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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

## The Financial Sector (4.4)

**A Level Economics Theme 4**

18 questions · 109 marks · Mark schemes included

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**HOW TO USE THIS BOOKLET**

Questions are grouped by specification sub-topic and run from the lowest mark tariff to the highest within each one.

Click any row below to jump straight to that sub-topic or question.

On every question page, click ANSWER in the top-right corner to jump to its mark scheme.

Diagrams, graphs, tables and data are printed exactly as they appeared in the original papers.

| QUESTION                                            | SOURCE                    | MARKS            | PAGE      |
|-----------------------------------------------------|---------------------------|------------------|-----------|
| <b>4.4.1 ROLE OF FINANCIAL MARKETS</b>              |                           | 14 Qs · 63 marks | <b>2</b>  |
| 1. <b>Q5(b)</b>                                     | A Level Paper 2 June 2018 | 1                | <b>3</b>  |
| 2. <b>Q1(a)</b>                                     | A Level Paper 2 June 2019 | 1                | <b>4</b>  |
| 3. <b>Q3(b)</b>                                     | A Level Paper 2 June 2024 | 1                | <b>5</b>  |
| 4. <b>Q5(a)</b>                                     | A Level Paper 2 June 2018 | 2                | <b>6</b>  |
| 5. <b>Q5(c)</b>                                     | A Level Paper 2 June 2018 | 2                | <b>7</b>  |
| 6. <b>Q1(b)</b>                                     | A Level Paper 2 June 2019 | 2                | <b>8</b>  |
| 7. <b>Q1(c)</b>                                     | A Level Paper 2 June 2019 | 2                | <b>9</b>  |
| 8. <b>Q5</b>                                        | A Level Paper 2 June 2018 | 5                | <b>10</b> |
| 9. <b>Q1</b>                                        | A Level Paper 2 June 2019 | 5                | <b>12</b> |
| 10. <b>Q6(a)</b>                                    | A Level Paper 2 June 2019 | 5                | <b>14</b> |
| 11. <b>Q5</b>                                       | A Level Paper 2 June 2022 | 5                | <b>18</b> |
| 12. <b>Q2(a)</b>                                    | A Level Paper 3 June 2023 | 5                | <b>20</b> |
| 13. <b>Q2(c)</b>                                    | A Level Paper 3 June 2019 | 12               | <b>24</b> |
| 14. <b>Q6(e)</b>                                    | A Level Paper 2 June 2018 | 15               | <b>30</b> |
| <b>4.4.2 MARKET FAILURE IN THE FINANCIAL SECTOR</b> |                           | 3 Qs · 31 marks  | <b>36</b> |
| 15. <b>Q5(b)</b>                                    | A Level Paper 2 June 2022 | 1                | <b>37</b> |
| 16. <b>Q3</b>                                       | A Level Paper 2 June 2024 | 5                | <b>38</b> |
| 17. <b>Q2(d)</b>                                    | A Level Paper 3 June 2023 | 25               | <b>40</b> |
| <b>4.4.3 ROLE OF CENTRAL BANKS</b>                  |                           | 1 Q · 15 marks   | <b>47</b> |
| 18. <b>Q6(e)</b>                                    | A Level Paper 2 June 2019 | 15               | <b>48</b> |



# QUESTIONS

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18 questions · 109 marks · 3 sub-topics

## SUB-TOPIC 4.4.1

# ROLE OF FINANCIAL MARKETS

Sub-topic 4.4.1 · 14 questions · 63 marks · lowest tariff first



**5 UK total bank lending to individuals, percentage change on previous year**

|             |      |
|-------------|------|
| <b>2014</b> | 2.5% |
| <b>2015</b> | 3.2% |
| <b>2016</b> | 4.0% |

(Source: Bank of England 2017)

(b) Which **one** of the following is most likely to result from an increase in bank lending to individuals?

(1)

- ☒ **A** An improvement in net trade ( $X-M$ )
- ☒ **B** An increase in consumption
- ☒ **C** An increase in unemployment
- ☒ **D** Deflation

---

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



## SECTION A

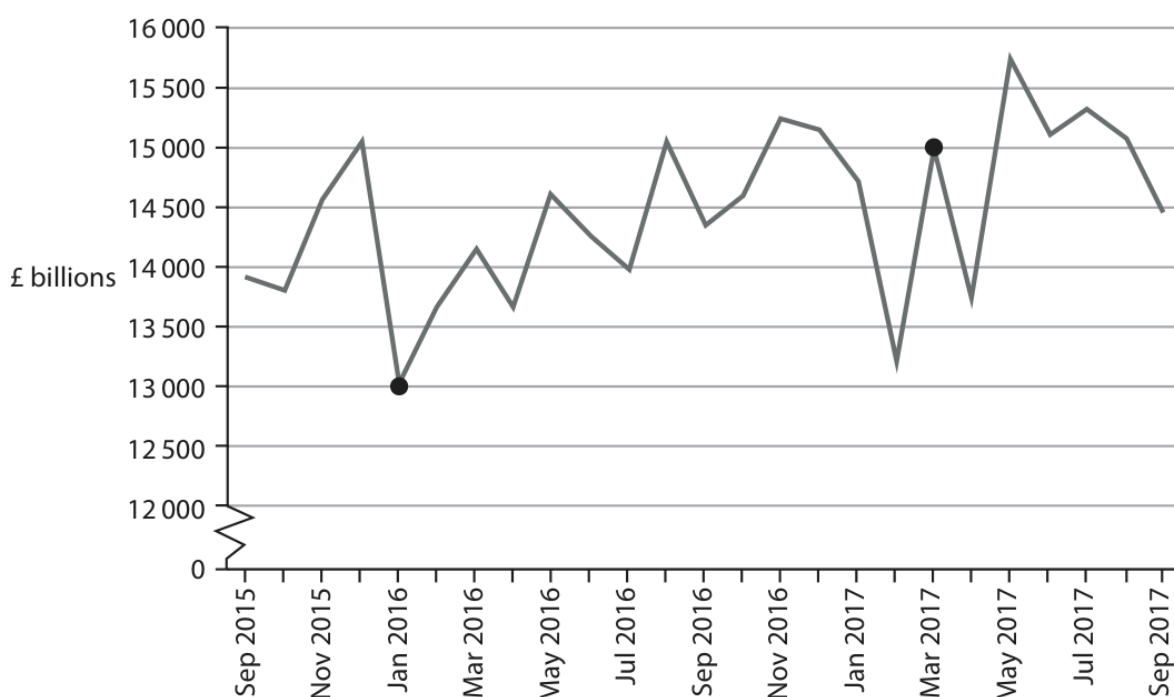
Answer ALL questions. Write your answers in the spaces provided.

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

You are advised to spend 30 minutes on this section.

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

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



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

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

(1)

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

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



- 3** A group of banks, including Barclays and JP Morgan, have been fined more than €1 billion by the EU's competition authorities for rigging the foreign exchange market after the Global Financial Crisis of 2008. The EU found that traders at the banks had used online chat rooms to share information about customers' orders, prices and other trading activities in order to manipulate the currency markets.

(Source: adapted from <https://www.ft.com/content/73163fa0-77c5-11e9-bbad-7c18c0ea0201>)

(b) Which **one** of the following is a role of financial markets?

To:

(1)

- ☐ **A** discourage saving
- ☐ **B** promote moral hazard
- ☐ **C** provide forward markets
- ☐ **D** restrict free trade

---

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



5 UK total bank lending to individuals, percentage change on previous year

|      |      |
|------|------|
| 2014 | 2.5% |
| 2015 | 3.2% |
| 2016 | 4.0% |

(Source: Bank of England 2017)

(a) Explain **one** likely reason why consumer demand for bank loans has increased. (2)

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

|             |      |
|-------------|------|
| <b>2014</b> | 2.5% |
| <b>2015</b> | 3.2% |
| <b>2016</b> | 4.0% |

(2)

7





**5 UK total bank lending to individuals, percentage change on previous year**

|             |      |
|-------------|------|
| <b>2014</b> | 2.5% |
| <b>2015</b> | 3.2% |
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(Source: Bank of England 2017)

(a) Explain **one** likely reason why consumer demand for bank loans has increased.

(2)

.....

.....

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(b) Which **one** of the following is most likely to result from an increase in bank lending to individuals?

(1)

- ☐ **A** An improvement in net trade ( $X-M$ )
- ☐ **B** An increase in consumption
- ☐ **C** An increase in unemployment
- ☐ **D** Deflation



(2)

**TOTAL FOR SECTION A = 25 MARKS**



## SECTION A

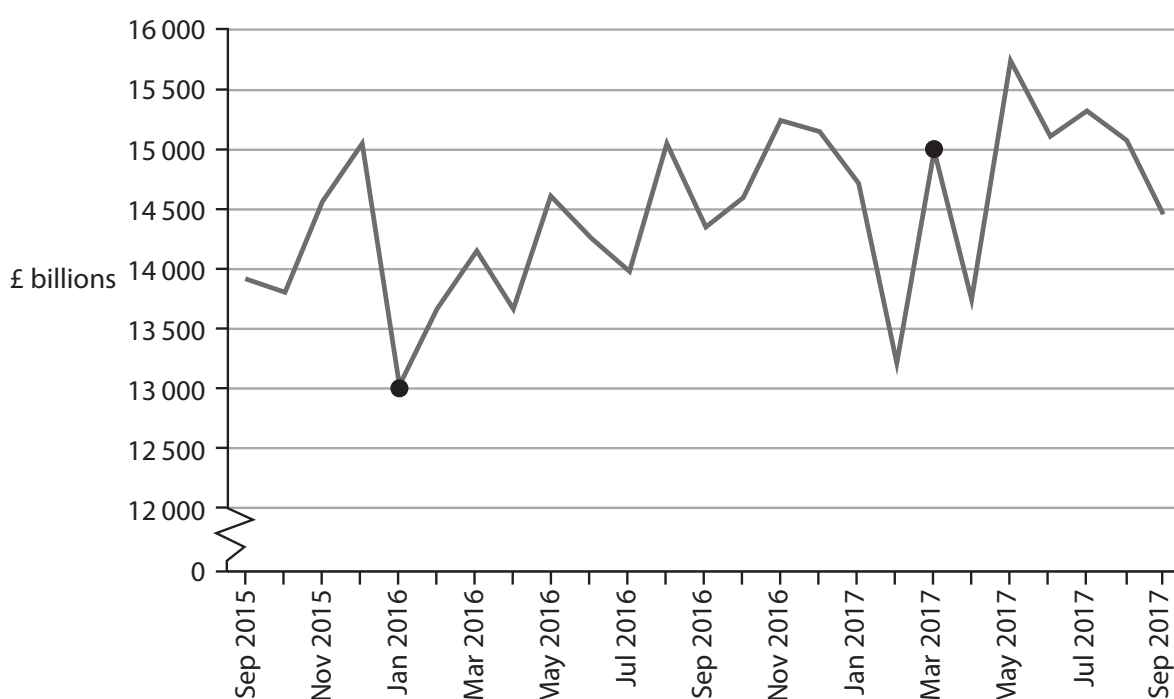
Answer ALL questions. Write your answers in the spaces provided.

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

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



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

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(1)

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



(2)

[illegible]

(2)



## SECTION B

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

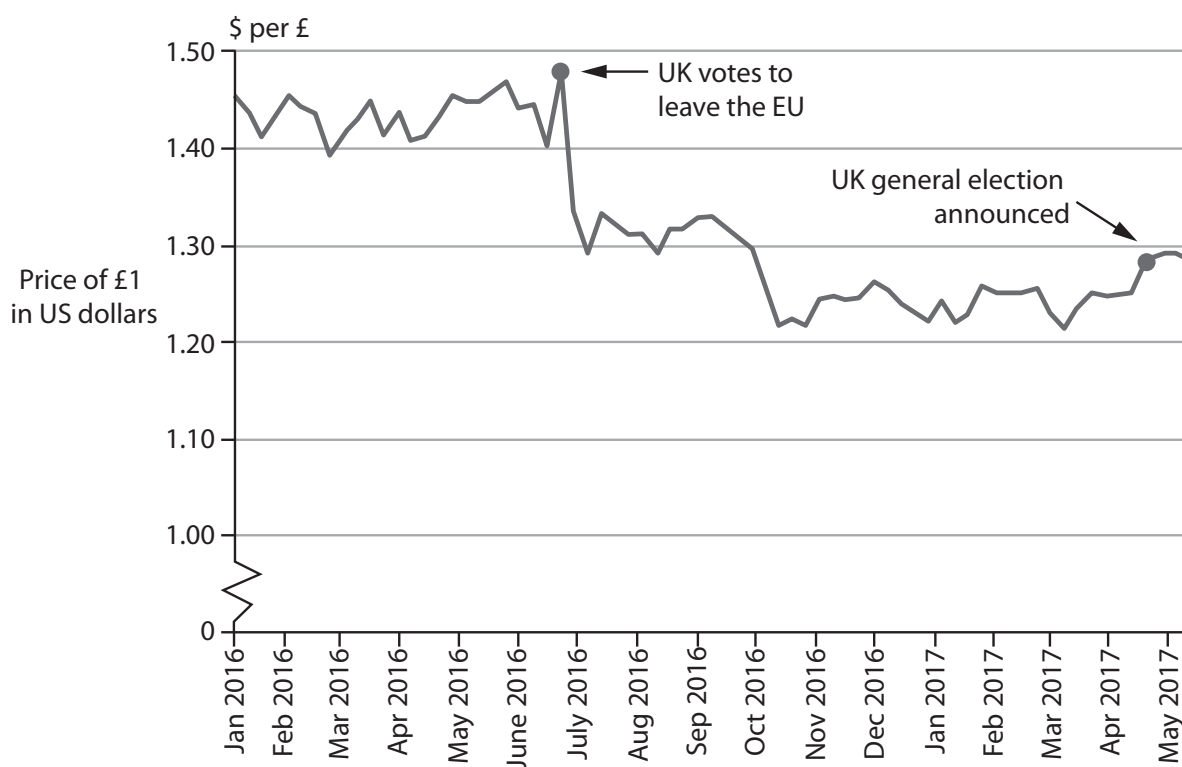
Write your answers in the spaces provided.

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. 5

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. 10

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. 15

(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)



(5)



5 In May 2020, the UK government introduced a loan scheme to help small businesses survive the downturn in the economy. Small businesses could borrow up to £50 000 at an interest rate of 2.5% for up to 6 years from a bank. The government guaranteed 100% of the loans, to enable banks to issue them quickly, and only minimal checks were made on borrowers.

(Source: adapted from <https://www.ft.com/content/1ca15db2-93e4-4e34-877d-110309cd9716>)

(a) With reference to the information above, explain **one** role of financial markets.

(4)

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

(b) Which **one** of the following would be a risk if 'only minimal checks were made on borrowers' in this loan scheme?

(1)

- ☐ **A** Asymmetric information
- ☐ **B** Crowding out
- ☐ **C** Market rigging
- ☐ **D** Speculation

(Total for Question 5 = 5 marks)

**TOTAL FOR SECTION A = 25 MARKS**



## SECTION B

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

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

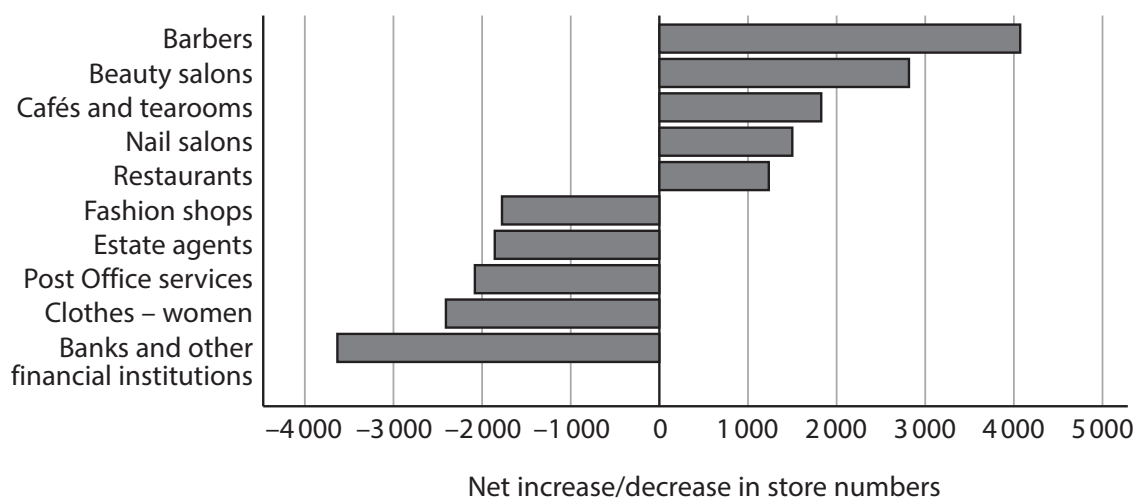
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

## Question 2

## Changes in the nature of UK towns and cities

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



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

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



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



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

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

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

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

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

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

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

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

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

5

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

10

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

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

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

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

5

10

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

(5)



## SECTION B

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

## Question 2

## Mozambique

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

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

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

## Extract D

## Rising debt levels in Africa

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

5

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

15

20

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



**Extract E****Mozambique's economic stability is being put to the test**

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line. 5

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. 10  
In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1. 15

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

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability. 20  
25

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





(12)







## SECTION B

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

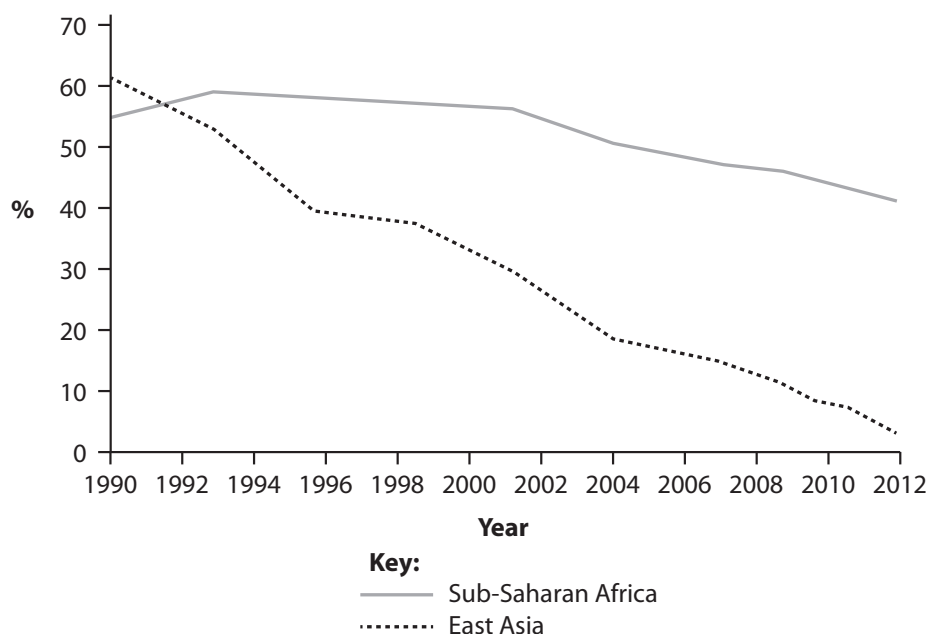
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

## Question 6

## Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US\$1.90-a-day 2011 PPP)



(Source: <https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf>)

## Extract A

## Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

5

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

10

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

15

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

20

(Source: adapted from <https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism>)



**Extract B****Tackling inequality**

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers. 5

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution. 10 15

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable. 20 25

(Source: adapted from <https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf>)

(15)







**(Total for Question 6 = 50 marks)**



## SUB-TOPIC 4.4.2

# MARKET FAILURE IN THE FINANCIAL SECTOR

Sub-topic 4.4.2 · 3 questions · 31 marks · lowest tariff first



- 5 In May 2020, the UK government introduced a loan scheme to help small businesses survive the downturn in the economy. Small businesses could borrow up to £50 000 at an interest rate of 2.5% for up to 6 years from a bank. The government guaranteed 100% of the loans, to enable banks to issue them quickly, and only minimal checks were made on borrowers.

(Source: adapted from  
<https://www.ft.com/content/1ca15db2-93e4-4e34-877d-110309cd9716>)

- (b) Which **one** of the following would be a risk if 'only minimal checks were made on borrowers' in this loan scheme?

(1)

- ☐ A Asymmetric information
- ☐ B Crowding out
- ☐ C Market rigging
- ☐ D Speculation

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



**3** A group of banks, including Barclays and JP Morgan, have been fined more than €1 billion by the EU’s competition authorities for rigging the foreign exchange market after the Global Financial Crisis of 2008. The EU found that traders at the banks had used online chat rooms to share information about customers’ orders, prices and other trading activities in order to manipulate the currency markets.

(Source: adapted from <https://www.ft.com/content/73163fa0-77c5-11e9-bbad-7c18c0ea0201>)

(a) With reference to the information above, explain what is meant by ‘market rigging’.

(4)

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(b) Which **one** of the following is a role of financial markets?

To:

(1)

- ☐ **A** discourage saving
- ☐ **B** promote moral hazard
- ☐ **C** provide forward markets
- ☐ **D** restrict free trade

(Total for Question 3 = 5 marks)

## SECTION B

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

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

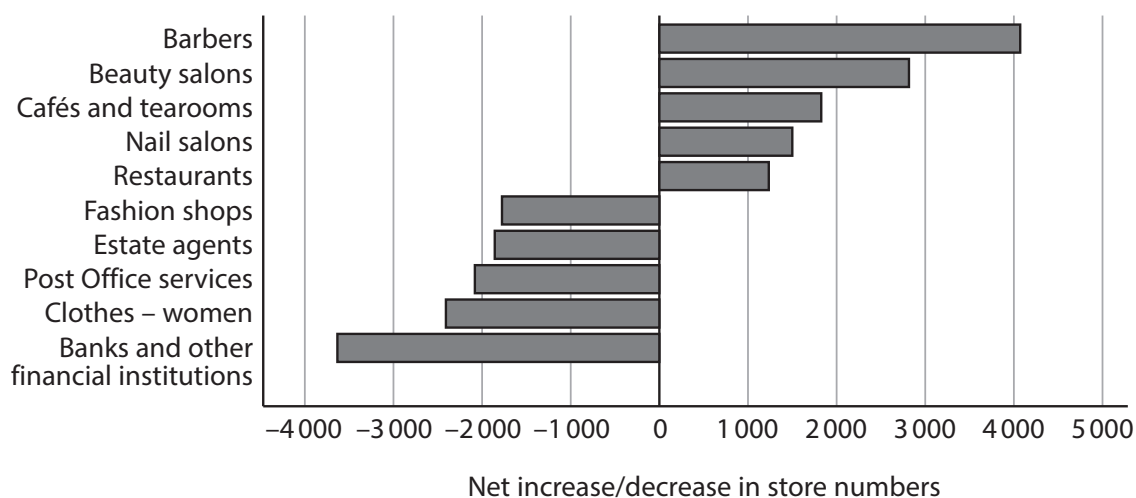
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

## Question 2

## Changes in the nature of UK towns and cities

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



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

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



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



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

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

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

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

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

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

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

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

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

5

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

10

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

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

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

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

5

10

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

(25)

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





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

46

SUB-TOPIC 4.4.3

# ROLE OF CENTRAL BANKS

Sub-topic 4.4.3 · 1 question · 15 marks · lowest tariff first



## SECTION B

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

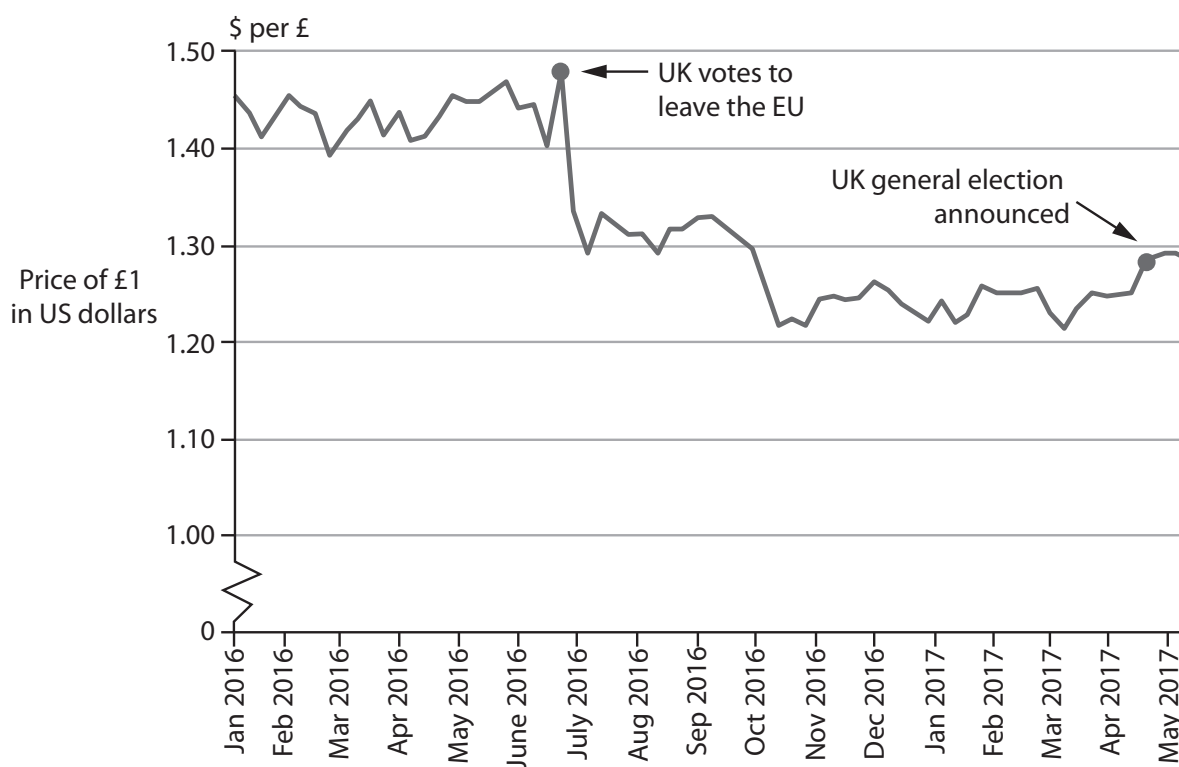
Write your answers in the spaces provided.

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. 5

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. 10

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. 15

(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)



(15)



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**(Total for Question 6 = 50 marks)**

**TOTAL FOR SECTION B = 50 MARKS**



# MARK SCHEMES

official mark schemes



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(a)</b>     | <p style="text-align: center;"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b><br/>Identification of one reason (1), e.g.</p> <ul style="list-style-type: none"> <li>• Lower interest rates (1)</li> <li>• Increase in consumer confidence (1)</li> </ul> <p><b>Analysis:</b><br/>Linked development (1), e.g.</p> <ul style="list-style-type: none"> <li>• Lower interest rates makes loans more affordable (1)</li> <li>• Higher consumer confidence encourages consumers to borrow believing they can repay in the future (1)</li> </ul> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                        | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(b)</b>     | <p><b>The only correct answer is B</b></p> <p><i><b>A</b> is not correct because this would either not be related or would increase the trade deficit</i></p> <p><i><b>C</b> is not correct because this would be likely to reduce unemployment</i></p> <p><i><b>D</b> is not correct because this would be likely to cause inflation</i></p> | <b>(1)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                       | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5 (c)</b>    | <p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b> 1 mark for correct appropriate calculation/formula e.g.</p> <p>Base year 2015 = 100 (1)</p> <p><b>OR</b></p> <p>4% (1)</p> <p>Answer = <b>104</b></p> <p>Award 2 marks for correct answer</p> | <b>(2)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(a)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge/Understanding:</b> Up to 2 marks for e.g.</p> <ul style="list-style-type: none"> <li>• Absolute poverty: Lacking basic necessities to survive (1)</li> <li>• Relative poverty: Relatively poor compared to rest of your country (1)</li> </ul> <p><b>Application:</b> Up to 2 marks for e.g. (1+1 OR 2)</p> <ul style="list-style-type: none"> <li>• Absolute poverty: World Bank definition: \$1.90 a day (1) PPP values (1)</li> <li>• Relative poverty: 60%/50% (1) below median household income in your country (1)</li> <li>• Reference to Figure 1 or Extract A/B (1+1)</li> </ul> <p><b>Analysis:</b> Up to 1 mark for e.g.</p> <ul style="list-style-type: none"> <li>• Absolute poverty can decline at the same time as relative poverty is increasing (1)</li> <li>• There may be relative poverty in a country but not necessarily absolute poverty (1)</li> </ul> | <b>(5)</b> |



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

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

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



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mark       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>3(a)</b>     | <p><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding and analysis (3):</b></p> <ul style="list-style-type: none"> <li>• Market rigging is a form of market failure in financial markets (1)</li> <li>• It involves unfairly or illegally fixing/manipulating the price up or down/interest rate/exchange rate/bid (1)</li> <li>• Banks/traders work together/collude as a cartel (1)</li> <li>• Insider trading (1)</li> <li>• Asymmetric information (1)</li> <li>• Symptom of oligopoly (1)</li> <li>• The banks will have made additional profits from market rigging (1)</li> <li>• Consumers will have lost out from rates not being where they would be in a competitive market (1)</li> </ul> <p><b>Application (1):</b></p> <p>A relevant reference to the data or other relevant data e.g.</p> <ul style="list-style-type: none"> <li>• Fined more than €1 billion (1)</li> <li>• Share information about customers' orders, prices and other trading activities (1)</li> <li>• To manipulate currency markets (1)</li> <li>• Online chatrooms (1)</li> <li>• Libor or other relevant examples (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                  | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>3(b)</b>     | <p><b>The only correct answer is C</b></p> <p><i>A is not correct because this is not a role of financial markets</i></p> <p><i>B is not correct because this is not a role of financial markets</i></p> <p><i>D is not correct because this is not a role of financial markets</i></p> | <b>(1)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(a)</b>     | <p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge/Understanding:</b> (1+1 or 2) marks<br/>Explanation of forward markets in currencies, e.g.</p> <ul style="list-style-type: none"> <li>• Firms buy their currency in advance (1)</li> <li>• Firms agree a fixed price (1) for purchase of foreign currency in the future (1)</li> </ul> <p><b>Application:</b> (1+1) marks<br/>Reference to Extract A, e.g.</p> <ul style="list-style-type: none"> <li>• Currency 'has a big impact' on their business</li> <li>• Buying currency as soon as a large order is confirmed</li> <li>• 'The pound's post-Brexit referendum depreciation'</li> </ul> <p>Other application e.g. use of Figure 1. NB at least one piece of data must come from Extract A for the full 2 Ap marks.</p> <p><b>Analysis:</b> (1) mark<br/>Linked development, e.g.</p> <ul style="list-style-type: none"> <li>• Enables firms to reduce risk/uncertainty</li> <li>• Firms can be certain about the cost of their imports in pounds</li> </ul> | <b>(5)</b> |



| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(a)</b>     | <p align="center"><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding of one role (2):</b><br/> <b>E.g.</b></p> <ul style="list-style-type: none"> <li>• To lend to businesses and individuals (1) to help them consume/invest (1)</li> <li>• To facilitate the exchange of goods and services (1) increasing consumption/investment (1)</li> <li>• To facilitate saving (1) so consumers can build up money to purchase expensive items (1)</li> <li>• To provide forward markets (1) so firms can reduce the risk of fluctuating prices (1)</li> <li>• To provide a market for equities (1) so firms can seek investment from shareholders (1)</li> </ul> <p><b>Application (1):</b><br/> A relevant reference to the data, e.g.</p> <ul style="list-style-type: none"> <li>• Many small businesses required a loan to help them survive the downturn in the economy (1)</li> <li>• Interest rate of 2.5% for up to 6 years (1)</li> <li>• Up to £50,000 could be borrowed for up to 6 years (1)</li> </ul> <p><b>Analysis (1):</b><br/> Linked development 1 mark for e.g.</p> <ul style="list-style-type: none"> <li>• Businesses will already have accounts, loans, etc. with banks so the banks were in a position to quickly issue these loans to their customers (1)</li> <li>• Loans provided finance for firms suffering a drop in demand (1)</li> <li>• Loans allow firms to grow/expand more quickly (1)</li> <li>• Helps to boost AD/increase economic growth (1)</li> <li>• Firms can invest in innovation (1)</li> <li>• Increase in productivity (1)</li> <li>• Impact on housing market (1)</li> <li>• Importance of saving to help development (1)</li> <li>• Bonds to finance government spending (1)</li> </ul> | <b>(4)</b> |

| Question Number | Answer                                                                                                                                                                                                                                                                                                                    | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>5(b)</b>     | <p><b>The only correct answer is A</b></p> <p><i><b>B</b> is not correct because this would not lead to crowding out</i></p> <p><i><b>C</b> is not correct because there is no suggestion of market rigging taking place</i></p> <p><i><b>D</b> is not correct because there is no suggestion of speculation here</i></p> | <b>(1)</b> |



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2(a)            | <p><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge</b></p> <p><b>Up to 2 marks; points might include:</b></p> <ul style="list-style-type: none"> <li>• Identification of <b>one</b> role of financial markets (1)<br/>e.g. <ul style="list-style-type: none"> <li>• to facilitate saving • to facilitate lending to businesses/individuals</li> <li>• to facilitate the exchange of goods and services</li> <li>• to provide forward markets in currencies and commodities</li> <li>• to provide a market for equities</li> <li>• commercial interest rate determination</li> </ul> </li> </ul> <p>Understanding of what a financial market does (1) e.g.</p> <ul style="list-style-type: none"> <li>• to finance business investment</li> <li>• to take out a mortgage</li> </ul> <p><b>Application (1 + 1)</b><br/>Award valid data use only e.g.</p> <ul style="list-style-type: none"> <li>• 'mortgage sector withdrawing deals' (1)</li> <li>• 'fixed-rate mortgages rising from 2% to over 5.5% (1)'</li> <li>• 'increase cost of borrowing of over £5200 a year by 2024' (1)</li> <li>• 'mortgage interest rates between 5% and 7%' (1)</li> <li>• 'Lenders in mortgage market' (1)</li> <li>• Relevant example from own knowledge e.g. market rigging, current interest rates (1)</li> </ul> <p><b>Analysis (1 mark)</b> for linked development</p> <ul style="list-style-type: none"> <li>• link made to consumption/investment e.g. enabling individuals to purchase big ticket items; firms invest in capital goods</li> <li>• precautionary saving</li> <li>• to reduce risk of exchange rate of commodity price fluctuations</li> </ul> | (5)  |



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Mark       |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>2(c)</b>     | <p><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul style="list-style-type: none"> <li>• Microfinance meaning and role</li> <li>• Plugs the savings gap / Harrod-Domar model</li> <li>• Enables firms to be set up – fixed or start-up costs</li> <li>• enables firms to invest in human capital and overcome primary product dependency</li> <li>• Use of Figure 3 to illustrate size and importance of microfinance operations</li> <li>• Use of Extract F – e.g. '100 000 borrowers', many new business start-ups which could not have gained finance from any other source', 'unfulfilled demand for microfinance'</li> <li>• How borrowers benefit – small firms can be set up or expanded, allowing firms to gain capital and materials to set up businesses, provide more employment, lead to improved living standards</li> <li>• Borrowers lack collateral so cannot borrow from banks in the normal way</li> <li>• The money is in small amounts £200 to £300, paid back regularly and over a short period of time, on which basis the firm forms a business plan for which the lender will approve or advise</li> <li>• Microfinance allows firms to form without the stigma of aid or the dependence of FDI</li> <li>• Use of cost/revenue analysis to support arguments (perfect/monopolistic competitive market)</li> <li>• Macro analysis (AD/AS) must link back to borrowers, e.g. increased standard of living, allows firms to expand/invest</li> </ul> <p><b>NB For Level 3, answers must link to borrowers</b></p> <p><b>NB The answer can take the form that there are more costs than benefits as part of the KAA, using the benefits as the evaluation</b></p> | <b>(8)</b> |



| Level                     | Mark                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Descriptor                                                                                                                                                                                                                                                                                                                                                                                |            |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
|                           | 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                         |            |
| Level 1                   | 1–2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences.                                                                                                                           |            |
| Level 2                   | 3–5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance.                                                       |            |
| Level 3                   | 6–8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |            |
| Question Number           | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
| <b>2 (c)</b><br>continued | <p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"><li>• Use of Figure 2 to show high base rates and Figure 3 to show average 75% APR on microfinance</li><li>• Large potential for expansion (Extract F)</li><li>• May encounter lack of demand as more than half of the population live below the poverty line</li><li>• Weak infrastructure does not allow borrowers to access markets</li><li>• Alternatives to microfinance could be considered, e.g. aid, FDI, debt relief</li><li>• Reasons why microfinance can be damaging to borrowers, e.g. pressure on women (98% of borrowers), over-indebtedness, poor guidance given to borrowers, macro-finance is needed for economies of scale, people borrowing multiple times, for uses which are social not business orientated.</li><li>• Large numbers of people setting up similar businesses/highly competitive e.g. food stalls, so profits tend to be low/need for dynamic efficiency</li><li>• Funds from private banks very different from NGOs – banks might be more cautious, and therefore more likely to succeed, might be better advice, support from specialists, softer terms from either institution might lead to moral hazard</li></ul> |                                                                                                                                                                                                                                                                                                                                                                                           | <b>(4)</b> |

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



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(e)</b>     | <p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>The role of the financial sector in the growth and development in developing countries includes:</p> <ul style="list-style-type: none"> <li>• facilitating saving so banks have more funds for lending, facilitating investment and therefore growth</li> <li>• promoting lending to enable more investment in the economy</li> <li>• exchanging currencies- enabling firms to imports parts and materials- often more cheaply- and also enabling them to export - helping to increase size of their market</li> <li>• providing a market for equities</li> <li>• Harrod-Domar model</li> <li>• Microfinance</li> <li>• Central banks/international organisations</li> </ul> <p><b>NB For a Level 3 response candidates must refer specifically to growth/development in a developing country/countries/regions</b></p> | <b>(9)</b> |

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



| Question Number          | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                        | Mark       |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(e)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Clear rule of law required for financial sector to develop</li> <li>• Risk of corruption</li> <li>• Risk of market failure in financial marketss</li> <li>• Lack of financial literacy in developing countries may limit potential</li> <li>• Other factors may play a larger role, e.g. healthcare, infrastructure, education</li> </ul> | <b>(6)</b> |

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

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



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

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



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



| Question Number | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                           | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>6(e)</b>     | <p align="center"><b>Knowledge 3, Application 3, Analysis 3</b></p> <p><b>Arguments that providing support to banks is the best policy:</b></p> <ul style="list-style-type: none"> <li>• Economy is dependent on financial system working smoothly</li> <li>• People could have lost their savings if banks had been allowed to fail, leading to massive drop in confidence</li> <li>• Potential for risk of depression had government not intervened</li> <li>• Government has recouped much of the money invested into bailing out the banks anyway- Government 'recovered every penny of its investment in Lloyds'</li> </ul> <p><b>NB Discussion of other policies, e.g. central bank regulation, can also be awarded as KAA</b></p> <p><b>NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation</b></p> |                                                                                                                                                                                                                                                                                                                                                                                           | <b>(9)</b> |
| Level           | Mark                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Descriptor                                                                                                                                                                                                                                                                                                                                                                                |            |
|                 | 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                         |            |
| Level 1         | 1–3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences.                                                                                                                           |            |
| Level 2         | 4–6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance.                                                       |            |
| Level 3         | 7–9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |            |



| Question Number          | Indicative content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                          | Mark |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>6(e)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <p><b>Arguments that providing support to banks is not the best policy:</b></p> <ul style="list-style-type: none"> <li>• Huge expenditure for government that, for example in the case of the UK, already has a significant national debt- £65bn bailout of RBS and LBG. Will have to be repaid by future generations of taxpayers.</li> <li>• Moral hazard: will encourage reckless behaviour from the banks in the future, expecting a bailout again</li> <li>• Government looking unlikely to recoup losses from RBS for some time (in contrast to Lloyds)</li> <li>• Other policies, e.g. expansionary fiscal policy, may have been more effective</li> </ul> <p><b>NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation</b></p> |                                                                                                                                                                                          | (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.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning. |      |
| Level 3                  | 5–6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Evaluative comments supported by relevant chain of reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence.     |      |

