicative Content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** Fiscal deficit **is** a cause for concern: • Government will have to borrow more money to finance the fiscal deficit • Will increase the size of the national debt • Reduce government's ability to spend in the future • Can be inflationary • Risk of being unable to borrow in future / lose trust / credit default National debt **is** a cause for concern: • Result in crowding out – resource and/or financial • Opportunity cost of interest payments on the debt • Reliance on willingness of borrowers to keep lending to the government (reference to credit rating) • May reduce business confidence in the UK economy • May result in the depreciation of the currency, making imports relatively more expensive • Could lead to future tax rises and spending cuts • Could result in a default on the debt, and need for IMF assistance • Intergenerational conflict **NB For Level 3, candidates need to make reference to both fiscal deficit AND national debt** **NB For Level 3, must refer to the UK government e.g. use of Figs 1 or 2 or 3 or own knowledge** **NB Some causes for concern can be applied to both e.g. intergenerational inequity** **NB KAA and EV can be flipped**	**(6)**

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

Question Number	Indicative Content	Mark
6(c) continued	**Evaluation 4** • Depends on size of fiscal deficit/national debt compared to total GDP • Fiscal deficit may be necessary to support the UK economy during a recession • Borrowing to fund government spending to boost economy e.g. education, infrastructure should pay for itself through higher tax revenue in the future • Could result in 'crowding in' • Depends on size of service charges/interest rates • Level of debt as % of GDP has been higher in the past, and is higher in some other countries • Effects of recent fiscal drag will lessen impact in future • Depends if cyclical or structural deficit • Not a cause for concern if protecting the country in a crisis, e.g. GHC / conflict	**(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(d)	**Knowledge 2, Application 2, Analysis 4** Methods might include e.g.: Either from Extract C: • Increasing tax on houses: Housing is a large part of the UK economy and many people may feel this is in need of an update to reflect changing house prices since 1991. This could also provide a good opportunity to increase overall revenue from the tax • A one-off wealth tax: This would raise a very large amount of money, £260 billion, and would focus on those with the most wealth. Only one-off so shouldn't have any long-term impacts • Increasing corporation tax: The UK has a very low rate of corporation tax, so it would make sense to raise it without risking too many firms leaving the UK whilst still raising extra revenue yearly going forward- e.g. £17.2 billion in 2025-26 Or other possible methods e.g.: • Cutting corporation tax to incentivise firms to increase investments in UK/attract FDI leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. • Cutting income tax to incentivise workers to work harder/less incentive to avoid tax leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. **NB:** **To achieve level 3 at least one reference must be made to Extract C somewhere in the whole answer**	**(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.

Question Number	Indicative Content	Mark
6(d) continued	**Evaluation 4** • Higher tax rates may not lead to higher revenue, perhaps with reference to Laffer curve/tax evasion/tax avoidance/disincentive effect • Updating tax on houses could see some people experiencing a significant rise in the tax they have to pay which may be unaffordable for them • A one-off tax won't help generate tax revenue long-term • Increase in regressive taxes could worsen inequality • Disincentive to invest having a long term impact on LRAS	**(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(g)	**Knowledge 4, Application 4, Analysis 6,** • Implicit or explicit identification of the various UK's macroeconomic objectives • Understanding of inflation • May reduce growth owing to costs of inflation • Reduction in purchasing power and real incomes • Equality e.g. effect on those who have fixed incomes (are not protected by inflation) who are often the poorest • May make the national debt smaller in real terms making it cheaper to finance and pay back • Reduction in competitiveness of British goods which worsens the current account of the balance of payments deficit and reduces international competitiveness • Unemployment may rise through increased levels of inefficiency and stagflation / using a Phillips curve • Higher inflation associated with increasing AD may have detrimental impact on environment • Possible beneficial effect on the environment as economic growth slows • Loss of both business and consumer confidence • The self-reinforcing effect on inflation through expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes **NB KAA can be awarded for positive impacts on the objectives and evaluation as the negative impacts or vice versa**	**(14)**

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

Question Number	Indicative content	Mark
6(g) continued	**Evaluation 6** • Depends on the cause, (e.g. cost push or demand pull) duration and magnitude of inflation – may be discussed in recent context of the UK / using AD AS diagram • Inflation might not translate through to higher wages and unemployment if the workforce has little power • If growth is low, slightly higher inflation is worth the risk to avoid deflation or depression • Impact depends on the relative inflation rates • Impact of high inflation might depend on policy response - interest rates may have to be raised • Other factors may have a larger effect: exchange rates or other macro objectives (ceteris paribus) • Possible beneficial effect on the environment	**(6)**

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

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **This mark scheme is based on a decrease in competitiveness, but answer can be given from the point of view of an *increase*** Microeconomic influences may include: • Productivity – physical and human e.g. use of Figure 6 to show worsening of UK international competitiveness • Unit labour costs – in terms of relative wages • Market structure, e.g. low level of competition between firms • Effectiveness of competition policy • Non-price factors e.g. quality • Labour market factors e.g. strength of trade unions, national minimum wage, labour market regulation, • Taxes and subsidies on firms can be seen as micro or macro • Regulation e.g. green taxes and other environmental policies Macroeconomic influences may include: • Physical and human capital • Level of inflation • Level of indirect taxation, including tax on labour, corporation tax • Real exchange rates • Infrastructure • Supply side policies, including protectionism if explicitly linked to competitiveness • Comparative advantage • Membership of trading blocs • Levels of protectionism/tariff barriers Possible evaluation points include: • Degree to which the factor influences competitiveness e.g. ULCs more significant in countries where production has a strong manufacturing base • There may be a discussion of the degree to which wages influence competitiveness • Use of other countries in data e.g. to observe conflicting evidence • Difficulties in measuring productivity or competitiveness, productivity puzzle • Diagram might be used to show different labour market supply and demand and elasticities • Data might be used to make observations, e.g. that Germany is very competitive but has higher wages. • Relative significance of price vs non-price factors • Problems of being competitive in non-tradables, e.g. many services are hard to trade **NB do not award effects unless linked to further changes in competitiveness**	**(25)**

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

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

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of depreciation may include: • higher cost of imports of food and therefore higher cost of production for hospitality sector • lower profits for firms in hospitality • higher prices of food for consumers • consumers have lower standards of living if they are on fixed incomes/ • falling real incomes so demand for restaurant meals and food delivery services might shift left • workers have higher incomes if working in exporting firms in other industries, so might use more delivery services • restaurants might begin to use more locally produced food Macroeconomic effects of depreciation may include: • capital in-flows, e.g. benefits to multinational firms such as Just Eat for investment in the US using other currencies/ AD and/or LRAS shift out • cost push inflation/SRAS shifts in • more injections and fewer withdrawals leading to rise in AD and multiplier effect • increased employment • incentive to use transfer pricing • UK tourism might be boosted by depreciation which would improve local restaurants **NB for a Level 4 response there must be micro and macro effects and use of data with reference to restaurants or other food delivery services. Higher costs, changes in competitiveness, environmental changes could be seen as micro or macro, for example, can be used as either micro or macroeconomics.** **NB Effects in KAA could be used as evaluation and vice-versa.**	**(25)**

	9 marks for evaluation – points might include: • depends on the nature of the restaurant. Some try to use locally sourced ingredients • the pound has recovered significantly since 2016 • food costs are a small cost relative to other costs, e.g. rent and delivery • some restaurants are specialised in UK food so cost effect very low • other factors are more important, e.g. the heavy fiscal spending in response to the global health crisis • other factors determining capital inflows • relative depreciation or trade weighting of other currencies • offsetting costs with altering portion sizes or changing menu options • impact on tourism small relative to the increase in the production of food • regional differences with the UK e.g. whether there is a local food supply option • Marshall Lerner • J-curve	

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(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Policies to reduce inequality might include Microeconomic policies may include: • grants/subsidies to attract individual firms to create jobs in deprived areas • subsidies to reduce price of specific goods e.g. - food • maximum prices on essential goods e.g. food/fuel • raising national minimum wage • maximum wages e.g. - caps on bankers' bonuses • employment legislation/control of monopsony employers • uprating of benefits at least or more than the rate of inflation • benefits in kind e.g. childcare vouchers, free school meals • greater means testing of benefits • energy policy - targeted support at low income households Macroeconomic policies may include: • relevant supply side policies e.g. education, infrastructure, mobility of labour • regional policies e.g. attraction of FDI to create jobs in low-income regions • progressive taxes - increase rates on high earners • raise corporation tax • raise government spending • increase public sector wages • cutting interest rates • trickle down policies - policies to create growth and create more jobs/enable greater tax revenues available to redistribute **NB for a Level 4 response there must be at least one micro and macro policy and use of UK data with reference to inequality.** **Tax and benefit changes, investment changes, education, national minimum wage, migration, for example, could be seen as micro or macro policies.**	

	NB negative effects can be seen as evaluation of positive effects and vice versa 9 marks for evaluation – points might include: • adverse effects of some policies • short run vs. long run arguments	
	• likely effectiveness of policies • inability to ever remove all inequality from society • incentive effects • government failure arguments • conflict with other objectives • prioritisation arguments • policies might be different depending on whether it is income or wealth inequality	**(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.

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Possible conflicts include: • Lower growth: e.g. increases in interest rates would encourage saving and discourage borrowing, reducing injections into the circular flow • Higher unemployment/Short-Run Phillips Curve analysis: if firms see reduced demand from consumers due to contractionary policies then they are likely to reduce the number of workers, increasing unemployment • Worsens trade balance: higher interest rates attract hot money inflows, strengthening exchange rate • Widens inequality: higher income households gain from higher interest on savings and lower income households bear a higher interest burden on debt or higher taxes/less government support for welfare payments could increase inequality • Increases fiscal burden: higher cost of servicing national debt • Damage to the environment as government spending is cut on projects to achieve environmental objectives **NB: Allow all relevant government and central bank policies** **NB: Expansionary monetary and fiscal policies also allowed to control inflation.** Evaluation of these conflicts could include: • Once inflation has reduced then contractionary policies can be reversed so this is only a short-term impact on other objectives • Investment in infrastructure in the long term will increase the productivity of the UK economy and reduce inflation in the long term • Inflation is mainly caused by cost-push rather than demand-pull factors so the government/Bank of England need to limit use of demand-side policies as they are unlikely to be very effective • Higher progressive taxes could help to reduce inequality as well as being contractionary in nature to help reduce inflation • Monetary policy has a time lag of approximately 18-24 months • Conflicts moderated as policies to control inflation seen as successful • Conflicts avoided if supply-side policies take effect • Limitations of Phillips Curve analysis	**(25)**

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

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

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effect(s) Microeconomic effects of high levels of inflation: • Increases costs for firms reducing profits • Lower revenues for firms as consumers make cutbacks • Use of cost/revenue/profit diagrams to show impact on firms. This could be argued as an increase or decrease in revenue • Erosion of real incomes of consumers/workers • Reduced purchasing power of consumers/workers if real wages/incomes not linked • Reduced investment as future values are lowered • Wage price spirals as expected inflation grows • Changes in wealth e.g. stocks and bonds lose value/ house prices increase in value • Delay in purchasing big ticket items can cause falling sales and trigger a stagflation/recession Macroeconomic effects of high levels of inflation may include: • Reduced foreign direct investment • Loss of confidence in the UK economy • Reduced international competitiveness • Disproportionate impact on lower income consumers cause increases in monthly mortgage repayments • Effects of policy response, e.g. rises in interest rates • Lower debt service costs to governments • Unemployment lower – Phillips curve arguments • Fiscal drag • Use of AD/AS diagrams to show impact on output **NB for Level 4 response there must be at least one micro and macro effect and use of UK or other developed economy reference with reference to inflation. The changes in real income/inequality, labour market issues, investment, competitiveness could be seen as either micro or macro effects.** **NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa**	

	9 marks for evaluation – points might include: • Depends on the magnitude of the increase in inflation • A small positive inflation rate is economically useful e.g. as a buffer against deflation • Depends which inflation rate is used, e.g. RPI, CPI. • Depends on the level of inflation in main competitor countries, e.g. US inflation is 3% • Depends on the proportion of mortgage holders with fixed rate/variable rate mortgages • Depends on the type of inflation e.g. demand-pull v cost-push • Impact on the economy may depends on the position of the AD on the LRAS • Impact on wage bargaining depends on the type of workers the firm employs • Impact on sales of a firm depends on the type of product it sells • Short-run/long-run arguments e.g. inflation has since fallen to within target.	**(25)**

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

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

Question Number	Answer	Mark
3(a)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for identifying one relevant factor, e.g. • Expected inflation rate (1) • Confidence (1) • Growth rate (1) • House prices (1) **Application** 1 mark for reference to the chart, for e.g. • Global Financial Crisis of 2008 (1) • Interest rate has decreased from 5.5% in 2008 to 0.5% in 2009 or has decreased by 5 percentage points (1) • Brexit decision 2016 (1) **Analysis** 1 mark, e.g. • Consumer and business confidence: can indicate turning points in the business cycle (1) • GDP growth rate and spare capacity: ensure that AD grows in line with productive potential (1) • House prices and share prices: that help decide household wealth, which translates through to borrowing and spending (1)	**(3)**

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

Question Number	Answer	Mark
5(a)	**The only correct answer is D** **A** is not correct because the change in forecast UK government spending is highest on social protection **B** is not correct because the forecast UK government spending in all areas has risen from 2015/16 **C** is not correct because forecast UK government spending on defence is less than twice as much as forecast spending on housing	**(1)**

Question Number	Answer	Mark
5(b)	**Application 2** **Application** 1 mark for appropriate calculation, e.g. (240 / 772) x 100 (1) Answer = **31.1** (accept range 31 to 31.1) Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
5(c)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • Budget deficit is when government spending exceeds (tax) revenue/receipts	**(1)**

Question Number	Answer	Mark
1(a)	**The only correct answer is C** **A** is not correct because quantitative easing will increase AD and therefore economic growth **B** is not correct because quantitative easing increases inflationary pressures due to an increase in AD **D** is not correct because quantitative easing would lead to increase in AD and a fall in the level of unemployment as real output increases	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for, e.g. • Decreases reward for saving (1) • Decreases cost of borrowing (1) • Decreases hot money flows (1) **Application:** 1 mark for, for e.g. • Cut the UK's base interest rate from 0.75% to 0.1% in March 2020 (1) • Interest rate decreased by 0.65 percentage points in March 2020 (1) • Interest rate already at a very low level (1) • Cheaper mortgages/loans (1) • Greater R&D spending by firms (1) **Analysis:** 1 mark for linked development, e.g. • Consumption will increase, AD and inflation rises (1) • Investment will increase as cost of production will decrease, AD and inflation rises (1) • Exchange rate will depreciate and will raise (X-M); therefore AD and inflation rises (1)	**(3)**

Question Number	Answer	Mark
3(a)	**The only correct answer is C** **A** is not correct because corporation tax revenue is lower than excise duties **B** is not correct because income tax raises more revenue than Value Added Tax (VAT) **D** is not correct because tax revenues from NICs are around 3.7 times greater than tax revenues from council tax	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one impact, e.g. • There is budget (fiscal) deficit **(1)** **Application:** 1 mark, for e.g. • Budget deficit of £233 billion in 2021-22 **(1)** **Analysis:** 1 mark for linked development, e.g. • The UK Government expenditure is greater than the revenue it receives from taxation **(1)** • The UK Government will have to borrow more funds to finance its expenditure **(1)**	**(3)**

Question Number	Answer	Mark
5(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • When government spending is greater than taxation (1)	**(1)**

Question Number	Answer	Mark
5(b)	**Application 2** **Application:** (44.9 / 83.6) x 100 (1) Answer = 53.71 (also allow 54 / 53.7) Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
5(c)	**The only correct answer is B** **A** is incorrect as it will increase the budget deficit **C** is incorrect as it represents a worsening of the current account position of the balance of payments **D** is incorrect as it represents an improvement of the current account position of the balance of payments	**(1)**

Question Number	Answer	Mark
4(a)	**Knowledge 1, Analysis 1** **Knowledge** 1 mark e.g. • Fall in UK economic growth (1) • Reduction in UK business confidence (1) **Analysis** 1 mark for linked development e.g. • Fall in growth means economy may need more government support for longer to ensure stable growth (1) • Less business confidence likely to lead to less private sector investment and so government may need to counteract this (1)	**(2)**

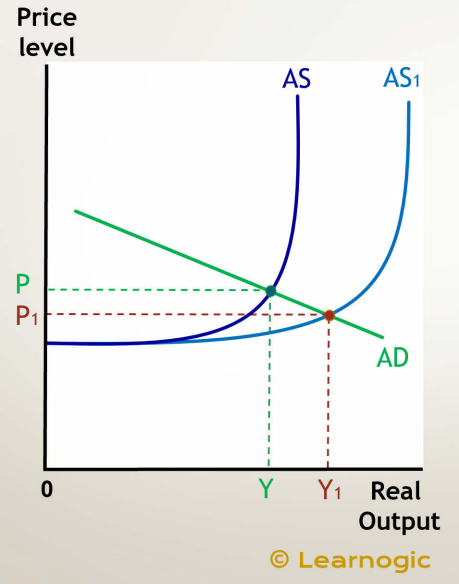
Question Number	Answer	Mark
4(b)	**Knowledge 1, Analysis 1** **Knowledge** 1 mark e.g. • National debt will continue to increase (1) **Analysis** 1 mark for linked development e.g. • Running a budget deficit means expenditure is greater than tax revenue (1) • Government will have to finance a budget deficit by borrowing money (1)	**(2)**

Question Number	Answer	Mark
4 (c)	**The only correct answer is B** ***A*** *is not correct because this is monetary policy not fiscal policy* ***C*** *is not correct because this would involve a budget deficit* ***D*** *is not correct because this is monetary policy not fiscal policy*	**(1)**

Question Number	Answer	Mark
4(a)	**The only correct answer is D** ***A*** *is not correct because that would involve interest rates/QE* ***B*** *is not correct because that would involve changing the value of the pound* ***C*** *is not correct because that would involve interest rates/QE*	**(1)**

Question Number	Answer	Mark
4(b)	**Application 2** **Application**: 2 marks for e.g. 500 000 X 0.17 (1) = 85 000 **NB Award full marks for correct answer**	**(2)**

Question Number	Answer	Mark
4(c)	**Knowledge 1, Analysis 1** **Knowledge/understanding (1):** Identification of one reason, e.g. • Increase in firms choosing to base themselves in the UK • Increased investment by UK firms leading to increased profits • Reduced tax evasion/avoidance **Analysis**: 1 mark for linked development, e.g. • With more firms locating in the UK there will be more firms paying UK corporation tax • A labelled Laffer curve	**(2)**

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

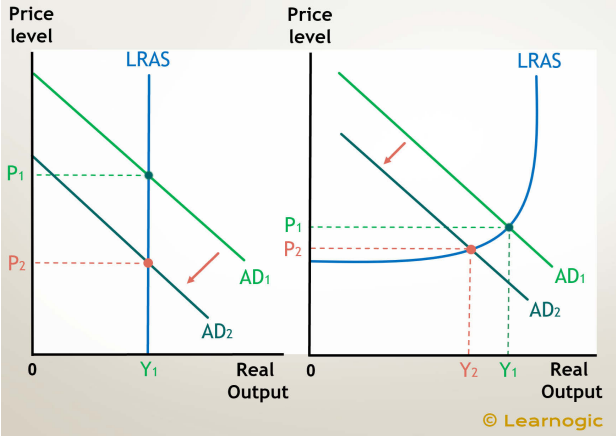
Question Number	Answer	Mark
4 (b)	**The only correct answer is B** ***A*** *is not correct because it is a decision by the government to spend this money* ***C*** *is not correct because this is capital, not current, expenditure* ***D*** *is not correct because this is not an example of transfer payment*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

Question Number	Answer	Mark
3(a)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding (2):** • Investment will increase (1) • Lower interest rates reduce cost of borrowing (1) **Application (1):** A relevant reference to the data, e.g. • In 2020 interest rates fell from 0.75% to 0.1% (1) • In 2020 interest rates fell by 0.65 percentage points (1) **Analysis (1):** Linked development 1 mark for e.g. • Firms are more incentivised to borrow money (1) • Firms feel more confident to invest • Investments financed by borrowing are now more profitable/less risky (1) • Costs of production fall for firms (1) • Fall in return on savings stimulating consumption/sales (1)	**(4)**

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

Question Number	Answer	Mark
4 (a)	**The only correct answer is D** ***A*** *is not correct because absolute poverty would be likely to fall* ***B*** *is not correct because the budget deficit would be likely to fall* ***C*** *is not correct because cyclical unemployment would fall*	**(1)**

Question Number	Answer	Mark
4(b)	**Knowledge 3, Application 1** **Knowledge/understanding** 3 marks e.g. • Automatic stabilisers means government spending/taxation vary without direct government decision-making (1) over the course of the economic cycle (1)/built into the means-tested welfare support (1)/progressive tax bands (1) • Discretionary fiscal policy – deliberate/direct alteration of government expenditure/taxation (1) designed to achieve its economic objectives (1)/determined in budget (1) **Application** 1 mark for reference to graph, e.g. • In a positive output gap you would expect less government spending/more tax revenues as part of automatic stabilisers (1) • In a negative output gap you would expect more government spending/less tax revenues as part of automatic stabilisers (1) • At point Z you would expect taxation to increase relative to government spending (1) • Discretionary fiscal policy could occur at any point on the trade cycle (1)	**(4)**

Question Number	Answer	Mark
1(a)	**Knowledge 2, Application 2** **Knowledge/understanding:** Correct labels on axes and curves (1) and shift of curve(s) (1) **Application:** Correct change in price level (1) and fall in real output (1) For example:  N.B. Other AS curves are acceptable N.B. Decrease in AS also acceptable	**(4)**

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

Question Number	Answer	Mark
5(a)	**Application 2** 28.4 ÷ 23 (1) = 1.23 1.23 X 100 = 123% (1) **Answer= 123** N.B. Award full marks for correct answer Allow range 123 to 123.5	**(2)**

Question Number	Answer	Mark
5(b)	**Knowledge 2** **Knowledge/understanding (2):** 1 mark for e.g.: • There is a positive relationship (1) • Fiscal deficit is where government spending is greater than tax revenue (1) • National debt is the total accumulated debt of the government (1) 1 mark for explanation e.g.: • A fiscal deficit means that a country's national debt will be increasing (1) • A fiscal deficit will be adding to the total value of a country's national debt (1) • Higher debt means increased government spending on interest payments (1)	**(2)**

Question Number	Answer	Mark
5(c)	**The only correct answer is A** ***B*** *is not correct because inequality would be more likely to fall as government spending may be higher* ***C*** *is not correct because poverty would be more likely to fall as government spending may be higher* ***D*** *is not correct because unemployment would be likely to be lower due to more injections from government spending compared to withdrawals*	**(1)**

Question Number	Answer	Mark
6 (a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • Government spending equals (1) tax revenue/ income (1) • Neither a budget deficit nor a budget surplus (1) **Application** 2 marks for 2 data references from Figure 1 (1+1), e.g. • UK experienced a balanced budget in 1990 (1) at nearly 35% of GDP (1) • Overall trend/data point shows there is a budget deficit (1)	**(4)**

Question Number	Answer	Mark
6 (b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for e.g. • Explanation/formula of aggregate demand (1) • Understanding of a depreciation of the exchange rate (1) • Simple explanation of what a weaker currency means (1) **Application** 2 marks (1+1), for e.g. • Aggregate demand will increase (1) shown on a diagram (1) • Weaker pound due to a lack of confidence as a result of the UK's decision to leave the EU (1) • Low interest rate and less hot money flows (1) **Analysis** 2 marks for linked development (1+1), e.g. • Imports become relatively more expensive, so aggregate demand rises (1) • Exports become relatively cheaper, so aggregate demand rises (1)	**(5)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge / analysis up to 3 marks for e.g.:** • Progressive tax is where the proportion of income/wealth paid as tax increases as income/wealth increases / tax rate rises as income/wealth rises (1) • Regressive tax is where the proportion of income/wealth paid as tax decreases as income/wealth increases / tax rate falls as income/wealth rises (1) • Distinction examples: progressive tax would reduce income inequality while regressive tax would increase income inequality (1); reference to effect on Gini coefficient (1); progressive greater burden on higher income, regressive greater burden on lower income (1) encourage people to work harder, earn more money? (1) direct vs indirect (1) **Application:** Up to 2 marks (1 mark for progressive and 1 mark for regressive) Progressive income tax (1) e.g. • People earning less than £12,570 pay no income tax • Someone earning £150,000 will pay an extra £1,200 income tax per year with the changes • Corporation Tax Regressive tax (1) e.g. • VAT • Council tax • sugar tax • Congestion Charge • ULEZ • Excise duty **NB: Do not accept e.g. increase in tax paid as income rises**	**(5)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/Analysis:** Up to 3 marks for, e.g. • Direct taxes are taxes on income/profit (1) • Direct taxes are paid directly by the payer to the government (1) • Direct taxes are progressive taxes (1) • Indirect taxes are taxes on consumption/ expenditure of goods and services (1) • Indirect taxes are paid to the government by suppliers of products (1) • Indirect taxes can be passed on to consumers (1) • Indirect taxes are regressive taxes (1) • Indirect taxes used to reduce negative externalities (1) **Application (2):** Up to 2 marks for reference to Figure 1, e.g. • income taxes are direct taxes (1) • corporation tax is an direct tax(1) • VAT is an indirect tax (1) • Tobacco duty is an indirect tax (1) **NB: There needs to be a reference to both types of taxes; otherwise maximum 2 marks for Knowledge and Analysis.**	**(5)**

Question Number	Answer	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two factors **(1+1)** for, e.g. • Rate of economic growth/level of GDP **(1)** • Forecast rates of inflation **(1)** • Employment/unemployment **(1)** • Level of saving/consumption **(1)** • Changes in real income/living standards **(1)** **Application** 1 mark for each data reference **(1+1),** e.g. • Reference to Figure 1, e.g. slower rate of economic growth in 2024 **(1)** • Reference to Figure 2, e.g. interest rates increased in anticipation of further increases in price level **(1)** **Analysis** Linked development **(1+1)** e.g. • They consider the rate of economic growth to ensure that AD will grow in line with the UK's productive potential **(1)** • They consider the forecast rate of inflation to ensure that inflation expectations are closer to the target rate of 2% +/- 1% **(1)** • They consider employment/unemployment to ensure that there is no overheating or under consumption in the economy **(1)** • Reference to the transmission mechanism **(1)** **NB Award up to 4 marks for one reason well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Indicative content	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of** • fiscal deficit is when government revenue is less than government spending difference between government revenue and taxation **or G>T (1)** • national debt as % of GDP **(1)** e.g. the sum of deficits over time divided by GDP **Analysis** • a fiscal deficit feeds into a national debt **(2)** • these can move in different directions because GDP is rising more quickly than debt **(2)** • debt can increase deficit *through higher interest payments* **(2)** **Application:** Reading the data from Figures 4 and 5 1 mark for correct application of figures, and 1 mark for relationship e.g. to show national debt as a percentage of GDP is projected to fall after 2015 (1) while the fiscal deficit set to persist until 2019 (1) **NB do not award statement 'debt is falling'** **Evaluation** (2 marks for any relevant point, two points 1 +1): • The fall in national debt as a percentage of GDP is dependent not on austerity measures but on expectation of rising GDP • Growth might be quicker without the austerity measures indicated by Figure 6 • Other things are not equal, e.g. interest rates might rise, depends on whether the returns for QE or privatisations are in the figures, effects of Brexit • The relationship is usually direct but after 2015 it is inverse • Other factors might explain the trends (i.e. non causal relationship) e.g. change in GDP or time lag.	**(8)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge:** Identification of a cause of inflation (1+1) e.g. • rising consumption • rising investment • rising government spending • rising net exports • rising in production/energy costs or other costs • fall in the exchange rate (imported inflation) **Application:** (1 +1) • 20% fall in the value of the pound • identification of correct inflation rate from Figure 2 • identification of correct gas price figure from Figure 1 • removal of the 2023 planned rise in corporation tax from 19p to 25p • tax cut proposals e.g. £30 billion tax cut, 15% corporation tax • two-year freeze ending / average energy bill from £2500 to £3500 • rising food prices • half of the food we consume is imported **Analysis:** (1+1) development of each reason e.g. • leading to higher aggregate demand (demand pull inflation) • leading to a fall in short run aggregate supply (cost push inflation) • may be shown through diagrammatic analysis of the shifts • further analysis of identified reason / a transmission mechanism **Evaluation:** (2 marks for any relevant point, or two points 1 +1) • short run long run arguments - could change in the future • combination of factors • made worse by external shock • relative significance of points arguments	**(8)**
	• could change following MPC of Bank of England interest rate changes	

Question Number	Indicative Content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** Likely macroeconomic effects include: • Expansionary fiscal policy from the German government which will increase economic growth • Contractionary fiscal policy response to budget deficit • Increase in size of Germany's national debt • Interest rates may increase for German government bonds, increasing cost of servicing the debt for the government • Crowding out may occur as German government borrowing increases, reducing investment from private-sector firms • Increased government spending on supply-side policies such as improving infrastructure may shift out the aggregate supply • Increase in injections into the circular flow of income increasing AD • Increase in inflationary pressures • Downward pressure on external value/ER of Euro • Possible downgrading of credit rating	**(6)**

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

Question Number	Indicative Content	Mark
6(c) continued	**Evaluation 4** • Expansionary fiscal policy can damage the economy by increasing inflation • In the long term, the German government will need to look at paying off the debt it is currently accumulating, which may lead to higher taxes in the future • German government debt is still a relatively low amount compared to other OECD countries, below the OECD average, and so this should not have a significant effect on the German economy • Budget surplus in previous years will limit the negative impact of the increased government spending • Crowding out not an issue if growth slowing or in recession • Possibility of crowding in • Depends on German government's cost of borrowing • Depends on relative sizes of structural and cyclical budget deficit • Opportunity cost of national debt servicing e.g. reduction in spending on supply-side policies • Growth could slow if the government tightens fiscal policy in response	**(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(d)	**Knowledge 2, Application 2, Analysis 4,** ECB QE programme is effective: • Explanation of process of QE • should encourage banks to increase lending and thus hopefully increase consumption/investment • Inflation/GDP may well have been much lower without QE • Confidence of markets would have been much lower without QE • QE programme to be extended for a further 6 months • Lower interest rates encourages consumption/investment, thus increasing AD and therefore inflation • Low government bond yields for Eurozone countries • Depreciation of the Euro affecting X-M NB One side of this argument should count as KAA and the opposing argument as Evaluation	**(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.

Question Number	Indicative content	Mark
6(d) continued	**Evaluation 4** ECB QE programme isn't effective: • Inflation likely to remain below target into at least 2017 • Low inflation is largely down to factors outside the central bank's control (e.g. oil prices) • Lack of confidence among firms and consumers meaning they are not responding as the ECB would like to the QE programme • Banks are still reluctant to lend money to firms and consumers • Time lags • Extension of QE programme suggests that it hasn't worked • Other policies may be more effective NB One side of this argument should count as KAA and the opposing argument as Evaluation	**(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(d)	**Knowledge 2, Application 2, Analysis 4** • Deflation means the average price level is falling, and is harmful to an economy because of lack of confidence, growth, investment and real debts increase/other equality issues (definition could be implied in answer) • Bank of England purchasing £200bn government bonds, will increase the availability of credit / liquidity: more lending to / borrowing by firms and consumers/ bond yield analysis • Quantitative easing (QE) may lead to increased consumption (via borrowing), increased AD, and increase in price level. This may be illustrated with AD shift right • QE may lower commercial / high street interest rates, reducing the reward for saving therefore increasing consumption, increasing AD • QE may lower interest rates, reducing the cost of borrowing therefore increasing investment (an injection), increasing AD • QE can result in a depreciation of the exchange rate (e.g. via lower interest rates/hot money outflows) leading to imports becoming relatively more expensive and hence cost-push inflation or boost (X-M) • QE can cause positive wealth effects through asset price inflation • QE can lower cost of government borrowing and may enable government spending **NB To access Level 3 must refer to preventing deflation or causing inflation**	**(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.

Question Number	Indicative Content	Mark
6(d) continued	**Evaluation 4** • Lack of consumer confidence may mean consumers do not react to QE by increasing consumption • Lack of business confidence may mean businesses do not react to QE by increasing investment • Commercial banks still be reluctant to lend due to uncertainty about future of the economy • Commercial banks still be reluctant to lend to firms and consumers as they lack confidence in their ability to pay back loans • Banks may retain the extra money from QE rather than use it to increase lending • Rise in asset prices is likely to increase inequality • Increased capital outflows to drive up asset prices abroad instead • Discussion of some of the benefits of deflation such as a reward for saving • Unintended consequences of QE e.g. inequality might outweigh the benefits of removing deflation • Miscalculation of projections might lead to inflation above target • Use of other contexts to assess effectiveness e.g. during GFC or other countries • Other policies could be used to prevent deflation, e.g. fiscal policy • QE as last resort as Base Rate close to 0% • Other countries are using QE	**(4)**

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

Question Number	Indicative content	Mark
6 (e)	**Knowledge 3, Application 3, Analysis 3** The MPC **should** be concerned because: • Risk of deflationary spiral; hard to 'escape' from such a situation • Example of Japan • Consumer expectations of very low/falling prices become embedded • Limited ability of the MPC to get the economy out of deflation (interest rates already only 0.5%) • Harder for MPC to react to/influence supply-side factors such as falling oil prices Diagrammatic analysis may also be used as part of an answer. NB Candidates may, alternatively, argue that the MPC should **not** be concerned about deflation for KAA and that they **should** for evaluation	**(9)**

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

Question Number	Indicative content	Mark
6 (e) continued	**Evaluation 6** MPC **should not** be concerned because: • Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year • Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy • Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy • Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand • May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD NB Candidates may, alternatively, argue that the MPC should **not** be concerned about deflation for KAA and that they **should** for evaluation	**(6)**

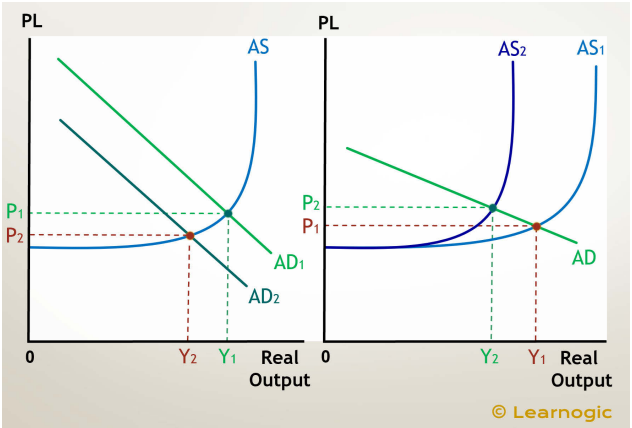
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments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

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** • Economic growth/recession/output gap/spare capacity – use of Figure 2 OR reference to own knowledge (e.g. global health crisis): ensure that AD will grow in line with productive potential • Forecast rates of inflation/inflation expectations – use of Figure 1 OR reference to recent inflation trends • Level of confidence in the economy: business and consumer confidence – "the uncertainty around the UK's decision to leave the EU": can indicate turning points in the business cycle • Unemployment levels – "UK unemployment rate peaked at 8.5% in 2009 but has fallen to 4% in 2019, the lowest since the mid-1970s" • Exchange rate – "the fall in the exchange rate of the British pound" • House prices – "collapse of the housing market": help decide household wealth, which translates through to borrowing and spending • Oil prices and other commodity prices • Performance in other countries • Savings / consumer expenditure • Access to credit / market interest rates **NB: Do not award real wage changes as a factor**	**(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** • Inaccuracies or inadequacies of data may mean that the UK's economic growth may not be low as it has been estimated • Reliability of data/uncertainty of forecasting: many statistics are revised later, such as GDP • Difficulty of estimating amount of output gap/spare capacity in the economy • Lagged effect of many influences on the inflation rate, e.g. unemployment is a lagging indicator and may be of little use • Oil prices and commodity process are very volatile: increase in price might be temporary – therefore, problem of using the current inflation rate to guide monetary policy decisions • Potential for economic shocks changing the global economic landscape considerably leading to higher uncertainty in the world economy • Lagged effect of monetary policy • Prioritisation of the relative significance of each factor • Combination of factors are likely to be considered	**(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 2, Application 2, Analysis 2** Understanding of government expenditure • "decreasing government expenditure on public services in the long run" • "It is estimated to decrease by a third as a proportion of GDP between 2024 and 2028" • A decrease in government expenditure will reduce injections into the UK's circular flow of income • Government spending is a component of AD • AD will decrease, resulting in a reduction in real output/economic growth: may refer to Figure 1 • Unemployment is likely to increase • Reference to negative multiplier effects • Inflation is likely to decrease: may refer to Figure 2 • Lower income equality/greater income inequality if welfare payments/direct taxes are cut • Improvement in UK's budget balance/reduction of the UK government's budget deficit • Fall in productive potential in the economy e.g. as public service are cut (Extract A final paragraph) • Diagram showing AD and/or AS shift e.g.  **NB Candidates must include an accurately drawn AD/AS diagram presenting a decrease in AD and/or AS to access Level 3** **NB Candidates may explain negative effects as KAA and positive effects as evaluation (or 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 depends on the magnitude of the fall in AD and/or AS • Impact on real output/inflation depends on where the AD lies on the Keynesian LRAS (elasticity of the LRAS curve) • Impact depends on other factors in the economy, such as consumption, investment and net trade • Impact depends on which areas of public services government expenditure has fallen • Time lags and implementation lags involved – if the UK government changes, there is a probability that spending on public services may not be cut • Critical judgement of the points discussed	**(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 (f)	**Knowledge 4, Application 4, Analysis 6,** • Changing interest rates and quantitative easing/asset purchases to influence money supply as monetary policies • AD/AS diagram could be used to aid effective analysis MPC has been successful at controlling inflation: • According to Figure 2 highest inflation rate was only just over 5%, good by historical standards • Independent of government • Regular monthly MPC meetings implies flexibility • Willingness to use other unorthodox tools such as QE and forward guidance to additionally control inflation • QE helped to avoid risk of deflation during global economic crisis • Powerful transmission mechanisms • Contrast with Japan. MPC has **not** been successful at controlling inflation: • Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target • MPC struggles to respond to supply-side factors, e.g. rising food/commodity prices in 2008/9 and now falling prices in 2014 • Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation • Banking failure • In the period shown, interest rates have been 0.5% but inflation has continued to fall NB Candidates may, alternatively, argue that the MPC **has not** been successful for KAA and that they **have** been successful for 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.

Question Number	Indicative content	Mark
6 (f) continued	**Evaluation 6** MPC has **not** been successful at controlling inflation: • Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target • MPC struggles to respond to supply-side factors, e.g. falling food and commodity prices in 2014 • Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation • Banking failure • In the period shown, interest rates have been 0.5% but inflation has continued to fall	**(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 (g)	**Knowledge 4, Application 4, Analysis 6,** • Understanding of demand-side policies to include monetary and/or fiscal policy • Understanding of Global Financial Crisis of 2008 in UK and/or other countries • AD/AS diagram may be used to aid effective analysis Examples of demand-side policies that students may discuss. These need to be clearly linked to responding to a financial crisis: • Reduction of interest rates to boost aggregate demand in a recession. • Quantitative easing to increase liquidity • Bailout of banks • Increase in government spending e.g. infrastructure • Cut in taxation	**(14)**

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

Question Number	Indicative content	Mark
6 (g) continued	**Evaluation 6** • Short run/long run issues, e.g. interest rates take at least a year to have a full effect • Interest rates cannot be cut much further; relative interest rates are important • The uncertainty of the impact of QE, e.g. do banks pass on the credit, is it inflationary? • Size of the multiplier • Problems in financing government deficit/fiscal austerity issues • Impact of different tax cuts, e.g. income tax vs. VAT • Relative success of US or other country's policies in response to the crisis compared to the UK	**(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** KAA: • Interest rate is used by MPC of the Bank of England • AD/AS diagram showing a change in AD and/or AS consistent with analysis • Identification of low and stable inflation as a government objective / inflation target • Use of Figure 1 to support arguments for using a contractionary monetary policy (in 2017) • Award arguments which consider expansionary / contractionary policy to achieve inflation target using Figure 1 • High interest rate discourage borrowing by both households and firms as it increases the cost of borrowing, thus reducing inflationary pressures • Increasing rate of saving (the opportunity cost of spending has risen), which will slow the economy • Rise in mortgage interest repayments will reduce homeowners' real "effective" disposable income. Increase in mortgage costs would reduce market demand in housing market, reducing inflation • Business investment may also fall, as the cost of borrowing funds will surge. Planned investment projects will now become unprofitable and, as a result, AD will fall, reducing inflationary pressures • Higher interest rate increases the value of pound due to hot money flows; (X-M) component of AD falls, reducing inflationary pressures **Evaluation 6** • Impact depends on the magnitude of the change in the interest rate • Time lag factor – changes may take a long time to feed through into inflation • Higher rates may mean lower investment which reduce LRAS, increasing inflationary pressures • Many mortgages and loans are on a fixed rate; the change in base rate may have little impact • Commercial banks may not change their rates • Impact from change in AD will depend upon position on the LRAS curve / spare capacity • External factors are beyond Bank of England's control – Extract A suggests inflation caused by rising food prices due to the fall in exchange rate • Conflicts with macroeconomic objectives / policies • Depends on consumer and business confidence, e.g. animal spirits, size of the multiplier	**(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
6 (g)	**Knowledge 4, Application 4, Analysis 6,** KAA: Possible effects include: • Reduction in real output / economic growth • Deflationary effect / reduce inflationary pressures • Rising unemployment / falling real wages in the public sector – government "introduced additional rounds of departmental spending cuts" • Increasing inequality – "the government further decreased welfare payments" • Falling real incomes / standard of living – "slow growth in real household disposable incomes" / "decline in living standards" • Reference to the impact of reduced government investment on long-term growth of the economy – "should not pursue further reductions in the budget deficit as this would allow for a significant increase in public investment" • Improvement in balance of payments on current account as net exports rise • Reference to the impact on the environment N.B. Candidates can discuss macroeconomic effects using an accurately labelled AD/AS diagram / accept a circular flow of income diagram that demonstrates a reduction in the circular flow of income **Evaluation 6** • Depends on size of the multiplier effect • Shape of the AS curve/spare capacity • Reduction in transfer payments may reduce frictional/voluntary unemployment • Effects depend on to what extent private sector spending/employment can replace public sector spending/employment • Short-run and long-run macroeconomic effects • Effects depend on what areas of government spending/taxes are changed • Potential increase in hidden economy (e.g. rise in cash in hand 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 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.

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
6(f)	**Knowledge 4, Application 4, Analysis 6** KAA: • Definition of expansionary fiscal policy • AD/AS diagram showing change in AD/AS consistent with analysis Possible policies include: • Increase government expenditure, e.g. on training and apprenticeship programmes • Education spending by offering more bursaries for university courses and subsidies to universities • Government spending on infrastructure and housing policies (mortgage relief, key worker subsidies) • Cut in the rate of income tax – increase purchasing power and disposable income; will lead to greater consumption and promote economic growth • Increased income tax threshold, decrease in national insurance contributions • Lower indirect taxes, e.g. VAT • Relaxation of austerity measures • Increase in unemployment benefits **Evaluation 6** • Significance of the fiscal policy - monetary policy may be seen as an ineffective tool (as interest rates have been historically low) in tackling future downturns • Conflict with other macroeconomic objectives such as reducing budget deficit and national debt (can award conflicts with different objectives) • Long run and short run impacts (18 to 24 months time lags)/implementation lags • Depends on the value of the multiplier in the UK • If consumer and business confidence is low, the effects may not be as large or significant • Depends on the level of spare capacity in the economy/elasticity of the LRAS • Relative importance and likely effectiveness of the policies discussed, e.g. raising benefits provides less incentive to find employment • Free market economists argue that higher spending will be wasted on inefficient spending projects • Can lead to higher bond yields, increasing the cost of debt repayments	**(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.

Number		
6(g)	**Knowledge 4, Application 4, Analysis 6** KAA: • Interest rate is used by MPC of the Bank of England • MPC increased the base interest rate from 0.1% to only 0.5% in February 2022 • AD/AS diagram showing a change in AD and/or AS consistent with analysis • Identification of low and stable inflation as a government objective / inflation target of 2% • Use of Figure 2 to support arguments for using a contractionary monetary policy (rates rising 2021) • High interest rate discourage borrowing by both households and firms as it increases the cost of borrowing, thus reducing inflationary pressures • Increasing rate of saving (the opportunity cost of spending has risen), which will slow the economy • Rise in mortgage interest repayments will reduce homeowners' real "effective" disposable income. Increase in mortgage costs would reduce market demand in housing market, reducing inflation • Business investment may also fall, as the cost of borrowing funds will surge. Planned investment projects will now become unprofitable and, as a result, AD will fall, reducing inflationary pressures • Higher interest rate increases the value of pound due to hot money flows; (X-M) component of AD falls, reducing inflationary pressures **Evaluation 6** • Impact depends on the magnitude of the change in the interest rate: only increased by 0.4 percentage points, so impact may not be as large • Time lags and implementation lags – changes may take a long time to feed through into inflation • Higher rates may mean lower investment which reduce LRAS, increasing inflationary pressures • Many mortgages and loans are on a fixed rate; the change in base rate may have little impact • Commercial banks may not change their rates • Impact from change in AD will depend on the position on the LRAS curve/the level of spare capacity • External factors are beyond Bank of England's control – Extract B suggests the higher rate of inflation has been caused by rising petrol prices • Conflicts with macroeconomic objectives/policies • Depends on consumer and business confidence, for e.g., animal spirits, size of the multiplier	**(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 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.

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
6(g)	**Knowledge 4, Application 4, Analysis 6,** KAA: • Definition of an expansionary monetary policy • Understanding of the role of the MPC of the BoE MPC has been successful: • Significantly reducing base interest rate by 4.75% points and increasing QE by "£375 billion" has led to a rise in real GDP – use of Figure 2: "preventing the recession, from the Global Financial Crisis, turning into another Great Depression" • Inflation has been under control and mostly within the target rate of inflation – use of Figure 1 • Increase in AD has led to falling unemployment – UK unemployment has "fallen to 4% in 2019, the lowest since the mid-1970s" • Lower interest rates reduce hot money flows, thus leading to weaker currency – "fall in the exchange rate of the British pound": an improvement in the current account of the BoP as net exports rise • Rising real incomes/standard of living since 2014 – use of Figure 1: "Households with mortgages benefitted from the low interest rate, enabling them to keep consuming" **Evaluation 6** MPC has not been successful: • Increase in real GDP since the crisis has only been modest – use of Figure 2: between 2010 and 2018 it has been less than 1% annual growth • Inflation has been out of tolerance – use of Figure 1 OR own knowledge of recent inflation trends: perhaps indicating these are mostly affected by cost-push factors not under MPC's control • Real incomes falling for much of the period between 2008 and 2014 – use of Figure 1: reduces standard of living and quality of life • Could lead to rise in income inequality – "the lower interest rates have led to a rise in household debts" • There is no evidence that QE has worked in the UK – "They drafted the use of a new idea: quantitative easing" – and they had additional rounds of asset purchases to increase money supply, e.g. "further expanded it QE programme by £60 billion" in 2016 **N.B. Candidates can argue why the MPC has not been successful as analysis and the opposite as evaluation**	**(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 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.

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
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Impacts might include: • Impact on AD and economic growth of fiscal stimulus, with multiplier effects (net injection to circular flow) • Higher purchases of government bonds/debt leading to crowding out, so less funds for investment by firms • Higher contractionary fiscal policy in the future as governments start to pay off these fiscal deficits • Higher interest costs of servicing debt means less money for public services and so lower standard of living • Impact on a country's financial account on the balance of payments of large inflows of finance into government bonds • Impact on a country's exchange rate Possible evaluation points might include: • Government debt isn't necessarily a problem as long as there are plenty of people/firms willing to buy it • Higher debts may mean governments are investing more into improving public services, which if it improves investment in the economy will help boost GDP & pay for itself over time • Short-term fiscal deficits can be balanced out by surpluses in the future **NB For a level 4 answer candidates must use examples of a country** **NB For a level 4 answer candidates must refer to both fiscal deficit and national debt**	**(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 increase in tax on HFSS foods. Microeconomic effects may include: • Rational economics implies people will change consumption patterns. Consumer preferences will change away from HFSS foods e.g. as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping (Extract C). • An ad valorem or specific tax diagram might be used to illustrate the effects on prices/quantity in each market, and the incidence of tax • Cross elasticity of demand – evidence (e.g. Extract C) that a rise in price may cause a rise in demand for healthy food. • Welfare changes, e.g. loss of consumer, producer surplus/higher prices and deadweight welfare loss. This might be shown with an externalities diagram, e.g. positive in consumption of healthier foods. • Impact on firms, e.g. loss in profits on HFSS as costs rise/demand falls. This might be illustrated using a costs/revenue diagram; increased profits for healthier options. • Impact on labour market. Healthier workers, or effects of cut in real wages as costs of living increase. Changing employment opportunities. e.g. reduced employment for HFSS manufacturers and increased employment for healthy foods firms. Macroeconomic effects may include: • Redistribution (micro or macro issue): indirect taxes of this sort are regressive, disproportionately affecting the elderly and the poor. Taxes on HFSS foods moderate consumers, as well as the obese overeaters they are intended to target. • Cost push inflation – a one-off rise in prices. This might be shown by an upwards/leftwards movement of AS • Effects on incomes/net exports – may be linked to a fall in AD, e.g. in Denmark the policy helped push up food prices in a year in which real wages fell by 0.8%. • Governments might gain revenue which can be used elsewhere in the economy / lose revenue – Laffer curve (Extract C) **NB for a Level 4 response there must be micro and macro effect (s). Opportunity cost/shift in PPF/labour markets/productivity/competitiveness etc. can be**	

	used as micro or macro. Up to 9 marks for evaluation. Points might include: • Depends if firms respond by cutting prices (Extract B) • The tax makes people buy other unhealthier food (in Extract C) e.g. increases price and people may substitute to cheaper even unhealthier or low-quality alternatives that are more affordable • Tax is not an efficient deterrent to obesity. The policy had a very limited impact on the consumption of HFSS in the data foods: 80% of Danes did not change their shopping habits at all (Ext C). Not only is demand for food relatively inelastic, prices often fluctuate, and consumers become immune to changes • Depends on magnitude- the proportion of income may be low • The price elasticity of demand will determine the incidence of the tax - inelastic larger consumer incidence and elastic larger producer incidence. • Depends on how funds are used - e.g. to promote healthy eating through subsidies and education • The intervention may mean free markets work less well – theory of unintended consequences • Other unintended consequences e.g. counterfeit, smuggling	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Arguments that cutting taxes will **positively** impact the economy: • Firms will have more profit to reinvest into their companies, therefore increasing investment, aggregate demand, and therefore output • Consumers have higher disposable income so consumption will increase • Greater injections into the circular flow of income • Less withdrawals form the circular flow of income • Relevant AD/AS diagram illustrating an increase in AD • Increase in size of multiplier • Less incentive for tax evasion/avoidance Arguments that cutting taxes will **negatively** impact the economy: • Firms may not reinvest money, many other factors affect investment decisions- e.g. confidence • Consumers may save any extra disposable income, thus withdrawing it from the circular flow of income • Likely to result in higher government debt leading to increased crowding out • Government will have less money to spend on infrastructure/education etc. that may negatively affect economic growth One side of the argument should count as KAA and the other as EV.	**(25)**

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

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

Question Number	Indicative content	Mark
1 (d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effects of increased interest rates. Microeconomic effects may include: • Fixed costs to firms will rise. May cause shut down/loss of competitiveness • Fall in consumer demand as consumption expenditure falls - likely reduction in AR for normal goods • Other costs to consumers/firms/a government e.g. increased burden of debt and loan repayments/servicing costs • Fall in investment by firms - reducing dynamic efficiency in the economy as less funds for R&D • Impact on Turkish housing market Macroeconomic effects may include: • Link between higher interest rates and lower investment and lower consumption- reducing AD: inward shift of AD (or slowing outward shift) with multiplier effects with macroeconomic impacts e.g. unemployment • Rise in the value of the lira – worsening of current account of the Balance of Payments – possibly with effects on other countries • Redistribution of income e.g. from borrowers to savers/lenders, from asset holders to renters • Cost of financing public deficit/debt (may refer to opportunity cost) may mean less government spending elsewhere, e.g. limited ability to spend on education **NB for a Level 4 response there must be micro and macro effect (s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** 9 marks for evaluation – points might include: • Interest rate might not be the most significant cost for firms • Contractionary monetary policies already very tight. Depends on the interest rates in other markets • Inflation has peaked and there are signs that it will fall so the rise in interest rates is not necessary • Trade-off between objectives or prioritisation e.g. lower inflation at the cost of higher unemployment might be shown with critical use of a Phillips Curve	

	• Depends on interest rates in other markets- do we mean lending rates in other countries. • Turkey's private sector is resilient - they may refer to this explaining that shut down is less likely • Impact on housing market will depend on whether people own homes and are mortgaged or whether they rent, or whether mortgage is fixed or variable rate • Magnitude the interest rate change - Figure 1 suggests large increases and therefore significant impact/large changes are unable to have much further effect	**(25)**

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

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

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Arguments that QE **has been** effective: • QE provided financial institutions with additional funding to allow them to increase lending to businesses, thus increasing investment in the economy and therefore economic growth • QE provided financial institutions with additional funding to allow them to increase lending to consumers, thus increasing consumption in the economy and therefore economic growth • Without QE the Eurozone economy may have gone into deflation, thus significantly prolonging the recession due to further reduced consumer demand in anticipation of further falls in price • QE was necessary as an additional monetary policy tool for the central bank after they had already cut interest rates as low as possible and the economy had not responded • Commercial interest rates did not drop as much as the ECB base rate due to confidence concerns from banks, so this acted as another way to reduce interest rates Arguments that QE **has not been** effective: • Many financial institutions used QE funding to improve their own financial stability, increase their liquid assets- rather than increasing lending to businesses/consumers • Lack of consumer/business confidence meant there was a lack of demand for loans • Consumers and firms were increasing savings rather than borrowing due to concerns about stability of the Eurozone economy • Effect was limited by contractionary fiscal policy in many Eurozone countries • Significant spare capacity in European economies during recession which QE is unable to make up for • If recession proves short-lived too much QE could be inflationary • Different European countries experiencing different economic situation so a 'one size fits all' QE approach may be too much for some countries & not enough for others Candidates can use either side of this argument as KAA and the other side as evaluation	**(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: • Employment improves or unemployment stops rising • Incomes rise/stop falling • Increased profits for firms e.g. motor manufacturers • Other micro effects of increased spending and welfare e.g. improved health service • Infrastructure improves if spending on this area • Higher taxes in future might have an impact on demand and other aspects of consumer behaviour Macroeconomic effects may include: • AD increases • multiplier • Shift in SRAS or LRAS might be drawn e.g. capacity increases • Increase in price level/output • increase in borrowing – cost for future generations • Diagrams might involve an increase in AD with multiplier effects • Increased debt payments in the future – opportunity cost arguments may be used **NB for a Level 4 answer there must be reference to the German fiscal policy. Some effects such as lower costs or increased investment could be seen as micro or macro** **NB for a Level 4 response there must be reference to Germany** Possible evaluation points include: • Depends on Classical vs Keynesian shape of AS • Depends on size of multiplier • Depends on the cost of borrowing – currently very low • Impact on money markets and conflict with other policies • Opportunity cost arguments • Reference to budget deficit and national debt • Confidence in the markets and consumers in the fiscal policy will determine whether or not it is effective • Will interest rates remain low? • An essential action in the recent context, and without stimulus many incomes and businesses would be lost	**(25)**

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

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

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of decreasing interest rates • lower costs to businesses, so fixed costs fall and increase competitiveness. May be shown using a cost/revenue diagram • greater credit for businesses to expand/invest in R&D and gain dynamic efficiency • higher consumer demand as consumption increases; greater consumer surplus • impact on Kenya's housing market • Mr Matsiko in Ext G pays 22% not 7%, and there is a large information gap for lenders (asymmetry of information in credit markets) • labour market effects (derived demand) • lower prices for consumers • less available credit (so less investment, dynamic efficiency etc) Macroeconomic effects may include: • lower saving (unlikely in the context) but easier to borrow, so consumption and investment increases; hence AD rises with multiplier effects. May be shown using AD/AS analysis or diagram • lower exchange rates – improvement in current account position of BOP, with effects on competitiveness and trade • lower cost of financing public deficit/debt may mean greater government spending elsewhere • redistribution of income, e.g. from savers/lenders to borrowers • impact on LRAS/PPF over time if investment continues to grow **NB for a Level 4 response, there must be micro and macro effect(s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** **NB if there is no reference to a developing country then award a maximum of Level 3 KAA.** **NB Effects in KAA could be used as evaluation and vice-versa. Counter-effects may be used as evaluation.**	**(25)**

	9 marks for evaluation – points might include: • interest rate is not the only cost for firms e.g. depends on how much the interest rate costs are as a percentage of costs overall • impact on real output depends on level of spare capacity/elasticity of LRAS/other components of AD • the central bank rate is not the rate that individuals can access • degree to which the factors might be a success • depends on other countries' interest rates are (relative competitiveness issue) • fixed interest rates and other short term/long term issues • interest rates are low in Kenya compared to other sub-Saharan countries • impact on borrowers will depend on whether people have assets or collateral • magnitude/pattern of the interest rate change	

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.

Number		
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Policies that could be used to reduce inflation may include: • Increased spending on education to create a more skilled and therefore more productive workforce, shifting out AS • Increased spending on healthcare so the workforce spends less time off sick, increasing AS • Other supply-side policies e.g. deregulation or privatisation • Public-sector pay restraint • Increase in income tax rates/lowering thresholds to reduce consumption and therefore reducing AD • Changes in corporation tax rates e.g. raise to reduce investment and therefore reducing AD, or cut to improve efficiency in firms • Changes in indirect taxes e.g. VAT • Reduction in government spending to reducel AD • Subsidies to energy firms/food suppliers to reduce costs **NB: do not award monetary policy, e.g. interest rate and QE changes by the MPC of the Bank of England** Evaluative comments may include: • Spending on education/healthcare/other supply-side policies is unlikely to solve the current inflation problem as it will take too long to have an impact on AS • Increase in taxes on consumers may lead to an increase in poverty/reduce standard of living • Increase in taxes on firms may discourage firms from wanting to operate in the UK, increasing unemployment • Less government spending may lead to reduction in the quality of public services- e.g. long waiting times for NHS operations • Subsidies will lead to higher government spending and will have to funded either by borrowing (which will have to be paid back in the future) or higher taxes • Change in VAT will only affect inflation for one year • Laffer curve: effect of changes in tax rates • Impact of policies on inequality e.g. changes in tax rates, or other unintended consequences • Monetary policy would be better?	**(25)**

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

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

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 tax cuts Microeconomic effect(s) may include: • higher disposable incomes (income tax) • higher retained profits for firms (if corporation tax) • lower costs for business (if indirect tax) • rising demand/revenue for firms • use of cost/revenue/profit diagram • change in level of funding/service arguments at schools/hospitals • supply of labour increases in certain occupations (incentive to work arguments) • relocation of MNC arguments/regeneration of a specific area Macroeconomic effect(s) may include: • use of AD analysis e.g. - consumption rising • use of LRAS analysis e.g. - productivity rising, incentive to work arguments • income equality worsening – may use Gini and Lorenz • prices rise – inflationary effects • reduction in relative poverty • multiplier effects • budget deficit argument • Laffer curve arguments • reduced unemployment • FDI **NB for a Level 4 response there must be micro and macro effect(s) and use of data with reference to proposed UK tax changes. Employment or welfare issues could be seen as**	

	micro or macro, for example, can be used as either micro or macroeconomics. **NB negative effect(s) can be seen as evaluation of positive effect(s) and vice versa** 9 marks for evaluation – points might include: • depends on which rate is changed – e.g. 45% or 20% with income tax • Laffer curve • temporary nature of tax changes • magnitude of change • size of multiplier • PED, YED arguments	
	• shape of LRAS arguments • output gap arguments • combination arguments e.g. conflicts between effects • conflict between policies e.g. higher interest rates (cancelling out each other)	**(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.

2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of high interest rates may include: • Higher costs to businesses, so fixed costs rise and decrease competitiveness (may be shown by cost/revenue diagram) • Fall in revenues via consumer discretionary incomes decreasing (may be shown on cost/revenue/diagram) • Higher cost of credit for businesses to expand/invest in R&D and gain dynamic efficiency/fund start-up costs • Lower consumer demand as consumption decreases; less consumer surplus • Impact on Ghana's housing market • Rise in business failures as rising costs mean shut-down point is reached • Impact on labour markets/demand for labour/wages • Encourages saving, reduces the savings gap • Smaller firms unable to survive increases market concentration Macroeconomic effects of high interest rates may include: • Higher saving and more expensive to borrow, so consumption and investment decreases; AD falls with multiplier effects • Use of AD/AS diagram to show effect of high interest rates • Higher exchange rates – worsening in the current account position of BOP, with effects on competitiveness and trade • Higher cost of financing public deficit/debt may mean less government spending elsewhere • Redistribution of income, e.g. from borrowers to savers/ lenders • Impact on unemployment e.g. as businesses close down • Impact on inflation • Impact on long-run aggregate supply e.g. via reduction in ability to invest in R&D • Increase in income/wealth inequalities **NB for a Level 4 response, there must be micro and macro effect(s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** **NB negative effects can be taken as KAA and positive effects as evaluation (and vice versa)**	

	9 marks for evaluation – points might include: • The central bank rate is not the rate that individuals can access • Degree to which the factors might be a success • Depends on other countries' interest rates (relative competitiveness issue) • Interest rate might not be the only cost for firms • Depends on how much interest repayments are as a proportion of total costs • Interest rates are low in Ghana compared to other countries • Impact on borrowers will depend on whether people have assets or collateral • Magnitude the interest rate change • Impact on economic growth depends on where the AD lies on the Keynesian LRAS/level of spare capacity/size of multiplier • Fixed versus variable interest rates • Higher interest rates may increase savings and therefore increase availability of credit	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.

Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

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

Question Number	Indicative content	Mark

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

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

Question Number	Indicative content	Mark
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)**

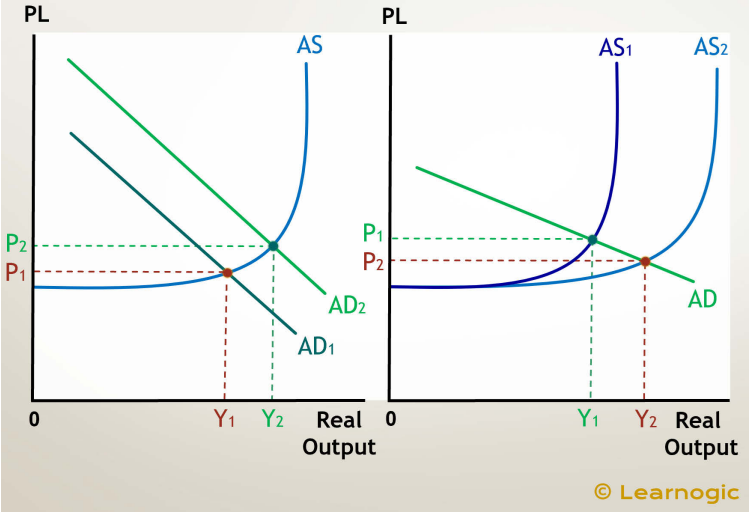
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments 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** Policies may include: • Improved education/training to increase skill level of workforce • Increase in provision and quality of apprenticeships • Improved healthcare to ensure workers take less time off/are healthier at work • Improved infrastructure, e.g. roads, railways, ports, airports, to reduce delays in transporting goods around the country/abroad • Improved telecommunications infrastructure (e.g. faster broadband internet) so businesses can work quicker, communicate with foreign firms better, etc. • Relaxing the planning system to improve house-building and efficiency in construction industry; improve labour mobility **NB For a Level 3 response, answers must make clear links to increases in productivity rather than production or output**	**(9)**

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

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

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

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** • People can access jobs further away from where they live, reducing unemployment • Improved ability to transport goods around the country and/or abroad quicker/cheaper • Greater injections into the circular flow leading to a multiplier effect • Helping to reduce inequality across the country by focusing spending on poorer areas of the country, e.g., new train station in Wales, leading to new businesses, jobs, etc. • Diagram showing an increase in AD and/or AS, e.g.:  **NB A correct AD/AS diagram is needed for KAA level 3** **Reference to Extract B is needed for KAA 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** • Significance of impact- will a few new train stations will make that much difference to economic growth? • Depends on the quality of the new infrastructure provided • Depends on if the infrastructure is in the right location to help improve connectivity • Opportunity cost- perhaps spending on education or healthcare would have a larger impact? • Time lag- large infrastructure projects take a long time from initial planning to being completed • Impact on public finances and national debt • Crowding out • Depends on the value of the multiplier	**(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** 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(e)	**Knowledge 3, Application 3, Analysis 3** Potential policies include: • Reform of planning regulations/reducing bureaucracy so that construction of new infrastructure such as wind farms can be sped up • Labour market reforms such as making it easier to hire and fire workers or reducing the power of trade unions in order to increase productivity of firms • Investment in education to improve skill level of future workforce so they are more able to take on jobs where firms are currently struggling to fill vacancies • Investment into healthcare to ensure people aren't unable to work due to waiting for treatments • Increase in immigration to attract more workers to fill shortages • Improvements in transport infrastructure so workers can travel further to access jobs or firms can export their goods quicker/cheaper • Cut corporation tax to stimulate investment in e.g. tech sectors • Privatisation of infrastructure	**(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** • Reforming planning rules may be complicated and take a long time for new laws to get passed by the state and local governments • Improved education won't have an effect until those students have completed their education and entered the workforce • Opportunity cost for the government of large amounts of spending on education/healthcare/infrastructure • Will need to attract migrants with the right skills to fill the shortages in the labour market otherwise it won't solve the problem • Impact on government's budget position and national debt – reference to crowding out • Depends on how well supply-side policies are targeted	**(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** • Understanding / identification of government policies as fiscal policy or supply-side policy • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Investment in education and training to provide a more skilled workforce through increases in the level of human capital • Changes in minimum wage to incentivise employment • Reduction in unemployment and associated benefits to increase incentive to find work • Grants/subsidies/tax breaks to firms • Reduction in tax rates to encourage firms to expand or set up in UK, therefore increasing employment • Reduction in income tax creating a much larger incentive to work, increasing consumption and therefore, employment • Policies to increase real wage flexibility e.g. helping to reduce real wage unemployment • Tax breaks to firms who set up in depressed areas / giving some financial assistance to unemployed workers who move to areas with high employment • Government improving the labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and other measures to increase the activity rate **NB Answer must be linked to *government* policies to access Level 3 or above.** **NB Answer must be linked to *employment* to access Level 3 or above.**	**(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** • Magnitude of the policy change • Conflicts between the policies • Depends if there is spare capacity • Creditworthiness of the UK government • Conflicts with other UK economic objectives • Discussion of effectiveness of individual policies • External factors beyond UK government's control, e.g. slowdown in global economy • Time lags (for e.g. education takes a long time to have impact on productivity)/implementation lags Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks	**(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** 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
6(g)	**Knowledge 4, Application 4, Analysis 6** KAA: • Understanding/definition of supply-side policies • Understanding/definition of productivity • 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 • 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 **NB Award a maximum of Level 3 if there is no link to or discussion of productivity** **Evaluation 6** • Significant time lag for supply-side policies • Difficult to accurately measure productivity • Consideration of effectiveness of supply-side policies such as infrastructure, education and healthcare at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Cut in 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 their short-term profits rather investment on productivity-boosting technology • 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 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.

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
6(g)	**Knowledge 4, Application 4, Analysis 6** • Understanding of employment • Relevant diagram, e.g. AD/AS diagram showing rightward shift of the LRAS curve • Reduction in tax creating a larger incentive to work: government's £10.4 billion cut to national insurance contributions; an extra 94 000 full-time workers • Reduction in unemployment benefits and associated benefits to increase workers incentive to find work: introduced stricter benefit sanctions for people who can work but decline a job offered to them • Changes in the national minimum wage to incentivise employment: e.g. this can be seen as a measure to encourage more benefits claimants into work • Reduction in tax rates to encourage firms to expand/ spend on capital goods, thus increasing employment: 100% tax relief on investment in capital machinery will increase cumulative investment by 0.5% by 2028 • Relaxing migration to have greater access to skilled workers and fill job vacancies: contributing more to an increase in the UK's potential economic growth • Consideration of other employment-focused policies e.g. privatisation or deregulation **Evaluation 6** • Impact depends on the magnitude of policy change/ employment created: increase total employment by 200 000 between 2024 and 2028 – significant change • Time lags and implementation lags – changes may take a long time to feed through into the economy • Discussion of effectiveness of individual policies e.g.: ○ benefit reform may not be effective as most of those affected work limited hours and low pay ○ high interest rates make it expensive for firms to borrow – may refer to Figure 2 and Extract A • Conflicts between the government's macroeconomic policies and/or its macroeconomic objectives for e.g. environmental objectives • Impact depends on if the economy is operating at full capacity or has spare capacity – elasticity of the LRAS • The government's budget deficit makes it difficult to pay for large investments or offer grants/tax breaks • Demand-side policies may be more effective • Critical judgement of the above points discussed	**(20)**

Question Number	Indicative content	Mark
1 (d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effects of policies: Microeconomic effects may include: • fiscal, e.g. 'mildly expansionary policies' such as cutting income tax will increase real wages • monetary e.g. cutting interest rates can reduce the costs of borrowing for individuals and firms. • supply side policies, e.g. privatisation, free trade can make markets more competitive • growth and development strategies e.g. education, debt relief etc. can further alleviate poverty • price controls Macroeconomic effects may include: • Cutting interest rate might cause the peso to further decrease in value, which would cause inflation / increase the value of exports leading to current account improving • Privatisation or other supply side policies can increase international competitiveness **NB for a Level 4 response there must be reference to both economic growth (e.g. rising incomes) and economic development (e.g. longer life expectancy through improved living standards) and a focus on effects for Level 3 and above.** 9 marks for evaluation – might include: • Expansionary fiscal policies might involve an improvement in the redistribution of income • Objectives might conflict, e.g. cutting interest rates can cause inflation or widen inequality, or increased government spending to produce growth might cause inflation (e.g. Phillips Curve) • Policies might conflict, e.g. increasing length of time to gain a permit to reduce externalities can cause a negative supply side impact e.g. by raising production costs for firms.	**(25)**

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

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

Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • on people facing reduced benefits (non-working recipients) • on people facing reduced work-related benefits (e.g. working tax credits) • on firms with increased supply of labour, but higher costs of labour • on firms' incentives, e.g. changes in corporation tax • effects on sectors of economy such as schools, policing from reduced public sector spending • micro effects on supply of labour and on output of firms from changes in marginal tax rates Macroeconomic effects may include: • lower inflation (might involve a discussion of marginal propensity to consume / multiplier) • lower nominal GDP • change in employment / incentives to work • increased income inequality • reduced quality of public services in general • falls in productivity and increased cost push effects as a result of cuts in education or failing infrastructure • reduced crowding out effects as government spending falls in the short term (raising taxes takes longer to reduce the size of the deficit?) • Laffer curve e.g. tax evasion and avoidance Possible evaluation points include: • impact will depend on which areas of government spending are cut, or which type of taxes are raised • depends on multiplier effects within different sub-groups, and depends on the type of tax raised • does the deficit need to be cut at all? Figure 6 shows falling national debt relative to GDP even with a fiscal deficit • questioning the timing of the cut in a deficit – should fiscal austerity be delayed, or is it important to avoid the credit risk of ongoing deficit? • Increase in tax has a smaller effect on crowding out then cutting G. More time delays, might not work, no first round impact on the circular flow of income. • Government failure • Consideration of the size of the public sector **NB for a level 4 there must be reference to:** • **G and T** • **macro and micro effects**	**(25)**

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
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic effects might include:** • on firms e.g. from quicker planning approvals, tax incentives locating to special economic zones, better roads and ports • improved quality of labour force e.g. from education and health reforms (Extract D) • lower bureaucratic costs • lower prices as competition increases **Macroeconomic effects might include:** • lower inflation (might be shown by rightwards or downwards shift of LRAS) • improved balance of payments as exports improve • infrastructure improvements attracts FDI • indirect increased AD via G, I or X, and multiplier effects • increase in real GDP **NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics if developed appropriately.** **NB for a Level 4 answer there must be reference to the context of *Indonesia*.** **Evaluation points might include:** • impact will depend on success of policies – may refer to previous underinvestment in the Extract E, or higher investment in neighbouring countries • Some supply side policies conflict with other policies, e.g. fiscal and there is a fiscal constraint by law (Extract E) • depends on whether supply side policies are interventionist or market-based as to whether there will be an inflationary effect, crowding out effect etc. • labour market still appears to be inflexible (Extract E) • collecting tax to pay for the capital spending or repayment of loans can have negative impact, e.g. government failure, aid dependency	**(25)**

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

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

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effects of increased spending on education to promote heathy eating in the UK. Microeconomic effects may include: • Effects of increased demand for healthy foods/consumer surplus/increased prices (may include supply and demand diagram) or fall in price of HFSS foods • Positive externalities in consumption are internalised (may include divergent MSB and MPB diagram and corresponding movement toward social optimum at MSB=MSC) • Impact on firms which make unhealthy products – increased costs if they diversify/reduced demand e.g. use of healthier ingredients with higher costs. This might be shown on a cost/revenue diagram. • Increased profits for healthy food producers e.g. shown on a costs/revenue diagram • labour market issues, e.g. workforce becomes healthier, and reduced obesity might make workers more productive (increase marginal product) • Opportunity cost of spending on education Macroeconomic effects may include: • Effects on price level and output as G increases, with multiplier effects. May be shown by shift out in AD with effects on price level and real output. • Healthier workforce shifts out the LRAS, with impact of lower prices and higher output • Fiscal implications – crowding out, effect on balancing budget **NB for a Level 4 response there must be micro and macro effect (s). Opportunity cost/shift in PPF/labour markets/competitiveness etc. can be used as micro or macro.** 9 marks for evaluation – questioning might include: • Expansionary fiscal policies not necessarily happening. It might mean expenditure elsewhere is cut (opportunity cost arguments) • Trade-off between objectives e.g. increased spending might cause inflation, depends on the state of the fiscal balance, multiplier etc. • Questioning whether education is effective, or whether other policies are needed, e.g. tax, banning advertisements • Education might be counter-productive/role of state might be questioned e.g. government failure, crowding out effect	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2 (d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic policies to improve competitiveness may include: • Labour force policies e.g. changing NMW will affect ULCs • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. Crossrail • Investment in education/skills or cutting/capping university fees • Joint ventures with global companies e.g. Dyson Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness. Also award policies that are protectionist. • Tax and benefit changes e.g. corporation tax • 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 **NB for a Level 4 response there must be micro and macro policy (s). Some factors could be seen as micro or macroeconomics, such as labour market changes, supply side policies** Possible evaluation points include: • Degree to which the policies might be a success • Depends on other countries (relative competitiveness issue) • Depends on the value of the currency which cannot be directly controlled in the UK. • Depends on relationship with the EU after Brexit • opportunity costs of funds • government failure- lack of information to know where to focus funds	**(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.
	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
6(d)	**Knowledge 4, Application 2, Analysis 2,** Central Bank would use monetary policy (interest rates and quantitative easing) to control inflation: • Tighter monetary policy in response to rising inflation may create a conflict with objective of low unemployment- Phillips curve • Higher interest rates in response to rising inflation may create rising inequality if savers benefit and borrowers suffer • Higher interest rates in response to rising inflation may cause the sterling exchange rate to rise which can worsen the balance of payments on current account • Higher interest rates likely to reduce consumption/investment and therefore AD, so controlling inflation but reducing economic growth **NB Accept expansionary and contractionary monetary policy**	**(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.

Question Number	Indicative content	Mark
6(d) continued	**Evaluation 4** There may not be a conflict between some macroeconomic objectives: • UK economy has had both low inflation and low unemployment recently so is the Phillips curve really still valid? • If incomes keep pace with inflation then inequality won't be an issue • Cutting QE reduces asset prices thereby reducing inequality • Depends on significance of change in monetary policy	**(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(g)	**Knowledge 4, Application 4, Analysis 6,** KAA: • Understanding of economic growth objective • Implicit or explicit identification of the UK's macroeconomic objectives • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Potential conflicts include: • Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in the supply chain cause cost and wage pressures • Balance of payments position may deteriorate as incomes rise and more imports are demanded as UK has a high marginal propensity to import • Growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do • Increased growth tends to lead to high external costs / deterioration of the environment from congestion and pollution **Evaluation 6** • Significance of the stage in trade cycle which the country is in, and implications for elasticity of AS • If it is supply side growth (rather than demand-side) then fewer conflicts with other objectives • Initial state of inflation: reference to Figure 1 • The rate of actual growth in comparison to the growth of the productive capacity • Proximity to full employment level of output • Full employment/fiscal position should not conflict with economic growth • Increase in AS tends to happen in the longer run • Extent of domestic economy's capacity to meet rising demand (i.e. if economy can supply wants) • Extent of country's international competitiveness • Extent of effectiveness of environmental policies • Balance of payments position may improve if it is export-led growth / if generated through increase in productivity (such as through investment) • Growth may lead to higher government revenues and scope to improve polluting old technologies • Developed economies may use green technology	**(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 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.

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
6(f)	**Knowledge 4, Application 4, Analysis 6** KAA: • Understanding of demand side policies as fiscal policy and monetary policy • Implicit or explicit identification of the UK's macroeconomic objectives • AD/AS diagram showing shift in the AD curve consistent with analysis Explanation and application (including the use of current data) of how policies might conflict with objectives: <u>Fiscal policy:</u> • Increasing government spending, increasing employment and/or growth. Potential conflict with inflation and protection of environment • Reduction in taxation, lowering tax burden so increasing AD, increasing employment and/or growth. Potential conflict with income inequality and a balanced budget <u>Monetary policy:</u> • Reduction in interest rates (or an increase in money supply) increasing employment and growth. Potential conflict with inflation • Reduction in interest rates (or an increase in money supply), weakening exchange rate thus improving current account position of balance of payments. Potential conflict with inflation. **Evaluation 6** • If government spending increases on health and education, AS will increase therefore no inflation • If increased government spending increases growth, this should increase tax revenues • Lower interest rates might lead to increased investment causing AS to increase, reducing inflationary pressures • Tax cuts will be ineffective if used to increase savings or repay debts • Cuts in Bank of England's interest rate will be ineffective if banks unwilling to lend or if banks do not reduce interest rates to customers • Time lag for full effect of these policies (takes nearly 18 to 24 months) • Depends on the elasticity of the LRAS curve/ spare capacity	**(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.