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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Role of the State in the Macroeconomy (4.5)

A Level Economics Theme 4

6 questions · 97 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
4.5.1 PUBLIC EXPENDITURE		1 Q · 25 marks	2
1. Q8	A Level Paper 2 June 2025	25	3
4.5.2 TAXATION		3 Qs · 22 marks	7
2. Q6(a)	A Level Paper 2 June 2024	5	8
3. Q6(a)	A Level Paper 2 June 2025	5	15
4. Q6(d)	A Level Paper 2 June 2022	12	16
4.5.3 PUBLIC SECTOR FINANCES		1 Q · 25 marks	22
5. Q2(e)	A Level Paper 3 June 2017	25	23
4.5.4 MACROECONOMIC POLICIES IN A GLOBAL CONTEXT		1 Q · 25 marks	30
6. Q8	A Level Paper 2 November 2021	25	31



QUESTIONS

6 questions · 97 marks · 4 sub-topics

SUB-TOPIC 4.5.1

PUBLIC EXPENDITURE

Sub-topic 4.5.1 · 1 question · 25 marks · lowest tariff first



8 In Sudan, public services such as healthcare are struggling to keep running. Power outages, blocking of internet access, and fuel shortages, will mean hospitals struggle to operate. Many of the hospitals in the capital city, Khartoum, have reported shortages of doctors, blood, transfusion equipment, medical supplies, and other skilled workers and commodities.
(Source adapted from: [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(23\)00858-9/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(23)00858-9/fulltext))

Q) Evaluate the possible factors influencing the level of economic development in a developing country of your choice.

(25)

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Continue on separate paper if required.



SUB-TOPIC 4.5.2

TAXATION

Sub-topic 4.5.2 · 3 questions · 22 marks · lowest tariff first



SECTION B

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

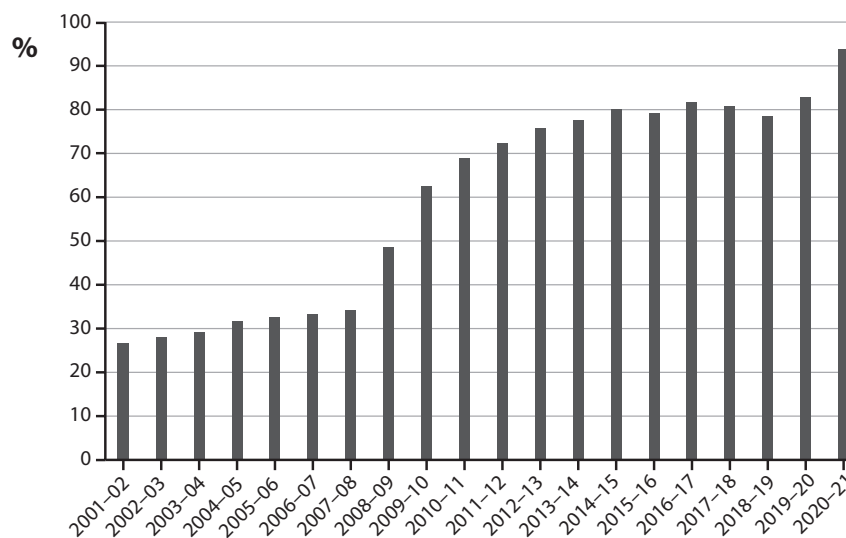
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

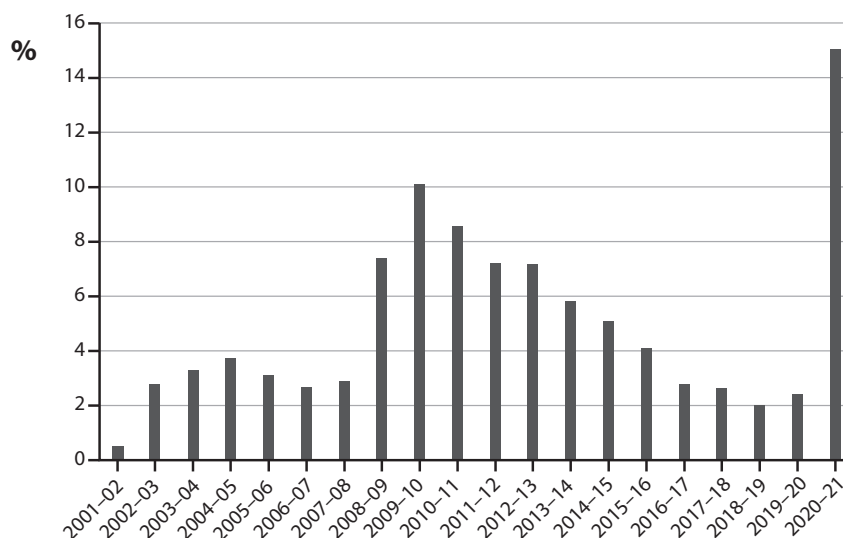
The UK Economy

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



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

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



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



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



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

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

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

(Source: Gov.uk)

Extract A

Freeze in income tax thresholds from 2023 onwards

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

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

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

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

Extract B**UK Monetary Policy Decisions**

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

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

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

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

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

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

(5)

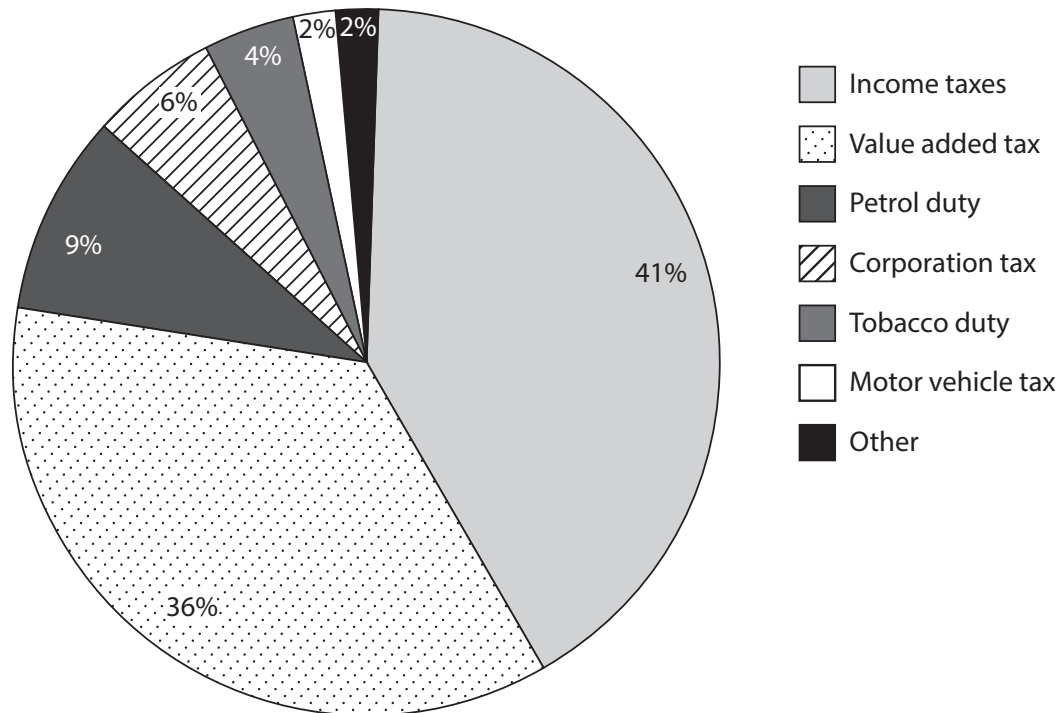


Sources for use with SECTION B

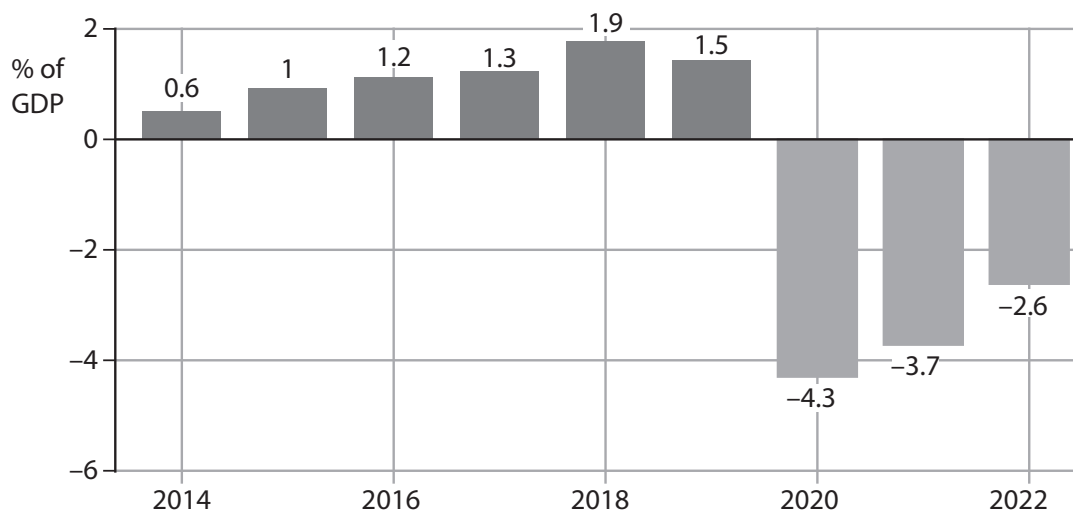
Read the following figures (1–2) and extracts (A and B) before answering Question 6.

Question 6**The German economy**

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



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

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

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

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

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

5

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

10

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

15

20

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

25

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

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

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

5

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



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

(5)



SECTION B

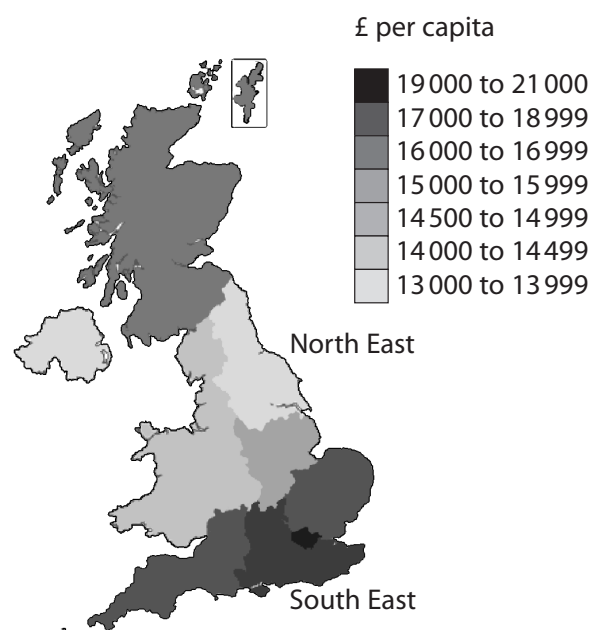
Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6**UK Government spending and inequality**

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



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

Figure 2: UK subjective happiness by income, April 2021

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

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

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

Extract A**Regional inequality in the UK**

Geographically, the UK is highly unequal in incomes. According to research from the University of Sheffield, the estimate of the Gini coefficient is 0.34. There are a number of different reasons for this. First, labour in poor places tend to develop too few skills, with a lack of education holding people back. In Rotherham in the north of England, for example, 21% of disadvantaged 18-year-olds from state schools and colleges go on to higher education compared to 41% in London. Secondly, there is a lack of infrastructure spending in northern cities compared to London. In 2017–18, 28% of public expenditure on transport – and 46% of capital expenditure on railways – was spent in London. The argument for this is that London gets a lot of public money because a lot of people take public transport. This has angered many people in the North. 5 10

These problems cannot be solved quickly. They compound each other. Just as people are rarely poor for one reason, regions do not fall behind only because they have poor transport, poor schools or poor policy making, but for all those reasons and more. Ideally, the UK would develop a bold plan for regional development that could be followed by future governments, as Germany did for its eastern part. Tera Allas of McKinsey, a consultancy firm, argues that improving education is crucial, even if the returns are not immediately obvious. It is easier to improve schools than to persuade businesses to move to a poorer part of the country. 15

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



Extract B**Public sector spending on infrastructure**

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

5

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

10

15

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

Extract C**Options for UK tax rises in the future**

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

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

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



(12)



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SUB-TOPIC 4.5.3

PUBLIC SECTOR FINANCES

Sub-topic 4.5.3 · 1 question · 25 marks · lowest tariff first



SECTION B

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

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

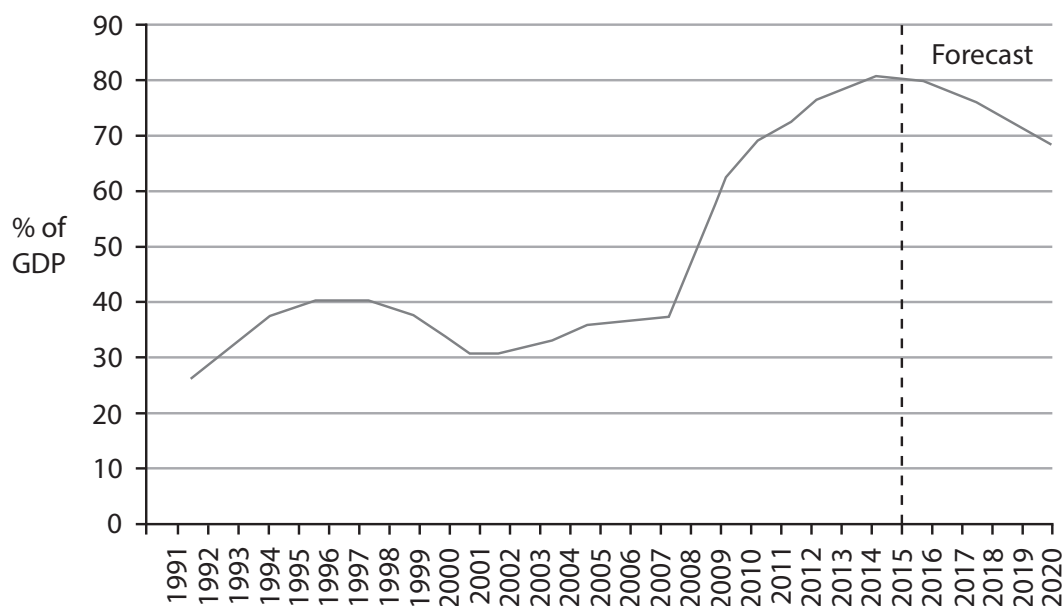
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

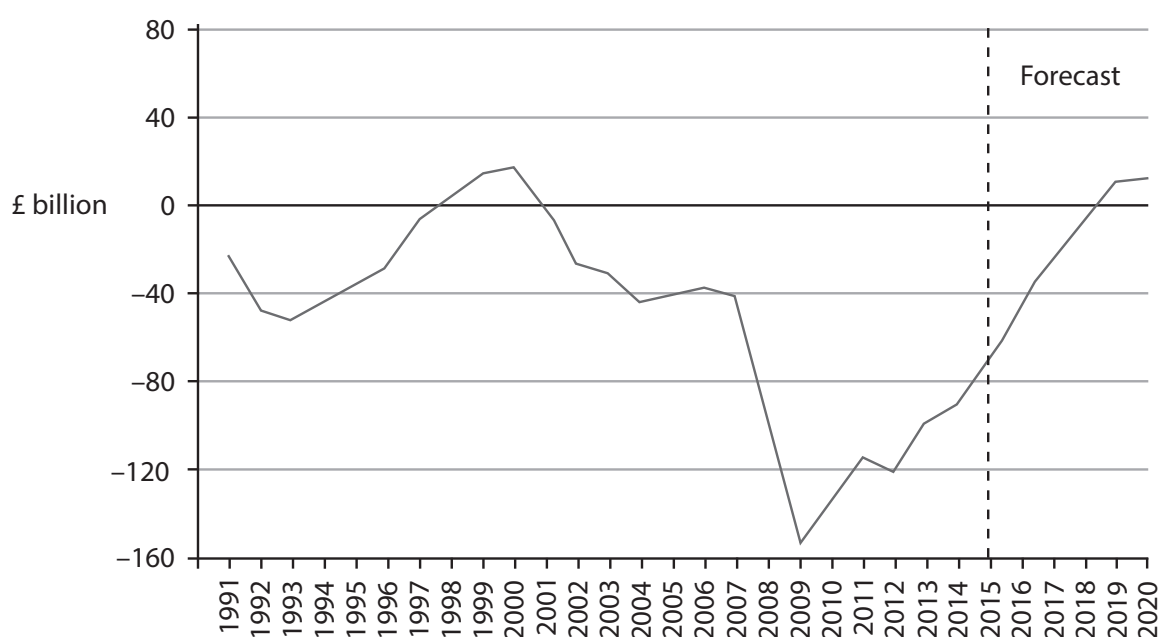
The UK economy

Figure 4: UK national debt as a percentage of GDP



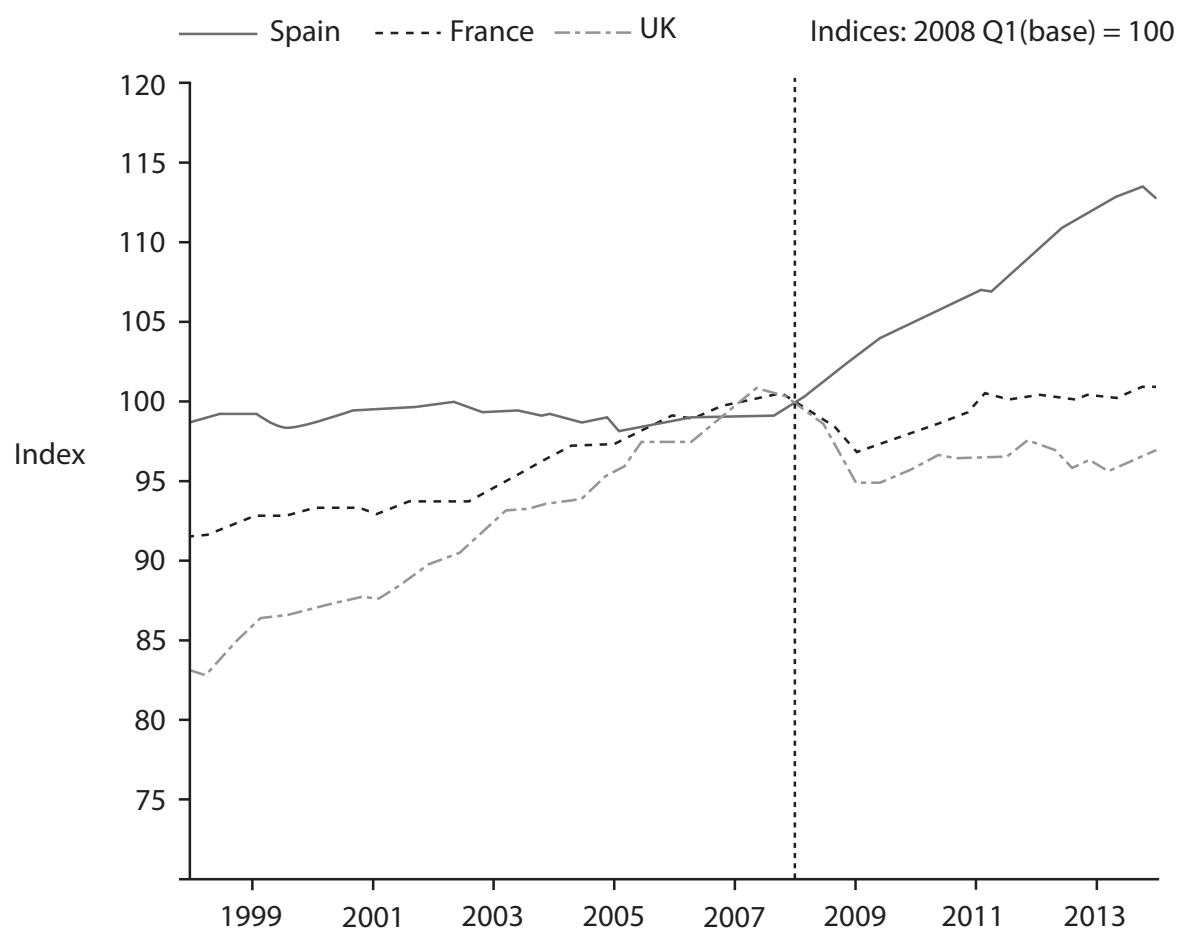
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

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



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



Figure 6: Labour productivity per head, selected countries

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

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

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

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

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

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

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

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

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

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



(25)



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(Total for this part = 25 marks)

29

SUB-TOPIC 4.5.4

MACROECONOMIC POLICIES IN A GLOBAL CONTEXT

Sub-topic 4.5.4 · 1 question · 25 marks · lowest tariff first



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

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

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

(25)







(Total for this part = 25 marks)



MARK SCHEMES

official mark schemes



Question Number	Indicative content	Mark
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Possible factors may include: • Primary product dependency holds back an economy's growth due to volatility of prices making it difficult to invest/plan ahead • A lack of savings in an economy means there is only a very limited supply of money for banks to lend out to firms for investment, limiting development – may refer to the Harrod-Domar model (savings gap) • Lack of education means that people in an economy lack skills to take on advanced and higher-paying jobs, trapping people in low-income jobs • Lack of infrastructure such as power supplies, water, internet will make it more difficult for firms to develop and grow in order to develop the economy and hence increase employment • Lack of healthcare will limit size of potential workforce as many people are ill/waiting for healthcare and so unable to work • Demographic factors e.g. population growth leads to greater supply of labour and hence lower wages • Lack of access to credit and banking • Exchange rates • Possible corruption • Vulnerable to natural disasters/civil war and conflicts • Opportunity cost of debt repayment • Lack of effective policies to promote development NB: Maximum Level 3 KAA if there is no reference to development NB: Maximum Level 3 KAA if there is no reference to a developing country Evaluative comments may include: • If a country has comparative advantage in a primary product then it may be beneficial for them to focus on that industry to develop their economy and import products the economy is less suited for producing • Savings gap could be filled by aid, FDI, debt relief, microfinance, borrowing from IMF/World Bank. • Banking is becoming more accessible as use of mobile phones and banking apps become more widespread • Spending by government/aid organisations can help	



	to improve education/infrastructure over time • If an economy is largely agricultural then high levels of education may not be necessary in order for people to develop the skills needed • Demographic factors: population growth means more workers are available to produce goods/services, so output may increase faster than population, therefore increasing per capita incomes • Combination of factors – it is not likely to be one factor that is holding a country back and these are often interconnected e.g. lack of educated workforce means an economy isn't able to diversify away from primary products • Forward markets reduce risk and instability from primary product price volatility. Business confidence rises and investment becomes more likely	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.



Question Number	Answer	Mark
6(a)	Knowledge 2, Application 2, Analysis 1 Knowledge / analysis up to 3 marks for e.g.: - Progressive tax is where the proportion of income/wealth paid as tax increases as income/wealth increases / tax rate rises as income/wealth rises (1) - Regressive tax is where the proportion of income/wealth paid as tax decreases as income/wealth increases / tax rate falls as income/wealth rises (1) - Distinction examples: progressive tax would reduce income inequality while regressive tax would increase income inequality (1); reference to effect on Gini coefficient (1); progressive greater burden on higher income, regressive greater burden on lower income (1) encourage people to work harder, earn more money? (1) direct vs indirect (1) Application: Up to 2 marks (1 mark for progressive and 1 mark for regressive) Progressive income tax (1) e.g. - People earning less than £12,570 pay no income tax - Someone earning £150,000 will pay an extra £1,200 income tax per year with the changes - Corporation Tax Regressive tax (1) e.g. - VAT - Council tax - sugar tax - Congestion Charge - ULEZ - Excise duty NB: Do not accept e.g. increase in tax paid as income rises	(5)



Question Number	Answer	Mark
6(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/Analysis: Up to 3 marks for, e.g. • Direct taxes are taxes on income/profit (1) • Direct taxes are paid directly by the payer to the government (1) • Direct taxes are progressive taxes (1) • Indirect taxes are taxes on consumption/ expenditure of goods and services (1) • Indirect taxes are paid to the government by suppliers of products (1) • Indirect taxes can be passed on to consumers (1) • Indirect taxes are regressive taxes (1) • Indirect taxes used to reduce negative externalities (1) Application (2): Up to 2 marks for reference to Figure 1, e.g. • income taxes are direct taxes (1) • corporation tax is an direct tax(1) • VAT is an indirect tax (1) • Tobacco duty is an indirect tax (1) NB: There needs to be a reference to both types of taxes; otherwise maximum 2 marks for Knowledge and Analysis.	(5)



Question Number	Indicative Content	Mark
6(d)	Knowledge 2, Application 2, Analysis 4 Methods might include e.g.: Either from Extract C: - Increasing tax on houses: Housing is a large part of the UK economy and many people may feel this is in need of an update to reflect changing house prices since 1991. This could also provide a good opportunity to increase overall revenue from the tax - A one-off wealth tax: This would raise a very large amount of money, £260 billion, and would focus on those with the most wealth. Only one-off so shouldn't have any long-term impacts - Increasing corporation tax: The UK has a very low rate of corporation tax, so it would make sense to raise it without risking too many firms leaving the UK whilst still raising extra revenue yearly going forward- e.g. £17.2 billion in 2025-26 Or other possible methods e.g.: - Cutting corporation tax to incentivise firms to increase investments in UK/attract FDI leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. - Cutting income tax to incentivise workers to work harder/less incentive to avoid tax leads to increase in tax revenue for the government. Perhaps with reference to Laffer curve. NB: To achieve level 3 at least one reference must be made to Extract C somewhere in the whole answer	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but



		the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
6(d) continued	Evaluation 4 - Higher tax rates may not lead to higher revenue, perhaps with reference to Laffer curve/tax evasion/tax avoidance/disincentive effect - Updating tax on houses could see some people experiencing a significant rise in the tax they have to pay which may be unaffordable for them - A one-off tax won't help generate tax revenue long-term - Increase in regressive taxes could worsen inequality - Disincentive to invest having a long term impact on LRAS	(4)

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



Question Number	Indicative content	Mark
2(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • on people facing reduced benefits (non-working recipients) • on people facing reduced work-related benefits (e.g. working tax credits) • on firms with increased supply of labour, but higher costs of labour • on firms' incentives, e.g. changes in corporation tax • effects on sectors of economy such as schools, policing from reduced public sector spending • micro effects on supply of labour and on output of firms from changes in marginal tax rates Macroeconomic effects may include: • lower inflation (might involve a discussion of marginal propensity to consume / multiplier) • lower nominal GDP • change in employment / incentives to work • increased income inequality • reduced quality of public services in general • falls in productivity and increased cost push effects as a result of cuts in education or failing infrastructure • reduced crowding out effects as government spending falls in the short term (raising taxes takes longer to reduce the size of the deficit?) • Laffer curve e.g. tax evasion and avoidance Possible evaluation points include: • impact will depend on which areas of government spending are cut, or which type of taxes are raised • depends on multiplier effects within different sub-groups, and depends on the type of tax raised • does the deficit need to be cut at all? Figure 6 shows falling national debt relative to GDP even with a fiscal deficit • questioning the timing of the cut in a deficit – should fiscal austerity be delayed, or is it important to avoid the credit risk of ongoing deficit? • Increase in tax has a smaller effect on crowding out than cutting G. More time delays, might not work, no first round impact on the circular flow of income. • Government failure • Consideration of the size of the public sector NB for a level 4 there must be reference to: • G and T • macro and micro effects	(25)



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



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

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

