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EDEXCEL INTERNATIONAL A LEVEL ECONOMICS: QUESTIONS BY TOPIC

Macroeconomic objectives and policies (2.3.6)

International A Level Economics · Unit 2: Macroeconomic performance and policy

69 questions · 695 marks · Mark schemes included

Past papers June 2019 - June 2025 · 4 specification sub-topics

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HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest to the highest mark tariff, then oldest paper first.
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; < QUESTION brings you back.
Whenever a question refers to an extract, figure or table, those exact pages are printed immediately before it ("extracts & data").
A gold bar in the left margin marks exactly where the question sits on the original page.
Diagrams, graphs, tables and data are printed exactly as they appear in the original papers.

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QUESTIONS

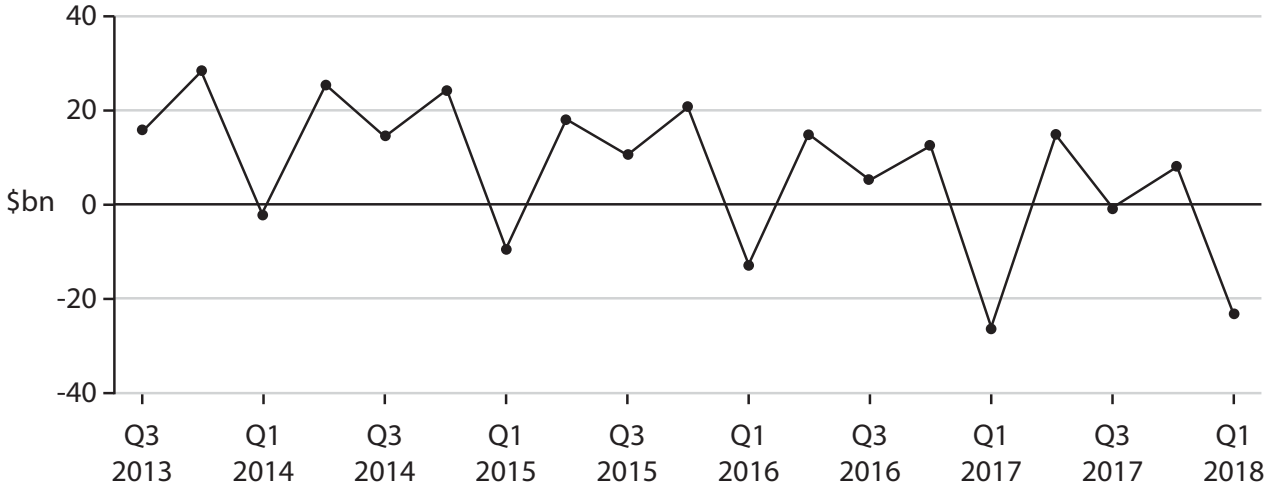
69 questions · 695 marks · 4 sub-topics

SUB-TOPIC 2.3.6.1

MACROECONOMIC OBJECTIVES

Sub-topic 2.3.6.1 · 2 questions · 21 marks · lowest tariff first

6 The chart shows a government budget between quarter 3 2013 and quarter 1 2018 ($ billion).



What can be deduced from this chart?

- ☒ **A** There was a budget surplus in quarter 3 2015
- ☒ **B** There was a budget deficit in quarter 3 2013
- ☒ **C** Tax receipts exceeded government expenditure in quarter 1 2017
- ☒ **D** Government expenditure exceeded tax receipts in quarter 3 2015

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 From 2008 to 2018 Thailand's GDP per capita increased by 100%. Over the same period national happiness in Thailand also rose. However, from 2008 to 2018 India's GDP per capita increased by 80% but national happiness fell.

Evaluate the view that achieving a government's macroeconomic objectives is likely to result in an increase in national happiness.

(Total for Question 13 = 20 marks)

OR

14 Between January 2020 and May 2020 the global oil price decreased from $63 a barrel to $31 a barrel.

Evaluate the view that falling global oil prices will always benefit a country's macroeconomy.

(Total for Question 14 = 20 marks)

SUB-TOPIC 2.3.6.2

POSSIBLE CONFLICTS BETWEEN MACROECONOMIC OBJECTIVES

Sub-topic 2.3.6.2 · 10 questions · 124 marks · lowest tariff first

SECTION A

Answer ALL questions in this section.

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 ☒.

1 The short-run Phillips curve illustrates a possible trade-off between

- ☒ **A** economic growth and income inequality
- ☒ **B** inflation and unemployment
- ☒ **C** economic growth and protection of the environment
- ☒ **D** inflation and income inequality

(Total for Question 1 = 1 mark)

2 Ghana's rate of economic growth increased from 3.6% in 2016 to 8.5% in 2017.

Which **one** of the following is a likely result of this increase in the rate of economic growth?

- ☒ **A** An increase in unemployment
- ☒ **B** A decrease in investment
- ☒ **C** An increase in living standards
- ☒ **D** A decrease in tax revenues

(Total for Question 2 = 1 mark)

3 The UK Government is spending £56 billion on building HS2, a high-speed railway network.

Which **one** of the following is also an injection into the circular flow of income?

- ☒ **A** Increased spending on imports
- ☒ **B** Increased spending on exports
- ☒ **C** Increased levels of saving
- ☒ **D** Increased income tax receipts

(Total for Question 3 = 1 mark)

5 The short-run Phillips curve shows the relationship between which of the following?

- ☒ **A** The rate of economic growth and protection of the environment
- ☒ **B** The rate of inflation and the unemployment rate
- ☒ **C** The rate of inflation and equilibrium on the current account of the balance of payments
- ☒ **D** The rate of economic growth and income inequality

(Total for Question 5 = 1 mark)

6 The Indian Government planned to spend $19 billion on a high-speed rail link between Mumbai and Ahmedabad.
The multiplier is estimated to be 2.45 in India.

Which **one** of the following shows the potential increase in real GDP caused by this government injection?

- ☒ **A** $7.76 billion
- ☒ **B** $21.45 billion
- ☒ **C** $46.55 billion
- ☒ **D** $65.55 billion

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION A

Answer ALL questions in this section.

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 ☒.

1 Which **one** of the following illustrates the conflict between the macroeconomic objectives of a low rate of inflation and a low rate of unemployment?

- ☒ **A** A long-run classical AS curve
- ☒ **B** An AD curve
- ☒ **C** A short-run Phillips curve
- ☒ **D** A SRAS curve

(Total for Question 1 = 1 mark)

2 In 2021 it was estimated that many workers in India left their jobs to search for new employment.

Which **one** of the following describes this cause of unemployment?

- ☒ **A** Demand deficient
- ☒ **B** Frictional
- ☒ **C** Seasonal
- ☒ **D** Structural

(Total for Question 2 = 1 mark)

3 The Government of Saudi Arabia estimates that, in 2022, its spending will be $255 billion and its tax revenue will be $279 billion.

Ceteris paribus, which **one** of the following can be deduced from this information?

- ☒ **A** There will be a net withdrawal from the circular flow of income
- ☒ **B** There will be a net injection into the circular flow of income
- ☒ **C** There will be a balance of trade deficit
- ☒ **D** There will be a balance of trade surplus

(Total for Question 3 = 1 mark)

SECTION A

Answer ALL questions in this section.

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 ☒.

1 Which **one** of the following is a withdrawal from the circular flow of income?

- ☒ **A** Investment
- ☒ **B** Consumption
- ☒ **C** Savings
- ☒ **D** Exports

(Total for Question 1 = 1 mark)

2 Spain's unemployment rate fell from 13.6% in quarter 1 2022 to 12.5% in quarter 2 2022.
Its annual rate of inflation increased from 6.1% in January 2022 to 10.2% in June 2022.

Which **one** of the following best illustrates the possible conflict between the macroeconomic objectives of a low rate of inflation and a low rate of unemployment?

- ☒ **A** The short-run Phillips curve
- ☒ **B** The aggregate demand curve
- ☒ **C** The short-run AS curve
- ☒ **D** The Keynesian LRAS curve

(Total for Question 2 = 1 mark)

3 Which **one** of the following statements about the classical long-run aggregate supply (LRAS) curve is correct?

- ☒ **A** It is relatively elastic at high levels of spare capacity
- ☒ **B** It is perfectly inelastic at the full employment level of real output
- ☒ **C** It is perfectly inelastic at high levels of spare capacity
- ☒ **D** It is relatively elastic at the full employment level of real output

(Total for Question 3 = 1 mark)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 China's economic growth has resulted in a significant increase in pollution within the country. It is believed that recent government legislation to lower pollution will cause China's real GDP to increase at a slower rate.

Evaluate the view that conflicts between macroeconomic objectives are inevitable.

(Total for Question 13 = 20 marks)

OR

14 Increasing household consumption is a major factor contributing to India's high rate of economic growth.

Evaluate the view that rising consumer expenditure will always benefit an economy.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2018 the US Government increased government spending and reduced taxation on high incomes. These policies contributed to an increase in the rate of economic growth and to an increase in income inequality.

Evaluate the view that fiscal policies always result in conflicts between macroeconomic objectives.

(Total for Question 13 = 20 marks)

OR

14 In January 2019 the Portuguese Government announced an increase of €20 billion of government spending on transport, energy and environmental projects. It aims to improve the productive potential of the economy.

Evaluate interventionist supply-side policies as a means of achieving economic growth.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In the first two quarters of 2020, pollution in China decreased by 10.8% as a result of the slowdown in the country's rate of economic growth.

Evaluate the potential conflicts between the objective of economic growth and **two** other macroeconomic objectives.

(Total for Question 13 = 20 marks)

OR

14 In 2019 India's productivity increased by 5.2%. To achieve its GDP growth target of 8% in 2020, India needed to increase its productivity to 6.3%.

Evaluate supply-side policies that the Indian government could use to increase the country's productivity.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2020 nominal GDP was $6 billion for Guyana, $270 billion for Finland and $14 723 billion for China.

Evaluate the limitations of using GDP data to compare living standards between countries.

(Total for Question 13 = 20 marks)

OR

14 In 2021 the rate of economic growth in the Maldives was 18.87% and in India it was 12.55%.

Evaluate the potential conflicts between the objective of economic growth and **two** other macroeconomic objectives.

Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 Between May 2020 and March 2022 the global oil price increased from $39 a barrel to $106 a barrel.

Evaluate the view that very high global oil prices will always harm a country's macroeconomy.

(Total for Question 13 = 20 marks)

OR

14 Between June 2021 and November 2021 the rate of employment in Australia decreased from 63% to 61.5%.

Evaluate government policies that could be used to increase the rate of employment. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2022 the Government of India introduced new legislation with the aim of reducing pollution. It is predicted that this will cause India's real GDP to increase at a slower rate.

Evaluate the view that there will always be conflicts between macroeconomic objectives. Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 In July 2021 Rwanda's inflation rate was –1.1% and in November 2021 it was –3.4%.

Evaluate possible causes of deflation. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

SUB-TOPIC 2.3.6.3

MACROECONOMIC SUPPLY-SIDE POLICIES

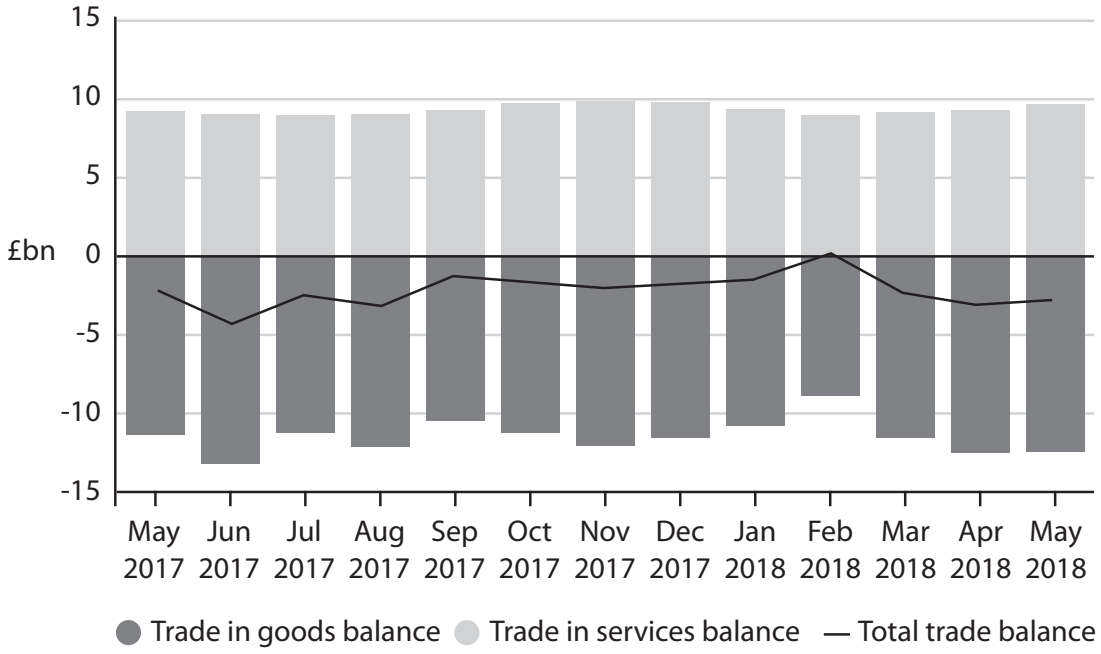
Sub-topic 2.3.6.3 · 18 questions · 267 marks · lowest tariff first

5 The Ethiopian Government has made significant investments in the agricultural sector and has plans to allocate a further US$15 billion to irrigation development by 2020. The UK Government paid a subsidy for a windfarm. Which **one** of the following is also an interventionist supply-side policy?

- ☒ **A** Deregulation of the labour market
- ☒ **B** Privatisation
- ☒ **C** A reduction in interest rates
- ☒ **D** Regional policy

(Total for Question 5 = 1 mark)

6 The chart shows the UK balance of trade on current account, month on month, May 2017 to May 2018 (£ billion, seasonally adjusted).



(Source: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/may2018)

What can be deduced from this chart?

- ☒ **A** The trade in services balance was in deficit in May 2017
- ☒ **B** The trade in goods deficit was smallest in February 2018
- ☒ **C** The value of exports exceeded the value of imports in September 2017
- ☒ **D** The total UK trade deficit was the largest in November 2017

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION A

Answer ALL questions in this section.

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 ☒.

1 Which **one** of the following will result in a movement along the AS curve?

- ☒ **A** An increase in the cost of raw materials
- ☒ **B** A decrease in the cost of energy
- ☒ **C** An increase in the price level
- ☒ **D** A decrease in the rate of indirect tax

(Total for Question 1 = 1 mark)

2 Japan's productivity is significantly lower than the productivity of France and Italy. The Government of Japan aims to increase the country's productivity.

Which **one** of the following is a free market supply-side policy?

- ☒ **A** Investment in education and training
- ☒ **B** Privatisation of state-owned industries
- ☒ **C** Investment in infrastructure projects
- ☒ **D** Providing finance for business start-ups

(Total for Question 2 = 1 mark)

3 The value of Burundi's multiplier is estimated to be approximately 0.1.

Ceteris paribus, which **one** of the following would cause an increase in the value of a country's multiplier?

- ☒ **A** An increase in the marginal propensity to save
- ☒ **B** An increase in the marginal propensity to import
- ☒ **C** A decrease in the marginal propensity to tax
- ☒ **D** A decrease in the marginal propensity to consume

(Total for Question 3 = 1 mark)

SECTION A

Answer ALL questions in this section.

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 ☒.

1 Which **one** of the following statements about the classical long-run aggregate supply (LRAS) curve is correct?

- ☒ **A** It is perfectly inelastic when there is a high level of spare capacity
- ☒ **B** It is relatively elastic at the full employment level of real output
- ☒ **C** It is relatively inelastic at high levels of spare capacity
- ☒ **D** It is perfectly inelastic at the full employment level of real output

(Total for Question 1 = 1 mark)

2 In 2022 the Government of Brazil announced that it was introducing measures to cut the costs of bureaucracy for firms.

This policy is an example of which **one** of the following?

- ☒ **A** Free market supply-side policy
- ☒ **B** Interventionist supply-side policy
- ☒ **C** Reflationary fiscal policy
- ☒ **D** Deflationary fiscal policy

(Total for Question 2 = 1 mark)

3 Between January 2022 and January 2023 Turkey's unemployment rate fell from 11.2% to 9.8%.

Which **one** of the following is the percentage change in the unemployment rate for Turkey between January 2022 and January 2023?

- ☒ **A** –1.4
- ☒ **B** –12.5
- ☒ **C** –14.3
- ☒ **D** –21.0

(Total for Question 3 = 1 mark)

SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'Purchasing Power Parity (PPP)', (Figure 1).

(2)

(b) With reference to Figure 1, explain the difference between GDP per capita and GNI per capita.

(4)

(c) With reference to Figure 1, analyse **two** limitations of using GNI per capita PPP data to compare living standards in the Philippines between 2000 and 2018.

(6)

(d) With reference to Extract A, examine **two** reasons why the Philippine economy was forecast to grow from 2019 to 2021.

(8)

(e) Discuss how supply-side policies might 'help the Philippines to achieve economic growth' (Extract A, lines 12–13).

Illustrate your answer with an appropriate diagram(s).

(14)

Sources for use with Section C.

The economy of the Philippines

Figure 1 Standard of living indicators for the Philippine economy, selected years 2000–2018

Year	GDP per capita (current US$)	GNI per capita (current US$)	GDP per capita *PPP (current international $)	GNI per capita *PPP (current international $)
2000	1 039	1 220	3 361	3 940
2005	1 194	1 430	4 255	5 050
2010	2 124	2 460	5 468	6 590
2015	2 867	3 510	7 313	8 850
2018	3 103	3 830	8 935	10 720

*PPP Purchasing Power Parity

Extract A Supply-side reforms and economic growth

Despite global uncertainties, the Philippine economy remains strong. The World Bank has forecast that it will grow by 5.8% in 2019 and by 6.0% in both 2020 and 2021.

Economic growth may slow in the first half of 2019. This may be explained by the weakening global economy, rising protectionism and a slowdown in public sector investment in the Philippines. However, levels of consumption should stay high. This is because of lower inflation rates, higher employment rates and rising real wages. Also, more workers are finding jobs in industries other than agriculture. This has helped to increase average incomes in the country. The continuing expansion of financial services and tourism in the Philippines means that the services sector is also likely to grow.

At the same time, the Government is using a range of supply-side policies. These policies include both interventionist and free market measures. It hopes that these will help the Philippines to achieve economic growth that creates high-paying jobs and reduces poverty. One interventionist policy is to start some infrastructure investment projects earlier than planned. The free market policies being used include:

- introducing the 'Ease of Doing Business Law' to cut the costs of bureaucracy for firms
- deregulating the rice market to increase competition
- introducing a law to allow greater competition in the country's retail sector, which should boost local productivity
- making amendments to the country's laws to allow the foreign ownership of firms in key sectors. This includes the telecommunication and transportation industries. By encouraging foreign direct investment, the Government hopes to increase productivity in these areas.

A report by the World Bank finds that promoting competition in this way will be beneficial to the Philippine economy over the longer term. However, the report also notes that many industries within the country are still dominated by just a few firms. It therefore recommends additional reforms to increase competition, including:

- further reductions in bureaucracy to make it easier to start a business
- further reductions in restrictions on both foreign and domestic investors
- ensuring that state-owned firms compete on fair terms with private sector businesses. This should promote the more efficient use of public funds.

(e) Discuss how supply-side policies might 'help the Philippines to achieve economic growth' (Extract A, lines 12–13).

Illustrate your answer with an appropriate diagram(s).

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'monetary policy'. (Extract A, line 8)

(2)

(b) With reference to Extract A, explain the term 'foreign direct investment'.

(4)

(c) With reference to Figure 1 and Extract A, examine **two** likely impacts of the annual GDP growth rates on the people living in East African countries.

(8)

(d) With reference to Figure 2, analyse **one** macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.

(6)

(e) With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies.

(14)

Sources for use with Section C.

East African* economies

* Countries include Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

Figure 1 Annual real GDP growth, 2014–2018

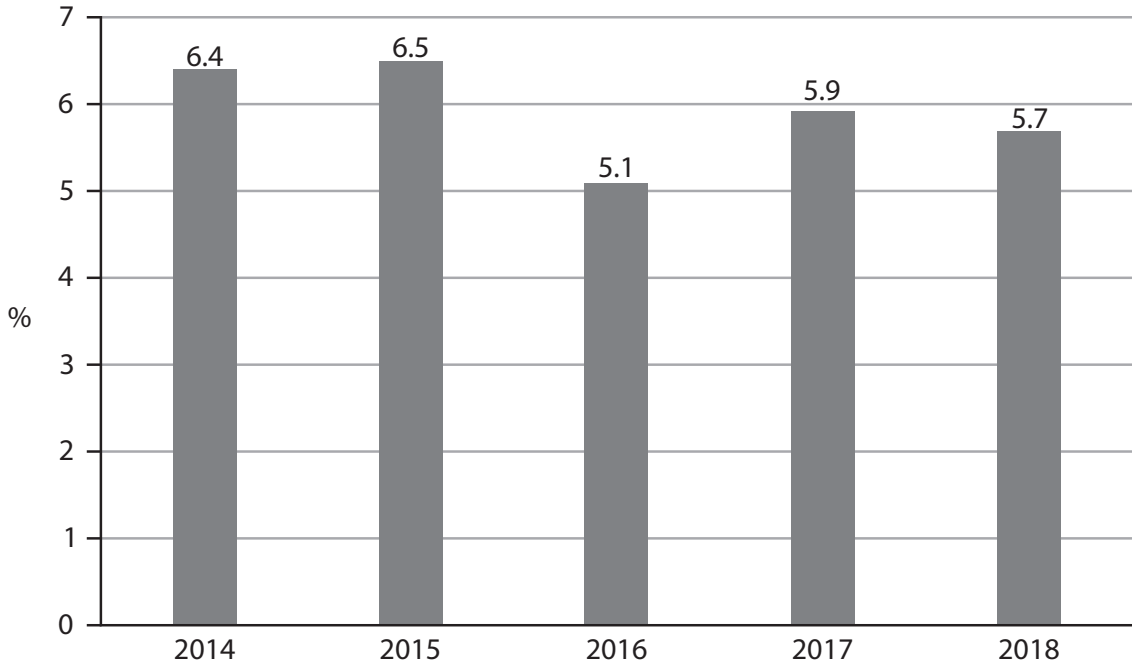


Figure 2 Current account on the balance of payments as a percentage of GDP, 2016–2018

	East African economies
2016	-6.7
2017	-5.4
2018	-5.3

Extract A Rapid growth in East Africa

East Africa was the fastest growing region of Africa in 2018. Increasing commodity prices helped the agricultural and mining sectors contribute most to this growth. Higher foreign direct investment (FDI) in the region also contributed to economic growth. Growth in FDI in 2018 was 67% in Uganda, 27% in Kenya and 18% in Tanzania. Governments in East Africa have been investing in infrastructure, such as roads, seaports and airports.

As a result of rapid economic growth, the rate of inflation increased to 13.1% in 2016 and 14.4% in 2017. Appropriate monetary policy in the region helped the rate of inflation to fall to 8.9% in 2019.

Despite rapid economic growth rates, unemployment remains high. Many consumers struggle to meet their basic needs. The governments of the region have been advised to focus on interventionist supply-side policies. These should include continued investment in infrastructure, improving the health and skills of the labour force and increasing the supply of housing.

Extract B East African infrastructure investment needed

East African economies have under-invested in infrastructure. The roads in East Africa are in a poor condition. The combination of low speeds and long distances causes high transport costs. Rail transport is poor, which means most goods have to be transported on a congested road system. Funds from China are being used to build two rail routes in the region.

Inadequate energy supply is the biggest infrastructure problem. East Africa has the lowest energy generating capacity per capita on the continent. Poor energy supply causes blackouts. However, the region has the potential to develop hydro, wind and fossil fuel resources that could increase energy supply.

The region has the smallest proportion of their population with telephone lines and access to mobile phone networks in Africa. However, recently there has been a high level of investment in telecommunications infrastructure. This will result in significant improvements in communications.

(e) With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'recession' (Extract A, line 2).

(2)

(b) With reference to Figure 1, explain what is meant by the savings ratio.

(4)

(c) With reference to the second paragraph of Extract A, analyse **two** factors that caused household consumption to increase in quarter 3, 2020.

(6)

(d) With reference to Figure 2 and Extract A, examine **two** likely effects of the substantial increase in the rate of unemployment on the Australian economy.

(8)

(e) With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.

(14)

Sources for use with Section C

The Australian economy

Figure 1 Savings ratio, Q3 2018 to Q3 2020

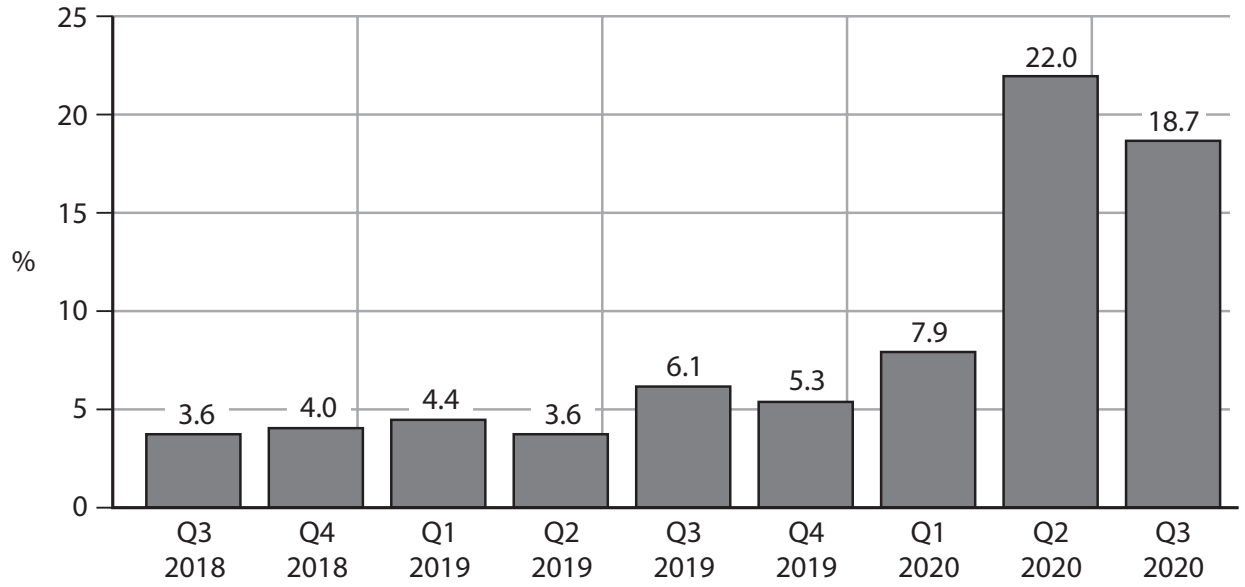
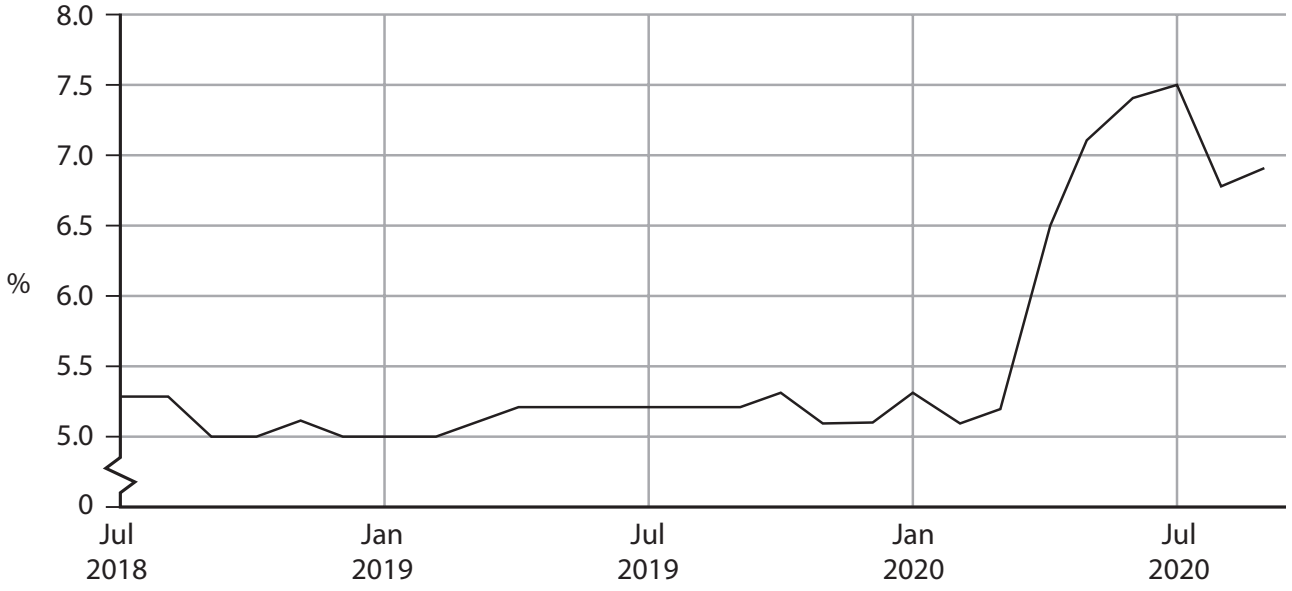


Figure 2 Unemployment rate, July 2018 to September 2020



Extract A Economic performance

In the first half of 2020 Australia's economy was in recession. In quarter 1 the economic growth rate was −0.3% and it declined further in quarter 2 to −6.8%. Consequently, between March and July 2020 there was a substantial increase in the rate of unemployment.

However, Australia's economy recovered quickly with an economic growth rate of 3.3% in quarter 3 of 2020. This was much higher than predictions of a growth rate of 2.5%. This increase in the growth rate was mainly as a result of a rise in household consumption. Although household consumption decreased by 12.5% in quarter 2 of 2020, it rose by 7.9% in quarter 3. The main reasons for this rise in consumption were:

- rising house prices
- reductions in the base interest rate by Australia's central bank
- higher welfare payments to households.

These factors resulted in an increase in consumer confidence.

While household consumption supported Australia's economic recovery, the rate of unemployment was still relatively high. In response, the Australian Government continued its JobKeeper Payment scheme to keep workers in employment. This scheme supported businesses negatively affected by the economic decline. Businesses were able to claim AU$1 200 (before tax) per employee every two weeks to help cover the cost of wages.

Extract B Supply-side policies

Between 2010 and 2020 Australia's average annual increase in productivity was 1.7%. The country's average annual growth in real GDP per capita was 0.6%. This was below the 1% growth in GDP per capita in the USA. To increase GDP per capita, Australia needs to raise its productivity growth. This applies particularly to the service sector, which accounts for nearly 70% of Australia's GDP.

According to some economists, the Australian Government should consider implementing a range of interventionist supply-side policies to increase the country's productivity. These include:

- providing finance for business start-ups
- investment in infrastructure improvements
- investment in high-quality education and training schemes
- offering tax incentives and subsidies to encourage investment.

Successful implementation of these policies will enable Australia to achieve long-run economic growth.

(e) With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'net migration' (Extract A, line 13).

(2)

(b) With reference to Figure 2 and Extract A, analyse **two** possible impacts of net migration on the UK economy.

(6)

(c) With reference to Figure 1, explain the term 'productivity'.

(4)

(d) Examine **two** likely macroeconomic effects of 'significant wage increases' (Extract A, line 21) on the UK economy.

(8)

(e) Discuss supply-side policies that the UK Government could use to increase productivity.

(14)

Sources for use with Section C

The UK economy

Figure 1 Index of productivity for selected countries (2010=100), 2010 to 2020

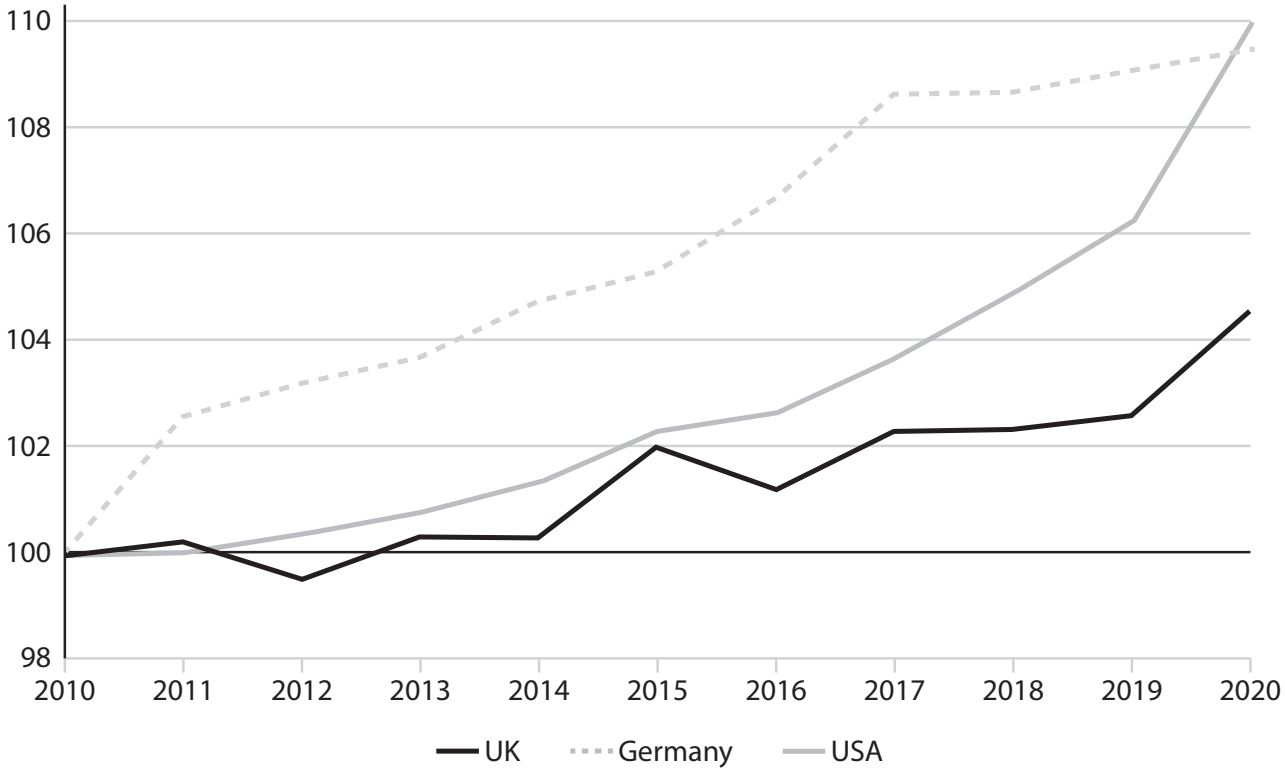


Figure 2 UK net migration, 2010 to 2019

Year	Net migration (thousands)
2010	256
2011	249
2012	161
2013	208
2014	309
2015	329
2016	248
2017	249
2018	232
2019	271

Extract A Low productivity

In 2021 the UK Government argued that the disruption in UK supply chains was mainly as a result of low wages, inadequate skills, and low productivity. The Government stated that reductions in welfare benefits and in the number of low-skilled immigrants were needed to increase the country's productivity. The UK Government suggested that a decrease in low-skilled immigration would force businesses to invest in training and in capital equipment.

The goal of successive UK Governments has been to increase the UK's productivity to improve living standards. However, between 1997 and 2008, the average annual productivity growth was only 1.9%. Between 2009 and 2019 it fell to 0.7%. By 2021 productivity was nearly 20% below the level it would have reached if it had continued at 1.9%.

Some economists believe that high rates of net migration were not the only reason for the UK's poor productivity performance. They suggested that three other factors were also significant:

- the 2008 global financial crisis
- the UK's decision to leave the European Union
- the 2020–2022 global health crisis.

These factors made many UK businesses particularly cautious about investing in innovation and research and development.

In 2021 UK employers reported they were facing significant wage increases, especially in jobs where severe shortages exist. There was a concern that these wage increases would harm the UK economy unless there was a growth in productivity. However, some economists argue that rising wages could incentivise businesses to invest in labour-saving machinery and staff training.

The shock of the global health crisis may provide a much-needed boost to UK productivity for reasons not associated with labour shortages. Many businesses have an opportunity to innovate and improve their operations before restarting again.

The UK Government intends to solve the country's low productivity by increasing investment in skills and in infrastructure. It is essential that it works in partnership with businesses to achieve an increase in productivity and in the rate of economic growth.

(e) Discuss supply-side policies that the UK Government could use to increase productivity.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1, Figure 2, Extract A and Extract B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'GDP per capita' (Figure 1).

(2)

(b) With reference to Figure 1, explain the likely impact of higher real incomes on subjective happiness.

(4)

(c) Examine the likely impact on the UK's real output of 'the rising cost of energy' (Extract A, line 4).

(8)

(d) With reference to Figure 2 and Extract A, analyse **two** factors that influence business investment.

(6)

(e) With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive potential.

(14)

Sources for use with Section C

The UK economy

Figure 1 Real GDP per capita, £ thousands, 2010-2022

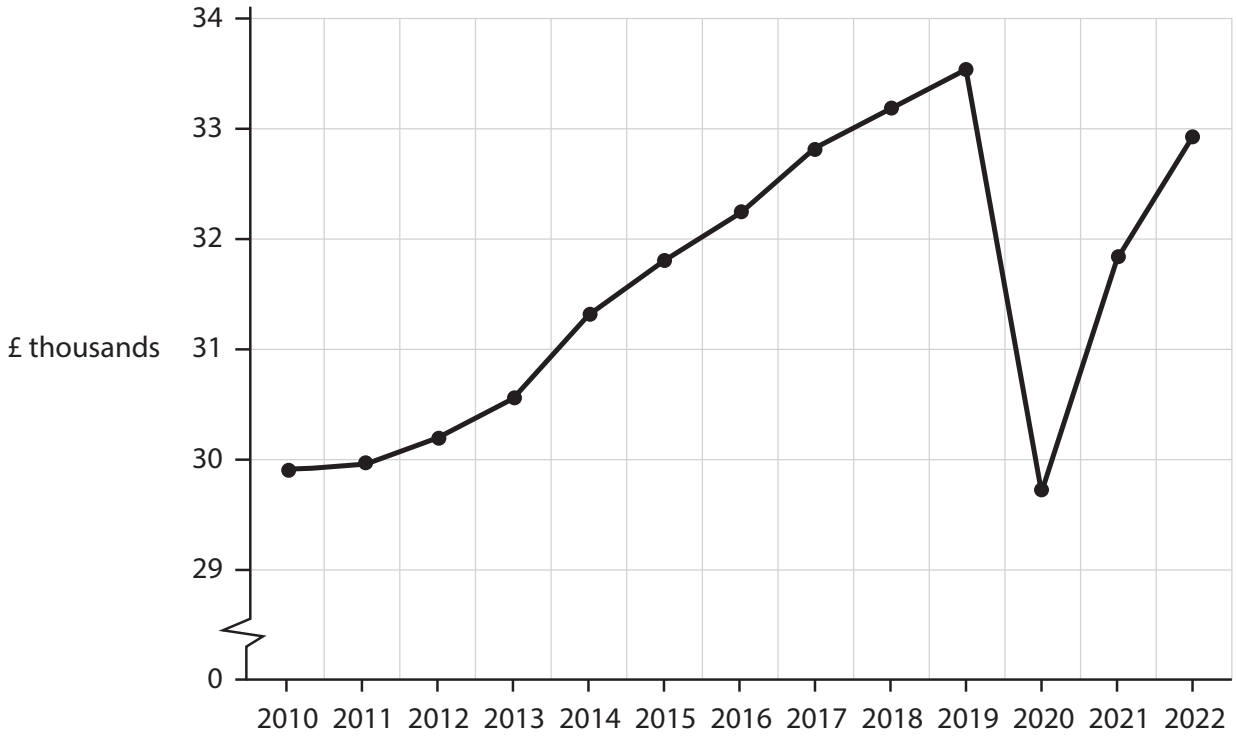
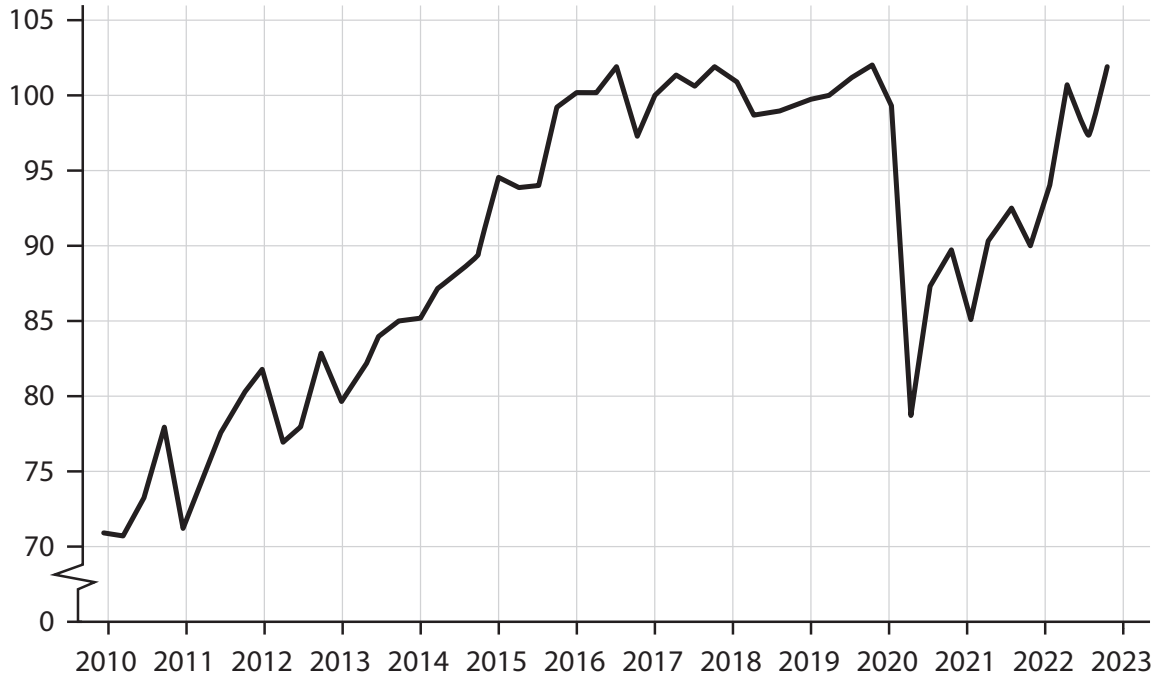


Figure 2 Index of business investment between 2010 and 2022, (Q1 2016=100)



Extract A Low rate of economic growth

The UK's real GDP at the end of 2022 was smaller than it was at the start of 2020. There are two main reasons why the UK's rate of economic growth has been low since the start of 2020. Firstly, the global health crisis of 2020 and secondly, the rising cost of energy in 2022. For example, the price of natural gas rose by more than 100%. The UK is a net importer of natural gas.

However, some economists believe these two reasons are insufficient to explain why the UK economy has been unable to increase its level of real GDP. They identified additional reasons:

- labour market participation has declined significantly since the start of the global health crisis of 2020. As a result, between 2020 and 2022, the UK labour force decreased by 520 000
- low levels of productivity in the UK labour market. Workers in the UK have lower skills than workers in other advanced economies. There was also a shortage of skilled and unskilled labour
- the UK's decision to leave the European Union in 2016 resulted in lower levels of business investment
- high costs of bureaucracy and strict planning regulations associated with the construction of infrastructure projects, such as building power plants and energy facilities.

In the last quarter of 2022 various international institutions forecast that the UK would continue to be one of the worst-performing advanced economies in 2023.

Extract B Supply-side policies

In March 2023 the UK Government introduced a range of supply-side policies to increase the productive potential of the UK economy. These included:

- increased financial support for childcare to reduce economic inactivity and increase the rate of employment
- 100% tax relief on business investment for three years
- subsidies to support the development of new technologies including artificial intelligence
- relaxing immigration rules to attract more workers in five sectors of the economy where severe labour shortages exist e.g. construction and healthcare.

These policies would cost the UK Government nearly £20 billion.

However, the Government did not announce any plans to tackle the UK's strict planning laws. In addition, there were no measures to improve the skills of the workforce. Increasing labour productivity is just as important as increasing the number of workers.

(e) With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive potential.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1, Figure 2, Figure 3 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'living standards'.

(2)

(b) With reference to Figure 2, explain the difference between disinflation and inflation.

(4)

(c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.

(8)

(d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(6)

(e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.

(14)

Sources for use with Section C

The economy of Brazil

Figure 1 Real GDP growth rate, 2018 to 2023

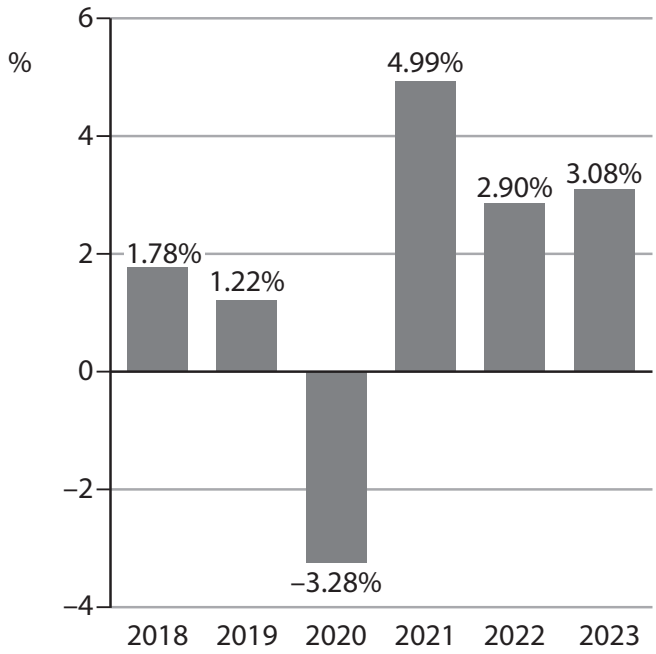
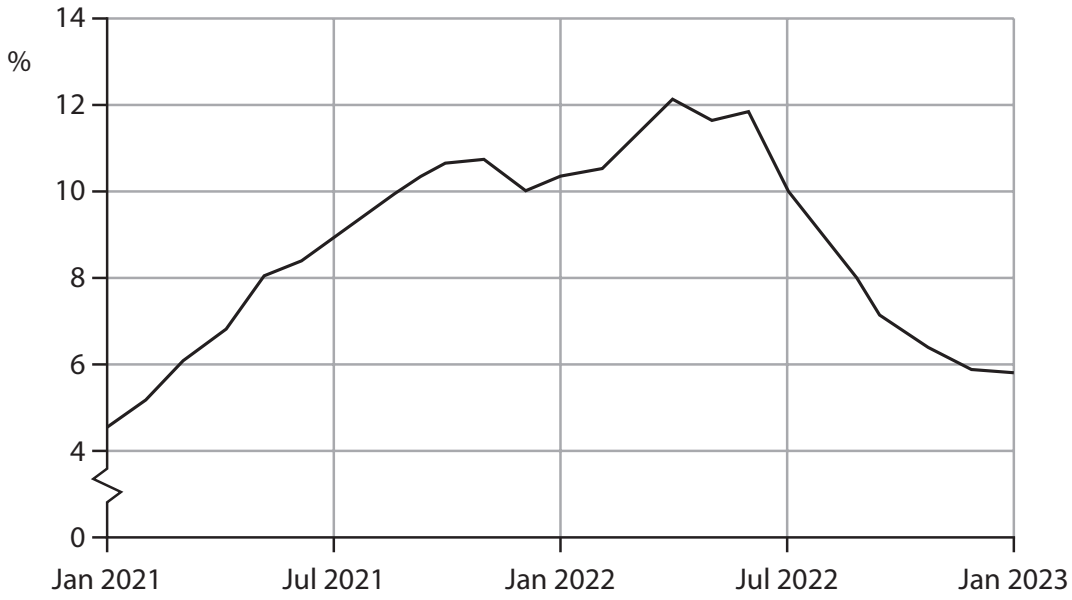
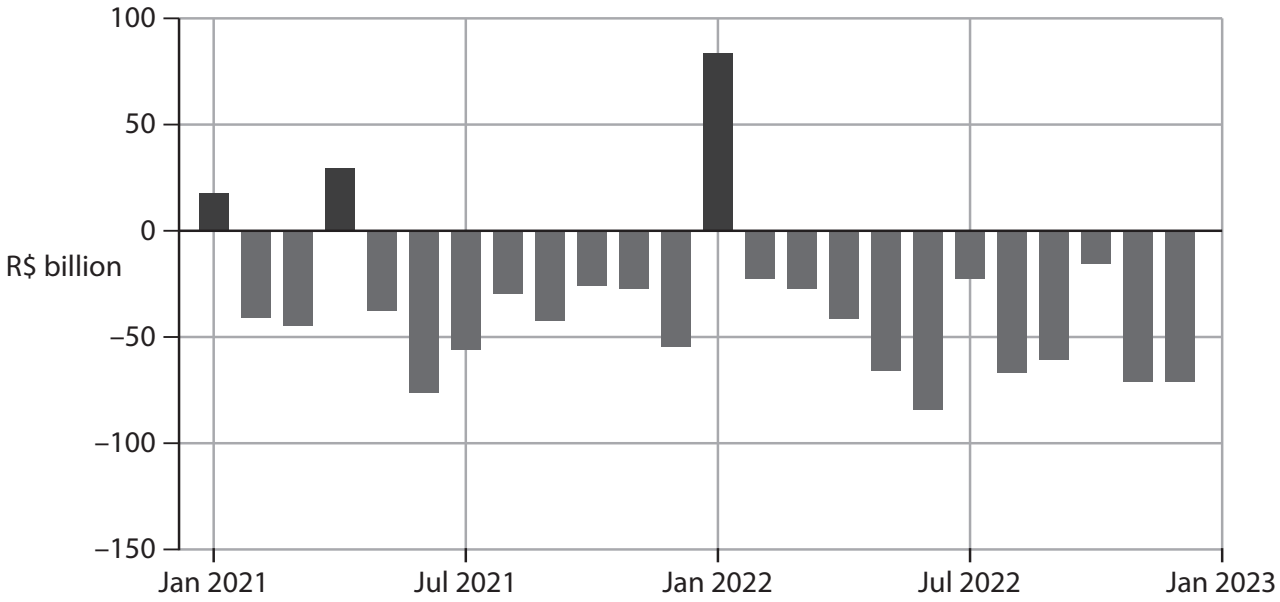


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2021 to January 2023



*This is the year-on-year inflation rate calculated monthly.

Figure 3 Government monthly budget balance, *real billion, January 2021 to December 2022**



**real* is the currency of Brazil and is denoted as R$.

Extract A Economic growth

Brazil's rate of economic growth fell between 2021 and 2022. This weaker economic performance was as a direct result of a significant decrease in industrial output and a slowdown in the services sector in 2022.

Many economists indicated that this slower rate of economic growth resulted from the Central Bank of Brazil's deflationary monetary policy to control the rising rate of inflation. Between January 2021 and June 2022 the Central Bank raised the country's base interest rate from an all-time low of 2% to 13.25%. This significantly affected consumer spending and business investment, both of which are major contributors to economic growth. As a result, economists predicted that Brazil's annual increase in real GDP would be below 1% in 2023.

The slowdown in economic growth will limit the Government's ability to improve living standards. In mid-2022 President Lula had promised to raise the real incomes of the country's population and create new jobs. He suggested that he was going to achieve his objective by increasing:

- the level of welfare payments
- investment in healthcare provision
- investment in infrastructure development
- investment in education, training and skills.

President Lula aimed to introduce these supply-side policies in 2023. These policies would cost R$371 billion over four years. However, the Government has insufficient tax revenues to finance its spending and investment. Previously, many large-scale investments in similar projects were not successful and represented a waste of resources.

Consequently, the Government proposed tax increases and cuts in government expenditure to achieve a balanced budget. This deflationary fiscal policy aims to increase tax revenues by R$190 billion and reduce government expenditure by R$50 billion.

Acknowledgements

Figure 1 adapted from https://www.statista.com/statistics/263615/gross-domestic-product-gdp-growth-rate-in-brazil/

Figure 2 adapted from https://tradingeconomics.com/brazil/inflation-cpi

Figure 3 adapted from https://tradingeconomics.com/brazil/government-budget-value

Extract A adapted from FT, https://www.ft.com/content/2b1cbe31-a2da-4841-a418-8c10c8cc267d and https://www.ft.com/content/1b297b16-5b19-4cb5-b0fd-de77f6f1f1a5

(e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 Productivity in France and Germany was significantly higher than in the UK between 2007 and 2016.

Evaluate the importance of productivity for the rate of economic growth in a country.

(Total for Question 13 = 20 marks)

OR

14 In 2017 the rate of unemployment in South Africa was 27.7%. The Government is committed to reducing the unemployment rate by increasing spending on education and training.

Evaluate the use of supply-side policies as a means of reducing unemployment.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2018 the US Government increased government spending and reduced taxation on high incomes. These policies contributed to an increase in the rate of economic growth and to an increase in income inequality.

Evaluate the view that fiscal policies always result in conflicts between macroeconomic objectives.

(Total for Question 13 = 20 marks)

OR

14 In January 2019 the Portuguese Government announced an increase of €20 billion of government spending on transport, energy and environmental projects. It aims to improve the productive potential of the economy.

Evaluate interventionist supply-side policies as a means of achieving economic growth.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In the first two quarters of 2020, pollution in China decreased by 10.8% as a result of the slowdown in the country's rate of economic growth.

Evaluate the potential conflicts between the objective of economic growth and **two** other macroeconomic objectives.

(Total for Question 13 = 20 marks)

OR

14 In 2019 India's productivity increased by 5.2%. To achieve its GDP growth target of 8% in 2020, India needed to increase its productivity to 6.3%.

Evaluate supply-side policies that the Indian government could use to increase the country's productivity.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2020 Japan's rate of inflation was –0.6% compared with 2019. Between 2019 and 2020 household consumption fell and the savings ratio increased from 33% to 44% of disposable income. Falling world oil prices also contributed to deflation.

Evaluate possible causes of deflation.

Illustrate your answer with an appropriate diagram.

(Total for Question 13 = 20 marks)

OR

14 The Government of the Philippines increased expenditure on infrastructure from ₱681 billion in 2020 to ₱1 200 billion in 2021.

Evaluate the possible effects of an increase in government expenditure on infrastructure on a country's economy.

Illustrate your answer with an appropriate diagram.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 Between May 2020 and March 2022 the global oil price increased from $39 a barrel to $106 a barrel.

Evaluate the view that very high global oil prices will always harm a country's macroeconomy.

(Total for Question 13 = 20 marks)

OR

14 Between June 2021 and November 2021 the rate of employment in Australia decreased from 63% to 61.5%.

Evaluate government policies that could be used to increase the rate of employment. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2022 Japan's productivity was approximately 30% lower than that of the USA.

Evaluate supply-side policies that a government could use to increase the country's productivity.

(Total for Question 13 = 20 marks)

OR

14 Many economists are expecting several of the world's leading economies to enter a recession in 2023.

Evaluate the likely costs of a recession on an economy of your choice.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2022 many countries experienced low rates of economic growth and high rates of inflation.

Evaluate supply-side policies that a government could use to increase the rate of economic growth and to decrease the rate of inflation. Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 In February 2023 government expenditure exceeded tax revenue by approximately $1 billion in Argentina.

Evaluate the likely macroeconomic effects of a government using deflationary policies to achieve a balanced budget. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy and telecommunication infrastructure projects.

Evaluate the likely benefits of an increase in government expenditure on infrastructure.

Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 Between 2012 and 2022 the productivity rate in Turkey increased by 39.2%.

Evaluate the likely benefits of an increase in the productivity rate.

Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 Between July 2023 and January 2024 the rate of employment in Colombia decreased from 58.6% to 55.3%.

Evaluate supply-side policies that could be used to increase the rate of employment. Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 In 2022 nominal GDP was $5 billion for Fiji, $477 billion for Egypt and $3 385 billion for India.

Evaluate the limitations of using GDP data to compare living standards between countries. Refer to countries of your choice in your answer.

(Total for Question 14 = 20 marks)

SUB-TOPIC 2.3.6.4

MACROECONOMIC DEMAND-SIDE POLICIES

Sub-topic 2.3.6.4 · 39 questions · 283 marks · lowest tariff first

SECTION A

Answer ALL questions in this section.

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 ☒.

1 The table shows the real GDP growth rate and the unemployment rate for the USA for Quarter 1 and Quarter 2 in 2020.

	Real GDP growth rate (%)	Unemployment rate (%)
Q1 2020	–5.0	3.9
Q2 2020	–31.4	13.1

Which **one** of the following is most likely to have caused the **increase** in the unemployment rate between Q1 2020 and Q2 2020?

☒ **A** Real wage unemployment

☒ **B** Demand deficient unemployment

☒ **C** Structural unemployment

☒ **D** Seasonal unemployment

(Total for Question 1 = 1 mark)

2 In June 2020 the Bank of England increased the value of its asset purchases scheme (quantitative easing) by £100 billion.

Which **one** of the following correctly describes this economic policy?

☒ **A** Reflationary monetary policy

☒ **B** Deflationary monetary policy

☒ **C** Reflationary fiscal policy

☒ **D** Deflationary fiscal policy

(Total for Question 2 = 1 mark)

SECTION A

Answer ALL questions in this section.

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 ☒.

1 It is estimated that the marginal propensity to consume in Germany is 0.4.

Which **one** of the following represents the value of the multiplier in Germany?

- ☒ **A** 0.5
- ☒ **B** 0.6
- ☒ **C** 1.7
- ☒ **D** 2.5

(Total for Question 1 = 1 mark)

2 India's central bank, the Reserve Bank of India, has an inflation target and is banker to the Indian Government.

Which **one** of the following is also a role of the central bank?

- ☒ **A** Increasing the trade deficit
- ☒ **B** Acting as the lender of last resort
- ☒ **C** Achieving national happiness
- ☒ **D** Reducing income equality

(Total for Question 2 = 1 mark)

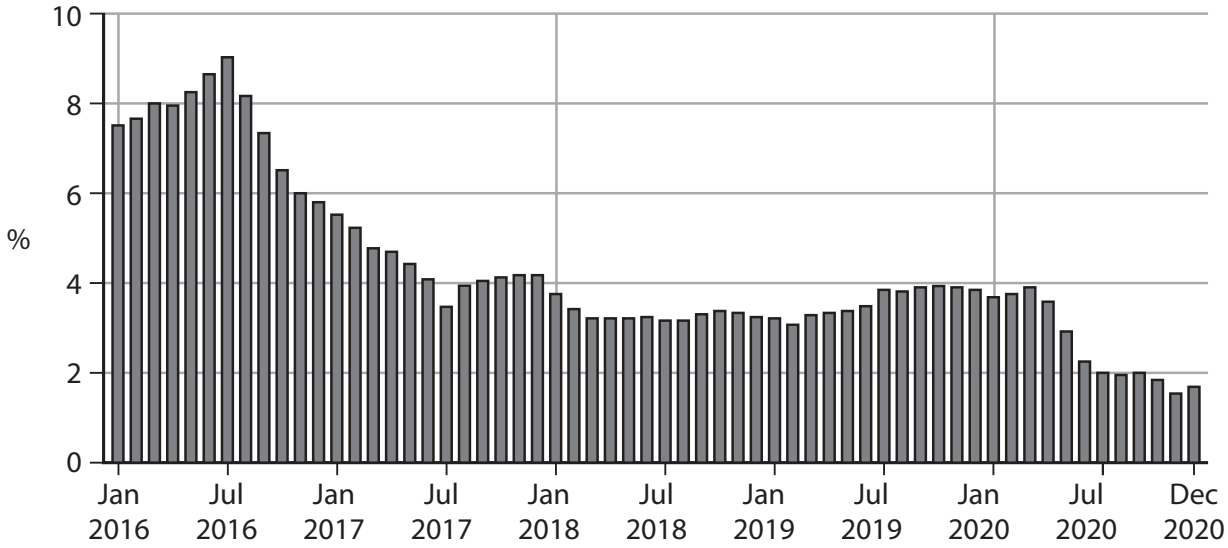
3 In Indonesia it is estimated that approximately 27% of part-time workers are employed for fewer hours than they would be willing to work.

Which **one** of the following may be deduced from this information?

- ☒ **A** There is a high level of underemployment in Indonesia
- ☒ **B** There is a high level of economic inactivity in Indonesia
- ☒ **C** There is a high rate of unemployment in Indonesia
- ☒ **D** There is a high rate of inflation in Indonesia

(Total for Question 3 = 1 mark)

4 The chart shows the annual rate of inflation in Colombia, measured by the Consumer Price Index (CPI), January 2016 to December 2020.



(Source: https://tradingeconomics.com/colombia/inflation-cpi)

Which **one** of the following can be deduced from the chart over the period shown?

- ☒ **A** There was disinflation from January 2016 to July 2016
- ☒ **B** There was deflation from January 2017 to July 2017
- ☒ **C** The average price level was unchanged between January 2019 and July 2019
- ☒ **D** The average price level was lower in January 2020 than in July 2020

(Total for Question 4 = 1 mark)

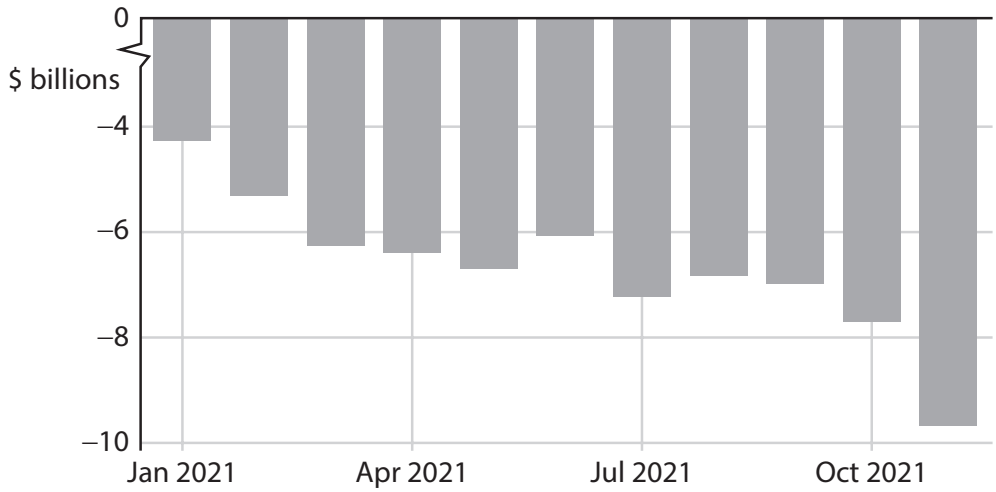
5 In 2020 the Italian Government spent €945.6 billion and received €789.3 billion in tax revenue.

Which **one** of the following policies could the Italian Government implement to achieve a balanced budget over the following year?

- ☒ **A** Deflationary monetary policy
- ☒ **B** Reflationary monetary policy
- ☒ **C** Deflationary fiscal policy
- ☒ **D** Reflationary fiscal policy

(Total for Question 5 = 1 mark)

4 The chart shows France's monthly balance of trade in goods and services, January 2021 to November 2021.



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

Which **one** of the following is the most likely reason for this trend in France's balance of trade in goods and services?

- ☒ **A** An increase in the savings ratio
- ☒ **B** An increase in relative productivity
- ☒ **C** An increase in the exchange rate
- ☒ **D** An increase in the quality of exports

(Total for Question 4 = 1 mark)

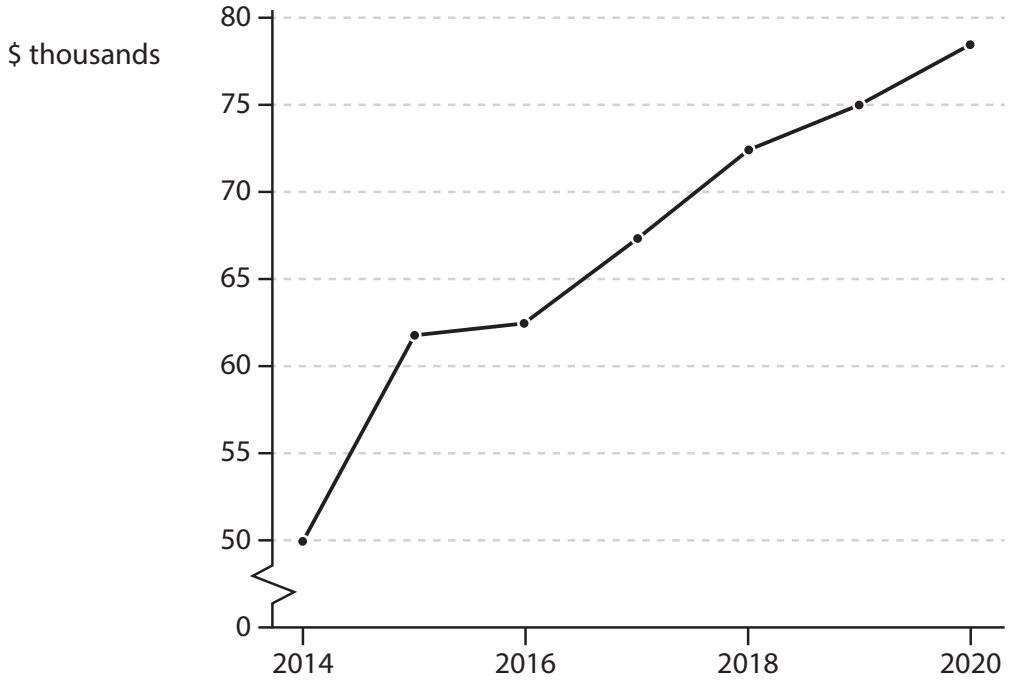
5 Between January 2021 and December 2021 the central bank of the USA increased its asset purchases (quantitative easing) from $7.3 trillion to $8.8 trillion.

Which **one** of the following is the most likely impact of an increase in asset purchases (quantitative easing)?

- ☒ **A** A decrease in the availability of credit
- ☒ **B** A decrease in the rate of inflation
- ☒ **C** An increase in the rate of unemployment
- ☒ **D** An increase in the money supply

(Total for Question 5 = 1 mark)

4 The chart shows Ireland's real GDP per capita, 2014–2020.



(Source adapted from: https://data.worldbank.org/)

Which **one** of the following is the most likely effect of this change in real GDP per capita?

- ☒ **A** An increase in the standard of living
- ☒ **B** An increase in the rate of unemployment
- ☒ **C** A decrease in consumer confidence
- ☒ **D** A decrease in the purchasing power of consumers

(Total for Question 4 = 1 mark)

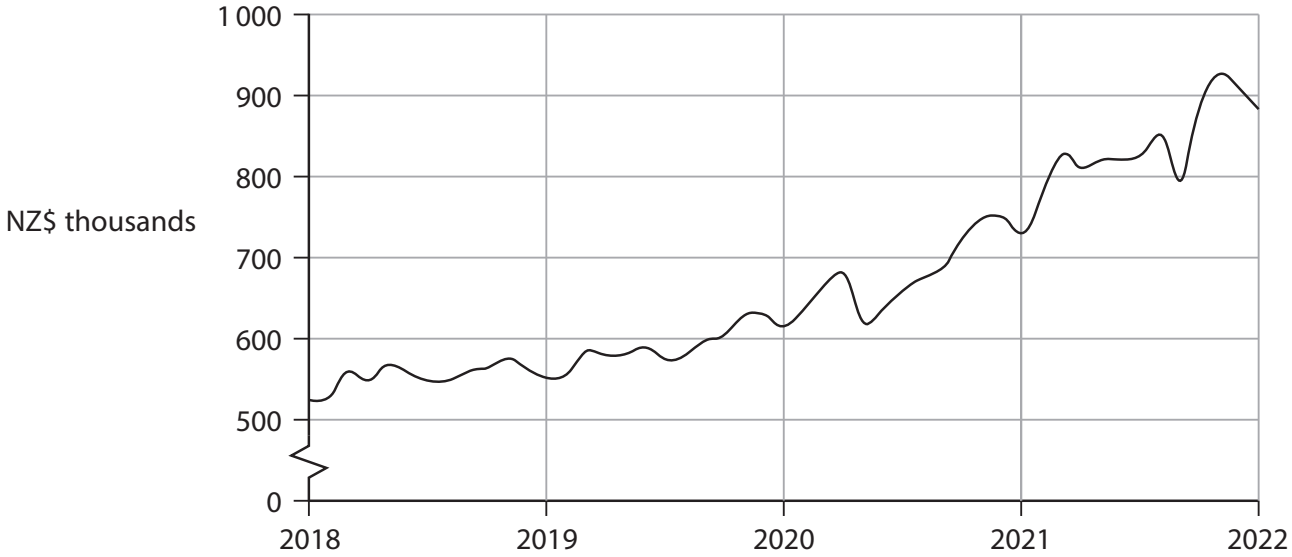
5 In April 2022 the central bank of Sri Lanka increased the country's base rate of interest from 7.5% to 14.5%.

Ceteris paribus, which **one** of the following is the most likely impact of this increase in the base rate of interest?

- ☒ **A** An increase in the rate of economic growth
- ☒ **B** An increase in the rate of unemployment
- ☒ **C** A decrease in the cost of borrowing
- ☒ **D** A decrease in the reward for saving

(Total for Question 5 = 1 mark)

4 The chart shows changes in average house prices in New Zealand between January 2018 and December 2021.



Which **one** of the following is the most likely impact of the change in average house prices on existing homeowners between January 2018 and December 2021?

- ☒ **A** Higher consumer confidence
- ☒ **B** Negative wealth effects
- ☒ **C** An increase in net investment
- ☒ **D** Lower consumer expenditure

(Total for Question 4 = 1 mark)

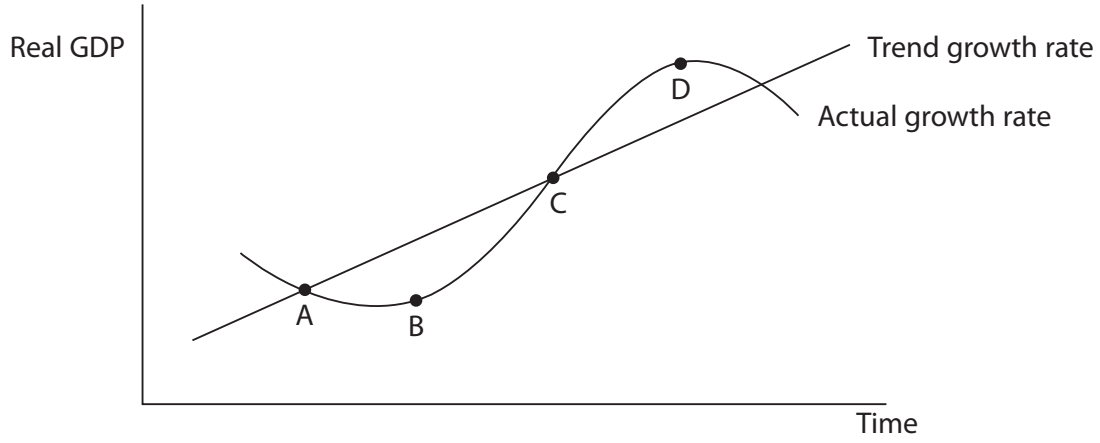
5 In December 2021 the European Central Bank (ECB) decided to end its asset purchases (quantitative easing) scheme. In August 2022 the ECB started to sell these assets.

Which **one** of the following describes this economic policy?

- ☒ **A** Reflationary fiscal policy
- ☒ **B** Deflationary fiscal policy
- ☒ **C** Reflationary monetary policy
- ☒ **D** Deflationary monetary policy

(Total for Question 5 = 1 mark)

4 The diagram shows a country's trend growth rate and its actual growth rate.



Which **one** of the following can be deduced from the diagram?

- ☒ **A** The rate of economic growth is increasing between points A and B
- ☒ **B** There is a negative output gap at point B
- ☒ **C** There is a positive output gap at point C
- ☒ **D** The level of unemployment is increasing between points C and D

(Total for Question 4 = 1 mark)

5 The Bank of Israel is the country's central bank and it is the sole banker to Israel's Government.

Which **one** of the following is also a role of a central bank?

- ☒ **A** To act as a lender of last resort
- ☒ **B** To achieve a balanced government budget
- ☒ **C** To change the level of welfare payments
- ☒ **D** To deregulate product and labour markets

(Total for Question 5 = 1 mark)

4 Between January 2023 and March 2023, Brazil's net monthly balance of trade in goods and services surplus increased from $2 609 billion to $10 956 billion.

Which **one** of the following is the most likely reason for this change in Brazil's balance of trade in goods and services surplus?

- ☒ **A** A decrease in income tax rates in Brazil
- ☒ **B** A decrease in the quality of Brazil's goods and services
- ☒ **C** A decrease in the savings ratio in Brazil
- ☒ **D** A decrease in the external value of Brazil's currency

(Total for Question 4 = 1 mark)

5 Governments use fiscal policies to meet their macroeconomic objectives.

Which **one** of the following is a fiscal policy instrument?

- ☒ **A** Changes in quantitative easing
- ☒ **B** Changes in taxation
- ☒ **C** Changes in lending criteria
- ☒ **D** Changes in liquidity requirements

(Total for Question 5 = 1 mark)

4 In 2023 the European Central Bank decided to end its quantitative easing programme.

Ceteris paribus, which **one** of the following is the most likely effect of this decision?

- ☒ **A** An increase in the rate of corporation tax
- ☒ **B** A decrease in the rate of unemployment
- ☒ **C** An increase in the rate of economic growth
- ☒ **D** A decrease in the rate of inflation

(Total for Question 4 = 1 mark)

5 Which **one** of the following describes how unemployment is measured using the International Labour Organization (ILO) definition?

- ☒ **A** When a person has been actively seeking work in the past four weeks and is available to start work in the next two weeks
- ☒ **B** When a person has been actively seeking work in the past four months and is available to start work in the next two months
- ☒ **C** When a person has been actively seeking work in the past two months and is available to start work in the next four months
- ☒ **D** When a person has been actively seeking work in the past two weeks and is available to start work in the next four weeks

(Total for Question 5 = 1 mark)

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'fiscal policy' (Extract A, line 6).

(2)

(b) With reference to Figure 1, explain the term 'real GDP growth'.

(4)

(c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

(6)

(d) With reference to the information provided, examine the likely impact of increased investment on Romania's economy.

(8)

(e) Discuss the likely effects of the increase in the rate of inflation on Romania's economy.

(14)

Sources for use with Section C.

The Romanian economy

Figure 1 Year-on-year real GDP growth by quarter, 2016-2017

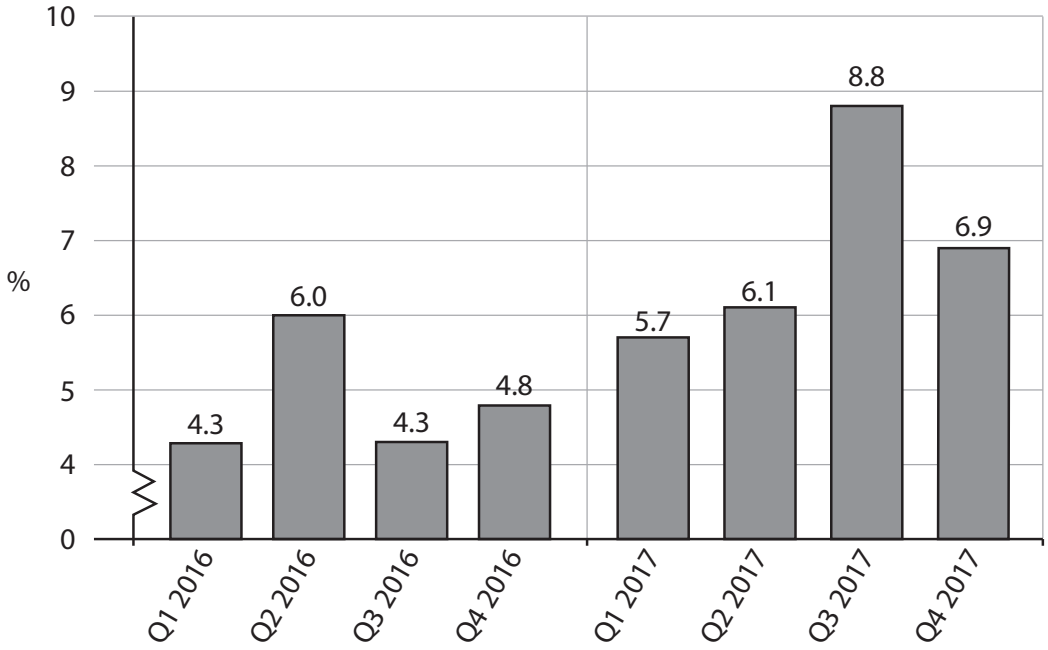
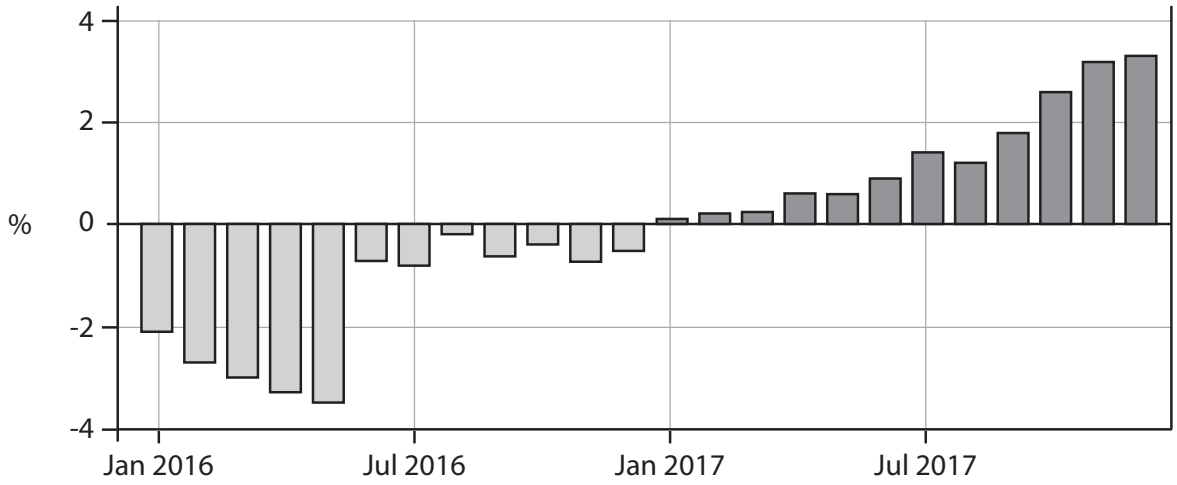


Figure 2 The rate of inflation, as measured by the consumer price index, 2016-2017



Extract A Romania's economic growth

For many years Romania had been viewed as a poor country by European standards, experiencing low wages and a slow rate of economic growth. However, since 2015, Romania's rate of economic growth outperformed other European countries. This growth was stimulated by a number of factors including the Government's expansionary fiscal policy, increased household consumption and high levels of investment in new technology for manufacturing industries.

In 2015 the Government cut VAT from 24% to 20%. It planned to double the minimum wage over a four-year period. It also increased the salaries of public sector employees. However, wage levels are still low compared to other European countries leading to high levels of migration out of the country. This resulted in labour shortages as businesses found it hard to fill vacancies. The unemployment rate fell to 4.6% in 2017.

Romania has one of the fastest broadband internet speeds in the world, behind Singapore, Hong Kong, South Korea and Iceland. It also has a very well-educated workforce, with excellent language, maths and science skills. The technology sector is expanding fast in the country, and many large foreign firms such as Siemens and Ford have set up factories in Bucharest, the Romanian capital. This has increased production in the country and generated strong growth in exports.

Extract B Inflationary pressures

As disposable incomes have risen, consumption has also increased significantly reaching a ten-year peak in 2017. The rate of inflation has risen throughout 2017. This was partly caused by a 3.8% increase in food prices and by a 4.1% price increase in non-food products.

The central bank responded to this inflationary pressure by increasing its base interest rate for the first time in 10 years from 1.75% to 2%. Mugur Isarescu, the Governor of the central bank, suggested that the Romanian Government's fiscal policies are to blame for the higher rate of inflation. The fiscal deficit rose to 3% of GDP in 2016. The Government defended its position, believing that reductions in tax rates and increased government spending on infrastructure will lead to long-term economic growth.

12 (a) Define the term 'fiscal policy' (Extract A, line 6).

(2)

(b) With reference to Figure 1, explain the term 'real GDP growth'.

(4)

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'base rate of interest' (Figure 1).

(2)

(b) With reference to Figure 2, explain the term 'recession'.

(4)

(c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments.

(6)

(d) With reference to the information provided, examine the likely impact of inflation on the economy of Argentina.

(8)

(e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption.

(14)

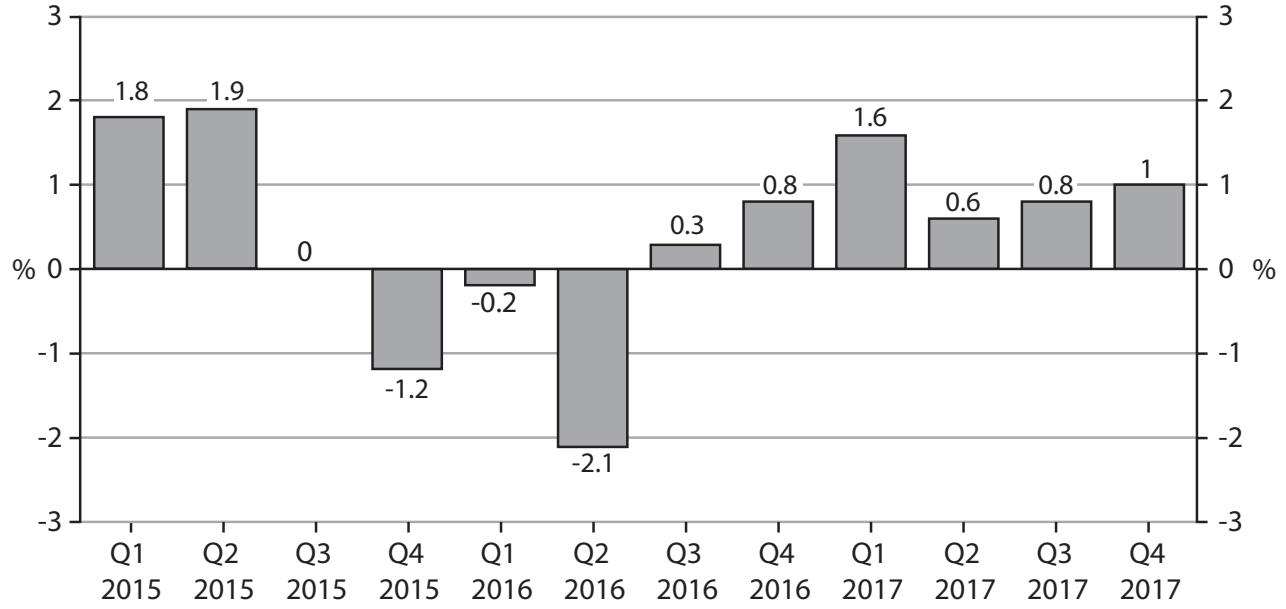
Sources for use with Section C.

The economy of Argentina

Figure 1 The base rate of interest for Argentina, April 2013 – April 2018



Figure 2 Quarterly GDP growth rate (%), 2015 – 2017



Extract A The problems facing the economy

Argentina is South America's second largest economy. Mauricio Marci was elected as its President in 2015. He faced the difficult task of controlling inflation which was between 30%–40% per year. He also needed to reduce the large budget deficit which was 7.1% of GDP. Between the end of 2015 and the beginning of 2016 the economy went into recession. This was caused by a significant reduction in government spending in an attempt to balance the budget. The purchasing power of consumers declined as wages fell and the rate of inflation rose to 40%. A fall in demand for Argentina's exports also contributed to the decrease in economic growth.

Extract B Improving economic outlook

Since coming out of recession in 2016, economic growth in Argentina has stabilised at an annual rate of around 3% per year. However, high inflation is still a major problem. Inflation was 25% in 2017. The effect of this inflation is damaging to both households and businesses. Rising prices have reduced domestic business investment as firms are unsure about future costs. One of the Argentinian Government's key economic policies is to stabilise prices to encourage consumption and investment.

A fall in the value of the Argentinian currency, the peso, against the dollar also caused inflationary pressure. In 2018 the peso lost around 12% of its value against the dollar. This makes importing goods from the USA very expensive. At the same time there was a decrease in the value of commodity exports, causing a current account deficit. In an attempt to reduce the rate of inflation and to stabilise the currency, the Central Bank of Argentina increased the base rate of interest to 40%.

However, the situation is not all bad. Real wages are rising in many sectors and consumer spending is increasing. Also, the Government plans to spend US$14 billion on infrastructure. These positive changes have helped Argentina to attract investment from Japanese transport companies such as Mitsubishi and Marubeni Corp, and the American technology company, Apple.

12 (a) Define the term 'base rate of interest' (Figure 1).

(2)

(b) With reference to Figure 2, explain the term 'recession'.

(4)

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'monetary policy'. (Extract A, line 8)

(2)

(b) With reference to Extract A, explain the term 'foreign direct investment'.

(4)

(c) With reference to Figure 1 and Extract A, examine **two** likely impacts of the annual GDP growth rates on the people living in East African countries.

(8)

(d) With reference to Figure 2, analyse **one** macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.

(6)

(e) With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies.

(14)

Sources for use with Section C.

East African* economies

* Countries include Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

Figure 1 Annual real GDP growth, 2014–2018

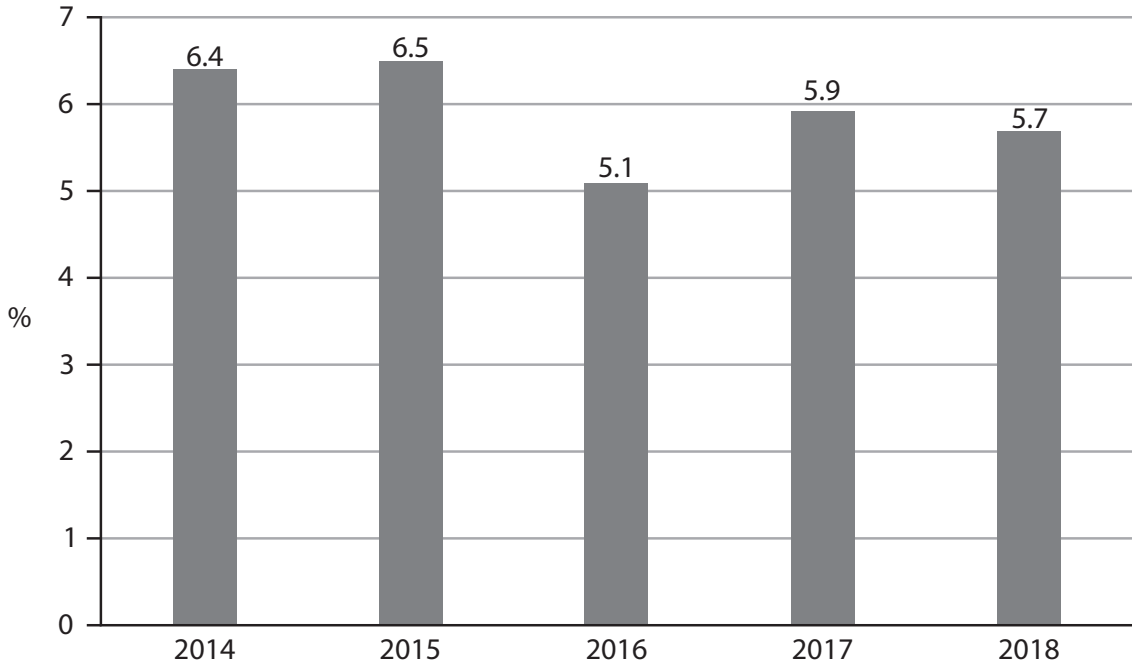


Figure 2 Current account on the balance of payments as a percentage of GDP, 2016–2018

	East African economies
2016	-6.7
2017	-5.4
2018	-5.3

Extract A Rapid growth in East Africa

East Africa was the fastest growing region of Africa in 2018. Increasing commodity prices helped the agricultural and mining sectors contribute most to this growth. Higher foreign direct investment (FDI) in the region also contributed to economic growth. Growth in FDI in 2018 was 67% in Uganda, 27% in Kenya and 18% in Tanzania. Governments in East Africa have been investing in infrastructure, such as roads, seaports and airports.

As a result of rapid economic growth, the rate of inflation increased to 13.1% in 2016 and 14.4% in 2017. Appropriate monetary policy in the region helped the rate of inflation to fall to 8.9% in 2019.

Despite rapid economic growth rates, unemployment remains high. Many consumers struggle to meet their basic needs. The governments of the region have been advised to focus on interventionist supply-side policies. These should include continued investment in infrastructure, improving the health and skills of the labour force and increasing the supply of housing.

Extract B East African infrastructure investment needed

East African economies have under-invested in infrastructure. The roads in East Africa are in a poor condition. The combination of low speeds and long distances causes high transport costs. Rail transport is poor, which means most goods have to be transported on a congested road system. Funds from China are being used to build two rail routes in the region.

Inadequate energy supply is the biggest infrastructure problem. East Africa has the lowest energy generating capacity per capita on the continent. Poor energy supply causes blackouts. However, the region has the potential to develop hydro, wind and fossil fuel resources that could increase energy supply.

The region has the smallest proportion of their population with telephone lines and access to mobile phone networks in Africa. However, recently there has been a high level of investment in telecommunications infrastructure. This will result in significant improvements in communications.

12 (a) Define the term 'monetary policy'. (Extract A, line 8)

(2)

(b) With reference to Extract A, explain the term 'foreign direct investment'.

(4)

SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'fiscal policy' (Extract A, line 12).

(2)

(b) With reference to Figure 1, explain how the ILO unemployment rate is measured.

(4)

(c) With reference to Figure 1 and Extract A, examine **two** likely economic effects of the increase in unemployment experienced in New Zealand between Quarter 2 and Quarter 3 2020.

(8)

(d) With reference to Extract A, analyse **one** likely effect of the reduction in tourist visitors on the circular flow of income.

Illustrate your answer with a circular flow diagram.

(6)

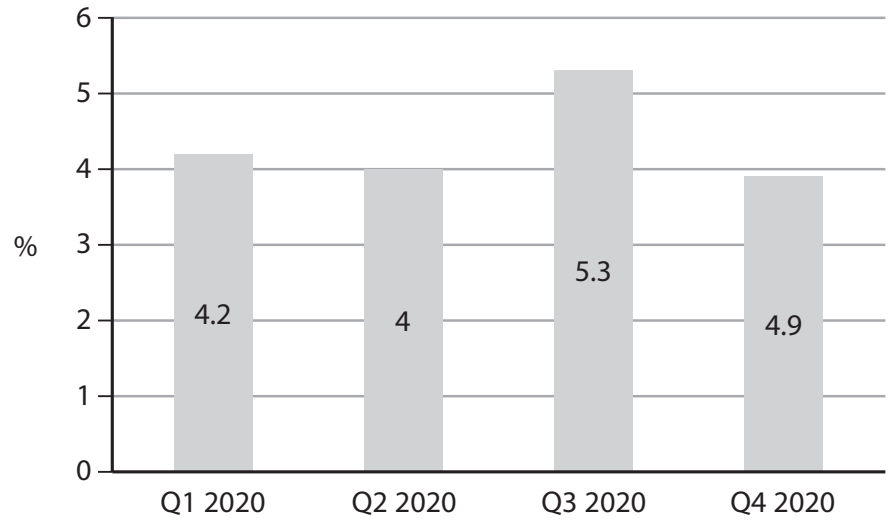
(e) With reference to Extract A and your own knowledge, discuss the likely effects of reflationary monetary policy on the New Zealand economy.

(14)

Sources for use with Section C

The New Zealand economy

Figure 1 ILO unemployment rate, Quarter 1 to Quarter 4 2020



Extract A The impact of the global health crisis

In Quarter 2 2020 a global health crisis resulted in a reduction in economic activity in many countries. Significant declines in manufacturing, construction and services contributed to an average decrease in economic growth of 9.8% in 36 developed countries.

In response to the global health crisis New Zealand's Government instructed most people to stay at home from March 25 to May 13. This led to a substantial reduction in the country's GDP and to an increase in unemployment. Its economic growth rate fell by 12.2% in Quarter 2 2020 compared with Quarter 1 2020. However, in Quarter 3 2020, when New Zealanders no longer had to stay at home, economic growth recovered strongly and increased by 14% compared with Quarter 2 2020.

The economic recovery was also helped by reflationary fiscal policy by the New Zealand Government and reflationary monetary policy by New Zealand's central bank. In 2020 the Government increased its spending by NZ$62 billion. In March 2020 New Zealand's central bank reduced the base interest rate from 1% to 0.25%. At the same time, it introduced NZ$60 billion of quantitative easing, which was increased to NZ$100 billion in August 2020. This helped to stimulate consumer spending that grew by 14.8% in Quarter 3 2020.

The reflationary policy helped to increase the demand for housing. Consequently, the average price of a house rose to NZ$788 967, the highest on record. This was an increase of 2.6% in 2020 compared with 2019.

One problem for New Zealand's economy was that, in response to the global health crisis, the Government closed its borders to all foreigners in March 2020. This policy continued well into 2021. This significantly affected the tourism industry and exports of services. The results of a survey of firms in the tourism industry indicated that:

- 33% of businesses were temporarily closing
- 40% of businesses were significantly reducing operations
- 21% of businesses might not survive.

In 2019 tourism accounted for 20% of exports, 10% of GDP and employed 400 000 people. By the end of 2020 a significant number of workers in the tourism industry were made redundant.

12 (a) Define the term 'fiscal policy' (Extract A, line 12).

(2)

(b) With reference to Figure 1, explain how the ILO unemployment rate is measured.

(4)

SECTION B

Answer ALL questions in this section in the space provided.

7 In January 2018 South Korea's Central Bank raised its base interest rate from 1.25% to 1.5%.

Explain **one** likely economic effect of this increase in the base interest rate.

(Total for Question 7 = 4 marks)

10 Turkey's central bank increased its base interest rate from 12.75% in April 2018 to 24% in September 2018.

Draw a LRAS and AD diagram to show the possible long-run impact of this significant increase in the base interest rate on AD, the price level **and** real output for Turkey.

(Total for Question 10 = 4 marks)

10 In August 2019 the American President, Donald Trump, criticised America's central bank. He said that the US economy was healthy because there was no inflation and that it was decisions made by the central bank that were limiting economic growth.

Explain **one** role of a central bank.

(Total for Question 10 = 4 marks)

10 The UK's central bank extended its existing asset purchases (quantitative easing) programme from £645 billion in March 2020 to £895 billion in November 2020.

With reference to this information, explain **one** likely impact of the increase in quantitative easing on aggregate demand.

(Total for Question 10 = 4 marks)

10 Between January 2021 and December 2021, Brazil's central bank increased its base interest rate from 2% to 9.75%.

With reference to this information, explain **one** likely macroeconomic impact of an increase in the base interest rate.

(Total for Question 10 = 4 marks)

8 Between May 2022 and April 2023 the central bank of Nigeria increased the country's base rate of interest by six percentage points.

Draw an AD and LRAS diagram to show the effect of this increase in the base rate of interest on *consumption*, the price level and real output.

(4)

(Total for Question 8 = 4 marks)

11 Between 2015 and 2023 the European Central Bank increased its asset purchases (quantitative easing) programme by approximately €3.5 trillion.

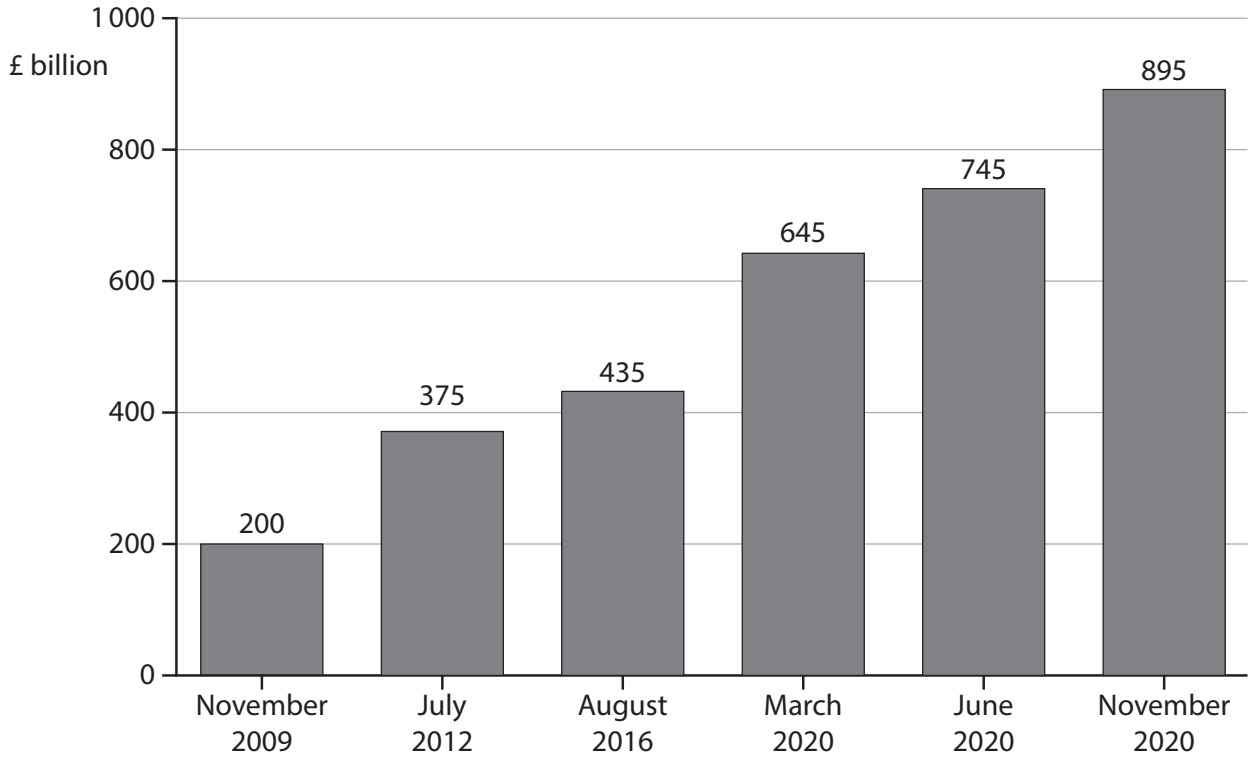
With reference to the data, explain what is meant by quantitative easing.

(4)

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

10 The chart shows quantitative easing in the UK between November 2009 and November 2020, £ billion.



With reference to the chart, explain the term 'quantitative easing'.

(Total for Question 10 = 4 marks)

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'fiscal policy' (Extract A, line 6).

(2)

(b) With reference to Figure 1, explain the term 'real GDP growth'.

(4)

(c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

(6)

(d) With reference to the information provided, examine the likely impact of increased investment on Romania's economy.

(8)

(e) Discuss the likely effects of the increase in the rate of inflation on Romania's economy.

(14)

Sources for use with Section C.

The Romanian economy

Figure 1 Year-on-year real GDP growth by quarter, 2016-2017

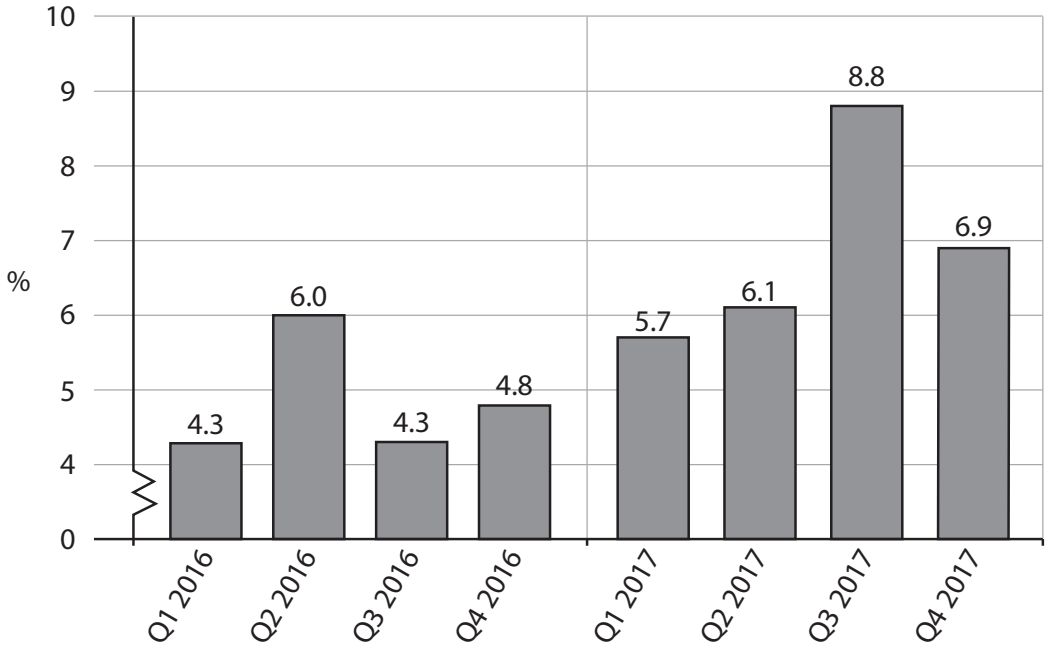
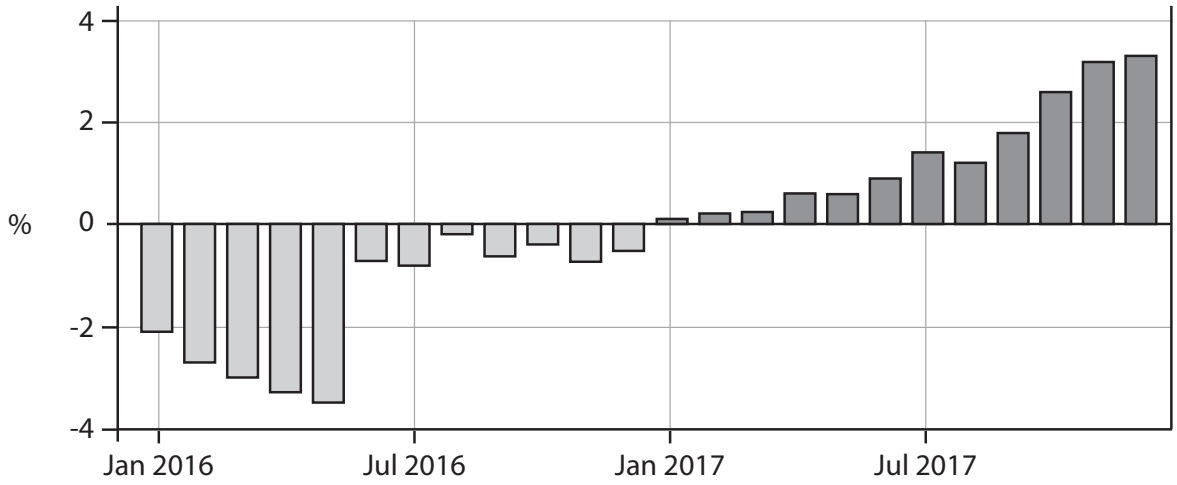


Figure 2 The rate of inflation, as measured by the consumer price index, 2016-2017



Extract A Romania's economic growth

For many years Romania had been viewed as a poor country by European standards, experiencing low wages and a slow rate of economic growth. However, since 2015, Romania's rate of economic growth outperformed other European countries. This growth was stimulated by a number of factors including the Government's expansionary fiscal policy, increased household consumption and high levels of investment in new technology for manufacturing industries.

In 2015 the Government cut VAT from 24% to 20%. It planned to double the minimum wage over a four-year period. It also increased the salaries of public sector employees. However, wage levels are still low compared to other European countries leading to high levels of migration out of the country. This resulted in labour shortages as businesses found it hard to fill vacancies. The unemployment rate fell to 4.6% in 2017.

Romania has one of the fastest broadband internet speeds in the world, behind Singapore, Hong Kong, South Korea and Iceland. It also has a very well-educated workforce, with excellent language, maths and science skills. The technology sector is expanding fast in the country, and many large foreign firms such as Siemens and Ford have set up factories in Bucharest, the Romanian capital. This has increased production in the country and generated strong growth in exports.

Extract B Inflationary pressures

As disposable incomes have risen, consumption has also increased significantly reaching a ten-year peak in 2017. The rate of inflation has risen throughout 2017. This was partly caused by a 3.8% increase in food prices and by a 4.1% price increase in non-food products.

The central bank responded to this inflationary pressure by increasing its base interest rate for the first time in 10 years from 1.75% to 2%. Mugur Isarescu, the Governor of the central bank, suggested that the Romanian Government's fiscal policies are to blame for the higher rate of inflation. The fiscal deficit rose to 3% of GDP in 2016. The Government defended its position, believing that reductions in tax rates and increased government spending on infrastructure will lead to long-term economic growth.

(c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

(6)

SECTION C

Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'seasonally adjusted' (Figure 1).

(2)

(b) With reference to Figure 2, explain the difference between disinflation and deflation.

(4)

(c) With reference to Extract A, analyse **two** roles of a central bank.

(6)

(d) With reference to Figure 1 and Extract A, examine the likely impact of a fall in business confidence on Germany's real output.

(8)

(e) With reference to the information provided, discuss the likely macroeconomic effects of a high rate of inflation on the German economy.

(14)

Sources for use with Section C

The German economy

Figure 1 Index of business confidence (January 2015=100), seasonally adjusted, January 2020 to December 2021

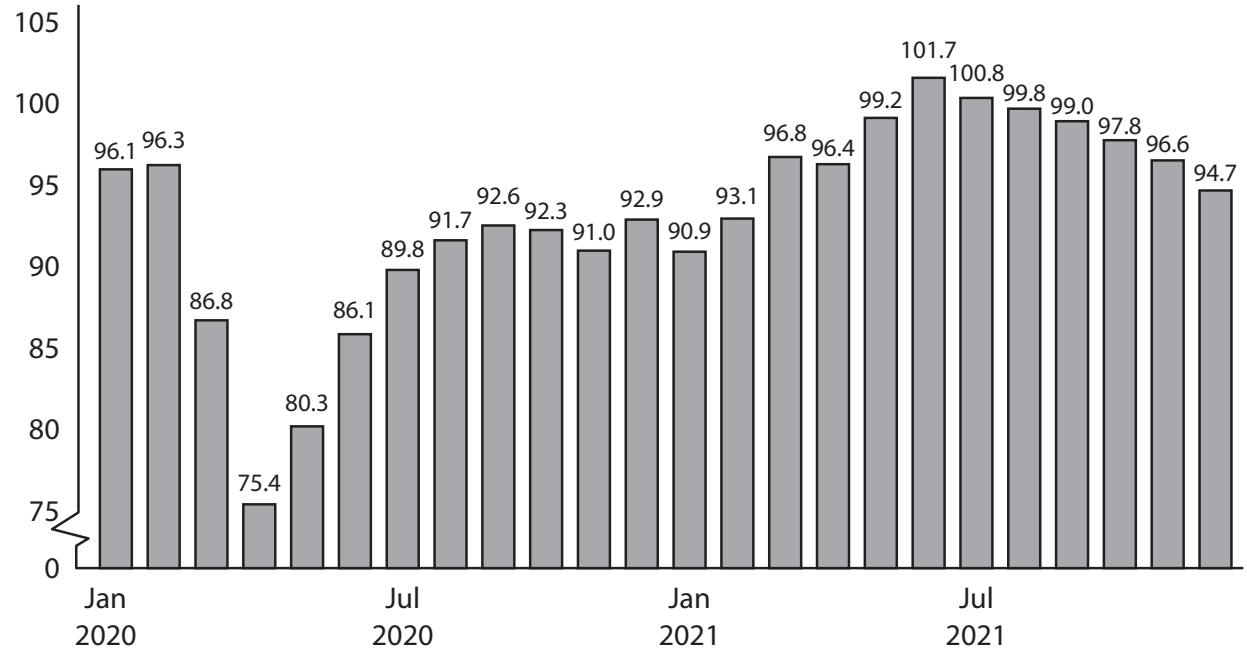
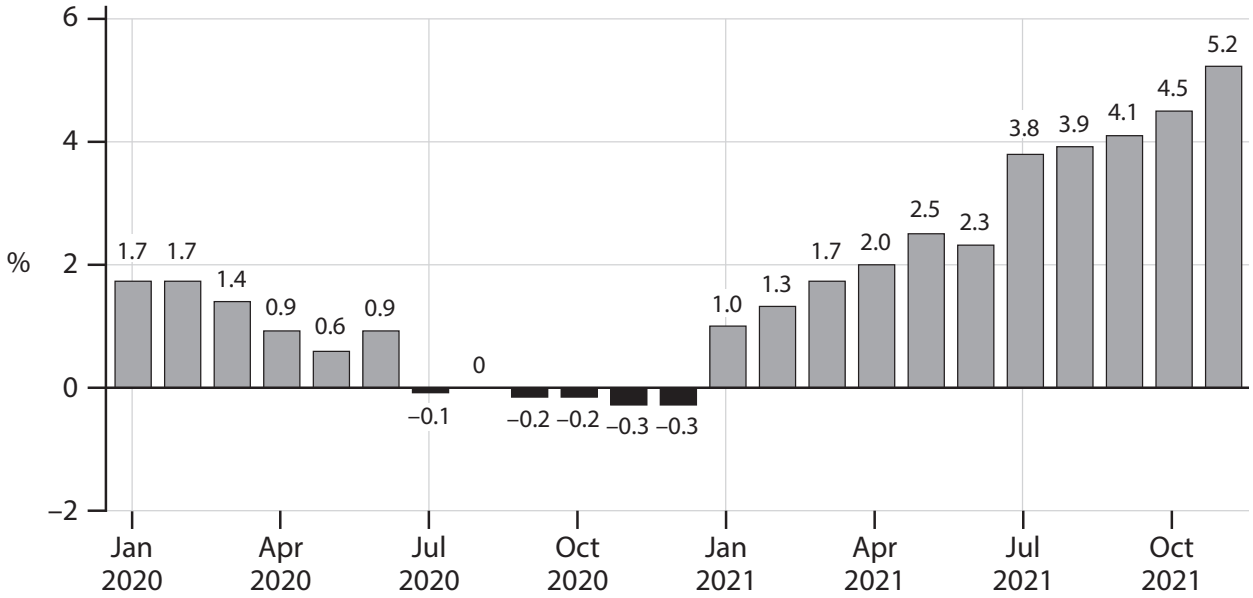


Figure 2 Inflation rate*, as measured by the consumer price index (CPI), January 2020 to November 2021



***This is the year-on-year inflation rate calculated monthly**

Extract A Economic outlook

In 2021 production in Germany's large manufacturing sector suffered from delays and shortages of materials caused by supply chain constraints. Its larger services sector, including retail, tourism and hospitality, was also negatively affected by the global health crisis. These factors led to a decline in business confidence in both the manufacturing and services sectors from June 2021 onwards.

Consequently, the country's central bank, the Bundesbank, estimated that Germany's real output was likely to fall in the last quarter of 2021. Many economists predicted that the German economy could enter a recession in 2022. However, industrial production, especially vehicle manufacturing, had started to increase in the third quarter of 2021. Therefore, it was likely that net exports would increase in the first six months of 2022.

According to the Bundesbank, households had built up extra savings worth 10% of their disposable income during the global health crisis. The Bundesbank predicted that "this will strongly boost consumption" once consumer confidence increased.

The Bundesbank also warned of inflation risks. It raised its forecast for Germany's annual rate of inflation to 3.6% for 2022. This is above the European Central Bank's (ECB) inflation target rate of 2% for the eurozone area. The Bundesbank has therefore indicated that the ECB will need to increase the base rate of interest to control the rising rate of inflation in the eurozone.

There was evidence that the supply chain constraints caused an increase in inflationary pressures. In November 2021, Germany's producer (wholesale) price index increased by 19.2% from the previous year. This was primarily as a result of rising prices for energy, metal and wood. The Bundesbank predicted that the supply chain constraints would not be resolved until the end of 2022.

(c) With reference to Extract A, analyse **two** roles of a central bank.

(6)

SECTION C

Study Figure 1, Figure 2, Figure 3 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'living standards'.

(2)

(b) With reference to Figure 2, explain the difference between disinflation and inflation.

(4)

(c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.

(8)

(d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(6)

(e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.

(14)

Sources for use with Section C

The economy of Brazil

Figure 1 Real GDP growth rate, 2018 to 2023

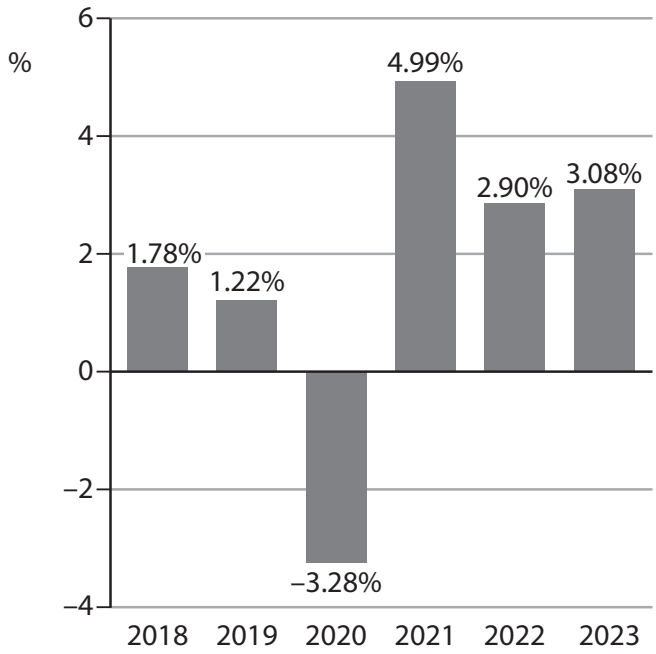
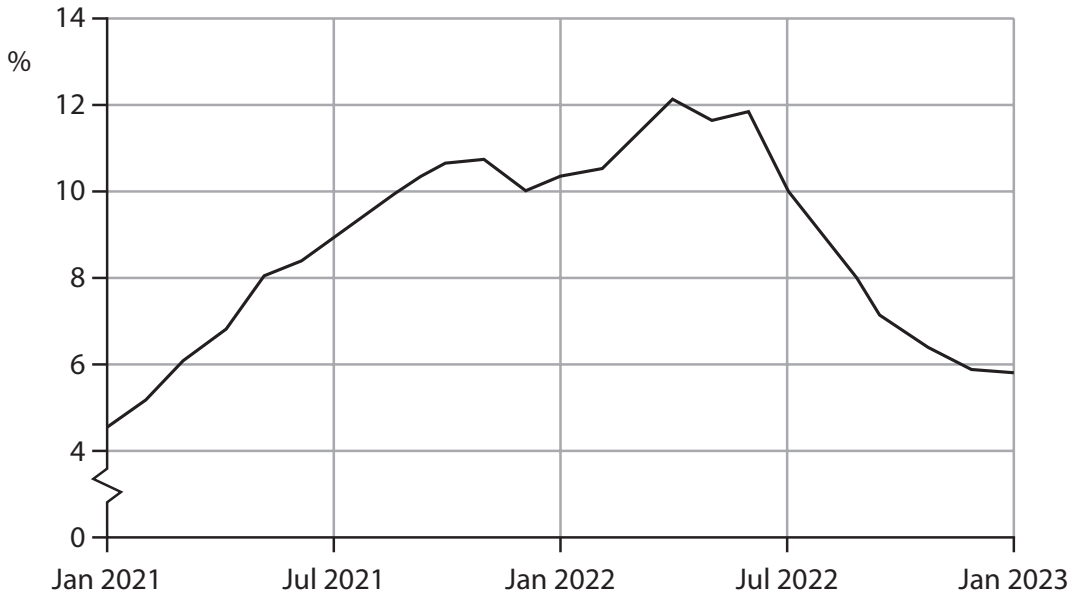
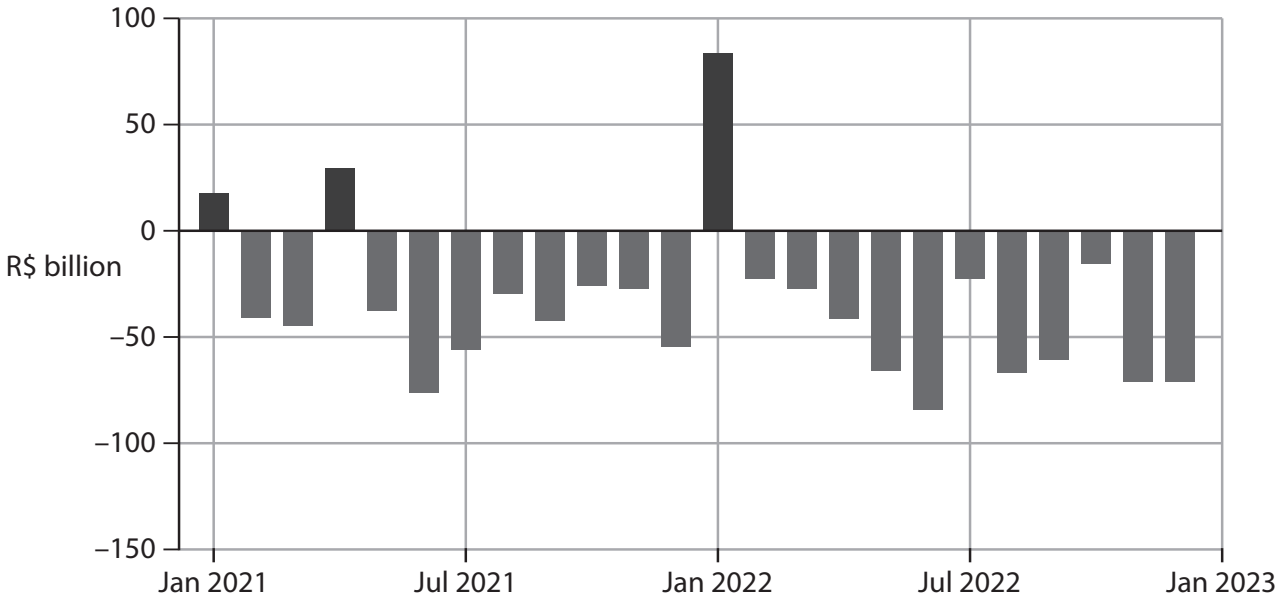


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2021 to January 2023



*This is the year-on-year inflation rate calculated monthly.

Figure 3 Government monthly budget balance, *real billion, January 2021 to December 2022**



**real* is the currency of Brazil and is denoted as R$.

Extract A Economic growth

Brazil's rate of economic growth fell between 2021 and 2022. This weaker economic performance was as a direct result of a significant decrease in industrial output and a slowdown in the services sector in 2022.

Many economists indicated that this slower rate of economic growth resulted from the Central Bank of Brazil's deflationary monetary policy to control the rising rate of inflation. Between January 2021 and June 2022 the Central Bank raised the country's base interest rate from an all-time low of 2% to 13.25%. This significantly affected consumer spending and business investment, both of which are major contributors to economic growth. As a result, economists predicted that Brazil's annual increase in real GDP would be below 1% in 2023.

The slowdown in economic growth will limit the Government's ability to improve living standards. In mid-2022 President Lula had promised to raise the real incomes of the country's population and create new jobs. He suggested that he was going to achieve his objective by increasing:

- the level of welfare payments
- investment in healthcare provision
- investment in infrastructure development
- investment in education, training and skills.

President Lula aimed to introduce these supply-side policies in 2023. These policies would cost R$371 billion over four years. However, the Government has insufficient tax revenues to finance its spending and investment. Previously, many large-scale investments in similar projects were not successful and represented a waste of resources.

Consequently, the Government proposed tax increases and cuts in government expenditure to achieve a balanced budget. This deflationary fiscal policy aims to increase tax revenues by R$190 billion and reduce government expenditure by R$50 billion.

Acknowledgements

Figure 1 adapted from https://www.statista.com/statistics/263615/gross-domestic-product-gdp-growth-rate-in-brazil/

Figure 2 adapted from https://tradingeconomics.com/brazil/inflation-cpi

Figure 3 adapted from https://tradingeconomics.com/brazil/government-budget-value

Extract A adapted from FT, https://www.ft.com/content/2b1cbe31-a2da-4841-a418-8c10c8cc267d and https://www.ft.com/content/1b297b16-5b19-4cb5-b0fd-de77f6f1f1a5

(d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(6)

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'Real wage growth' (Extract B, line 8).

(2)

(b) With reference to Figure 2, explain what is meant by a surplus on the balance of trade in goods and services.

(4)

(c) With reference to Extract A, analyse the possible impact of net migration on employment **or** unemployment in Australia.

(6)

(d) With reference to Extract B, examine the case for a reduction in the base rate of interest by the Australian central bank.

(8)

(e) Using the information provided, discuss the factors, other than net migration, that have contributed to economic growth in Australia up to 2018.

(14)

Sources for use with Section C.

The Australian economy

Figure 1 Annual real GDP growth (%), 2012 to 2018

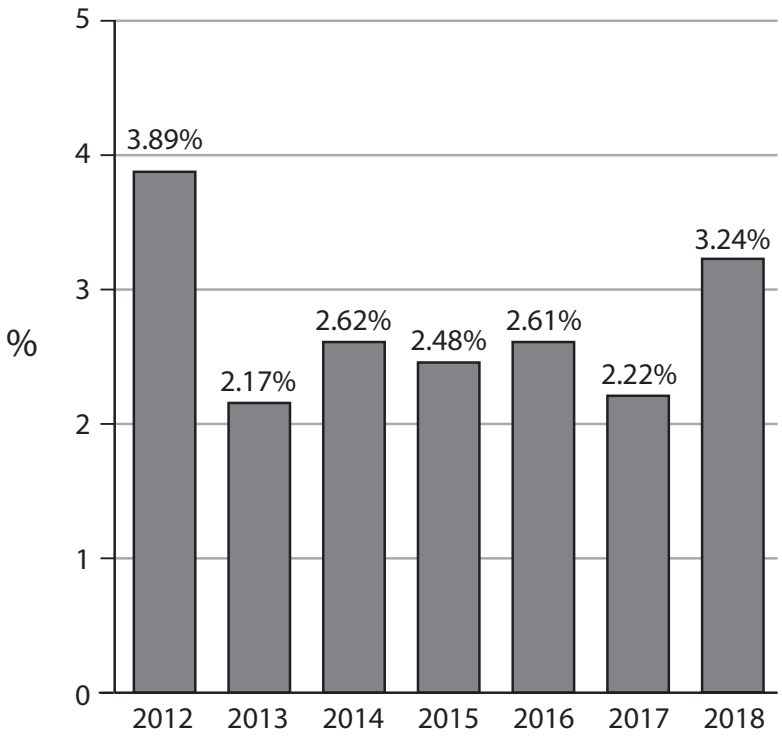
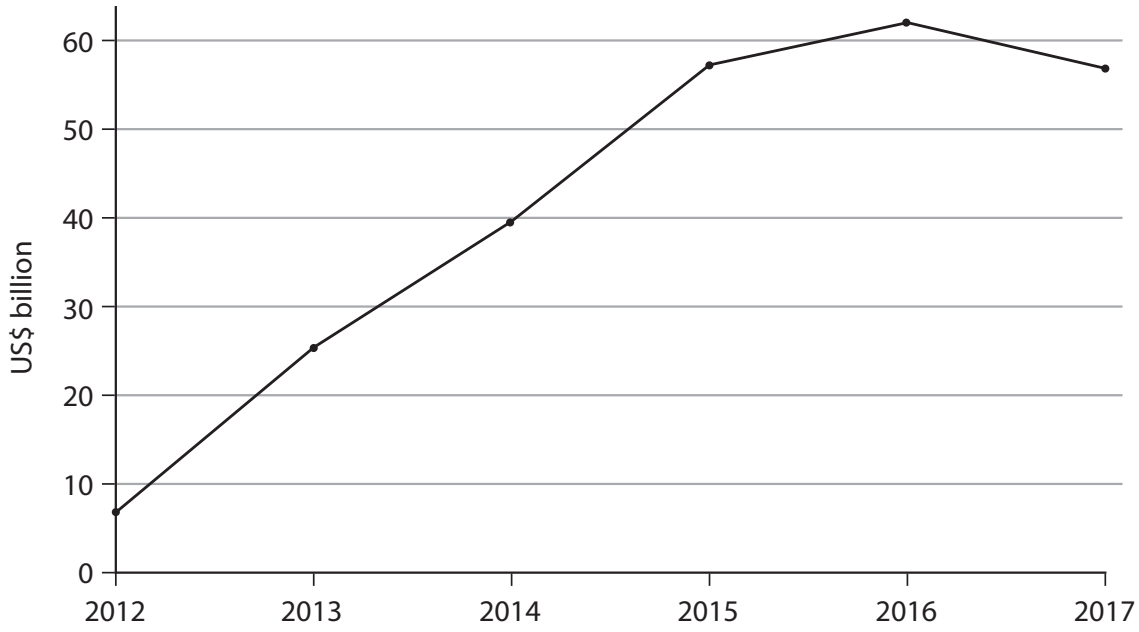


Figure 2 Balance of trade in goods and services, 2012 to 2017 (US$ billion)



Extract A State of the economy

Unlike most developed countries, Australia was not significantly affected by the global financial crisis and has continued to experience positive economic growth.

The Australian Government has encouraged migration into the country, although this is now limited to 190 000 permanent immigrants per year. Over 28% of the population are immigrants. Net migration has led to an increase in the Australian labour force. As many of the immigrants are highly skilled, this has had positive effects on the Australian economy. It has also resulted in an increase in consumption in the country.

Export growth has also been a significant reason for the increase in Australia's GDP. Australia's geography is very different to other developed countries. It is nearer to China than many other developed countries, which enables Australia to export its goods with relatively low shipping costs. There has been great demand from China for Australian exports, particularly sugar, copper, iron, coal, lead and zinc.

Australia is also a very popular tourist destination for Chinese citizens, as the flight is short. Tourism has increased by 50% since 2012 and now accounts for AU$29 billion and is Australia's fifth biggest export.

Australia has benefited from demand from foreign students wanting to study in the country. Over 540 000 international students enrolled in Australian schools and universities in 2018, an 80% increase in five years. Both tourists and students have a significant impact on the consumption of goods and services supporting further economic growth.

Government expenditure has increased on roads, bridges, ports, airports, schools and education. The Government aims to improve access for people and goods across Australia supporting both businesses and individuals.

Extract B Future prospects

The future for Australia does not look as promising as it once did. China demands around one-third of Australia's exported goods. China's economic growth has slowed as economies such as the USA, Japan and the Eurozone demand less Chinese goods. This has recently caused business confidence in China to fall, reducing the demand for Australia's commodity exports needed in manufacturing.

The Australian central bank is considering a reduction in the base rate of interest. Real wage growth fell between 2013 and 2018. However, private household consumption rose during that period. During 2018 house prices decreased and recorded a fall of 2.4% in the first quarter of 2019. However, some economists are forecasting an increase in Australia's inflation rate from 1.8% in 2018 to 2.3% in 2019. The central bank's target annual rate of inflation is between 2% and 3%.

(d) With reference to Extract B, examine the case for a reduction in the base rate of interest by the Australian central bank.

(8)

SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'real GDP' (Figure 1).

(2)

(b) With reference to Figure 2, explain how ILO unemployment is measured.

(4)

(c) With reference to Extract A, analyse **two** causes of China's high youth unemployment rate.

(6)

(d) With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely effects of a reflationary monetary policy on the economy of China.

(14)

Sources for use with Section C

The economy of China

Figure 1 Year on year real GDP growth rate by quarter, Q1 2020 to Q2 2022

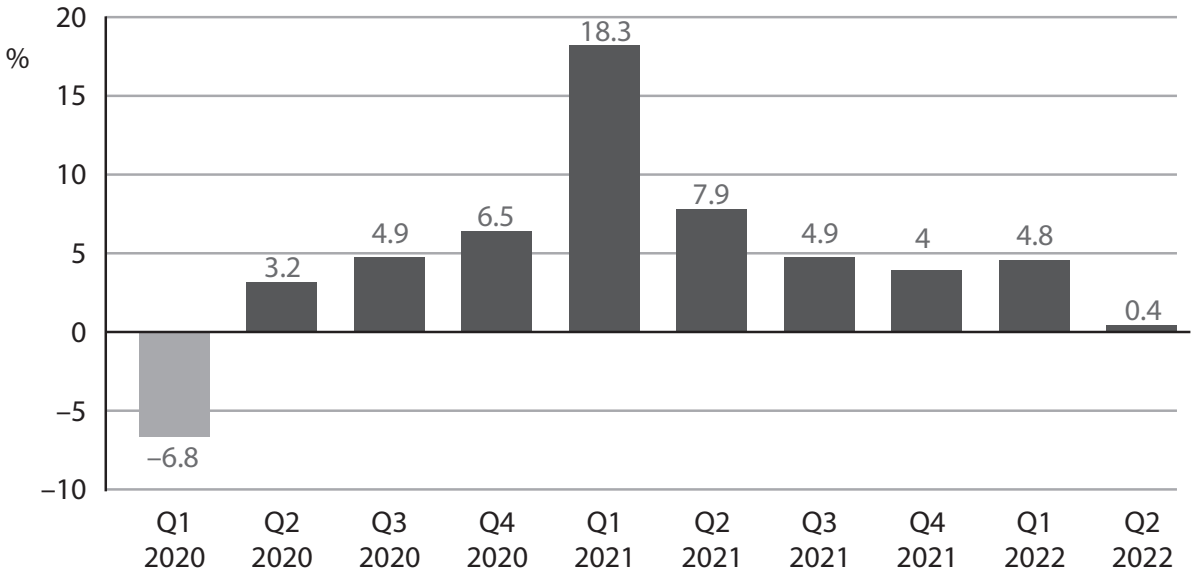


Figure 2 Youth unemployment rate (16 to 24 year olds), as measured by the International Labour Organization (ILO), January 2022 to June 2022

Date	Youth unemployment %
Jan 2022	15.3
Feb 2022	15.3
Mar 2022	16.0
Apr 2022	18.2
May 2022	18.4
June 2022	19.3

Extract A Economic growth

In the second quarter of 2022 China experienced a low rate of economic growth. This was as a result of domestic demand for goods and services, and exports rising more slowly compared with the previous quarter. Economists estimated that China's economy would continue to experience a low rate of economic growth until the end of the year. Therefore, the country's economic growth forecast for 2022 was reduced from 5.5% to 4.3%.

This low economic growth rate resulted in a further increase in the already high rate of youth unemployment. China has too many college and university graduates for the economy to employ. In 2022 there was also a mismatch between the jobs that are available and students' qualifications. For example, at the start of the third quarter of 2022, only 0.70 jobs were available for each graduate.

To increase the rate of economic growth the Government implemented a reflationary fiscal policy. It increased spending on infrastructure by over $75 billion and reduced taxes for businesses. It planned to increase science and technology-related investments by providing 100% tax breaks on research and development spending.

The country's central bank, the People's Bank of China (PBoC), implemented a reflationary monetary policy to increase the country's economic growth rate. For example, the PBoC decreased the base rate of interest from 3.7% to 3.65% in August 2022. There was also a reduction in the reserve asset (liquidity) requirements in November 2022. This was in contrast to the policy of central banks in several advanced economies which implemented deflationary monetary policy.

One economist stated that "the room for manoeuvre" for a reflationary monetary policy by the PBoC was limited because of rising US interest rates. He also emphasised the risks associated with a fall in the external value of the Chinese currency, the *Renminbi*.

(d) With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.

(8)

SECTION C

Study Figure 1, Figure 2, Figure 3 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'living standards'.

(2)

(b) With reference to Figure 2, explain the difference between disinflation and inflation.

(4)

(c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.

(8)

(d) With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.

(6)

(e) With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.

(14)

Sources for use with Section C

The economy of Brazil

Figure 1 Real GDP growth rate, 2018 to 2023

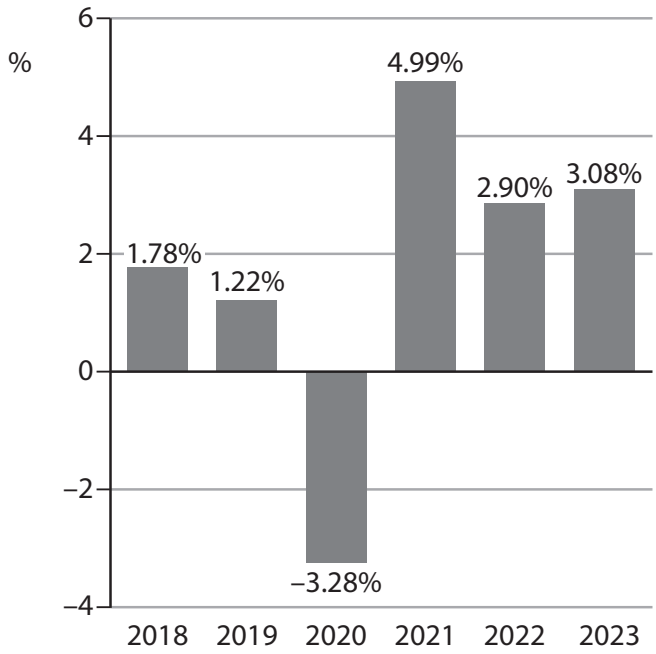
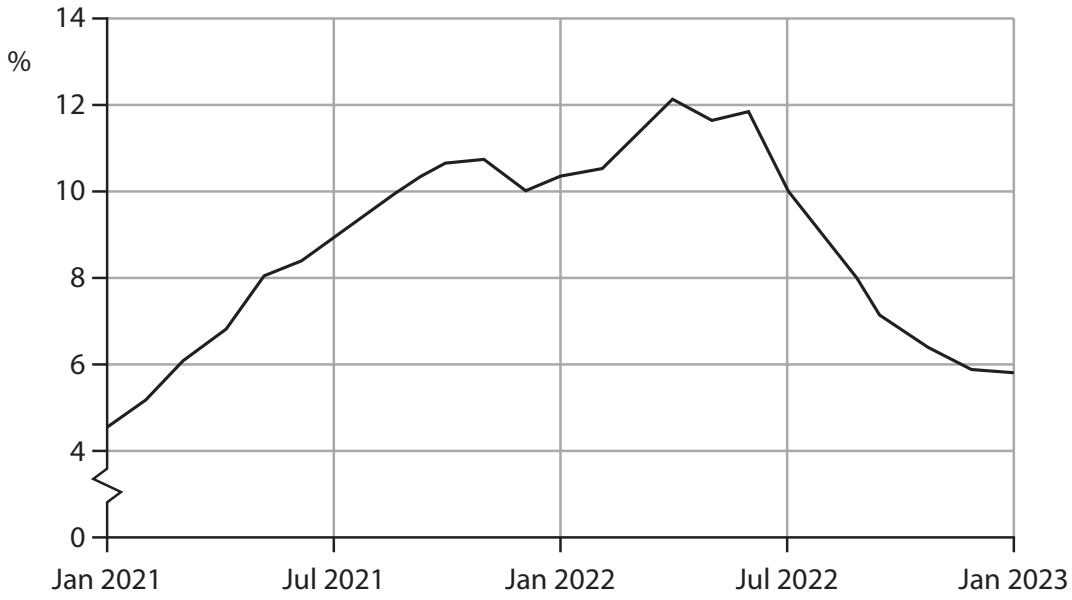
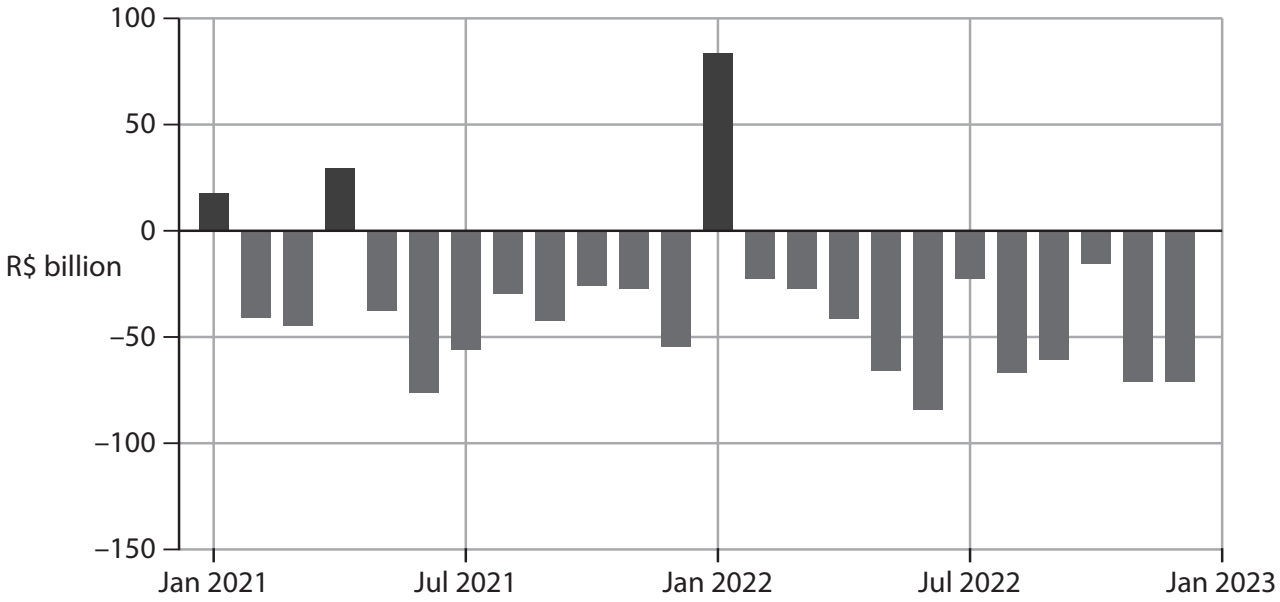


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2021 to January 2023



*This is the year-on-year inflation rate calculated monthly.

Figure 3 Government monthly budget balance, *real billion, January 2021 to December 2022**



**real* is the currency of Brazil and is denoted as R$.

Extract A Economic growth

Brazil's rate of economic growth fell between 2021 and 2022. This weaker economic performance was as a direct result of a significant decrease in industrial output and a slowdown in the services sector in 2022.

Many economists indicated that this slower rate of economic growth resulted from the Central Bank of Brazil's deflationary monetary policy to control the rising rate of inflation. Between January 2021 and June 2022 the Central Bank raised the country's base interest rate from an all-time low of 2% to 13.25%. This significantly affected consumer spending and business investment, both of which are major contributors to economic growth. As a result, economists predicted that Brazil's annual increase in real GDP would be below 1% in 2023.

The slowdown in economic growth will limit the Government's ability to improve living standards. In mid-2022 President Lula had promised to raise the real incomes of the country's population and create new jobs. He suggested that he was going to achieve his objective by increasing:

- the level of welfare payments
- investment in healthcare provision
- investment in infrastructure development
- investment in education, training and skills.

President Lula aimed to introduce these supply-side policies in 2023. These policies would cost R$371 billion over four years. However, the Government has insufficient tax revenues to finance its spending and investment. Previously, many large-scale investments in similar projects were not successful and represented a waste of resources.

Consequently, the Government proposed tax increases and cuts in government expenditure to achieve a balanced budget. This deflationary fiscal policy aims to increase tax revenues by R$190 billion and reduce government expenditure by R$50 billion.

Acknowledgements

Figure 1 adapted from https://www.statista.com/statistics/263615/gross-domestic-product-gdp-growth-rate-in-brazil/

Figure 2 adapted from https://tradingeconomics.com/brazil/inflation-cpi

Figure 3 adapted from https://tradingeconomics.com/brazil/government-budget-value

Extract A adapted from FT, https://www.ft.com/content/2b1cbe31-a2da-4841-a418-8c10c8cc267d and https://www.ft.com/content/1b297b16-5b19-4cb5-b0fd-de77f6f1f1a5

(c) With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.

(8)

SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'base rate of interest' (Figure 1).

(2)

(b) With reference to Figure 2, explain the term 'recession'.

(4)

(c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments.

(6)

(d) With reference to the information provided, examine the likely impact of inflation on the economy of Argentina.

(8)

(e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption.

(14)

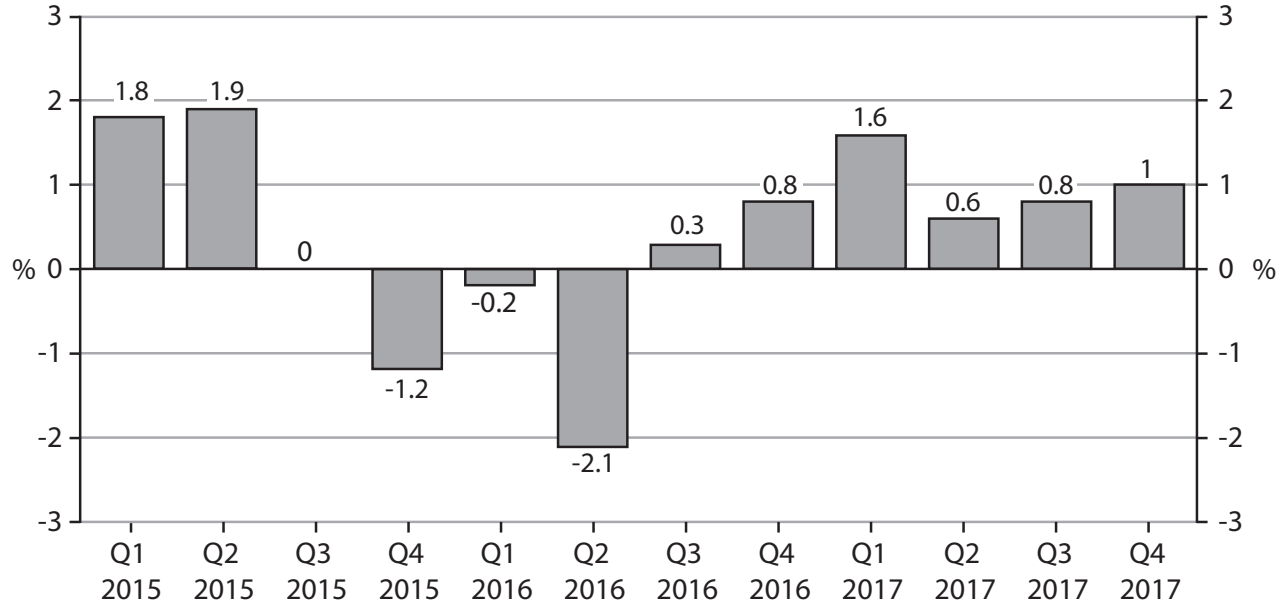
Sources for use with Section C.

The economy of Argentina

Figure 1 The base rate of interest for Argentina, April 2013 – April 2018



Figure 2 Quarterly GDP growth rate (%), 2015 – 2017



Extract A The problems facing the economy

Argentina is South America's second largest economy. Mauricio Marci was elected as its President in 2015. He faced the difficult task of controlling inflation which was between 30%–40% per year. He also needed to reduce the large budget deficit which was 7.1% of GDP. Between the end of 2015 and the beginning of 2016 the economy went into recession. This was caused by a significant reduction in government spending in an attempt to balance the budget. The purchasing power of consumers declined as wages fell and the rate of inflation rose to 40%. A fall in demand for Argentina's exports also contributed to the decrease in economic growth.

Extract B Improving economic outlook

Since coming out of recession in 2016, economic growth in Argentina has stabilised at an annual rate of around 3% per year. However, high inflation is still a major problem. Inflation was 25% in 2017. The effect of this inflation is damaging to both households and businesses. Rising prices have reduced domestic business investment as firms are unsure about future costs. One of the Argentinian Government's key economic policies is to stabilise prices to encourage consumption and investment.

A fall in the value of the Argentinian currency, the peso, against the dollar also caused inflationary pressure. In 2018 the peso lost around 12% of its value against the dollar. This makes importing goods from the USA very expensive. At the same time there was a decrease in the value of commodity exports, causing a current account deficit. In an attempt to reduce the rate of inflation and to stabilise the currency, the Central Bank of Argentina increased the base rate of interest to 40%.

However, the situation is not all bad. Real wages are rising in many sectors and consumer spending is increasing. Also, the Government plans to spend US$14 billion on infrastructure. These positive changes have helped Argentina to attract investment from Japanese transport companies such as Mitsubishi and Marubeni Corp, and the American technology company, Apple.

(e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figures 1–3 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'recession' (Extract A, line 7).

(2)

(b) With reference to Figure 2, explain how the CPI inflation rate is calculated.

(4)

(c) With reference to Figure 3 and Extract A, examine **two** likely effects on the French economy of the trend in the inflation rate in 2020.

(8)

(d) With reference to Extract A, analyse the likely effect of France's trade balance in April 2020 on its circular flow of income.

(6)

(e) With reference to Extract A and your own knowledge, discuss the likely effects of the ECB's monetary policy on the French economy.

(14)

Sources for use with Section C.

The French economy

Figure 1 Quarterly real GDP growth rate, Q2 2017 to Q1 2020

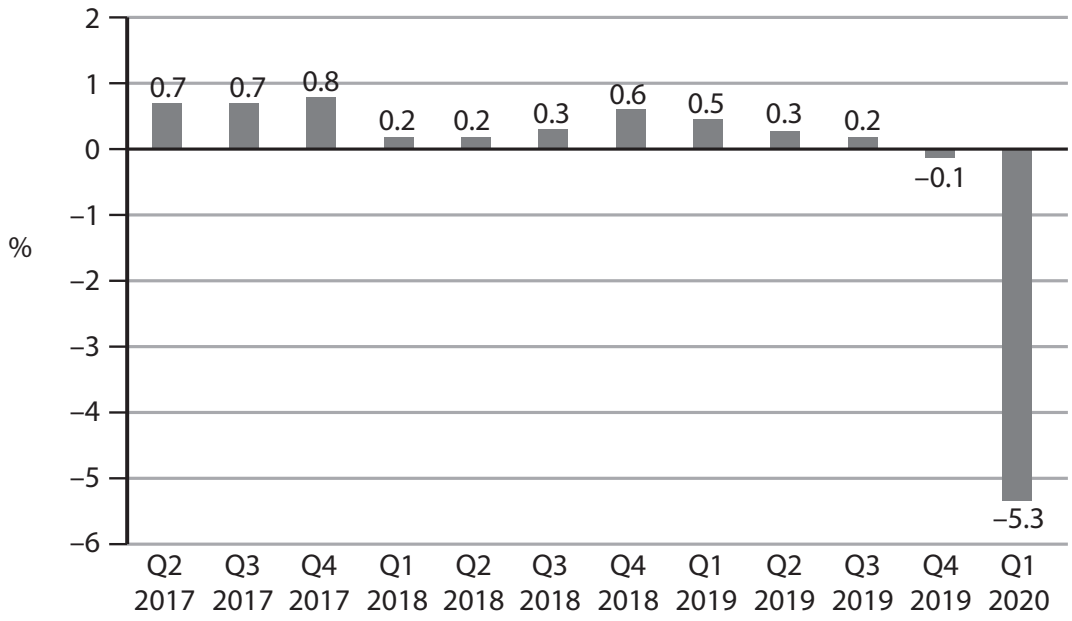
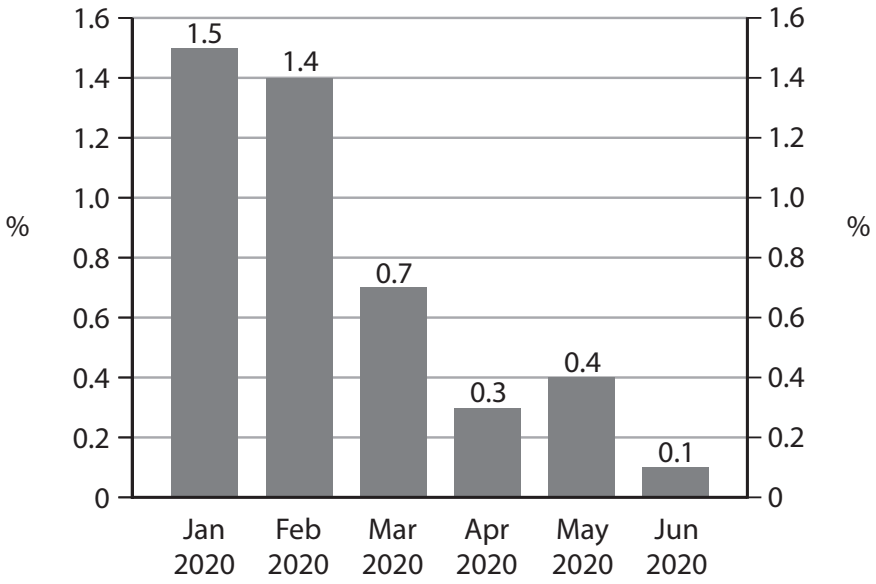


Figure 2 Consumer Price Index (CPI), weights and annual percentage price changes, June 2020

	Weight (%)	Price change (%)
Food	16.1	2.3
Tobacco	2.0	13.9
Energy	8.1	−9.3
Manufactured products	24.9	−1.1
Services	48.9	0.9
All items	100.0	0.1

Figure 3 CPI inflation rate, January to June 2020



Extract A Inflation, trade and demand-side policy

Throughout 2019 the average price level was rising at a faster rate than nominal wages in France. For example, in Q4 2019 nominal wages rose by 0.2% while the inflation rate was 1.5%. This caused a decrease in living standards for many people.

The inflation rate in France fell in the first six months of 2020. In June it was 0.1%, its lowest level in over four years. This was partly caused by the fall in global energy prices.

France was the first major global economy to announce that it was in recession in 2020. France's real GDP fell by 5.3% in Q1 of 2020.

In April 2020, the value of exports from France fell by 32.4% to €23.7 billion. In particular, France exported fewer cars and pharmaceutical products. In the same month, imports into France fell 25% to €28.7 billion.

In response to the fall in its real GDP, the French Government introduced a range of demand-side policies. It spent €135 billion (over 5% of French GDP) to help the economy to recover. The Government also delayed or cancelled many firms' tax payments and it guaranteed loans worth €342 billion to businesses.

As France is part of the euro area, monetary policy is conducted by the European Central Bank (ECB). The ECB kept its base interest rate very low throughout 2020. In June 2020 the weaker inflation outlook for the euro area caused the ECB to also expand the size of its asset purchase scheme (quantitative easing) by €600 billion to €1.35 trillion. In December 2020 a further increase in quantitative easing of €500 billion was announced by the ECB. The duration of the scheme was also extended to at least March 2022.

Acknowledgements

Figures 1–3 data from INSEE, France

Extract A adapted from: 'European Central Bank takes its pandemic bond buying to 1.35 trillion euros to try to prop up economy', CNBC, 4 June 2020, https://www.cnbc.com/2020/06/04/european-central-bank-ramps-up-its-pandemic-bond-buying-to-1point35-trillion-euros.html with additional data from tradingeconomics.com and INSEE, France

(e) With reference to Extract A and your own knowledge, discuss the likely effects of the ECB's monetary policy on the French economy.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'real GDP' (Figure 1).

(2)

(b) With reference to Figure 2, explain the difference between disinflation and deflation.

(4)

(c) With reference to Figure 1 and the first paragraph of Extract A, analyse **two** influences on the level of investment in the eurozone.

(6)

(d) Examine the likely effects of 'the increase in the exchange rate of the euro against the US dollar' (Extract A, lines 25–26) on the net trade balance of the eurozone.

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy.

(14)

Sources for use with Section C

The eurozone economy

Figure 1 Annual real GDP growth rate, Q1 2018 to Q3 2020

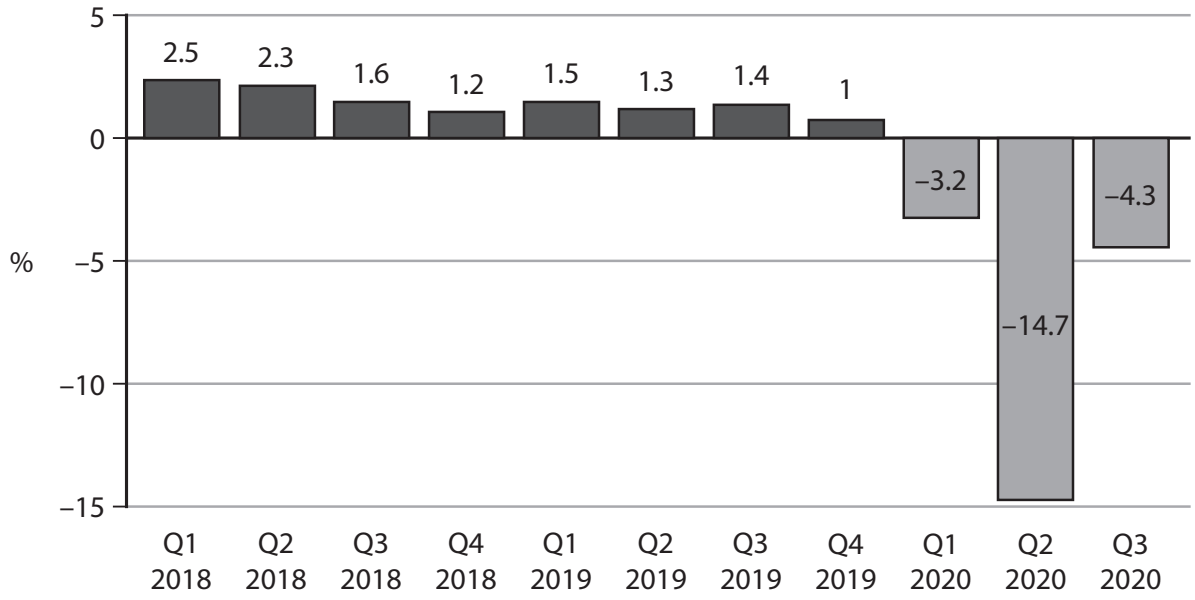
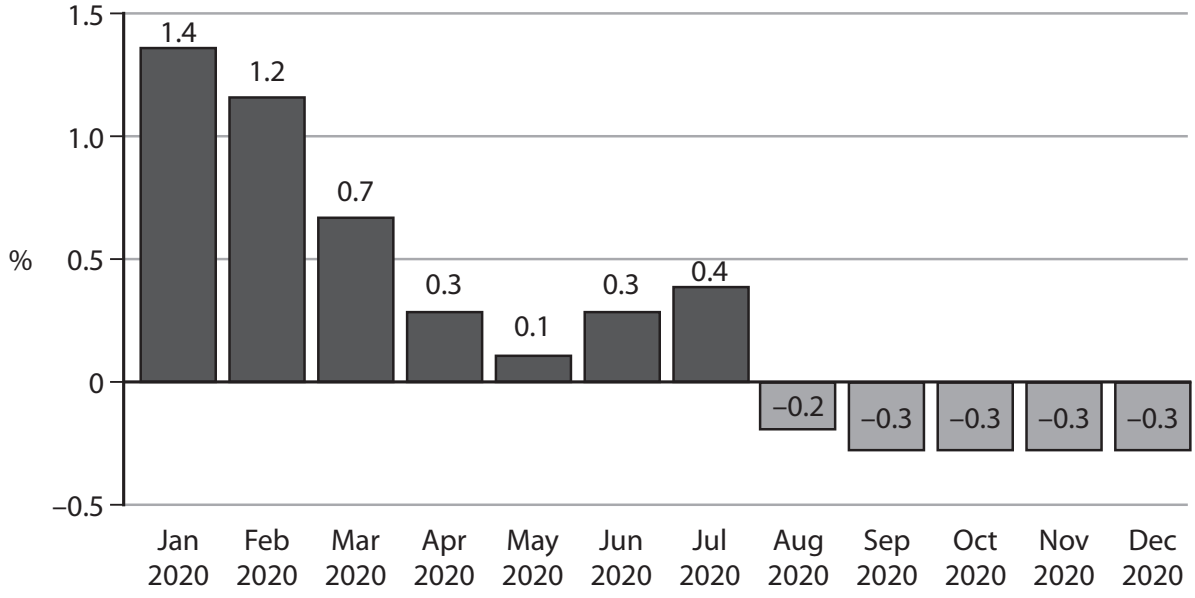


Figure 2 Inflation rate, as measured by the Consumer Price Index (CPI), January 2020 to December 2020



Extract A Monetary policy

In November 2020 the European Central Bank (ECB) highlighted that there were "worrying signals" about the future state of the eurozone economy. It indicated that low business confidence had caused a fall in the demand for bank loans. At the same time, there was a decrease in the availability of credit. These factors resulted in significantly lower levels of investment.

In response the ECB immediately launched an additional round of quantitative easing in December 2020. This programme was reintroduced to help the eurozone economy to recover from negative rates of economic growth, rising unemployment and to prevent another recession. It announced a €500 billion increase in the size of its quantitative easing programme for the period January 2021 to September 2021.

The ECB also announced the provision of extra low-cost funding for banks, aimed at encouraging an increase in bank lending. It agreed to finance the banks at negative interest rates of –1% until June 2022. This meant that the ECB would be paying banks to borrow more money, provided they continue to lend.

Economists have suggested that a reflationary policy could be needed for years, given the weak state of the eurozone economy. In 2020 economic growth in the eurozone was –6.7%. The ECB forecast an economic growth rate of only 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023. The ECB also forecast that the rate of inflation in 2023 will increase but remain below its 2% target.

However, it is unlikely that the ECB can manage the entire burden of supporting the eurozone recovery. Market forces have already reduced the effectiveness of existing policies. For example, in 2020 the eurozone's currency, the euro, traded at its highest level against the US dollar for more than two years. The ECB said it was "very carefully" monitoring the impact of the increase in the exchange rate of the euro against the US dollar.

Economists are concerned that the ECB's asset purchases will have a limited impact because interest rates are already extremely low. They argue that reflationary fiscal policy will be necessary to stimulate economic recovery.

(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'fiscal policy' (Extract A, line 12).

(2)

(b) With reference to Figure 1, explain how the ILO unemployment rate is measured.

(4)

(c) With reference to Figure 1 and Extract A, examine **two** likely economic effects of the increase in unemployment experienced in New Zealand between Quarter 2 and Quarter 3 2020.

(8)

(d) With reference to Extract A, analyse **one** likely effect of the reduction in tourist visitors on the circular flow of income.

Illustrate your answer with a circular flow diagram.

(6)

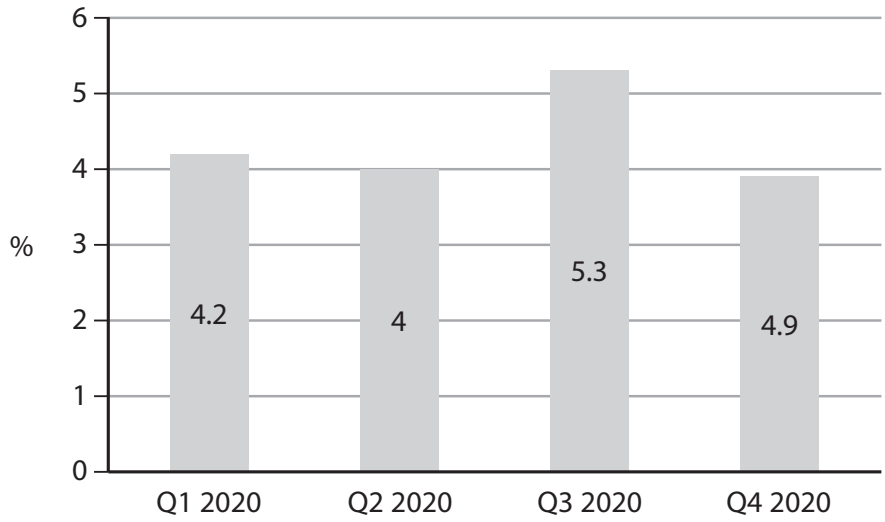
(e) With reference to Extract A and your own knowledge, discuss the likely effects of reflationary monetary policy on the New Zealand economy.

(14)

Sources for use with Section C

The New Zealand economy

Figure 1 ILO unemployment rate, Quarter 1 to Quarter 4 2020



Extract A The impact of the global health crisis

In Quarter 2 2020 a global health crisis resulted in a reduction in economic activity in many countries. Significant declines in manufacturing, construction and services contributed to an average decrease in economic growth of 9.8% in 36 developed countries.

In response to the global health crisis New Zealand's Government instructed most people to stay at home from March 25 to May 13. This led to a substantial reduction in the country's GDP and to an increase in unemployment. Its economic growth rate fell by 12.2% in Quarter 2 2020 compared with Quarter 1 2020. However, in Quarter 3 2020, when New Zealanders no longer had to stay at home, economic growth recovered strongly and increased by 14% compared with Quarter 2 2020.

The economic recovery was also helped by reflationary fiscal policy by the New Zealand Government and reflationary monetary policy by New Zealand's central bank. In 2020 the Government increased its spending by NZ$62 billion. In March 2020 New Zealand's central bank reduced the base interest rate from 1% to 0.25%. At the same time, it introduced NZ$60 billion of quantitative easing, which was increased to NZ$100 billion in August 2020. This helped to stimulate consumer spending that grew by 14.8% in Quarter 3 2020.

The reflationary policy helped to increase the demand for housing. Consequently, the average price of a house rose to NZ$788 967, the highest on record. This was an increase of 2.6% in 2020 compared with 2019.

One problem for New Zealand's economy was that, in response to the global health crisis, the Government closed its borders to all foreigners in March 2020. This policy continued well into 2021. This significantly affected the tourism industry and exports of services. The results of a survey of firms in the tourism industry indicated that:

- 33% of businesses were temporarily closing
- 40% of businesses were significantly reducing operations
- 21% of businesses might not survive.

In 2019 tourism accounted for 20% of exports, 10% of GDP and employed 400 000 people. By the end of 2020 a significant number of workers in the tourism industry were made redundant.

(e) With reference to Extract A and your own knowledge, discuss the likely effects of reflationary monetary policy on the New Zealand economy.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'GDP growth rate' (Extract A, line 23).

(2)

(b) With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus.

(4)

(c) Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).

(6)

(d) Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).

(8)

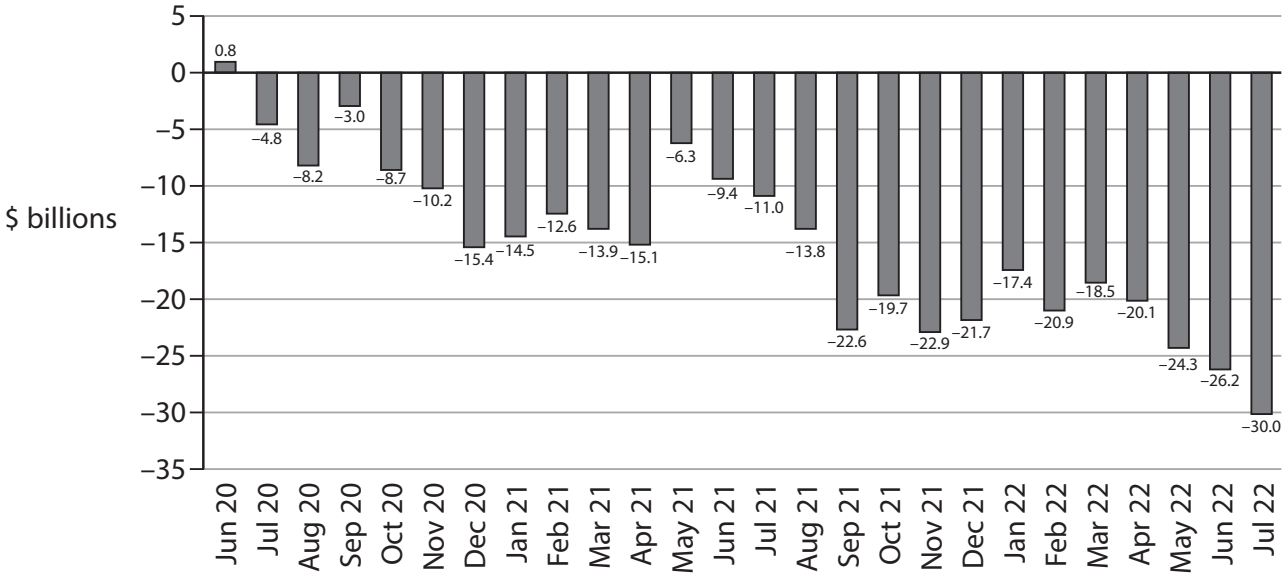
(e) With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.

(14)

Sources for use with Section C

The Indian economy

Figure 1 Balance of trade, June 2020 to July 2022



Extract A Balance of trade, inflation and economic growth

In 2022 the Indian economy was experiencing several challenges following the global health crisis. In particular, there was a rising rate of inflation caused by its dependence on imported oil. Oil accounts for 30% of India's imports by value. This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea. In July 2022 India reported a record balance of trade deficit of $30 billion, largely caused by the increased expenditure on imported oil. This deficit was one of the largest of all the Asian economies. Economists expect the rate of inflation to increase which will have a further negative impact on India's balance of trade.

The rate of inflation was 7.01% in June 2022 compared with June 2021. This was the second highest rate of inflation of the larger Asian economies. This higher rate of inflation reduced the purchasing power of consumers in India. As a result, many consumers were struggling to afford basic necessities. According to economists there were increasing signs that consumer expenditure would increase at a slower rate in the second half of 2022 than in the first half of 2022. This was likely to cause a fall in the rate of economic growth.

During 2022, India's currency, the rupee, fell in value against the US dollar. In order to prevent the rupee from falling further, and to control the rising rate of inflation, India's central bank raised the country's base rate of interest to 4.9% in June 2022. This represented an increase of 0.5 percentage points from the previous month.

Unlike several other Southeast Asian countries, exports of services contribute more to India's economic growth rate than exports of goods.

The Asian Development Bank (ADB) decreased its projected GDP growth rate for India to 6.7% for 2022. This was as a result of the high rate of inflation in India and the deflationary monetary policy adopted by India's central bank. The ADB predicted a small increase in consumer expenditure in the second half of 2022. However, it believed that this increase in consumption will not be sufficient to maintain India's rate of economic growth.

(e) With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1, Figure 2 and Extract A in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'real GDP' (Figure 1).

(2)

(b) With reference to Figure 2, explain how ILO unemployment is measured.

(4)

(c) With reference to Extract A, analyse **two** causes of China's high youth unemployment rate.

(6)

(d) With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely effects of a reflationary monetary policy on the economy of China.

(14)

Sources for use with Section C

The economy of China

Figure 1 Year on year real GDP growth rate by quarter, Q1 2020 to Q2 2022

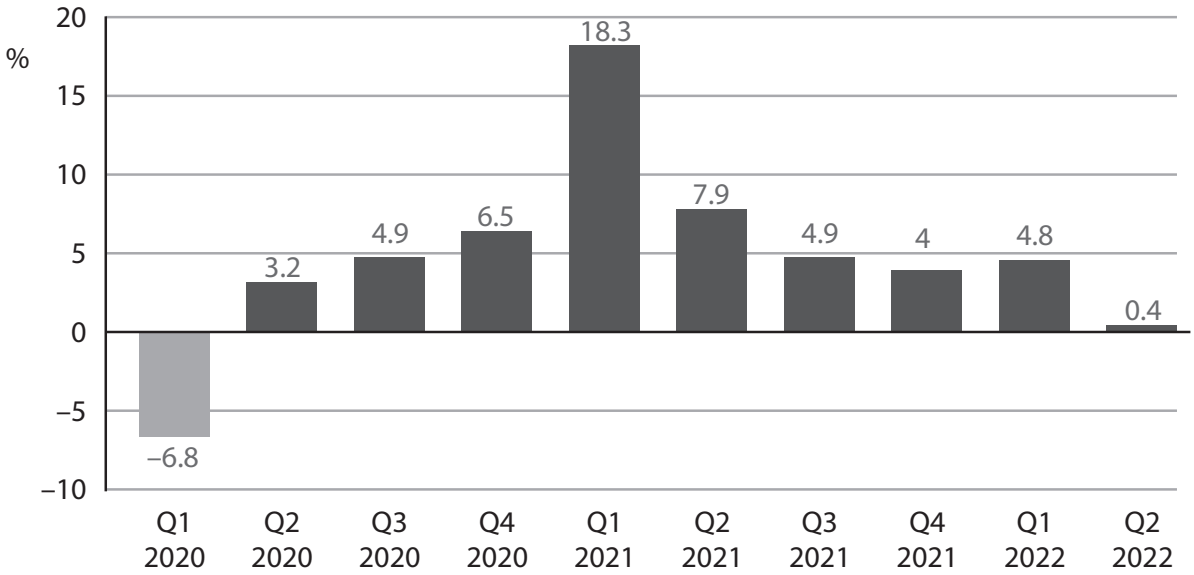


Figure 2 Youth unemployment rate (16 to 24 year olds), as measured by the International Labour Organization (ILO), January 2022 to June 2022

Date	Youth unemployment %
Jan 2022	15.3
Feb 2022	15.3
Mar 2022	16.0
Apr 2022	18.2
May 2022	18.4
June 2022	19.3

Extract A Economic growth

In the second quarter of 2022 China experienced a low rate of economic growth. This was as a result of domestic demand for goods and services, and exports rising more slowly compared with the previous quarter. Economists estimated that China's economy would continue to experience a low rate of economic growth until the end of the year. Therefore, the country's economic growth forecast for 2022 was reduced from 5.5% to 4.3%.

This low economic growth rate resulted in a further increase in the already high rate of youth unemployment. China has too many college and university graduates for the economy to employ. In 2022 there was also a mismatch between the jobs that are available and students' qualifications. For example, at the start of the third quarter of 2022, only 0.70 jobs were available for each graduate.

To increase the rate of economic growth the Government implemented a reflationary fiscal policy. It increased spending on infrastructure by over $75 billion and reduced taxes for businesses. It planned to increase science and technology-related investments by providing 100% tax breaks on research and development spending.

The country's central bank, the People's Bank of China (PBoC), implemented a reflationary monetary policy to increase the country's economic growth rate. For example, the PBoC decreased the base rate of interest from 3.7% to 3.65% in August 2022. There was also a reduction in the reserve asset (liquidity) requirements in November 2022. This was in contrast to the policy of central banks in several advanced economies which implemented deflationary monetary policy.

One economist stated that "the room for manoeuvre" for a reflationary monetary policy by the PBoC was limited because of rising US interest rates. He also emphasised the risks associated with a fall in the external value of the Chinese currency, the *Renminbi*.

(e) With reference to the information provided and your own knowledge, discuss the likely effects of a reflationary monetary policy on the economy of China.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1, Extract A and Extract B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'recession'.

(2)

(b) With reference to the third paragraph of Extract A, explain the term 'exchange rate'.

(4)

(c) Analyse **one** likely effect of the 'increase in the number of overseas visitors' (Extract A, lines 8 and 9) on Japan's circular flow of income.

Illustrate your answer with a circular flow diagram.

(6)

(d) With reference to Extract A, examine the likely impact on Japan's real output of the fall in domestic consumption.

(8)

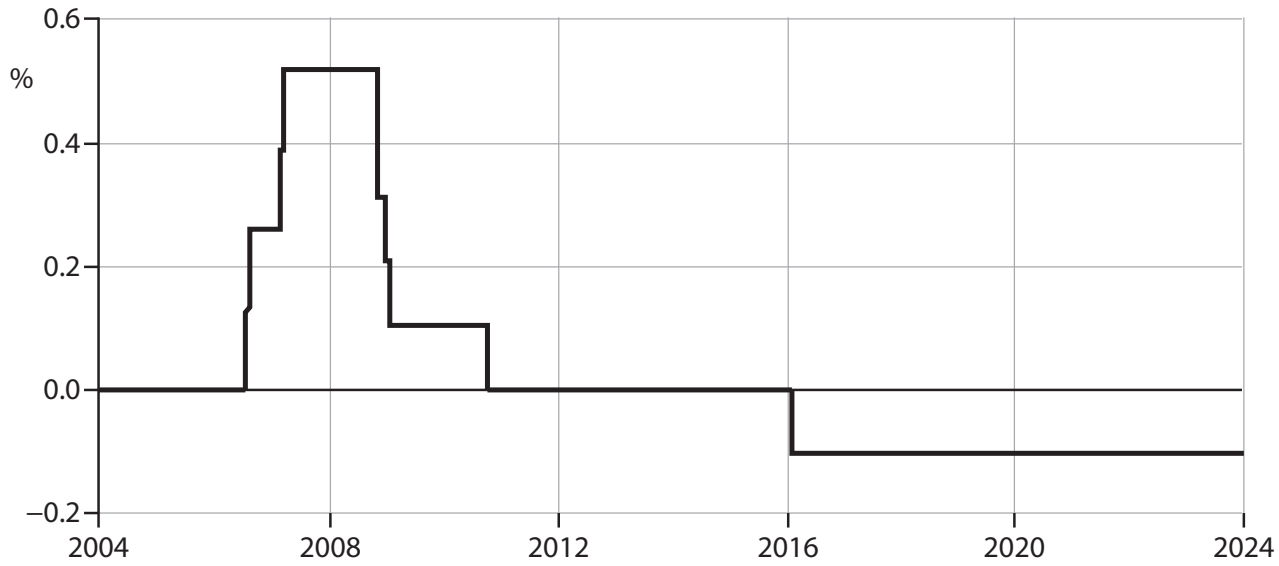
(e) With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate.

(14)

Sources for use with Section C

The Japanese economy

Figure 1 Base interest rate, January 2004 to December 2023



Extract A Economic growth

Between quarter 1 (Q1) 2023 and quarter 2 (Q2) 2023, the rate of economic growth in Japan increased from 0.9% to 1.5%. This increase in Japan's real Gross Domestic Product (GDP) was double the original forecast. Therefore, concerns that the country was exposed to a recession were eased.

The main reason for the increase in real GDP was an increase in exports that rose by 3.2% in Q2 2023. This was mainly as a result of higher exports of cars caused by an improvement in supply chains. There was also an increase in the number of overseas visitors to Japan. The contribution of tourism to GDP is included in net trade figures and returned to more than two-thirds of pre-global health crisis levels. The number of tourists was expected to grow in the second half of 2023 after China ended restrictions on group tours to a number of countries including Japan.

However, economists warned that the fall in domestic consumption, following the global health crisis, remained a concern. They suggested that this was mainly the result of Japan's weak exchange rate. Domestic consumption, which makes up more than half of Japan's economy, fell by 0.5% between Q1 2023 and Q2 2023. During the same period, Japan's imports decreased by 4.3%, which was one of the largest reductions ever recorded. This indicated that the rising rate of inflation was having a significant impact on consumer expenditure.

Until the end of 2022 Japan had faced several years of deflation and no wage growth. However, in 2023 consumers experienced significant increases in the prices of goods and services. Japan's weak exchange rate resulted in an increase in the price of raw materials and energy for businesses. It also created greater uncertainty that had an impact on business investment.

Extract B Monetary policy

The aim of Japan's central bank, the Bank of Japan (BoJ), is to achieve a 2% inflation target. In Q2 2023 the annual rate of inflation averaged 3.3%. Upward pressure on prices caused workers to demand higher wages, resulting in a rise in inflationary expectations.

The BoJ argued that this increase in the rate of inflation was temporary. Therefore, it continued to maintain the base interest rate at a low level.

Economists claimed that the BoJ's argument was weak. They stated that even the Government of Japan expected the annual rate of inflation to be 2.6% in 2023 against the BoJ's forecast of 1.8%. Therefore, there would no longer be a case for maintaining a low base interest rate, that was introduced at a time when the rate of inflation was below the inflation target. Moreover, the probability of a global recession, considered to be a significant risk to Japan's economy, had diminished. To achieve the inflation target of 2% an increase in the base interest rate would be necessary.

(e) With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION C

Study Figure 1, Extract A and Extract B in the Source Booklet before answering Question 12.

Write your answers in the spaces provided on the following pages.

12 (a) Define the term 'inflation'.

(2)

(b) With reference to Figure 1 and the first paragraph of Extract A, examine **two** causes of the relatively high rate of inflation in the USA.

(8)

(c) With reference to the third paragraph of Extract A, explain the term 'rate of unemployment'.

(4)

(d) With reference to the first paragraph of Extract B, analyse **two** reasons why the USA's rate of economic growth increased in 2023.

(6)

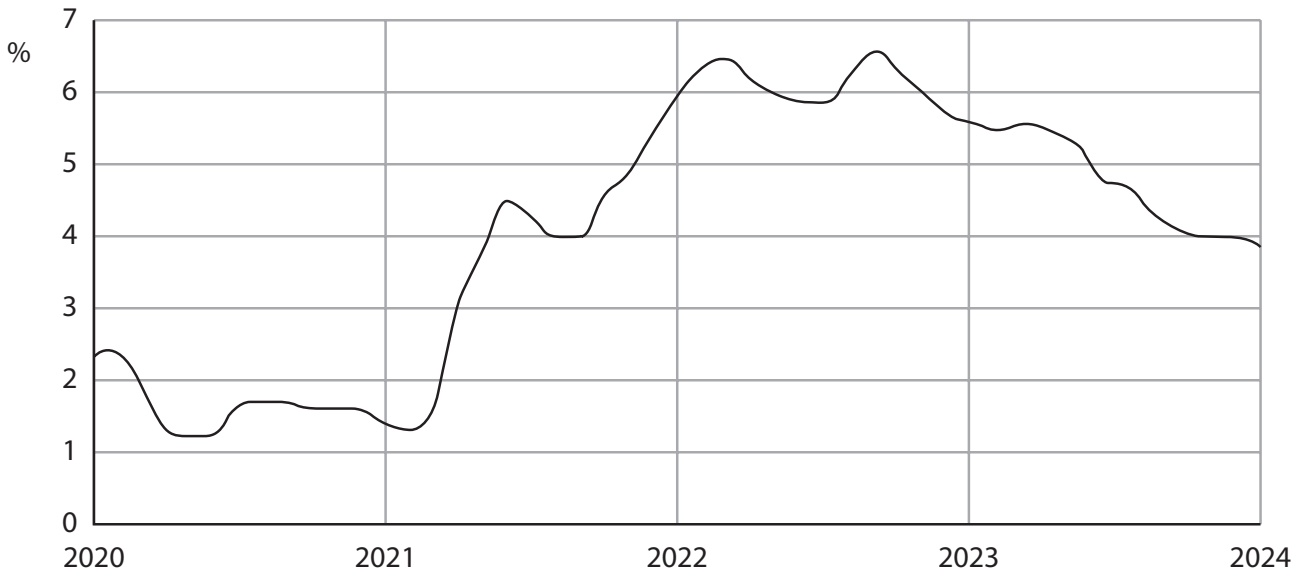
(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the increase in the base rate of interest on the US economy.

(14)

Sources for use with Section C

The US economy

Figure 1 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2020 to December 2023



*This is the year-on-year inflation rate calculated monthly.

Extract A Rate of inflation

Between 2021 and 2023 the US economy experienced a relatively high rate of inflation. The main causes of this were:

- disruptions to the supply chain as a result of the global health crisis of 2020–2022
- rising global prices of energy and food in 2021–2022
- high wage growth in 2022–2023.

The country's central bank, the Federal Reserve (Fed), forecast that the rate of inflation would return to the inflation target of 2% in 2024. It indicated that energy prices and food prices had started to fall. It expected slower wage growth as the rate of inflation decreased.

The Fed believed that the rate of inflation would fall without causing a significant rise in the rate of unemployment. It forecast that the rate of unemployment would average 4% in 2024, a little higher than the 50-year low of 3.6% in 2023.

Extract B Economic growth

The USA's rate of economic growth increased from 1.9% in 2022 to 2.5% in 2023. High consumer spending on services, such as hotels and travel, was the major factor that contributed to economic growth. Government policy also played an important role in increasing the growth rate. The US Government spent $1 trillion on infrastructure projects including the building of roads, airports and bridges. These projects resulted in the creation of new jobs.

Economists forecast that the rate of increase in economic growth was likely to slow down in 2024. This is because there had been a series of interest rate increases by the Fed. This resulted in the country's base rate of interest increasing from 0.25% in March 2022 to a record high of 5.5% in July 2023. In addition, consumers in the USA were relying more on credit cards to finance their spending. It was predicted that more consumers would find it difficult to pay interest on their mortgages, car loans and credit cards. Consumers were also struggling to finance the rising costs of car insurance, medical care and childcare.

Although some economists expected a recession in 2024, many were optimistic that the US economy would stabilise without causing any major job losses.

(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the increase in the base rate of interest on the US economy.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 India's GNI per capita was Rs 45 326 in 2010 and grew rapidly to Rs 125 089 by 2017. A study conducted by the World Health Organisation identified that nine out of the ten most polluted cities in the world are located in India.

Evaluate the costs of rapid economic growth on an economy of your choice.

(Total for Question 13 = 20 marks)

OR

14 In 2018 the Chinese Government increased the amount an individual could earn before paying tax in an attempt to raise aggregate demand.

Evaluate the impact of reflationary demand-side policies on an economy of your choice.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2019 the new President of the European Central Bank asked governments of eurozone countries to cut taxation and increase government expenditure to stimulate the rate of economic growth.

Evaluate fiscal policy instruments as a means of increasing the rate of economic growth.

(Total for Question 13 = 20 marks)

OR

14 In quarter 1 2019 the unemployment rate in South Africa was 27.6%. In quarter 2 it increased to 29%. An additional 455 000 workers became unemployed.

Evaluate the likely impact of an increase in the unemployment rate on workers, public finances and resource utilisation.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 Between February 2022 and February 2023 the central bank of South Korea increased the base rate of interest from 1.25% to 3.5%.

Evaluate the likely macroeconomic effects of an increase in interest rates on a country of your choice.

(Total for Question 13 = 20 marks)

OR

14 Between January 2022 and January 2023 Turkey's annual rate of inflation increased by nine percentage points.

Evaluate possible causes of inflation. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2022 many countries experienced low rates of economic growth and high rates of inflation.

Evaluate supply-side policies that a government could use to increase the rate of economic growth and to decrease the rate of inflation. Refer to a country of your choice in your answer.

(Total for Question 13 = 20 marks)

OR

14 In February 2023 government expenditure exceeded tax revenue by approximately $1 billion in Argentina.

Evaluate the likely macroeconomic effects of a government using deflationary policies to achieve a balanced budget. Refer to a country of your choice in your answer.

(Total for Question 14 = 20 marks)

MARK SCHEMES

official mark schemes, in the same order as the questions

Question	Quantitative skills assessed	Answer	Mark
1		B	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	**(1)**
3		B	**(1)**
4		A	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	D	**(1)**
6	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	A	**(1)**

Section D

Question Number	Indicative content	
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge, application and analysis (12 marks) – indicative content** • Definition of national happiness and identification of macroeconomic objectives • Economic growth is likely to lead to increased average incomes, which raises happiness for lower income earners in particular. • Growth may lead to higher government revenues and scope to spend on education, healthcare etc. which can increase national happiness. • Growth may allow countries to invest in green technology/reduce energy intensity, leading to lower levels of pollution, raising happiness. • Achieving stable inflation rates is likely to **be** increase happiness as high inflation rates cause uncertainty, shoe leather costs etc. • Low unemployment should mean that those who want to work are able to find jobs, boosting their incomes, skill levels, social integration, and health. It may also lead to lower crime rates. • Reducing imports or increasing exports is likely to create more employment in an economy, providing jobs and higher incomes, boosting happiness. • Reference to Thailand or another country, where achieving one or more macroeconomic objective has increased national happiness.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.

		Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Economic growth may require workers to work more hours, reducing their leisure time, putting strain on personal relationships and/or increasing stress, reducing happiness. • Economic growth may create negative production externalities, e.g. pollution, which reduce happiness. • Economic growth is likely to lead to increased average incomes, but after a certain point, increases in income do not lead to increases in subjective happiness. • Economic growth is usually accompanied by an increase in income inequality, which decreases the subjective happiness of lower income earners. • A very low unemployment rate may mean that workers are not moving between jobs (frictional unemployment) to find roles more suited to them, which may constrain their happiness. • A reduction in the value of imports may reduce consumer choice and access to low price/high quality imports, reducing happiness. • Reductions in government expenditure/increases in taxation in order to achieve a balanced government budget are likely to reduce disposable incomes and state provision of healthcare, education etc., reducing happiness. • Reference to India or another country, where achieving one or more macroeconomic objective has decreased national happiness.	

	NB This answer is reversible, i.e. candidates may argue either way for KAA and the reverse for evaluation.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** is not correct as there were two periods of positive growth and two periods of negative growth ***C*** *is not correct as Quarter 3 of 2019 saw negative economic growth* ***D*** *is not correct as there is only one quarter of negative growth*	**(1)**
2	-	**The only correct answer is D** ***A*** *is not correct as real wage inflexibility is where wages are unable to drop to equilibrium resulting in unemployment* ***B*** *is not correct as the graduates are economically active* ***C*** *is not correct as the graduates are employed*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because AD would be shifted by changes in consumption, investment, government spending or net exports* ***B*** *is not correct because AD would be shifted by changes in consumption, investment, government spending or net exports* ***D*** *is not correct because improved labour productivity shifts LRAS to the right*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct as a net injection would occur when government spending exceeds tax revenue* ***C*** *is not correct as the current account of the balance of payments relates to exports and imports* ***D*** *is not correct as the current account of the balance of payments relates to exports and imports*	**(1)**
5	QS9: Interpret, apply and analyse information in	**The only correct answer is B**	**(1)**

	written, graphical, tabular and numerical forms	***A** is not correct as a Phillips curve considers the relationship between inflation and unemployment* ***C** is not correct, whilst the Phillips curve does consider inflation, this is related to unemployment and not the current account of the balance of payments* ***D** is not correct as a Phillips curve considers the relationship between inflation and unemployment*	
6	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** *A is not correct as this divides the injection by the multiplier* *B is not correct as this is the addition of the multiplier and the injection* *D is not correct as this does not multiply the multiplier and the injection*	(1)

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as this does not explain the conflict; shows full employment* ***B*** *is not correct as it shows the relationship between the price level and real output* ***D*** *is not correct as it shows the relationship between the price level and real output*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as demand deficiency is associated with a recession* ***C*** *is not correct as seasonal unemployment is associated with jobs at different times of the year* ***D*** *is not correct as structural unemployment is associated with a change in the sectoral structure of the economy*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because withdrawals will be greater than injections* ***C*** *is not correct because the data relates to the government's budget* ***D*** *is not correct because the data relates to the government's budget*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because this will improve France's trade balance* ***B*** *is not correct because this will improve France's trade balance* ***D*** *is not correct because this will improve France's trade balance*	**(1)**

Section A

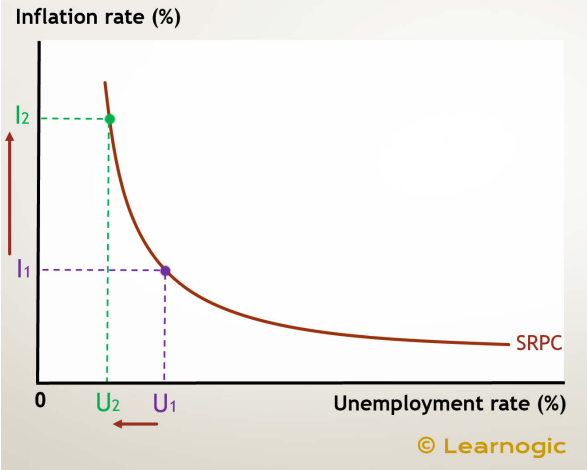
Question	Quantitative skills assessed	Answer	Mark
1	**QS4**: Construct and interpret a range of standard graphical forms	**The only correct answer is C** ***A*** *is not correct because this is an injection into the circular flow of income* ***B*** *is not correct because this is not a withdrawal* ***D*** *is not correct because this is an injection into the circular flow of income*	**(1)**
2	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this conflict is best illustrated by the short-run Phillips curve* ***C*** *is not correct because this conflict is best illustrated by the short-run Phillips curve* ***D*** *is not correct because this conflict is best illustrated by the short-run Phillips curve*	**(1)**
3	**QS4**: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because the classical LRAS will be perfectly inelastic, and the economy will be operating at full capacity* ***C*** *is not correct because the economy will be operating at full capacity* ***D*** *is not correct because at full employment level of real output, the classical LRAS would be perfectly inelastic*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because an increase in house prices will lead to positive wealth effects* ***C*** *is not correct because this is an impact on firms and not on existing homeowners* ***D*** *is not correct because an increase in house prices would result in greater confidence and then to an increase in consumer expenditure*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because fiscal policy involves the use of taxation and government spending as policy instruments* ***B*** *is not correct because fiscal policy involves the use of taxation and government spending as policy instruments* ***C*** *is not correct because this will involve the ECB increasing it asset purchases*	**(1)**

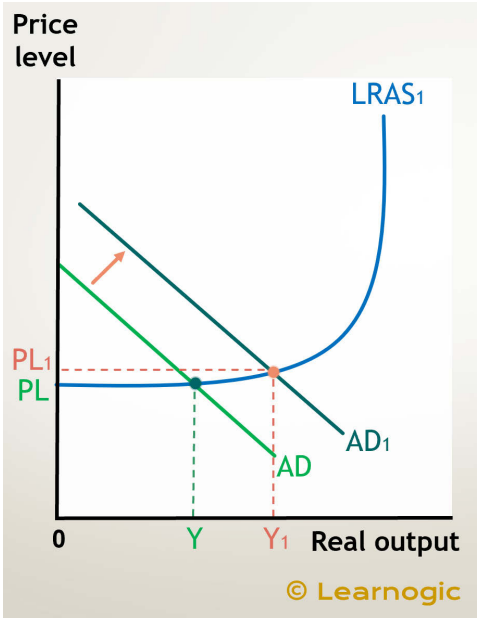
Section D

Question	Evaluate the view that conflicts between macroeconomic objectives are inevitable.	
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of macroeconomic objectives/ identification of relevant macroeconomic objectives • Inflation and unemployment including analysis of the Phillips curve • Economic growth and the environment • Inflation and pressure on prices reducing standards of living • Economic growth and income inequality • Inflation and demand for exports- changes to current account • Current account of the balance of payments may deteriorate as incomes rise due to growth and more imports are demanded • Growth should result in a higher average standard of living, but may not deliver a more equitable distribution of income and wealth	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Significance of the current state of the economy and its implications for elasticity of AS curve • If it is supply-side growth (rather than demand-side) then fewer conflicts with other objectives • Initial state and stability of inflation/deflation • The rate of actual economic growth in comparison to the growth of the productive capacity • Proximity to full employment (full output) • Full employment (or low unemployment) shouldn't conflict with economic growth • Short-run unemployment from introduction of new technology • Redistributive policies of the Government • Extent of the effectiveness of environmental policies • Extent to which the growth is in tertiary sector or in primary and secondary sectors • Current account of balance of payments may improve if it is export-led growth • Current account of balance of payments may improve if growth is generated through an increase in productivity (such as through investment) resulting in a shift in AS to the right • Growth may lead to higher government revenues and scope to improve public transport as well as tax polluting old technologies • Developed economies may employ green technology	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question Number	Indicative content
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** Award maximum of Level 3 (9 marks) if candidate does not use application in their answer • Fiscal policies refer to changes in government spending and taxation in order to influence aggregate demand • Macroeconomic objectives are the main goals of economic policy e.g. low unemployment, stable rate of inflation, economic growth • Reducing tax rates and increasing spending would increase economic growth, but may increase the inequality of income distribution • Policies to increase employment may lead to increased inflation - the Phillips curve demonstrates a short run trade off  • Expansionary policies might increase employment, but cause harm to the environment • Increasing welfare payments may lead to increased consumption and economic growth, but may also increase demand for imports worsening the balance of payments on current account • Policies to increase government spending on infrastructure may increase the competitiveness of a country's exports, improving its trade balance, but may cause pollution and environmental damage

	Credit relevant AD/AS diagrammatic analysis to illustrate trade-offs, e.g.:  **Students may take the alternative perspective**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.

Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • If the government reduce tax rates on the lowest income earners, or on essential goods, income inequality may not rise • Economic growth can occur without inflation if the LRAS increases • If government capital expenditure is on green technology, environmental damage may not occur • Consumers may demand more luxurious domestic products, and less inferior imports improving the balance of payments on current account as their incomes rise • Reducing economic growth might be beneficial if inflation is too high and growth is unsustainable	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Evaluate the potential conflicts between the objective of economic growth and **two** other macroeconomic objectives.
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of economic growth – actual and/or potential growth • Implicit/explicit identification of a country's macroeconomic objectives • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or LRAS curve Potential conflicts include: • Environmental costs (pollution in China decreased by 10.8% as a result of the slowdown): ○ increased use of non-renewable resources, including fossil fuels climate impacts from the burning of fossil fuels ○ deforestation has made climate change worse and caused soil erosion – greater external costs • Increased inequality as the returns to economic growth are unequally distributed, with those who already own more factors of production receiving a greater increase in income / growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do • Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in supply chain cause cost and wage pressures • Could increase budget deficit if economic growth has been caused by an increase in government expenditure • Balance of trade deficits: ○ as real incomes rise, consumers are likely to respond by buying more imported goods, worsening the country's trade balance ○ increased production of goods and services may require more raw materials and components to be imported, worsening the country's trade balance **NB Maximum level 3 if conflict between economic growth and just one other macroeconomic objective is discussed**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Significance of the stage in trade cycle which the country is in, and the implications for elasticity of the LRAS • If it is supply-side growth (rather than demand-side) then fewer conflicts with other macroeconomic objectives • Impact on inflation will depend on initial state of inflation in the country • The rate of actual growth in comparison to the growth of the productive capacity of the economy • Proximity to full employment level of output • Full employment/fiscal position should not conflict with economic growth • Increase in LRAS tends to experience a time lag	

	• Extent of domestic economy's capacity to meet the rising demand (i.e. if economy can supply wants) • Extent of country's international competitiveness • Balance of payments position may improve if it is export-led growth/if generated through increase in productivity (such as through investment) • Growth may lead to higher government revenues and scope to improve polluting old technologies • Some countries may already use green technology in certain industries	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.
Question	Evaluate supply-side policies that the Indian Government could use to increase the country's productivity.	
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of productivity • Understanding of supply-side policies • AD/AS diagram showing a change in AS consistent with analysis/use of PPF diagram • Increased government spending on education and/or training – this would increase skills and productivity • Increased government spending on healthcare – this should reduce the number of days absent from work • Increased government spending on infrastructure investment (e.g., broadband or roads) – this would reduce industry costs or improve access to market	

Question	Evaluate the potential conflicts between the objective of economic growth and **two** other macroeconomic objectives. Refer to a country of your choice in your answer. **Indicative content**
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of economic growth/macroeconomic objectives • Implicit or explicit identification of macroeconomic objectives • Relevant diagram, e.g., AD/AS diagram showing rightward shift in AD and/or AS curve Potential conflicts include: • Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in the supply chain can cause cost and wage pressures • Balance of payments position may deteriorate as incomes rise and more imports are demanded as a country might have a high marginal propensity to import • Growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do • Increased growth tends to lead to high external costs/deterioration of the environment from congestion and pollution **NB: Award a maximum of Level 3 for answers with no reference to an economy**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Significance of the stage in trade cycle that the country is in, and the implications for elasticity of the AS/proximity to the full employment level of output • If it is supply-side economic growth (rather than demand-side) then there will be fewer conflicts with other objectives • Objectives of low unemployment and/or balanced government budget should not conflict with economic growth • Depends on the initial state of inflation in the economy • Extent of domestic economy's capacity to meet rising demand (i.e., if economy can supply wants) • Extent of effectiveness of environmental policies, e.g., many developed economies may have strict environmental laws/regulation encouraging the use of clean and green technology • Balance of payments position may improve if it is export-led growth/if generated through increase in productivity (e.g., through investment) • Economic growth may lead to higher government revenues and scope to invest in green technology

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Evaluate the view that very high global oil prices will always harm a country's macroeconomy.
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** Rising oil prices are harmful to an economy because: • For economies that are net importers of oil, this will lead to an increase in the value of their imports, ceteris paribus. This will: o Increase a trade/current account deficit, not meeting one of the government's macroeconomic objectives o Increase downward pressure on/decrease AD in the economy (may be shown diagrammatically), thus leading to a decrease in real GDP and average incomes, and an increase in unemployment o Negative multiplier effects and further reduction in AD/real GDP o A decrease in average incomes and an increase in unemployment are likely to worsen the government's budget balance • Costs of production for firms will increase, leading to a fall/leftward shift in SRAS (may be shown diagrammatically). Ceteris paribus, this will: o Increase cost-push inflationary pressures in the economy, thus not achieving the macroeconomic objective of a low and stable rate of inflation o Decrease real GDP and average incomes in the economy o Decrease in average incomes and an increase in unemployment are likely to worsen the government's budget balance • For economies that are net exporters of oil, this may discourage them to diversify their economies and increase their reliance on oil – they have less incentive to create/adopt renewable energy to protect the environment **NB: Candidates may argue either way for KAA and the reverse for Evaluation** **NB: Award a maximum of level 3 if no reference to specific country(s)**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content Rising oil prices may not be harmful to an economy because: • For economies that are net exporters of oil, this will lead to an increase in the value of their exports, ceteris paribus. This will: ○ Decrease a trade/current account deficit, meeting one of the government's macroeconomic objectives ○ Put an upward pressure on AD in the economy (may be shown diagrammatically), leading to more economic growth, upward pressure on average incomes, and a reduction in unemployment ○ Positive multiplier effects ○ An increase in average incomes and a decrease in unemployment are likely to improve the government's budget balance General evaluation points: • Effects depend on how much oil prices rise by and how long they stay high • Effects of a change in AD on real GDP depend on the level of spare capacity in the economy; the size of the multiplier ratio; and whether a Classical or Keynesian LRAS curve is used • There is likely to be a time lag before effects are felt • An increase in inflation may not be beneficial if an economy's inflation rate is above its target rate of inflation • Effects on costs of production/SRAS depend on the structure of the economy /adoption of green production methods etc. • Different effects on different economies, e.g., economies that are more specialised in oil production will be affected more significantly/economies that are more dependent on oil will be affected more significantly • Countries that are heavily dependent on oil imports will have an incentive to invest in renewable energy so benefitting the environment

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

<table>
<tr><td>Question</td><td colspan="2">Evaluate the view that there will always be conflicts between macroeconomic objectives.</td></tr>
<tr><td>13</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Knowledge, Application and Analysis (12 marks) – indicative content

• Understanding of macroeconomic objectives
• Identification of relevant macroeconomic objectives

Conflicts include:
• Economic growth and the protection of the environment:
measures to reduce pollution e.g. increased taxes on polluters would increase costs and prices resulting in a fall in real incomes and therefore a slower rate of economic growth (as predicted in India)
• Economic growth and inflation:
measures to reduce inflation e.g. deflationary monetary policy would increase cost of borrowing reducing consumption/investment and AD, resulting in a fall in real output and therefore slower rate of economic growth e.g. the UK

Other conflicts:
• Economic growth and income equality
• Economic growth and current account of the balance of payments
• Inflation and unemployment, including the short-run Phillips curve
• Unemployment and the current account of the balance of payments
• Unemployment and the protection of the environment

NB Award a maximum of Level 3 for answers with no reference to a country in their answer

NB Award a maximum of Level 3 for answers that consider only one conflict</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.
Use of generic material or irrelevant information or inappropriate examples.
Descriptive approach, which has no chains of reasoning.</td></tr>
<tr><td>Level 2</td><td>4–6</td><td>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.
Limited application of knowledge and understanding to economic problems in context.
A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</td></tr>
</table>

Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • In developed economies, economic growth could imply employment of green and clean technology; Consumers may increase demand for eco-friendly products so stimulating AD • Growth may lead to higher government revenues, providing scope to improve public transport and hence reduce pollution • If it is supply-side growth (rather than demand-side) then the impact will not be inflationary • Full employment / low unemployment may not be inflationary if AS is rising more quickly than AD • Significance of the current state of the economy and its implications for elasticity of the LRAS curve/proximity to full employment (full output) • Initial state and stability of inflation/deflation • The rate of actual economic growth in comparison to the growth of the productive capacity • Full employment/low unemployment should not conflict with growth • Short-run unemployment from introduction of new technology • Impact on inequality depends on the extent of the effectiveness of the current redistributive policies of the government • Impact on the environment depends on the extent of the effectiveness of the government's current environmental policies • Extent to which the economic growth is in tertiary sector or in primary and secondary sectors • Current account of balance of payments may improve if it is export-led economic growth e.g. Singapore • Current account of balance of payments may improve if economic growth is generated through increase in productivity (such as through investment) resulting in a shift in LRAS to the right	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section A

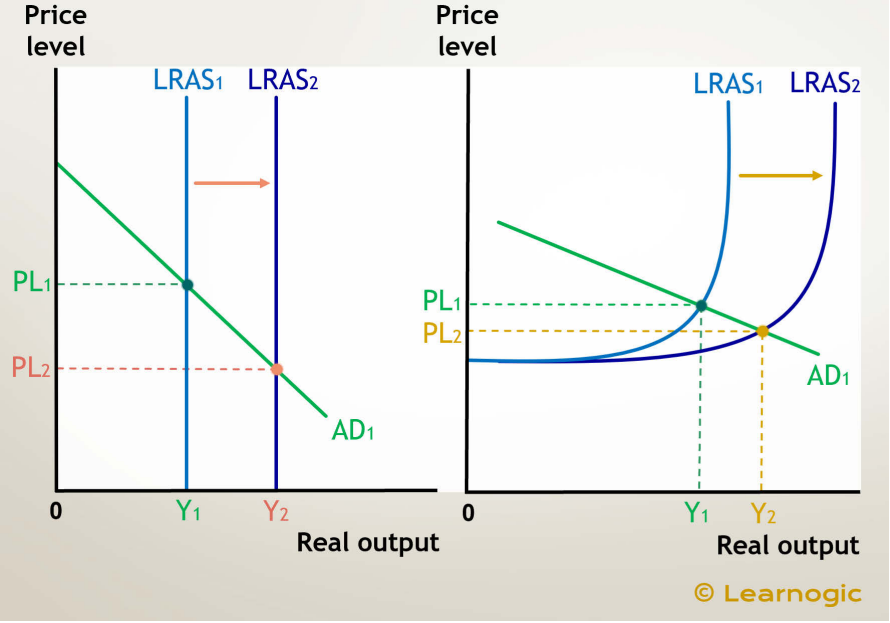
Question	Quantitative skills assessed	Answer	Mark
1	-	A	**(1)**
2	**QS2:** Calculate, use and understand, percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	B	**(1)**
3	-	B	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	**(1)**
5	-	D	**(1)**
6	**QS4:** Construct and interpret a range of standard graphical forms	B	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as this will shift the AS curve* ***B*** *is not correct as this will shift the AS curve* ***D*** *is not correct as this will shift the AS curve*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as this is an interventionist supply-side policy* ***C*** *is not correct as this is an interventionist supply-side policy* ***D*** *is not correct as this is an interventionist supply-side policy*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because this will decrease the value of the multiplier* ***B*** *is not correct because this will decrease the value of the multiplier* ***D*** *is not correct because this will decrease the value of the multiplier*	**(1)**
4	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because between A to B the economy is experiencing a downturn/ negative economic growth* ***C*** *is not correct because at point C there is no output gap* ***D*** *is not correct because between C and D the economy is growing, and with greater output, unemployment is likely to be falling*	**(1)**
5		**The only correct answer is A** ***B*** *is not correct as this is the role of the government* ***C*** *is not correct as this is the role of the government* ***D*** *is not correct as this is the role of the government*	**(1)**
6	**QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as this is the base year* ***B*** *is not correct as this is the index number for 2020 using 2019 as the base year* ***C*** *is not correct as this is the index number for 2021 using 2020 as the base year*	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS4**: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity* ***B*** *is not correct because the classical LRAS is perfectly elastic when there is a high level of spare capacity* ***C*** *is not correct because the classical LRAS curve is perfectly inelastic at the full employment level of real output*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy* ***C*** *is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy* ***D*** *is not correct because cutting costs of bureaucracy is an example of a free market supply-side policy*	**(1)**
3	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as this is the percentage-point change* ***C*** *is not correct as this uses the incorrect equation: change/new x 100* ***D*** *is not correct as this is the sum of the two percentages*	**(1)**
4	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because between Y and Z, the government's tax revenue is likely to increase* ***C*** *is not correct because between Y and Z, the rate of unemployment is likely to decrease* ***D*** *is not correct because between Y and Z, business confidence is likely to increase*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this is likely to have caused a decrease in investment* ***C*** *is not correct because this is likely to have caused a decrease in investment* ***D*** *is not correct because this is likely to have caused a decrease in investment*	**(1)**

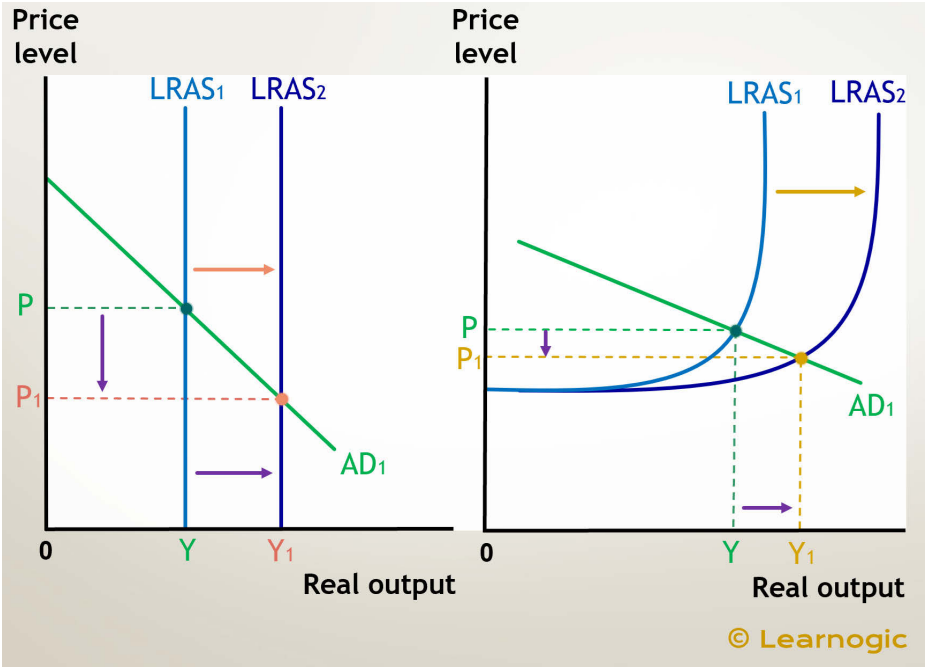
Question Number	Indicative content
12 (e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Supply-side policies are designed to increase productivity, competition and incentives in an economy. • Shifting outwards of the LRAS curve should create both actual and potential growth in the Philippines (allow Keynesian or classical LRAS curve): 

		• Infrastructure investment will increase the productive capacity of the Philippine economy. • The Ease of Doing Business Law will cut the costs of bureaucracy for firms and increase competition in markets, forcing firms to be more efficient. • Deregulation of the rice market will increase competition, leading to higher levels of productivity, lower prices and higher quality rice. • Amendments to the law to allow foreign ownership in key sectors, including telecommunications and transportation services, will finance investment in these sectors and allow for greater technical know-how. • Greater competition in the retail trade sector should attract more overseas investment and boost productivity. • Ensuring that state-owned enterprises compete on fair terms with private sector businesses should reduce wasteful government spending, meaning that this money can be better spent on public infrastructure projects etc. At the same time, productivity in these sectors should rise.
Level	Mark	Descriptor
	0	No rewardable material
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content • Government spending on infrastructure investment projects has an opportunity cost: it may lead to more growth if spent in another sector of the economy, e.g. healthcare, education etc. • Time lag: in particular, infrastructure investment projects may take a considerable amount of time to have an effect on the economy. • Foreign firms may take any profits earned in the Philippines out of the country, reducing any positive multiplier effects. • Foreign firms may out-compete domestic firms, putting them out of business, which could threaten longer term growth, or the inclusive nature of the growth. • Reducing bureaucracy and increasing efficiency may create unemployment in the short-term. This may reduce consumption in the economy, threatening growth. • Supply-side policies are less effective when there are large amounts of spare capacity in an economy: in this case they create potential growth but no actual growth.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies. Indicative content
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (8 marks) – indicative content** • Definition of supply-side policies- aimed at influencing AS • Definition of interventionist supply-side policies - involves government intervention to boost LRAS • Policies from the Extracts include: • investment in infrastructure- better or new roads, seaports and airports will enable business to move raw materials and finished products more easily/quickly helping them to operate at lower costs • improving the health of the labour force- through spending on healthcare will mean less absence/less time is lost to illness and disease enabling staff to be more productive • skills of the labour force- through spending on education/training the skills of the workforce will be improved enabling them to be more productive • improving the supply of housing- will ensure the population have proper shelter that helps keep them healthier as they better meet their basic needs • communications – will enable firms to communicate more effectively meaning decisions can be made more quickly enabling the business to make savings, cut costs and respond to opportunities • Additional policies from the specification include • incentives to encourage investment: tax incentive or subsidies • finance for business start-ups • regional policy Diagram to illustrate impact of supply side policies- Classical or Keynesian



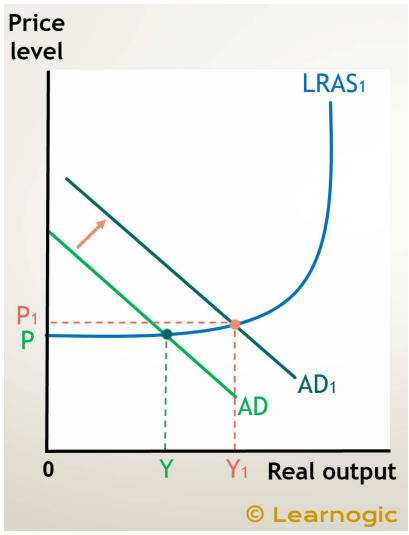
- As productive potential increases the LRAS shifts right
- Average price level falls from P to P_1- deflationary pressure
- Real output rises from Y to Y_1 – economic growth
- Rising incomes can improve the standard of living
- As output increases, there is likely to be an increase in employment/fall in unemployment
- A lower price level may boost demand for exports improving the current account on the balance of payments
- Help citizens to meet their basic needs- providing more with food, shelter and clothing
- Increased income and increased consumption may lead to more tax revenue for the government and help secure a fiscal surplus

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.

Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Implementing supply-side policies has the effect of increasing government expenditure, which increases AD, leading to higher price level, reducing the impact of the increase in LRAS • Opportunity costs- money spent on infrastructure would be better spent elsewhere or on a different supply side need • Government may experience information failure and intervene in the wrong areas • Magnitude- the impact will depend on the amount spent by the government on the interventionist policy • Time lag- it will take time to build infrastructure/housing • Time lag- investment in education will not have an immediate impact on productivity as it takes time for students to complete their education • Need to ensure prestige products are not created • Free market policies may be better to help make it easier to do business, for example, through deregulation of product and labour markets, reduction in taxation and cutting the costs of bureaucracy for firms • Investment is already underway for rail routes, so will have impact without need for further government infrastructure investment • Poor road conditions suggest significant investment is required • More houses, roads, seaports, airports may cause more environmental damage	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question Number	In 2019 the new President of the European Central Bank asked governments of eurozone countries to cut taxation and increase government expenditure to stimulate the rate of economic growth. Evaluate fiscal policy instruments as a means of increasing the rate of economic growth. Indicative content
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. • Economic growth- increase in real GDP • Fiscal policy- use of taxation and government expenditure • Demand side policy- aimed at influencing AD • Expansionary policy- aims to increase AD • Would involve increase in government expenditure and/or decrease taxation • Increased government expenditure would lead to increased AD – as G is a component of AD • Decreased income tax would lead to more disposable income and increased consumption and increased AD • Decreased corporation tax would see firms keep more profit and encourage investment and increased AD Diagram 

Question	With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Understanding of productivity • Understanding of interventionist supply-side policies • AD/LRAS diagram showing a change in LRAS consistent with analysis/use of PPF diagram • "Between 2010 and 2020 Australia's average annual increase in productivity was 1.7%" • "Providing finance for business start-ups": guaranteeing bank loans so that banks are more willing to lend/exemptions from certain regulations that are costly to comply with – these businesses are often innovative and disruptive, and create more competition leading to increasing productivity • "Investment in infrastructure improvements": spending on e.g., broadband (digital) or roads (physical) would reduce industry costs and /or improve access to market and more efficient factors of production – this will increase competition and drive innovation leading to greater productivity • "Investment in high-quality education and training schemes": introducing apprenticeship courses or improving access to higher education – this would improve the skills, flexibility and mobility of labour leading to an increase in human capital and therefore productivity • "Offering tax incentives and subsidies to encourage investment": this would reduce the production costs for firms facilitating them in undertaking capital expenditure and invest in R&D/technological advancements. This investment is likely to drive innovation and increase productivity **NB Award a maximum of level 2 if only policies not in Extract B are considered e.g.: regional policy, investment in healthcare and housing**

	NB Award a maximum of level 2 if policies are not linked to an increase in productivity

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Significant Government investment and support is required: Australia's "average annual growth in real GDP per capita was 0.6%. This was below the 1% growth in GDP per capita in the USA." – the Government may not have enough tax revenue/income to finance their spending and may need to borrow • Opportunity cost of this sizeable increase in government spending which could worsen the Australian Government's public finances (no balanced budget – a macroeconomic objective) • Time lag involved with supply-side policies, especially with investments in education, training and infrastructure • Consideration of effectiveness of supply-side policies such as education – e.g. depends on the quality of education and training schemes in place • Consideration of effectiveness of supply-side policies such as infrastructure – e.g. poor quality projects may imply an inefficient allocation of scarce resources/factors of production	

	• Difficult to accurately measure productivity, especially in the service sector: service sector accounts for nearly 70% of Australia's GDP: the Government may not know how much to invest/subsidise

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Discuss supply-side policies that the UK Government could use to increase productivity. **Indicative content**
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Supply-side policies are designed to increase productivity, competition, and incentives in an economy – it can be shown via a shift outward of the LRAS creating both actual and potential growth • Between 1997 and 2008, the average annual productivity growth was only 1.9%. Between 2009 and 2019 it fell to 0.7%. By 2021 productivity was nearly 20% below the level it would have reached if it had continued at 1.9% • Increased government spending on skills through investment in education and/or training – this would increase human capital and raise productivity • Increased government spending on infrastructure investment (e.g., roads or broadband) – this would reduce industry costs or improve access to market • Reducing the level of welfare benefits – this would incentivise unemployed to take jobs, work harder and increase output per worker of those in work • Privatisation - this may lead to increased competition, greater innovation due to higher R&D spending, and therefore higher productivity in the UK • Cutting cost of bureaucracy and/or deregulation of firms – this would raise efficiency and productivity by increasing competition between firms • Reducing corporation tax/subsidies – this incentivises firms to innovate by investing in technological advancements; hence increasing potential output • Lowering regulation (deregulation of markets) and/or increasing competition • Increasing the country's national minimum wage

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Government will have to spend significant amount of money to increase UK's productivity – comparison drawn between countries using Figure 1 • It is difficult for the UK Government to accurately measure productivity • Significant time lags and implementation lags for supply-side policies • Creates an opportunity cost for the UK Government: it may lead to more productivity if spent in another sector of the economy, e.g. healthcare • Supply-side policies are less effective when there is large amounts of spare capacity in an economy: they create potential growth but no actual growth • Consideration of effectiveness of supply-side policies such as infrastructure and education at delivering sustainable growth • Depends on the quality of education, training and infrastructure projects • Privatisation may lead to private monopolies, leading to less productivity • Cut in welfare benefits designed as an incentive to work may be ineffective if the unemployed are willing to receive less payments and do not work • Reducing bureaucracy may create unemployment in the short-term	

	• Cut in corporation tax would be ineffective if companies boost short-term profits rather than investing in productivity-boosting technology • Increasing national minimum wage may lead to unemployment if firms decide to replace workers with capital

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Evaluate the limitations of using GDP data to compare living standards between countries. **Indicative content**
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of the term real GDP/living standards • Rate of economic growth is lower for developed countries than of the developing countries • Reference to differences in percentage change in real GDP from stem or more widely Limitations of comparison may include: • Percentage changes are misleading without any reference to total GDP • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income – size of informal economy of developing countries is significantly larger than that of developed countries • Population growth in developing countries, such as Guyana, may account for most growth in GDP; need to consider GDP per capita • Differences in distribution of income as growth varies between countries • Quality of life issues, such as spending on health and education – impact is very difficult to measure, especially in developing countries • Differences in quality of housing and environment between countries • Subsistence, barter and the hidden economy will undervalue the real output and national income will not reflect true living standards • Currency values do not effectively calculate accurate purchasing power parity/exchange rates might not accurately reflect these differences in purchasing power of currencies • Spending on investment goods may raise future living standards at the expense of the current generation's quality of life • Methods of calculation and reliability of data may be questioned • The size of the public sector spending, especially in developed countries such as Norway/Finland, which may or may not improve living standards

<table>
<tr><td>Question</td><td colspan="2">With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive capacity.</td></tr>
<tr><td>12(e)</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included.
Other relevant points must also be credited.

Quantitative Skill Assessed
QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms

Knowledge, Application and Analysis (8 marks) – indicative content

• Understanding of supply-side policies: designed to increase productivity, competition, and incentives in an economy – it can be shown via a shift outward of the LRAS creating both actual and potential growth

• Increasing the level of welfare benefits: "increased financial support for childcare" – more people are likely to join the workforce and increase participation rates – less economic inactivity, help employment reach pre-crisis levels; this will increase potential output, shifting LRAS
○ the above policy will incentivise workers to work longer and harder, so increasing output per worker and productivity
• Incentives to encourage investment: tax incentives in the form of "100% tax relief on business investment" – lower costs would encourage firms to invest in R&D/technological advancements, hence increasing productivity and LRAS
• Incentives to encourage investment: subsidies to firms for investment in new technologies (in "artificial intelligence"), reduces production costs, increases investment, and hence increases productivity and LRAS
• Deregulation of labour markets – "Relaxing immigration rules to attract more workers" - would make labour markets more flexible and help firms keep up with changing demand. This may prevent wage inflation and enable firms to increase productive capacity

NB To achieve Level 3 the response must be policy the UK Government has introduced</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.
Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.</td></tr>
<tr><td>Level 2</td><td>4–6</td><td>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</td></tr>
</table>

		Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 3	7–8	Demonstrates an accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Significant time lags and implementation lags for these supply-side policies • Creates an opportunity cost for the UK Government: it could lead to greater productivity if "£20 billion" was spent in other sectors e.g. healthcare/training • Effectiveness of the policies discussed: ○ No guarantee that childcare support will incentivise workers to join the labour force and take up jobs ○ Tax relief is offered for only three years, after which investment into capital/technology will fall and there will be less innovation ○ Subsidies could lead to greater x-inefficiency in firms / increase the UK's fiscal deficit and national debt ○ Immigration rules only relaxed for five sectors; other sectors will see wage increases as labour shortages will continue to exist, can cause inflationary pressures • Other supply-side policies might be more effective: ○ Cutting the costs of bureaucracy for firms and relaxing the planning regulations required for construction – this would reduce costs and raise efficiency; more jobs and therefore output created by "power plants and energy facilities" ○ Investment in education, training and skills – "no measures to improve the skills of the workforce". This investment will increase human capital and productivity: "workers in the UK have lower skills than workers of other advanced economies" ○ Reducing corporation tax – reduces production costs, thus increasing potential output	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

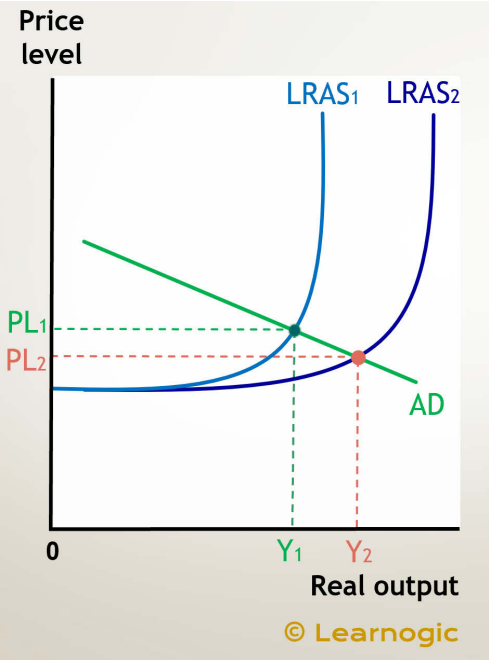
Question	With reference to the information provided, discuss the likely effects on living standards of the supply-side policies proposed by President Lula.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** "In mid-2022 President Lula had promised to raise the real incomes of the country's population and create new jobs." Policies include: • Increasing investment in healthcare – would improve the health of workers and hence reduce absence from work; would raise productivity making Brazil's workers more employable; gives them higher income and therefore improve living standards • Increasing investment in infrastructure development (e.g. roads, rail or broadband) – creates new jobs/reduce industry costs/improve access to markets/allows workers to move for work, giving them higher incomes and therefore improve living standards • Increasing investment on education, training and skills – this would increase human capital and raise productivity; workers become more employable and this gives them higher income and therefore improve living standards

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 3	7–8	Demonstrates an accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.

		Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Magnitude of spending/investment: will R$92.75 billion per year be enough to increase living standards through all four policies? • The increase in welfare payments might act as a disincentive to work and so not increase living standards • Brazil's Government has already been running a budget deficit (Figure 3) since February 2022; how will it finance its spending/investment? • Significant time lags and implementation lags for supply-side policies • Creates an opportunity cost for the Brazilian Government: these funds may not be spent in areas that can contribute to higher living standards (asymmetric information) – "R$371 billion over four years" • There is no guarantee that these policies will work – "many large-scale investments in similar projects were not successful and represented a waste of resources." • Consideration of the effectiveness of supply-side policies such as education and infrastructure at improving living standards • Depends on the areas of healthcare where the Government of Brazil has invested in • Depends on the quality of education, training and infrastructure projects • Only if a combination of these policies is introduced, will it have a greater impact on living standards • The deflationary fiscal policy may offset improvements in living standards	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

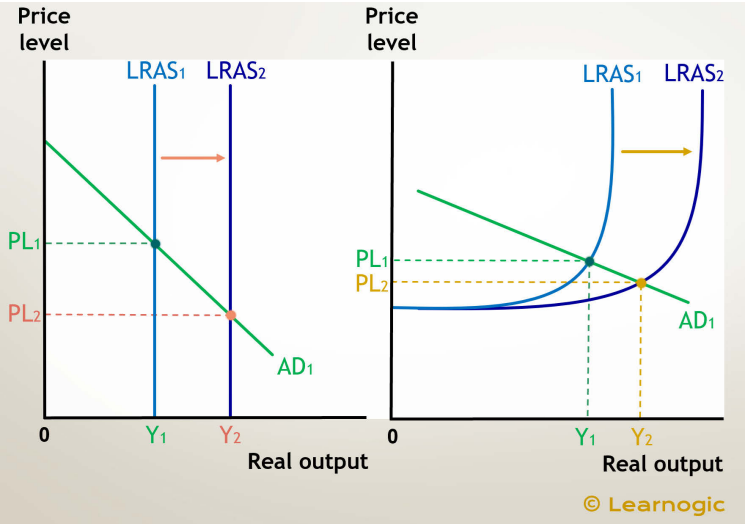
Section D

Question	Evaluate the likely effects of an increase in the unemployment rate on workers **and** public finances. Refer to a country of your choice in your answer.
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of unemployment/unemployment rate • Unemployment has increased from 7.1% to 8.5%/increase of 1.4 pp Workers: • Workers may fear losing their job and may increase savings, thus reducing consumption, aggregate demand and subsequently leading to a fall in real output and a fall in the price level • Workers may take jobs that are below their skill levels leading to underemployment • Workers who lose their jobs may spend a long time unemployed and become deskilled – they will be less employable and less attractive to employers • Workers who lose their job will see a reduction in earnings/living standards/ability to meet their basic needs • Social effects of unemployment – divorce, crime rate, health impacts • Long term effects of intergenerational unemployment Public finances: • As more become unemployed they may qualify for unemployment benefits. This will cause an increase in government spending • As people move from employment to unemployment, they may move from being income taxpayers to non-income taxpayers reducing income tax revenue • With higher unemployment consumer expenditure will fall resulting in a decrease in revenues from expenditure taxes • Higher unemployment suggests lower output, thus lower profits for private firms and lower corporation tax revenue for government • With lower tax revenue and higher government expenditure the fiscal position will worsen • Government may need to provide training to workers, or support to private firms – once again increasing spending and worsening fiscal position **NB Award a maximum of Level 3 for answers with no reference to a country in their answer** **NB Award a maximum of Level 3 for answers that consider only workers or public finances**

Question	Evaluate the use of supply-side policies as a means of reducing unemployment. Indicative content
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Definition of supply-side policies; policies used by the government to increase LRAS • Explanation of how specific supply-side policies may reduce unemployment e.g. spending on education and training may reduce structural unemployment • Housing subsidies or increased provision of low-cost housing • Improved information on job availability • Encouraging business start-ups will increase demand for labour, if start-ups are non-seasonal it may reduce seasonal unemployment • Expenditure on infrastructure may increase the employment of construction workers • Deregulation of labour markets • Reduction in welfare payments • Reduction in income tax rates to increase incentives to work Diagrammatic analysis may be rewarded. 

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Increasing aggregate demand may reduce cyclical unemployment • Supply-side policies ineffective if AD is very low • Government spending may cause a multiplier effect increasing demand for labour • Reducing income tax or VAT will boost consumption encouraging more firm investment to increase supply reducing unemployment • If confidence is low firms will not expand and not employ more labour • Depends if the policy fits the nature of unemployment • Firms may invest in capital intensive production which may reduce employment	

	• Government ability to spend maybe limited by income/deficit • If incomes are rising, individuals might able to save and still consume reducing potential for multiplier • Magnitude of intervention • Education may not lead to skills to fill job shortages/ increase underemployment • Opportunity cost of government expenditure on education and infrastructure • Crowding out from government spending	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	Indicative content
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** Award maximum of Level 3 (9 marks) if candidate does include application in their answer • Interventionist supply-side policies are policies which involve increased government intervention in the economy, in order to increase LRAS/the productive potential of the economy • Increasing government spending on infrastructure may increase the productive potential of the economy • Increasing government spending on education/training/skills increases the skill level of the labour force, increasing productivity • Offering finance for business start-ups encourages more firms to enter the market, increasing competition and LRAS • Lowering corporation tax/offering subsidies increases the incentive for businesses to invest, improving productivity, and increasing LRAS • Regional policy encourages investment into all areas of the economy, encouraging more productivity and growth Reward diagrams showing an outward shift in LRAS and increase in real GDP: 

Level	Mark	Descriptor
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Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
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Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Businesses may only respond to changes if confidence is high, in times of recession this may be ineffective • It takes time for the economy to benefit from increased spending on education/training/infrastructure • Difference policies may be more or less effective in different countries and at different times • Growth may be harmed in the longer term if governments have to borrow to finance interventionist policies • Free market supply-side polices/demand-side policies may be more effective means of achieving economic growth	

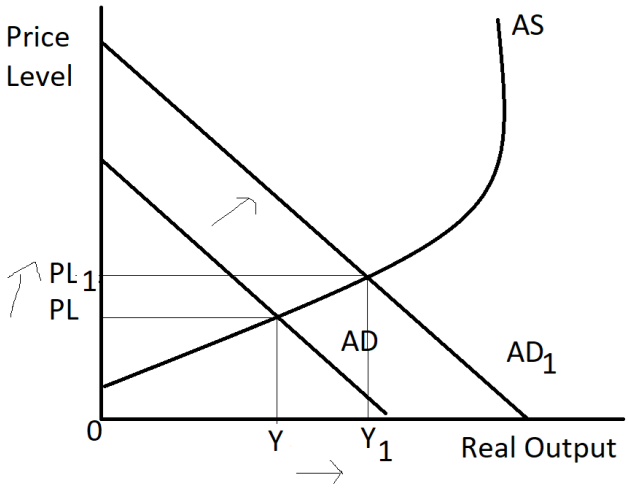
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

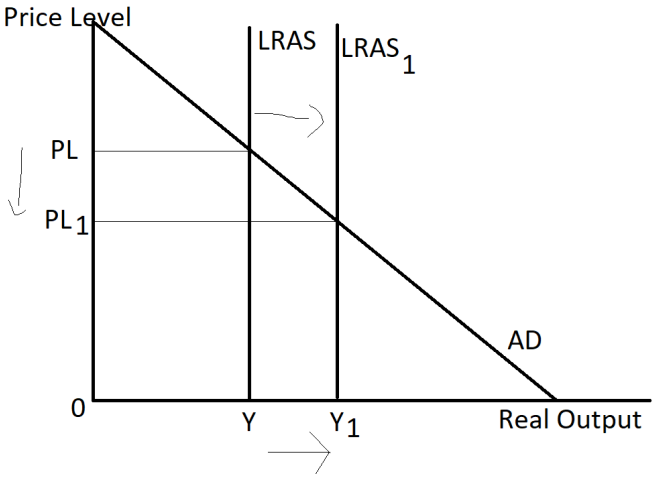
	• Reducing level of benefits and/or income tax – this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work • Reducing corporation tax – increasing international competitiveness for investment • Cutting cost of bureaucracy and/or reduce regulation of firms – this would raise productivity • Improving regulation and/or competition of inefficient industries – this would increase India's productivity • Privatisation – this may lead to increased competition, innovation, and efficiency in India • Government schemes to improve childcare provision • Increased flexibility and/or mobility of labour **NB Award a maximum of Level 3 for answers with no application to India.**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.

		Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Significant time lag for supply-side policies • Difficult to accurately measure productivity • Consideration of effectiveness of supply-side policies such as education, infrastructure, and healthcare at delivering sustainable growth • Privatisation may lead to private monopolies, less efficiency and lower economic growth • Cut in income tax designed as an incentive to work and investment may be ineffective if the workers use it as an opportunity to work less for the same income • Cut in corporation tax will be ineffective if companies use the cut in corporation tax to boost their short-term profits rather investment on productivity-boosting technology • Increase in taxation elsewhere may have an effect on incentives to work • Interventionist supply-side policies could increase public expenditure that may have an opportunity cost/have an adverse effect on public finances	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Question	Evaluate the possible effects of an increase in government expenditure on infrastructure on a country's economy. Illustrate your answer with an appropriate diagram
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Infrastructure spending includes spending on transport, power supplies and broadband • Increased infrastructure spending from ₱681 billion in 2020 to ₱1 200 billion in 2022. • The initial infrastructure will see government spending/investment which will boost AD initially • The injection into the economy will result in further rounds of spending via the multiplier effect  • This may cause inflationary pressure and an increase in real output • This helps make doing business easier and cheaper • Reliable power supplies mean production can happen undisrupted • Better transport systems mean raw materials can be moved quicker wasting less time

	• Workers will waste less time traveling as there is less traffic/congestion • Better broadband speeds enable workers to work more quickly not waiting for buffering or information to download and upload • The workers can therefore be productive for longer • This lowers production costs for business • The LRAS shifts rightwards • This may cause deflationary pressure and an increase in real output • Employment is likely to increase as people work on the projects directly and indirectly • Impact on fiscal policy with increased government spending  **Diagrams should be rewarded that shift both AD right and LRAS right** **NB Award a maximum of Level 3 for answers with no application.** **NB Award a maximum of Level 3 for answers with no relevant diagram**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.

		Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Significant time lag for infrastructure projects to be completed • Infrastructure projects can result in delays during construction • No guarantee that infrastructure projects will have a positive impact on productivity • Consideration of effectiveness of infrastructure projects at delivering sustainable growth that does not negatively impact third parties • Privatisation may lead to private monopolies and less efficiency and lower economic growth • This is a substantial increase in spending which should see a larger improvement in GDP • Overall impact depends on size of the multiplier • The increase in investment expenditure may be offset by a decrease in other components of AD • Infrastructure projects may have a negative effect on the environment/third parties	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches.

		Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Question	Evaluate government policies that could be used to increase the rate of employment. Refer to a country of your choice in your answer.
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of rate of employment: the percentage share of working population with jobs (includes those employed and self-employed) • Understanding/identification of government policies as fiscal policy or supply-side policy • Relevant diagram, e.g., AD/LRAS diagram showing rightward shift in AD and/or LRAS curve Policies include: • Investment in education and training to provide a highly skilled and productive workforce through increases in the level of human capital • Changes in national minimum wage to incentivise employment • Reduction in unemployment benefits and associated benefits to increase workers incentive to find work • Reduction in tax rates to encourage firms to expand or set up operations, therefore increasing employment • Reduction in income tax rates creating a much larger incentive to work, increasing consumption and therefore, employment • Tax breaks to firms that set up in poor areas/giving financial assistance to unemployed workers who move to areas with high employment • Providing grants/subsidies/tax breaks to firms to hire and train workers • Relaxing immigration laws to potentially have a greater access to skilled workers and fill job vacancies • Government improving labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and social care and other related measures to increase the activity rate • Spending on infrastructure projects will increase the number employed in construction and related industries • Reflationary fiscal policy to increase AD and real output, so that firms need to employ more workers **NB: Award a maximum of Level 3 for answers with no reference to a country**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Discussion of the effectiveness of individual policies • Conflicts between government economic policies • Conflicts with other macroeconomic objectives • Depends if the economy is operating at full capacity or has spare capacity – discussion on the elasticity of the LRAS • Creditworthiness of the government • Magnitude of the policy change/size of increase in employment rate • External factors beyond a government's control, e.g. slowdown in the global economy • Time lags (for e.g., education takes a long time to have impact on employment rates)/implementation lags • Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Evaluate supply-side policies that a government could use to increase the country's productivity.	
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Supply-side policies are designed to increase productivity, competition, and incentives in an economy – it can be shown via a shift outward of the LRAS creating both actual and potential growth • Productivity is a measure of output per worker/output per unit of input/output per hour worked • Increased government spending on skills through investment in education and/or training – this would increase human capital and raise productivity • Increased government spending on infrastructure investment (e.g. roads or broadband) – this would reduce industry costs or improve access to markets • Reducing the level of welfare benefits – this would incentivise the unemployed to take jobs, work harder and increase output per worker of those in work • Privatisation - this may lead to increased competition, greater innovation resulting from higher R&D spending, and therefore higher productivity • Cutting cost of bureaucracy and/or deregulation of firms – this would raise efficiency and productivity by increasing competition between firms • Reducing regulation and/or increasing competition by reducing barriers to entry in product markets • Reducing corporation tax – this incentivises firms to innovate by investing in technological advancements and therefore increasing potential output • Reducing income tax rates – this might motivate employees to work harder/longer **NB Award a maximum of level 3 if no reference to specific country(s)**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.

Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

- Government will have to spend significant amount of money to increase Japan's productivity as it is much lower than that of the USA
- It is difficult to accurately measure productivity
- Significant time lags and implementation lags for supply-side policies
- Creates an opportunity cost for the government: funds may not be spent in areas that would contribute to high productivity (asymmetric information)
- Supply-side policies are less effective when there are large amounts of spare capacity in an economy: they create potential growth but no actual growth
- Consideration of the effectiveness of supply-side policies such as infrastructure and education at delivering sustainable growth
- Depends on the quality of education, training and infrastructure projects
- Privatisation may lead to private monopolies, leading to less productivity
- Cut in welfare benefits designed as an incentive to work may be ineffective if the unemployed are willing to receive lower payments and do not work
- Reducing bureaucracy may create unemployment in the short-term
- Reducing corporation tax rates would be ineffective if companies boost short-term profits rather than investing in productivity-boosting technology
- Reducing income tax rates may create an incentive for employees to take more leisure time

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Evaluate supply-side policies that a government could use to increase the rate of economic growth and to decrease the rate of inflation. Refer to a country of your choice in your answer.	
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Supply-side policies are designed to increase productivity, competition, and incentives in an economy • It can be shown via a shift outward of the LRAS creating potential growth and lower inflation; credit use of relevant AD/AS diagrams Policies include: • Increased government spending on skills through investment in education and/or training – this would increase human capital and raise productivity • Increased government spending on infrastructure investment (e.g. roads or broadband) – this would reduce industry costs or improve access to markets • Reducing the level of welfare benefits – this will incentivise the unemployed to take jobs, work harder and increase output per worker of those in work • Privatisation – this may lead to increased competition, greater innovation resulting from higher R&D spending, and therefore higher productivity • Cutting cost of bureaucracy and/or deregulation of firms – this would raise efficiency and productivity by increasing competition between firms • Reducing regulation and/or increasing competition by reducing barriers to entry in product markets • Reducing corporation tax – this incentivises firms to innovate by investing in technological advancements and therefore increasing potential output • Reducing income tax – this may motivate employees to work harder/longer **NB Award a maximum of level 3 if no reference to a specific country**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.

Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Government has to spend a significant amount of money to come out of this period of low rates of economic growth as it has been ongoing since 2022 • Significant time lags and implementation lags for supply-side policies • Creates an opportunity cost for the government: funds may not be spent in areas that would contribute to high productivity • Asymmetric information may mean that supply-side policies are targeted in the wrong areas of the economy and will not have the desired outcome • Supply-side policies are less effective when there are large amounts of spare capacity in an economy: they create potential growth but no actual growth • Consideration of the effectiveness of supply-side policies such as infrastructure and education at delivering economic growth • Depends on the quality of education, training and infrastructure projects • Privatisation may lead to private monopolies, leading to lower productivity • Cut in welfare benefits designed as an incentive to work may be ineffective if the unemployed are willing to receive lower payments and do not work • Reducing bureaucracy may create unemployment in the short-term • Reducing corporation tax rates would be ineffective if the companies are uncertain about the prospect of making profit in the future • Reducing income tax rates may result in employees taking more leisure time • Supply-side policies are more effective than demand-side policies as there is unlikely to be a trade-off between economic growth and low rates of inflation	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	In 2022 the Government of China decided to invest 1.48 trillion yuan in many new transportation, energy, and telecommunication infrastructure projects. Evaluate the likely benefits of an increase in government expenditure on infrastructure. Refer to an economy of your choice in your answer.
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Infrastructure spending includes spending on transport, power supplies and telecommunications • Infrastructure projects will increase government spending/investment which will boost AD as government spending/investment is a component of AD (may be shown diagrammatically) • The injection into the circular flow of income will result in further rounds of spending via the multiplier effect (may be shown diagrammatically) • This may increase real output • Improved infrastructure will make doing business easier and cheaper; it lowers production costs for firms • Reliable energy/power supplies mean production can happen undisrupted • Better transport systems mean that raw materials can be moved quicker wasting less time, increasing efficiency • Workers will waste less time traveling as there is less congestion • Better telecommunications e.g. broadband speeds will enable workers to work more quickly, not waiting for information to download or upload • The LRAS shifts rightwards: this may cause deflationary pressure and an increase in potential output (may be shown diagrammatically) • Employment increases as people work on projects directly and indirectly **NB Award a maximum of Level 3 for answers with no reference to an economy in their answer**

Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context.

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

- Increased AD may cause greater inflationary pressures
- Infrastructure projects may have a negative effect on the environment
- The rise in government expenditure may mean that the government cannot meet the objective of achieving a balanced budget
- Significant time lag for infrastructure projects to be completed
- Infrastructure projects can result in delays during construction
- No guarantee that infrastructure projects will have a positive impact on productivity if the value of the projects is lower than the cost of building
- Consideration of effectiveness of infrastructure projects at delivering economic growth that does not negatively impact third parties
- Overall impact on real output depends on size of the multiplier
- Impact on real output/inflation depends on the level of spare capacity in the economy/elasticity of the LRAS
- Magnitude- this is substantial spending which should see a larger benefit in terms of increase in GDP
- The increase in government spending/investment could be offset by a decrease in the other components of AD e.g. consumption or net trade

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Between July 2023 and January 2024 the rate of employment in Colombia decreased from 58.6% to 55.3%. Evaluate supply-side policies that could be used to increase the rate of employment. Refer to a country of your choice in your answer.	
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of rate of employment: the percentage share of working population with jobs (includes those employed and self-employed) • Understanding of supply-side policies: measures to increase the productive capacity of the economy • Relevant diagram, e.g. AD/LRAS diagram showing rightward shift in LRAS Policies include: • Investment in education and training to provide a highly skilled and productive workforce through increases in the level of human capital • Increases in national minimum wage to incentivise citizens to seek employment • Reduction in unemployment benefits and associated benefits to increase workers incentive to find work • Reduction in tax rates to encourage firms to expand or set up operations, therefore increasing employment • Reduction in income tax rates creating a much larger incentive to work, increasing consumption and therefore, employment • Tax breaks to firms that set up in poor areas/giving financial assistance to unemployed workers who move to areas with high employment opportunities • Providing grants/subsidies/tax breaks to firms to hire and train workers • Relaxing immigration laws to potentially have a greater access to skilled workers to fill job vacancies • Government improving labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and social care and other related measures to increase the activity rate • Spending on infrastructure projects will increase the number employed in construction and related industries **NB Award a maximum of Level 3 for answers with no reference to a country in their answer**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.

Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Prioritisation of the most significant policy • Discussion of the effectiveness of individual policies • Conflicts between government economic policies • Conflicts with other macroeconomic objectives • Combination of policies required to increase the rate of employment • Creditworthiness of the government • Magnitude of the policy change/size of increase in employment rate • External factors beyond a government's control, e.g. slowdown in the global economy • Time lags (for e.g., education takes a long time to have impact on employment rates)/implementation lags • Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	In 2022 nominal GDP was $5 billion for Fiji, $477 billion for Egypt and $3 385 billion for India. Evaluate the limitations of using GDP data to compare living standards between countries. Refer to countries of your choice in your answer.	
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of the term GDP/living standards • Reference to differences in nominal GDP from stimulus or more widely Limitations of comparison may include: • Nominal GDP data ignores the impact of inflation that can significantly reduce the real GDP figure impacting living standards • Size of population needs to be considered to determine living standards • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income – size of informal economy of developing countries is significantly large • Subsistence, barter and the hidden economy will undervalue the real output and GDP may not reflect true living standards • Differences in distribution of income as this varies between countries • Quality of life issues, such as spending on health and education – impact is very difficult to measure, especially in developing countries • Differences in the quality of housing and environment between countries • Nominal GDP does not accurately reflect purchasing power within each country • Spending on investment goods may raise future living standards at the expense of the current generation's quality of life • Methods of calculation and reliability of data may vary between countries • Standard of living is subjective, and therefore it cannot be measured effectively and accurately **NB Award a maximum of Level 3 for answers with no reference to countries in their answer**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as there is no data on real wage rates* ***C*** *is not correct because the changes in the table show a short-term increase in unemployment and structural unemployment is a long-term issue* ***D*** *is not correct because the increase is linked to the fall in real GDP*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this policy would cause an increase in AD* ***C*** *is not correct because the Bank of England is using monetary policy* ***D*** *is not correct because the Bank of England is using monetary policy*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because AD would increase* ***B*** *is not correct because government spending is an injection into CFI* ***C*** *is not correct because AS is likely to increase*	**(1)**
4	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because we do not know about the primary and secondary income balances* ***B*** *is not correct as there is a balance of trade deficit not surplus* ***D*** *is not correct as the value of exports is likely to have risen*	**(1)**
5	-	**The only correct answer is B** ***A*** *is not correct as this would reduce investment* ***C*** *is not correct as this would reduce investment* ***D*** *is not correct as banks would have less money available for investment*	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as this is not calculated using the correct formula* ***B*** *is not correct as this is calculated using the formula (1-0.4)* ***D*** *is not correct as this is calculated using the formula (1/0.4)*	**(1)**
2	-	**The only correct answer is B** ***A*** *is not correct as this is not the role of the central bank* ***C*** *is not correct as this is not the role of the central bank* ***D*** *is not correct as it is the role of the government to achieve greater income equality*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct as data does not refer to inactive people but to underemployment* ***C*** *is not correct as data does not refer to unemployment but to underemployment* ***D*** *is not correct as the data does not relate to the price level*	**(1)**
4	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because the price level was increasing at a faster rate between January 2016 to July 2016* ***B*** *is not correct as there was disinflation from January 2017 to July 2017* ***C*** *is not correct as the average price level was higher in July 2019 than in January 2019*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as monetary policy is implemented by the central bank* ***B*** *is not correct as monetary policy is implemented by the central bank*	**(1)**

5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as QE will increase the availability of credit* ***B*** *is not correct as QE will increase the rate of inflation* ***C*** *is not correct as QE will reduce the rate of unemployment*	**(1)**
6	**QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as this is the index number for 2018 using 2020 as the base year* ***B*** *is not correct as this is the index number for 2019 using 2020 as the base year* ***C*** *is not correct as this is the index number for 2020 using 2019 as the base year*	**(1)**

5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as the rate of economic growth is most likely to decrease as AD would fall* ***C*** *is not correct as the higher base rate of interest will increase the cost of borrowing* ***D*** *is not correct as the higher base rate of interest will increase the reward for saving*	**(1)**
6	**QS1:** Calculate, use and understand ratios and fractions **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct as this is the ratio for 2018:2019* ***C*** *is not correct as this is the ratio for 2019:2018* ***D*** *is not correct as this is the ratio for 2020:2018*	**(1)**

Section B

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct as this is a withdrawal* ***C*** *is not correct as this is a withdrawal* ***D*** *is not correct as this is neither an injection nor a withdrawal*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as it is most likely that there will be an increase in profits for firms* ***B*** *is not correct as it is most likely that there will be an increase in the rate of inflation* ***D*** *is not correct as it is most likely that there will be an increase in government tax revenues*	**(1)**
3	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as this is the difference in expenditure between 2021 and 2022* ***C*** *is not correct as this uses the incorrect formula [(new-old/new)x100] to calculate the percentage change* ***D*** *is not correct as this uses the incorrect formula [(new/old)x100] to calculate the percentage change*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus* ***B*** *is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus* ***C*** *is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because this is a monetary policy instrument* ***C*** *is not correct because this is a monetary policy instrument* ***D*** *is not correct because this is a monetary policy instrument*	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because exports are an injection into the circular flow of income* ***C*** *is not correct because investment is an injection into the circular flow of income* ***D*** *is not correct because consumption is neither an injection nor a withdrawal from the circular flow of income*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because this is likely to increase private sector investment* ***B*** *is not correct because this is likely to increase private sector investment* ***D*** *is not correct because this is likely to increase private sector investment*	**(1)**
3	**QS1:** Calculate, use and understand ratios and fractions **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as this is the marginal propensity to consume multiplied by itself* ***B*** *is not correct as this is the value of the marginal propensity to withdraw* ***D*** *is not correct as this uses the incorrect formula of 1/MPC*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because there is unlikely to be an impact on the rate of corporation tax* ***B*** *is not correct because this is likely to increase the rate of unemployment* ***C*** *is not correct because this is likely to reduce the rate of economic growth*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the next two weeks to be considered as unemployed* ***C*** *is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the next two weeks to be considered as unemployed* ***D*** *is not correct because a person has to actively seek work in the past four weeks and should be available to start work in the*	**(1)**

Section C

Question	Define the term 'fiscal policy' (Extract A, line 6)	Mark
12 (a)	**Knowledge 2** • 1 mark for reference to taxation and government spending. • 1 mark for stating that it is set by the government as a means of influencing aggregate demand/the level of economic activity.	**(2)**

Question	With reference to Figure 1, explain the term 'real GDP growth'.	Mark
12 (b)	**Knowledge 2, Application 2** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for offering a definition of real GDP growth. The percentage annual increase **(1)** in the value of a country's output of goods and services over a period of time accounting for inflation **(1)**. **Application** Up to 2 marks for reference to Figure 1: • From Jan 2016-December 2017 Romania has seen economic growth **(1)** • The economic growth has been rapid from 4.3% in Jan 2016 **(1)** to 8.8% September 2017 **(1)**	**(4)**

Question	Define the term 'base rate of interest' (Figure 1). Answer	Mark
12(a)	**Knowledge 2** Up to 2 marks for defining base rate of interest • Cost of borrowing / Return received for saving money **(1)** that the central bank charges / pays commercial banks **(1)** • Set by the central bank **(1)** to commercial banks **(1)**	**(2)**

Question	With reference to Figure 2, explain the term 'recession'. Answer	Mark
12(b)	**Knowledge 2, Application 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for offering a definition of recession • Two consecutive quarters **(1)** of negative economic growth / negative real GDP growth **(1)** **Application** Up to 2 marks for reference to Figure 2 for example: • Recession starts Q4 2015 -1.2% to -0.2% Q1 2016 **(1)** • Growth fell from -0.2% Q1 2016 to -2.1% Q2 2016 **(1)** • Growth fell from -1.2% Q4 2015 to -2.1% Q2 2016 **(1)** • Argentina was in recession between Q4 2015 and Q2 2016/ Q4 2015 and Q1 2016/ Q1 2016 and Q2 2016 **(1+1)**	**(4)**

Section C

Question Number	Define the term 'monetary policy'. (Extract A, line 8) Answer	Mark
12(a)	**Knowledge 2** 1 mark for the definition of monetary policy: • The use of interest rates/the base rate/quantitative easing to control the money supply **(1)** 1 mark for further development e.g. • A demand-side policy/targeted to shift AD **(1)** • Conducted by monetary authority/central bank **(1)** • Often used to help achieve an inflation target **(1)** • Deflationary monetary policy helped reduce inflation in East Africa **(1)**	**(2)**

Question Number	With reference to Extract A, explain the term 'foreign direct investment'. Answer	Mark
12(b)	**Knowledge 2, Application 2** **Knowledge** Up to 2 marks for offering a definition of FDI: • The transfer of funds from one country to another **(1)** to purchase physical capital **(1)** • Where TNCs invest funds (**1**) to establish a new business/purchase an existing business in another country **(1)** • An injection into an economy coming from abroad **(1)** **Application** Up to 2 marks for reference to Extract A e.g. • "FDI in the region also contributed to economic growth" **(1)** • Growth in FDI in 2018 was 67% in Uganda/27% in Kenya/18% in Tanzania **(1)**	**(4)**

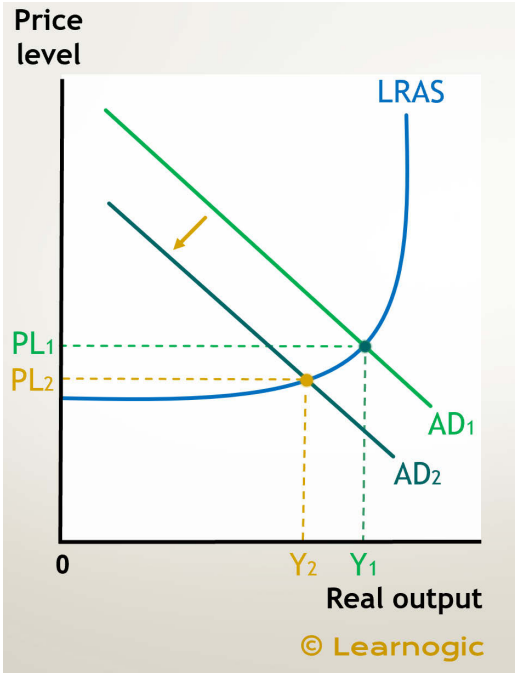
Section C

Question	Define the term 'fiscal policy' (Extract A, line 12).	Mark
12 (a)	**Knowledge 2** Where the government changes government spending **(1)** and taxation **(1)** Demand side policy/aims to influence the position of AD **(1)** New Zealand's Government used reflationary fiscal policy **(1)**	**(2)**

Question	With reference to Figure 1, explain how the ILO unemployment rate is measured.	Mark
12 (b)	**Knowledge 2, Application 2** **Quantitative Skill Assessed** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for how ILO unemployment is measured: • Conducted by the Labour Force Survey/Questionnaire **(1)** • The survey asks whether an individual has been out of work over the last 4 weeks **(1)** and ready to work in the next 2 weeks **(1)** **Application** Up to 2 marks for relevant application to unemployment in New Zealand, e.g.: • Increased from 4.2% in Q1 **(1)** to 5.3% in Q3 2020 **(1)** • Decreased from 5.3% in Q3 2020 **(1)** to 4.9% in Q4 2020 **(1)**	**(4)**

Section B

Question	Explain one likely economic effect of this increase in the base interest rate.	Mark
7	**Knowledge 1, Application 1, Analysis 2** **Knowledge** 1 mark for defining the base interest rate, e.g: • the rate that the central bank will charge to lend money to commercial banks **(1)** • the cost of borrowing for commercial banks **(1)** **Or** 1 mark for identification of one effect of the increase in the base interest rate e.g. • reduction in investment **(1)** • reduction in consumption **(1)** • increase in savings **(1)** **Analysis** Up to 2 marks for development of identified factor e.g. • Reduction in investment – which reduces AD **(1)** which could lead to a fall in real output **(1)** • Increase in savings – MPS likely to increase **(1)** which reduces the value of the multiplier **(1)** **Application** 1 mark for applying to the South Korea, e.g.: • South Korea has increased interest rates by 0.25% **(1)**. • There is a small change in the interest rates in South Korea **(1)**.	**(4)**

Question	Draw a LRAS and AD diagram to show the possible long-run impact of this significant increase in the base interest rate on AD, the price level **and** real output for Turkey. **Answer**	**Mark**
10	**Knowledge 1, Application 3** **Quantitative skills assessed:** QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Correct labelling of the axes e.g. price level and real output/GDP **(1)** **Application** Up to 3 marks for the following information included on the diagram • Drawing the original AD/LRAS curve **(1)** • Drawing a new AD curve to the left/decreased **(1)** • For the correct final equilibrium price level and output **(1)**  	**(4)**

Question	Calculate the final increase in GDP resulting from this €18 billion investment. Show your workings. **Answer**	Mark
11	**Knowledge 1, Application 3** Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions **Knowledge** 1 mark for correct multiplier formula, e.g. Multiplier = 1/(1–MPC) **(1)** **Application** Up to 3 marks for use of data in calculation, e.g.: Multiplier = 1/0.28 = 3.57 **(1)** €18 billion × 3.57 **(1) =** €64.286 billion **(1)** **NB: If correct answer (€64.286 billion) is given, award full marks regardless of working. Also accept accurate answer to 0dp, 1dp, 2dp, 4dp** **If billion is missing, award 3 marks**	**(4)**

Question Number	Answer	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Knowledge** 1 mark for identifying one role of a central bank, e.g.: • Implementation of monetary policy/setting interest rates /asset purchases/setting lending criteria/setting reserve asset requirements **(1)** • Achieving an inflation target **(1)** • As banker to the government **(1)** • As banker to the banks – lender of last resort **(1)** **Analysis** Up to 2 marks for developing the identified role, e.g. • Central banks use various monetary policy instruments **(1)** such as interest rates, asset purchase schemes (QE), or the exchange rate **(1)** • Central banks use various monetary policy instruments **(1)** in order to meet a target rate which may be set by the government or the central bank itself **(1)** • Central banks perform various banking services such as handling accounts of government departments **(1)** and making short-term advances to the government **(1)** • If banks run into liquidity problems **(1)** they may be able to borrow direct from the central bank **(1)** **Application** 1 mark for appropriate reference to a central bank/inflation target/other target as appropriate or to the central bank being accused of "limiting economic growth".	**(4)**

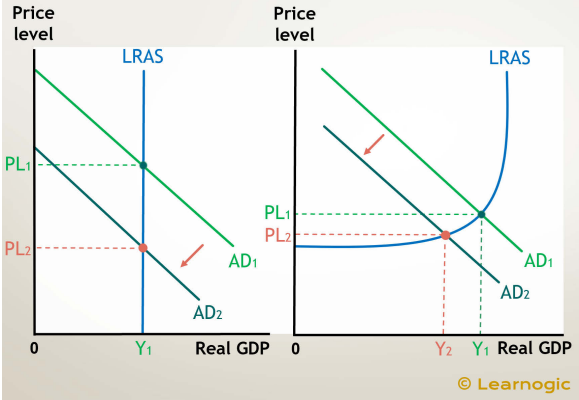
Question	With reference to this information, explain **one** likely impact of the increase in quantitative easing on aggregate demand.	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Quantitative Skill assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 knowledge mark for identification of: • increase in money supply or liquidity/ • fall in the external value of the currency/ • increase in the price of shares and property/ • decrease in the yield on government bonds/domestic corporate bonds **(1)** **Analysis** Up to 2 analysis marks for linked development, e.g.: • banks are more willing to lend to consumers and firms **(1)** increasing consumption, investment and therefore AD **(1)** • exports become relatively cheaper/imports become relatively expensive **(1)** leading to an increase in (X-M) and therefore AD **(1)** • creates positive wealth effects **(1)** leading to an increase in consumption and therefore AD **(1)** • lowers borrowing costs for domestic firms **(1)** leading to an increase in investment and therefore AD **(1)** **Application** 1 mark for appropriate reference to the information, e.g.: • QE increased by £250bn / 38.8% **(1)** • Asset purchases increased from £645 billion in March 2020 to £895 billion in November 2020 **(1)**	**(4)**

Question	With reference to this information, explain **one** likely macroeconomic impact of an increase in the base interest rate. **Answer**	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Quantitative Skill assessed** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge and Analysis** 1 knowledge mark for identifying **one** impact and up to 2 marks for linked explanation of the impact identified: • Decrease in consumption (C) **(1K)** – disincentivises spending on credit as the cost of borrowing has increased **(1AN)** thus AD/consumer confidence/inflation is likely to decrease / and incentivises savings as return on saving has risen **(1AN)** • Increase in savings **(1K)** as the reward for saving has risen **(1AN)** and therefore real output/AD is likely to decrease / unemployment is likely to rise **(1AN)** • Decrease in investment (I) **(1K)** as the cost of borrowing to finance investment has risen **(1AN)** and therefore business confidence/injections are likely to fall **(1AN)** • Decrease in net trade (X-M) **(1K)** as a result of greater demand for the currency/upward pressure on the exchange rate **(1AN)** making exports relatively more expensive / making imports relatively cheaper **(1AN)** **Application** 1 mark for appropriate reference to context, e.g.: • Between January 2021 and December 2021, base interest rate increased from 2% to 9.75% / interest rate increased by 7.75 *percentage points* **(1)** • An accurately drawn and labelled AD/AS diagram showing an inward/leftward shift of AD **(1)**	**(4)**

Question	With reference to the table, explain what is meant by 'gross investment'. **Answer**	Mark
11	**Knowledge 2, Application 2** **Quantitative Skills Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining gross investment, e.g.: • Gross investment = net investment + depreciation **(2)** • Gross investment includes replacement of worn-out capital stock / Gross investment data includes an estimate for the value of capital depreciation **(1)** • Investment refers to the increase in the capital stock / Investment is an injection into the CFI **(1)** **Application** Up to 2 marks for explicit reference to the data, e.g.: • Gross investment in Tanzania increased **(1)** from $15.5bn in 2015 to $25.6bn in 2020 **(1)** • Gross investment in Tanzania increased **(1)** by 65.16% / 65.2% / $10.1 billion **(1)**	**(4)**

Section C

Question	Define the term 'net migration' (Extract A, line 13). **Answer**	Mark
12(a)	**Knowledge 2** • Immigration minus **(1)** emigration **(1)** • Difference between number of people entering the country and **(1)** the number of people leaving the country **(1)**	**(2)**

Question	Between May 2022 and April 2023 the central bank of Nigeria increased the country's base rate of interest by six percentage points. Draw an AD and LRAS diagram to show the effect of this increase in the base rate of interest on *consumption*, the price level and real output.	Mark
8	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn diagram with correctly labelled AD/LRAS curves showing the original equilibrium price level and real output **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the left **(1)** • Showing correct lower price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct real output **(1)** (not rewarded if 'quantity' is used on the axis)	**(4)**

Question	Between 2015 and 2023 the European Central Bank increased its asset purchases (quantitative easing) programme by approximately €3.5 trillion. With reference to the data, explain what is meant by quantitative easing.	Mark
11	**Knowledge 2, Application 2** **Quantitative skills Assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for defining quantitative easing, e.g.: • Central bank buys government bonds/gilts/securities/ corporate bonds **(1)** • Increases money supply / digital/virtual/electronic creation of money / increases cash deposits of commercial banks / injects more liquidity in financial markets **(1)** **Application** Up to 2 marks applying this to data, e.g.: • It is a reflationary/monetary policy instrument **(1)** • The European Central Bank increased its asset purchases (quantitative easing) programme by €3.5 trillion **(1)** • Reduces interest rate/borrowing costs/reward for saving **(1)** • This would result in greater consumption/investment/AD **(1)**	**(4)**

Question	With reference to the chart, explain the term 'quantitative easing'.	Mark
10	**Knowledge 2, Application 2** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining 'quantitative easing', e.g.: • Central bank buys government bonds/corporate bonds **(1)** from commercial banks/financial institutions **(1)** • Asset purchases by the central bank **(1)** to increase money supply/liquidity **(1)** • Electronically created money **(1)** to encourage lending/ borrowing in the economy **(1)** • It is an example of a *reflationary* monetary policy **(1)** **Application** Up to 2 marks for applying to the UK, e.g.: • Quantitative easing in the UK increased **(1)** from £200 billion in November 2009 to £895 billion in November 2020 / by £695 billion / by 347.5% **(1)**	**(4)**

Question	With reference to Extract A, analyse one macroeconomic effect of the reduction in indirect tax.	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** **Award 1 for understanding of indirect tax, e.g:** • A tax levied by the government on goods and services that can be passed onto the consumer OR • An expenditure tax OR • Examples VAT, excise duty or another relevant example **(1)** **Award 1 for one relevant macroeconomic effect identified, e.g:** • Reducing tax leads to a fall in prices **(1)** • Falling prices increases demand for domestic goods **(1)** • SRAS shifts to the right due to reduced cost of production **(1)** • Correct shift of SRAS on diagram **(1)** **Analysis** Up to 2 marks for explaining the macroeconomic effect of lower VAT, e.g.: • Reducing tax leads to a fall in prices- incomes have a greater purchasing power **(1)** increased consumption **(1)** • Falling prices increases demand for domestic goods**-** so output of firms increases **(1)** resulting in a reduction in unemployment **(1)** • Higher consumption due to lower prices **(1)** shift along the AD **(1)** • Use of a diagram to analyse the impact on real output and price level (1) **Application** Up to 2 marks for reference to the data. • VAT has fallen **(1)** from 24% to 20% **(1)**	**(6)**

Question	With reference to Extract A, analyse **two** roles of a central bank.	Mark
12(c)	**Knowledge 2, Application 2, Analysis 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** Up to 2 knowledge marks for identifying two roles of a central bank: • Implementation of monetary policy **(1)** • Achieving an inflation target **(1)** • As banker to the government **(1)** • As banker to the banks – lender of last resort **(1)** • Make forecasts about the future state of the economy **(1)** **Analysis** Up to 2 analysis marks for linked development of the two roles identified (1+1), e.g.: • A central bank sets base interest rates/makes asset purchases/sets lending criteria/ sets reserve asset requirements to influence AD **(1)** • Explanation of the transmission mechanism to achieve inflation target **(1)** • A central bank performs various banking services, such as the handling accounts of government departments/making short-term advances to the government **(1)** • If banks run into liquidity problems, they may be able to borrow directly from the central bank **(1)** • Make policy decisions to influence real output/employment **(1)** **Application** Up to 2 marks for use of the data or reference to context, e.g., • Forecast rate of inflation in 2022 is above the ECB's inflation target rate of 2% for the eurozone area **(1)** • ECB will need to increase the base rate of interest to control the rising rate of inflation **(1)** • Bundesbank estimated that Germany's real output was likely to fall in the last quarter of 2021 **(1)**	**(6)**

Question	With reference to Extract A, examine the impact of a deflationary fiscal policy on Brazil's circular flow of income.	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and analysis** 1 mark for understanding of circular flow of income, e.g. • Explanation of how money flows into and out of the economy (this may be shown diagrammatically) **(1K)** *OR* 1 knowledge mark for understanding of a policy and 1 analysis mark for linked development of each policy, e.g.: • Reduced government expenditure **(1K)** is likely to result in *lower* injections into Brazil's circular flow of income **(1AN)** • Increased taxes **(1K)** are likely to result in *greater* withdrawals from Brazil's circular flow of income **(1AN)** **Application** Up to 2 marks for reference to Extract A: • Increase in tax revenues by *R$190 billion* **(1)** • Reduction in government expenditure by *R$50 billion* **(1)**	**(6)**

Question Number	Answer	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge** Up to 2 marks for knowledge of base rate of interest e.g.: • Interbank lending rate **(1)** • Usually passed on by high street banks to consumers **(1)** • Interest rate is the return on saving/cost of borrowing **(1)** • Interest rate is a tool of monetary/demand-side policy **(1)** **Application and Analysis** Up to 2 marks for identification of the case for a reduction in interest rates and up to 2 marks for linked explanations e.g.: A cut in the base rate of interest is justified as: • Real wage growth fell between 2013 and 2018 **(1 Ap)** meaning wages have been rising more slowly than previously **(1 Ap)** a cut in interest rates should increase household borrowing **(1 An)** increasing consumption and AD to compensate for this **(1 An)** • China's economic growth has slowed **(1 Ap),** reducing the demand for Australia's commodity exports **(1 Ap)** reducing interest rates reduces firms' costs **(1 An)** maintaining investment and production levels in spite of this **(1 An)** • House prices have fallen **(1 Ap)** by 2.4% in Q1 2019 **(1 Ap)** leading to a negative wealth effect **(1 An)** which would lead to a fall in confidence and consumer spending **(1 An)** **NB Analysis marks are only awarded for explaining <u>the case for reduction in the base rate of interest</u> <u>in the context of the Australian economy</u>.** **Evaluation** Up to 2 marks for evaluative comments, e.g.: • Inflation is forecast to be within the target inflation **(1)** therefore the central bank does not need to intervene in the economy **(1)** • If interest rates fall by a small amount there may be little or no change in investment/spending **(1)** • If economic growth is low, business confidence will be low **(1)** businesses will not want to invest even if interest rate falls **(1)** • If there is a significant negative wealth effect, the reduction in consumer confidence would be high **(1)** a change in interest rates may not offset/will have limited impact in boosting consumption **(1)** • Households with significant savings will see a fall in the return on these, reducing their disposable income **(1)** so their consumption may not increase as expected **(1)**	**(8)**

Question	With reference to Extract A, examine how a reflationary fiscal policy will impact China's circular flow of income.	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and analysis** 1 knowledge mark for understanding of a policy and 1 analysis mark for linked development of each policy, e.g.: • Increased government spending **(1K)** is likely to result in greater injections into China's circular flow of income **(1AN)** • Reduced taxes for businesses **(1K)** is likely to result in a decrease in withdrawals from China's circular flow of income **(1AN)** • Increased investment by businesses **(1K)** is likely to result in greater injections into China's circular flow of income **(1AN)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Increased spending on infrastructure by $75 billion **(1)** • Providing 100% tax breaks on research and development spending **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of infrastructure spending/tax breaks is relatively large **(1)** so the impact on injections/withdrawals is likely to be very significant **(1)** • Impact on injections/withdrawals will also depend on the other injections/withdrawals **(1)** investment and exports/savings and imports **(1)** • Time lags associated with fiscal policy **(1)** indicate that the impact on net injections may only be felt in the long-run (18-24 months) **(1)**	**(8)**

Question	With reference to Figure 2 and Extract A, examine **two** ways by which the increase in the base interest rate could reduce the rate of inflation.	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **QS10:** Distinguish between changes in the level of a variable, and the rate of change **Knowledge and Analysis** Up to 2 marks for identifying two ways and up to 2 marks for linked explanations, e.g.: • Decrease in consumption/increase in saving **(1K)** as consumer confidence falls/the reward for saving increases **(1AN)** • Decrease in investment **(1K)** as the cost of borrowing for firms rises imply higher cost of production/more expensive to borrow money from banks **(1AN)** **Application** 1 mark for application to Extract A, e.g.: • Base interest rate increased from an all-time low of 2% in Jan 2021 to 13.25% in June 2022/significantly affected consumer spending and business investment, both of which are major contributors to economic growth **(1)** *AND* 1 mark for application to Figure 2, e.g.: • Between January 2021 and June 2022, Brazil's rate of inflation increased from 4.5% to 12% / by 7.5 percentage points / From June 2022 to January 2023 Brazil's rate of inflation fell from 12% to 5.9% / by 6.1 percentage points **(1)** **Evaluation** Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.: • 11.25 percentage points increase in the base interest rate is very significant/magnitude is large **(1)** and thus will have a *significant impact on reducing the rate of inflation* **(1)** • Time lags: monetary policy does not have immediate effect on behaviour **(1)** for example, people with fixed mortgage rates or traders who have fixed contracts – small impact on inflation **(1)** • Commercial banks may not pass on the increase in interest rate to consumers/firms **(1)** so ineffective in reducing inflation **(1)** • Increase in interest rate is unlikely to have an impact if consumer and business confidence is high **(1)** and therefore any downward multiplier effects may be small **(1)**	**(8)**

Question	Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption. Indicative content	
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (8) – indicative content** • Consumption is the total household expenditure in the economy • Identification of supply and demand side policies • Subsidies to businesses to lower prices • Reduce tax, such as income tax to increase disposable income leading to higher consumption • Further increasing government spending would increase consumer confidence, encouraging more consumption • Government spending on infrastructure may increase employment, increasing incomes and consumption • Government could stop cutting spending, and increase welfare payments. Those on a fixed income would be able to purchase more goods and services	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content • Consumer confidence may remain low due to high inflation • If interest rates don't change, consumers may choose to save their income • Increased government spending will further increase the government budget deficit • More demand will further increase inflationary pressure • Spending on infrastructure may only increase employment levels by a small amount • Magnitude of changes in tax/spending • Time lags of changing tax/spending	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	With reference to Extract A and your own knowledge, discuss the likely effects of the ECB's monetary policy on the French economy.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • The ECB's monetary policy involved keeping interest rates 'very low' at -0.5% and expanding 'the size of its asset purchase scheme (quantitative easing) by €600 billion in June 2020 and €500 billion in December 2020'. • A very low base interest rate should increase AD as it will: ○ increase consumption, as it will: ▪ incentivise spending on credit as the cost of borrowing is low ▪ disincentivise saving as the return on/reward for saving is low ▪ increase spending as consumers/firms with variable rate loans /mortgages see their monthly interest repayments fall, raising their discretionary income ○ increase investment, as the cost of borrowing to finance investment is very low ○ increase the net trade balance as it will put downward pressure on the euro exchange rate, meaning French exports become relatively cheaper, and imports into France become relatively more expensive • An expansion of the ECB's asset purchase scheme should: ○ increase money supply, making banks more able and willing to lend to consumers and firms ○ reduce the return investors get on French Government bonds, causing investors to hold other assets, such as shares, property and corporate bonds ○ increase the price of shares and property, creating positive wealth effects in the economy and increasing consumption ○ reduce the return investors get on French corporate bonds, lowering borrowing costs for French firms, leading to increased investment • Shifting outwards of the AD curve should create (may be shown diagrammatically): ○ actual economic growth in France, helping the economy to recover from recession ○ increased demand-pull inflationary pressures, helping to end the period of disinflation/avoid deflation ○ reduce unemployment in France as the level of spare capacity falls, indicating that more of the labour factor of production is being used

	NB To access Level 3, candidates should focus on low interest rate or the ECB's asset purchase scheme	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Consumption and investment may not rise if consumer and business confidence are low, as is likely given France was in recession • The very low central bank interest rate may not to be passed on to consumers by high street banks, meaning its effects are reduced • High street bank profitability may be reduced by the very low interest rate, making banks less willing to lend to consumers and firms • If France does a significant proportion of trade with other euro area economies, the trade balance may not improve, as there is no change in the exchange rate • Changes in monetary policy may be subject to a time lag before their full effects are felt • Those who most benefit from an increase in property and share prices are high income earners who have a relatively low MPC, implying any positive wealth effects may be very small • Significance of the size of the expansion of the asset purchase scheme (€600 billion represents an 80% increase)/by December 2020 QE was €1.85 trillion • We cannot assume *ceteris paribus*, e.g. French Government implemented expansionary fiscal policy	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Evaluate whether the exchange rate of a country's currency is the main factor influencing the country's balance of trade.
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of an exchange rate • Understanding of trade balance • Over a 10-year period, Cambodia's trade deficit has increased significantly • From 2009 to 2019 the value of Cambodia's currency significantly increased The exchange rate of a country's currency is a significant factor: • As the value of the country's currency increases, as Cambodia's did: ○ imported goods and services become cheaper to Cambodian residents. They are therefore likely to increase the quantity of imports bought, increasing the value of imports coming into the country ○ Cambodian exports of goods and services become more expensive to residents of other countries. They are therefore likely to decrease the quantity of exports bought, decreasing the value of exports leaving the country ○ as the value of imports rises, and the value of exports falls, Cambodia's trade balance worsens • Reference to Cambodia or another country, where a change in the exchange rate has influenced the trade balance. Other significant factors may be: • Real incomes in the country • The state of the global economy • The degree of protectionism • Non-price factors **NB Candidates have to analyse why exchange rate is a significant factor and discuss other factors which may influence trade balance as further analysis; then evaluate each of these.** **NB Award a maximum of Level 3 for answers with no application.**

Question	With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the ECB's monetary policy on the eurozone economy.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • The ECB's monetary policy involved keeping interest rates at -1% and expanding 'size of its quantitative easing programme' by '€500 billion'. • An expansion of the ECB's quantitative easing programme should: ○ inject liquidity into the financial system, making banks more willing to lend to consumers and firms: increasing consumption and investment ○ increase price of shares and property, creating positive wealth effects in the economy and increasing consumption; link to inequality ○ reduce the yield on domestic corporate bonds, lowering the borrowing costs for domestic firms, leading to increased investment • A very low/negative interest rate should increase AD as it will: ○ increase investment, as the cost of borrowing to finance investment falls/becomes negative reducing firms cost of production – there are currently "significantly lower levels of investment" ○ increase the net trade balance as it will put downward pressure on the euro exchange rate, meaning exports become relatively cheaper, and imports become relatively more expensive – "the euro traded at its highest level against the US dollar for more than two years" ○ increase consumption, as it will: ▪ incentivise spending as cost of borrowing falls ▪ disincentivise saving as the reward for saving falls ○ raise spending as consumers with variable rate loans/mortgages see monthly interest repayments fall, increasing discretionary incomes

	• AD shifts outwards leading to (may be shown diagrammatically): ○ actual economic growth in the eurozone, helping the economy to recover from recession – "The ECB forecast an economic growth rate of only 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023" / use of Figure 1 ○ increased demand-pull inflationary pressures, helping to end period of deflation – "The ECB also forecast that the rate of inflation in 2023 will increase"/use of Figure 2 ○ reduce "rising unemployment" as the level of spare capacity falls, indicating that more of the labour factor of production is being used

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Significance of the size of the quantitative easing programme (€500 billion) – there may not be enough assets to purchase as the ECB has reintroduced "additional round of quantitative easing" • Consumption and investment may not rise if both consumer and business confidence are low – there is "lack of business confidence" in the eurozone • Commercial banks may be risk averse and not lend as they lack confidence in the ability of firms and consumers to pay back loans/mortgages • The negative central bank interest rate is unlikely to be passed on to the consumers by high street banks, meaning its effects are reduced • Commercial bank profitability may be reduced by the negative interest rate, making banks less willing to lend to consumers and firms • Changes in the interest rate usually have an 18-to-24-month time lag before their full effects are filtered through the economy	

	• Those who most benefit from an increase in property and share prices are high income earners who have a relatively low MPC, implying any positive wealth effects may be very small • To help the economy recover from its very "weak state", there needs to be a combination of fiscal policy and monetary policy as interest rates are already "extremely low" and appear to be ineffective as a tool

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	With reference to Extract A and your own knowledge, discuss the likely effects of reflationary monetary policy on the New Zealand economy.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • New Zealand's central bank used reflationary monetary policy • Base interest rates reduced from 1% to 0.25% • In March 2020 introduced quantitative easing NZ$60 billion which was increased to NZ$100 billion in August 2020 • An expansion of the quantitative easing programme should: ○ inject liquidity into the financial system, making banks more willing to lend to consumers and firms: increasing consumption and investment ○ increase price of shares and property, creating positive wealth effects in the economy and increasing consumption ○ reduce the yield on domestic corporate bonds, lowering the borrowing costs for domestic firms, leading to increased investment • A reduction in the base interest rate should increase AD as it will: ○ increase consumption (e.g. grew by 14.8% in Quarter 3 of 2020) as it creates an incentive to spend. Also consumption increases as cost of borrowing falls and there is a disincentive to save as the return on saving falls ○ create wealth effects- lower interest rates will lower the cost of borrowing. Individuals will be more likely to borrow to purchase houses. This has contributed to the increase in house prices to a record level- NZ$788 967- an increase of 2.6%. Higher house prices bring about the wealth affects, increasing confidence and consumption ○ increase investment, as the cost of borrowing to finance investment falls reducing firms cost of production ○ increase the net trade balance as it will put downward pressure on the exchange rate, meaning exports become relatively cheaper, and imports become relatively more expensive

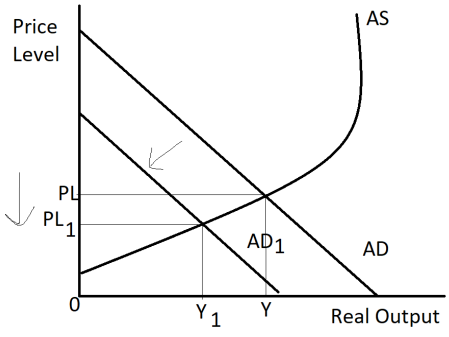
	○ increase spending as consumers with variable rate loans/mortgages see monthly interest repayments fall, increasing discretionary incomes • AD shifts outwards leading to (may be shown diagrammatically): ○ actual economic growth New Zealand, helping the economy to recover from recession -12.2% in Q2 to +14% in Q3 2020 ○ increased demand-pull inflationary pressure ○ a reduction in unemployment as more output means more people are employed

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Significance of the size of the quantitative easing programme- NZ$60 billion in March 2020 to NZ$100 billion in August 2020 • Consumption and investment may not rise if both consumer and business confidence are low given rapid decrease in output in Q2 2020 • Commercial banks may be risk averse and not lend as they lack confidence in the ability of firms and consumers to pay back loans/mortgages	

	• The interest rates were already very low at 1%, so the reduction to 0.25% may have little impact • Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through the economy • Some of the improvements in economic growth may relate to the fiscal policy stimulus and the fact the economy was able to reopen • The 14.8% increase in household consumption suggests a significant impact • Average house prices reaching a record level suggests that there may be a significant wealth effect • The effect of reflationary monetary policy may be countered by lost exports from reduced tourism/increased imports

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question	Evaluate possible causes of deflation. Illustrate your answer with an appropriate diagram
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of deflation- a decrease in the general/average price level • Deflation in Japan -0.6% in 2020 compared to 2019 Potential causes include: • Reduced household consumption, as savings ratio increased from 33% to 44% • With lower consumption, AD will decrease • With increased imports, AD will decrease • With lower investment, AD will decrease • Contractionary fiscal and monetary policy will reduce AD • Expectations of deflation mean customers may put off purchases to see of the price drops • Relevant diagram, e.g. AD/AS diagram showing leftward shift in AD • Contraction along AS and lead to price level falling  • Falling world price of oil contributed to deflation • As commodity prices fall SRAS shifts right as costs of production fall • Relevant diagram, e.g. AD/AS diagram showing rightward shift in SRAS • Extension along AD and leads to price level falling • Costs of other raw materials and energy falling

Question	With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Identification that interest rates are a monetary policy instrument • India's central bank raised the base rate of interest from 4.4% in May 2022 to 4.9% in June 2022 – "an increase of 0.5 percentage points" • An increase in the base rate of interest may decrease AD as it will: ○ decrease consumption as it creates a disincentive to spend; consumption decreases as cost of borrowing rises and there is an incentive to save as the return on saving increases – "consumer expenditure would increase at a slower rate in the second half of 2022" ○ create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses – this will contribute to a decrease in house prices, reducing confidence and consumption ○ reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing their discretionary incomes – "small increase in consumer expenditure in the second half of 2022" ○ lower consumption could decrease imports, improving the trade balance ○ decrease the net trade balance as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper, and exports become relatively expensive – India's central bank wanted "to prevent the rupee from falling further" against the US dollar ○ decrease investment, as the cost of borrowing to finance investment rises increasing firms cost of production • AD shifts inwards leading to (may be shown diagrammatically): ○ fall in India's economic growth as real output falls: "ADB decreased its projected GDP growth rate for India to 6.7% for 2022" ○ lower demand-pull inflation as price level falls: it will help "to control the rising rate of inflation" which "reached 7.01% in June 2022" ○ rise in unemployment as lower real output means less workers employed **NB Accept negative effects as KAA and positive effects as evaluation (or vice versa)**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Significance of the size of the increase in the base rate of interest – 0.5 percentage points increase may not be enough as inflation is above 7% • Changes in the base rate of interest usually have an 18 to 24 month time lag before their full effects are filtered through the economy • Consumption and investment may not fall if both consumer and business confidence is relatively high • Commercial banks may not pass the higher rates to consumers or firms, thereby less likely to reduce consumption and investment • Impact on real output will depend on the size and value of the multiplier • Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in the economy • It is unlikely that changes in the base rate of interest by the central bank will be able to control cost-push inflation caused by rising oil prices	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	With reference to the information provided and your own knowledge, discuss the likely effects of a reflationary monetary policy on the economy of China.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Understanding of reflationary monetary policy • The PBoC decreased the base rate of interest from 3.7% to 3.65% in August 2022 – a decrease of 0.05 percentage points • A decrease in the base interest rate should increase AD as it will: ○ increase consumption as it creates an incentive to spend; also consumption increases as cost of borrowing falls and there is a disincentive to save as the return on saving falls ○ create positive wealth effects: lower interest rates will reduce cost of borrowing, so individuals will be more likely to borrow to purchase houses - this will contribute to an increase in house prices, raising confidence and consumption ○ increase spending as consumers with variable rate loans/mortgages see interest repayments decrease, increasing discretionary incomes ○ increase the net trade balance as it will put a downward pressure on the exchange rate, meaning exports become relatively cheaper, and imports become relatively expensive – China's "exports rising more slowly" so the "fall in the external value of the Chinese currency, the Renminbi" will help improve the current account position ○ increase investment, as the cost of borrowing to finance investment decreases, reducing firms cost of production • "A reduction in reserve asset (liquidity) requirements" will increase money supply: more lending by commercial banks could increase consumption and investment as there would be greater access to credit • AD shifts outwards leading to (may be shown diagrammatically): ○ An increase in China's economic growth as the real output rises: "the country's economic growth forecast for 2022 was reduced from 5.5% to 4.3%." so reflationary policy will increase the economic growth rate ○ higher demand-pull inflationary pressure as average price level rises ○ fall in unemployment as more output means larger numbers of people are employed – could reduce youth unemployment (use of Figure 2)

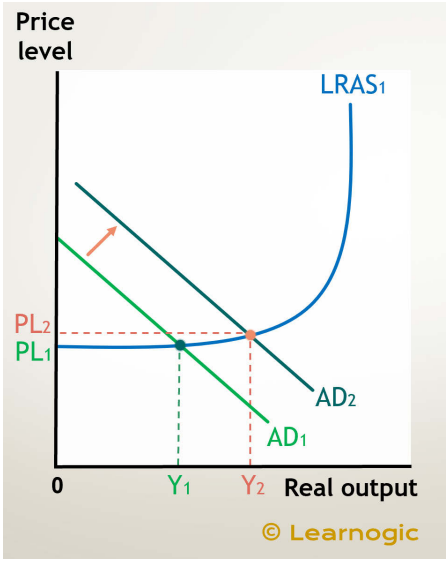
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 3	7–8	Demonstrates an accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Significance of the size of the fall in interest rate: another 0.05 percentage points decrease may not be enough to stimulate economic growth • Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through the economy • Consumption and investment may not rise if both consumer and business confidence is relatively low • Commercial banks may not pass the lower rates to consumers or businesses, thereby less likely to increase consumption and investment • Impact on real output will depend on the size and value of the multiplier • Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in the economy • The PBoC may have to reverse its policy decision if the economy begins to experience cost-push inflation – several advanced economies implemented deflationary monetary policy • Fiscal policy/supply-side policies may be more effective in stimulating the rate of China's economic growth	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	With reference to the information provided and your own knowledge, discuss factors that the BoJ might consider when setting the base interest rate.	
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** Use of Figure 1: e.g. identifying negative interest rates of -0.1% since 2016 • "To achieve the inflation target of 2% an increase in the base interest rate would be necessary / would no longer be a case for maintaining a low base interest rate, that was introduced at a time when the rate of inflation was below the inflation target" Factors that the BOJ would consider include: • Economic growth/recession/output gap/spare capacity: "This increase in Japan's real Gross Domestic Product (GDP) was double the original forecast" – ensure that AD would grow in line with productive potential • Forecast rates of inflation/inflationary expectations: "They stated that even the Government of Japan expected the annual rate of inflation to be 2.6% in 2023 against the BoJ's forecast of 1.8%." – determine if inflation is temporary or permanent • Net trade balance: exports rose by 3.2% in Q2 2023 / Japan's imports decreased by 4.3% • Consumption: "fall in domestic consumption, following the global health crisis, remained a concern" /level of savings • Exchange rate: "country's weak exchange rate" – may encourage BoJ to raise the base rate of interest to prevent a further fall in exchange rate • Commodity prices: "increase in the price of raw materials and energy" – cost-push inflation will need to be controlled by the BoJ • Level of confidence in the economy: business and consumer confidence "It also created greater uncertainty that had an impact on business investment." – can indicate turning points in the business cycle • Wage growth: "Upward pressure on prices caused workers to demand higher wages" – this could impact future inflation and influence BoJ's decision • Performance of other countries: "probability of a global recession, seen as a significant risk to Japan's economy"	
Level	**Mark**	**Descriptor**
	0	No rewardable material.

Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 3	7–8	Demonstrates an accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Prioritisation of the relative significance of each factor • Combination of factors is likely to be considered by BoJ • Inaccuracies or inadequacies of data may mean that Japan's economic growth may not have been correctly forecasted • Reliability of data/uncertainty of forecasting: many statistics are often revised later, such as real GDP/consumption/investment • Difficulty in estimating the size of output gap/spare capacity in the economy • Lagged effects of many influences on the rate of inflation e.g. net trade • Commodity prices are very volatile: an increase in price might be temporary – therefore, problem of using the current inflation rate to guide monetary policy decisions • Potential for economic shocks changing the global economic landscape considerably, leading to higher uncertainty in the world economy • Lagged effect of monetary policy: could take 18 to 24 months • Interest rate increases might be ineffective in dealing with cost-push inflation	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the increase in the base rate of interest on the US economy.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Definition/understanding of base rate of interest • Identification that interest rates are a monetary policy instrument • "the country's base rate of interest increasing from 0.25% in March 2022 to a record high of 5.5% in July 2023" Effects include: • Decrease in consumption (C) as it creates a disincentive to spend; also consumption decreases as cost of borrowing rises and there is a greater incentive to save in the USA as the return on saving increases – it will disincentivise consumers to use "credit cards to finance their spending" • Create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses - this will contribute to a decrease in house prices, reducing confidence and consumption in the USA • Reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing discretionary incomes – the US "consumers would find it difficult to pay interest on their mortgages, car loans and credit cards" • Decrease in investment (I), as the cost of borrowing to finance investment rises increasing firms' cost of production in the USA • Decrease in the net trade balance (X-M) as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper (greater demand), and exports become relatively expensive (lower demand) • AD shifts inwards leading to (may be shown diagrammatically): ○ fall in USA's economic growth as real output falls ○ lower demand-pull inflationary pressure as price level falls – reference to Figure 1 and Extract A: "rate of inflation will return to the inflation target of 2% in 2024" ○ rise in unemployment as lower real output means fewer workers are likely to be employed in the USA: "unemployment would average 4% in 2024" ○ negative multiplier effects: further reduction in real output

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 3	7–8	Demonstrates an accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Significance of the size of the increase in the base rate of interest: 5.25 pp is a relatively large increase in just over a year and may have the desired effect on the US economy/rate of inflation • Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through the US economy • Consumption and investment may not fall if both consumer and business confidence is relatively high in the USA – there was "High consumer spending on services, such as hotels and travel" • If firms finance investment via retained profit, investment may not fall • Banks in the USA may not pass the higher rates to firms or consumers, thereby they are less likely to reduce consumption and investment • Impact on real output will depend on the size and value of the multiplier • Impact depends on the elasticity of the LRAS/the level of spare capacity • It is unlikely that changes in the interest rate by the Fed will be able to control cost-push inflation e.g. caused by rising energy and food prices • Impact may be limited if the central banks of other countries have also increased their base interest rates	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the impact of reflationary demand-side policies on an economy of your choice. **Indicative content**
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** Award maximum of Level 3 (9 marks) if candidate does not refer to a country/context in their answer • Demand side policies are the use of monetary of fiscal policy aimed at increasing aggregate demand • Reflationary policies are aimed at increasing the price level in the economy • Lowering income tax increases disposable incomes, leading to increased consumption and price levels • Fiscal policy, through the use of government spending, increases expenditure in the economy to stimulate growth and create jobs, possible multiplier increasing AD • Reflationary Demand-side policies can cause inflationary pressure; this may reduce competitiveness of the country's exports • Could lead to a deterioration in the current account because higher disposable incomes would lead to an increase in demand for imports • Increased government expenditure and investment may lead to a multiplier effect, further increasing AD and inflation • Lower interest rates reduce the cost of borrowing increasing may cause an increase consumption so increasing AD Reward diagrams showing an outward shift in AD and increase in real GDP 

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Consumers may only respond to fiscal changes if confidence is high • This may not be effective in times of recession, as consumers worry about job security • Impact on GDP depends on the marginal propensity to withdraw • If future expectations are low, the impact may be limited • Government spending may crowd out private investment, having limited positive effect on overall economic growth • Trade-off between increased economic growth and excessive inflationary pressures • Inflationary pressure will be determined by the position of the AD curve on the LRAS curve/shape of LRAS • Demand-side policies may have supply-side consequences • Magnitude depends on the size of any demand-side policy • Significant time lags associated with demand side policy- before tax changes or government spending changes occur or for transmission mechanism to work • Classical view in long run is that it is inflationary only, Keynesian view is that if the economy will expand and wages will adjust	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

	• As can be seen the increase in AD leads to an increase in real output from Y to Y_1 • With higher real output employment would increases/unemployment decrease • If private sector investment is encouraged then further increases in economic growth could occur due to the multiplier effect (may be shown diagrammatically with further rightwards shift of AD and a shift in LRAS) **NB: Award a maximum of Level 3 (9 marks) if only one fiscal policy instrument is considered**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Fiscal policy may lead to an increase in average price level increasing from P to P_1-inflationary pressure • May create a fiscal deficit- adding to repayments in future • Many adjustments to tax and government expenditure may have effects on the supply-side • Supply-side policy may be more effective as does not come with the trade-off with inflationary pressure • Monetary policy may be more effective – and is the primary responsibility of ECB, rather than advising national governments in areas which are not its responsibility • The shape of the LRAS curve is important- if it is classical in shape the increase in AD will just cause inflationary pressure with no economic growth in the long run • Depends on the position of AD on a Keynesian AS curve- on the horizontal section economic growth will be higher and on the vertical section will cause more inflationary pressure • People may substitute from work to leisure as their disposable income increases • Government spending generates an opportunity cost- money might be better spent elsewhere • Coordination issues across the member states • Magnitude- depends on the size of reduction in taxation/ increase in government spending • Time lag- may take time for tax cuts to take effect and for consumers to realise their disposable income is now higher • Time lag – government expenditure can be slow due to delays in setting contracts etc • If there is an increase in government expenditure on investment then there will be an increase in LRAS as well as in AD • Impacts on potential growth as fiscal policy may boost LRAS dependent on what government spends money on or where they reduce taxation

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	In quarter 1 2019 the unemployment rate in South Africa was 27.6%. In quarter 2 it increased to 29%. An additional 455 000 workers became unemployed. Evaluate the likely impact of an increase in the unemployment rate on workers, public finances and resource utilisation. Indicative content
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Unemployment- those willing and able to work but unable to find suitable employment • Unemployment has increased from 27.6% to 29%/increase of 1.4% Workers • Workers may fear losing their job and may increase savings, thus reducing consumption, aggregate demand and subsequently leading to a fall in real output and a fall in the price level • Workers may take jobs that are below their skill levels leading to underemployment • Workers who lose their jobs may spend a long time unemployed and become deskilled – they will be less employable and less attractive to employers • Workers who lose their job will see a reduction in earnings/living standards/ability to meet their basic needs • Social effects of unemployment – divorce, crime rate, health impacts • Long term effects of intergenerational unemployment Public finances • As more become unemployed they may qualify for unemployment benefits, this will cause an increase in government spending • As people move from employment to unemployment, they may move from being income taxpayers to non-income taxpayers reducing income tax revenue • Higher unemployment suggests lower output, thus lower profits for private firms and lower corporation tax revenue for government • With lower tax revenue and higher government expenditure the fiscal position will worsen. • Government may need to provide training to workers, or support to private firms - once again increasing spending and worsening fiscal position

Section D

Question	Evaluate the likely macroeconomic effects of an increase in interest rates on a country of your choice.
13	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (12 marks) – indicative content** • Definition/understanding of interest rate • Identification that interest rates are a monetary policy instrument • Deflationary policy Effects include: • Decrease in consumption (C) as it creates a disincentive to spend; also consumption decreases as cost of borrowing rises and there is a greater incentive to save in South Korea as the return on saving increases • Create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses - this will contribute to a decrease in house prices, reducing confidence and consumption in South Korea • Reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing discretionary incomes • Decrease in investment (I), as the cost of borrowing to finance investment rises increasing firms' cost of production in South Korea • Decrease in the net trade balance (X-M) as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper (greater demand), and exports become relatively expensive (lower demand) • AD shifts inwards leading to (may be shown diagrammatically): ○ fall in South Korea's economic growth as real output falls ○ lower demand-pull inflationary pressure as price level falls ○ rise in unemployment as lower real output means less workers are likely to be employed in South Korea ○ negative multiplier effects: further reduction in real output **NB Award a maximum of Level 3 for answers with no reference to a country in their answer** **NB Negative effects can be discussed as KAA and positive effects can be discussed as EV (or vice versa)**
Level	**Mark** | **Descriptor**

	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Significance of the size of the increase in the base rate of interest: 2.25 pp is a relatively large increase in one year and may have the desired impact on the economy of South Korea • Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through South Korea's economy • Consumption and investment may not fall if both consumer and business confidence is relatively high in South Korea • Commercial banks in South Korea may not pass the higher rates to firms or consumers, thereby less likely to reduce consumption and investment • Impact on real output will depend on the size and value of the multiplier • Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in South Korea's economy • It is unlikely that changes in the interest rate by the central bank will be able to control cost-push inflation e.g. caused by rising energy prices • Impact may be limited if the central banks of other countries have also increased their base interest rates	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the likely macroeconomic effects of a government using deflationary policies to achieve a balanced budget. Refer to a country of your choice in your answer.	
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of balanced government budget • "In February 2023 Argentina's government spending exceeded its tax revenue by approximately $1 billion" • To achieve a balanced budget, the Argentinian Government is likely to reduce government spending and increase taxation Possible effects include: • Reduction in Argentina's real output/economic growth as a result of the lower injections into, and greater withdrawals from, the country's circular flow of income • Rising unemployment/falling real wages of workers in Argentina's public sector: the government may introduce spending cuts • Fall/slow increase in real incomes and lower standard of living of the population of Argentina • Deflationary effects/lower demand-pull inflationary pressures • Increase in income inequality if Argentina's government cuts welfare payments: it receives lower taxation revenue from the unemployed • Lack of government investment is likely to impact long-term economic growth e.g. spending on infrastructure, education, healthcare, etc • Positive impact on the environment e.g. less pollution as a result of the lower consumption and production of goods and services • Greater undesirable consequences in Argentina's society e.g. crime Credit use of relevant AD/AS diagrams **NB Candidates may consider the positive effects for KAA and the negative effects for evaluation (or vice versa)**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context.

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

- Impact on macroeconomic objectives depends on the magnitude of the reduction in government spending and the increase in taxation
- Time lags for the policy to come into effect – up to 18 to 24 months
- Budget deficit may increase in the long-run as a result of the reduction in government spending and increase in taxation
- Impact on real output and economic growth depends on the size/value of the multiplier
- Fall in wages can make Argentinian economy more competitive in LR
- Impact on inflation/real output depends on where the AD lies on the Keynesian LRAS / on the level of spare capacity
- Reduction in welfare payments by the government could reduce the level of frictional/voluntary unemployment
- Effects depend on to what extent private sector spending/employment can replace public sector spending/employment
- Potential increase in hidden economy (e.g. rise in cash in hand work)
- Effects would depend on what areas of government spending and/or taxation are changed

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.