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OCR A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Aggregate Demand and Aggregate Supply

OCR A-level Economics H460 — Topic MACRO 1

15 questions · 122 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions run from the lowest mark tariff to the highest, so similar questions sit together.

Click any row below to jump straight to that question.

On every question page, click the header (top right) to jump to its mark scheme, and click again to jump back.

Mark schemes are collected together at the end of this booklet, cropped from the genuine OCR mark-scheme grid.

15 questions · 122 marks · lowest tariff first

	QUESTION	SOURCE	MARKS	PAGE
1.	Section A (MCQ), Q10	H460/03 Themes in Economics · June 2022	1 mark	5
2.	Section A (MCQ), Q20	H460/03 Themes in Economics · June 2023	1 mark	6
3.	Section A (MCQ), Q16	H460/03 Themes in Economics · May 2024	1 mark	7
4.	Section A (MCQ), Q19	H460/03 Themes in Economics · May 2024	1 mark	8
5.	Section A (MCQ), Q18	H460/03 Themes in Economics · October 2020	1 mark	9
6.	Section A (MCQ), Q21	H460/03 Themes in Economics · October 2020	1 mark	10
7.	Section A (MCQ), Q25	H460/03 Themes in Economics · October 2021	1 mark	11
8.	Section A, Q1(c)(i)	H460/02 Macroeconomics · May 2019	2 marks	13
9.	Section A, Q1(a)	H460/02 Macroeconomics · May 2024	2 marks	16
10.	Section B, Q36	H460/03 Themes in Economics · October 2021	3 marks	20
11.	Section A, Q1(e)	H460/02 Macroeconomics · June 2023	8 marks	23
12.	Section B (Essay), Q2*	H460/02 Macroeconomics · May 2019	25 marks	29
13.	Section B (Essay), Q2*	H460/02 Macroeconomics · October 2020	25 marks	34
14.	Section C (Essay), Q4*	H460/02 Macroeconomics · October 2020	25 marks	39
15.	Section B (Essay), Q2*	H460/02 Macroeconomics · October 2021	25 marks	44

QUESTIONS

15 questions · 122 marks · lowest tariff first



1-MARK QUESTION

7 questions in this booklet



6

- 10 If the marginal rate of taxation is 0.34, the marginal propensity to import is 0.18 and the multiplier is 1.42, what is the marginal propensity to save?

- A 0.18
- B 0.30
- C 0.48
- D 0.90

Your answer

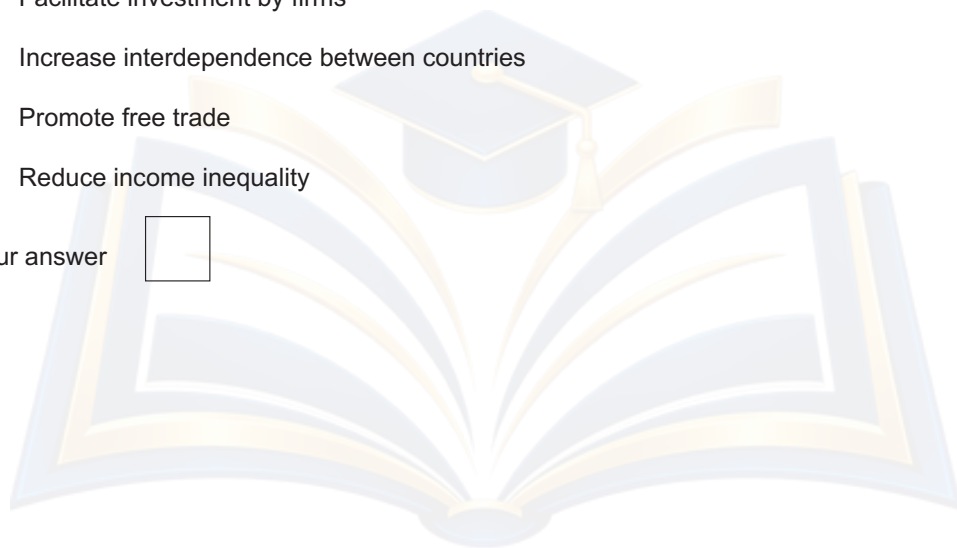
[1]

- 11 What is one of the key roles of the financial sector?

- A Facilitate investment by firms
- B Increase interdependence between countries
- C Promote free trade
- D Reduce income inequality

Your answer

[1]



11

- 19 A firm is deciding whether or not to increase output by one unit.

What is this an example of?

- A Economies of scale
- B Opportunity cost
- C Profit maximisation
- D The marginal principle

Your answer

☐

[1]

- 20 What is most likely to cause a decrease in the size of the national income multiplier?

- A A decrease in the top rate of income tax
- B A decrease in interest rates
- C An increase in consumer and business confidence
- D An increase in the value of the domestic currency

Your answer

☐

[1]

9

- 16 Income tax is imposed in a country using the tax bands below.

Income (\$)	Tax Rate (%)
0–15,000	10
15,001–50,000	10
Over 50,000	10

Which type of taxation is this?

- A Indirect
- B Progressive
- C Proportional
- D Regressive

Your answer

[1]

- 17 In a society where there is a perfectly unequal distribution of income, one person has all of the income and every other person has zero income.

What would be the value of the Gini Coefficient?

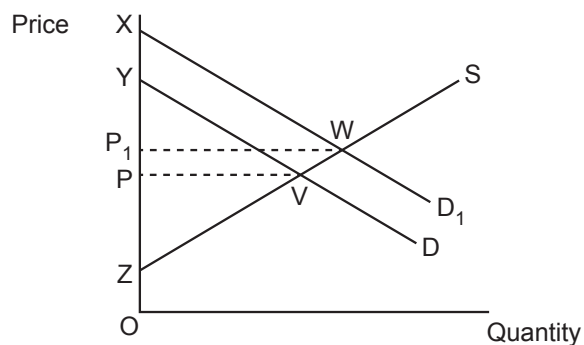
- A -1
- B 0
- C 1
- D Infinity

Your answer

[1]

10

18 In the diagram the demand for the good shifts from D to D_1 .



What area represents the change in the producer surplus?

- A P V Z
- B P V W P_1
- C P_1 W X
- D P_1 W Z

Your answer

[1]

19 Which of these is a leakage from the circular flow of income?

- A Exports
- B Imports
- C Investment
- D Wage

Your answer

[1]

9

18 Use the information below to calculate the size of the national income multiplier.

Gini coefficient	0.71
Marginal Propensity to Import	0.11
Marginal Propensity to Save	0.23
Marginal Rate of Taxation	0.17
PED for exports and imports	0.42

- A 0.51
- B 1.64
- C 1.96
- D 2.94

Your answer

[1]

19 What is likely to be required in an economy where money does not exist?

- A A barter system
- B A central bank
- C Price controls
- D Protectionism

Your answer

[1]

20 How does comparative advantage explain why the UK imports cars from Germany?

- A German car manufacturers can export tariff free to the UK
- B Germany can produce cars at a lower opportunity cost than the UK
- C Germany can produce cars more efficiently at a lower cost of production than the UK
- D Germany is located closer to the UK than US car manufacturers

Your answer

[1]

10

21 When will supply side policy be ineffective?

- A The marginal propensity to save is high
- B The real interest rate is close to zero
- C There is a large negative output gap
- D There is significant demand-pull inflation

Your answer

[1]

22 Using the table below, what has happened to the three firm market concentration ratio in the global mobile telephone market between 2010 and 2019?

Firm	2010 Market Share (%)	2019 Market Share (%)
Apple	33.2	24.8
Huawei	0	10.6
Nokia	37.6	0.4
Others	18.8	32.9
Samsung	2.4	31.3

- A Decreased by 0.6%
- B Decreased by 6.1%
- C Decreased by 6.5%
- D Decreased by 16.7%

Your answer

[1]

13

25 The table below shows the income tax brackets in France in 2020:

Taxable Income	Tax Rate
€0 – €10 064	0%
€10 065 – €27 794	14%
€27 795 – €74 517	30%
€74 518 – €157 806	41%
Over €157 807	45%

What is the average tax rate for an individual who earns €110 000?

- A 28.2%
- B 30.0%
- C 32.1%
- D 40.0%

Your answer

[1]

26 What is the problem caused by scarcity?

- A Allocative inefficiency will occur
- B Individuals have to make choices
- C Productivity falls as a result of boredom from repetition
- D There will be a missing market as no one is willing to pay for the good

Your answer

[1]

27 What does the kinked demand curve in the oligopoly model show?

- A A firm's revenue will decrease if it increases or decreases its price
- B A firm's revenue will increase if it decreases its price
- C A firm's revenue will increase if it increases its price
- D A firm's revenue will remain constant if it increases its price

Your answer

[1]

2-MARK QUESTIONS

2 questions in this booklet



2

SECTION A

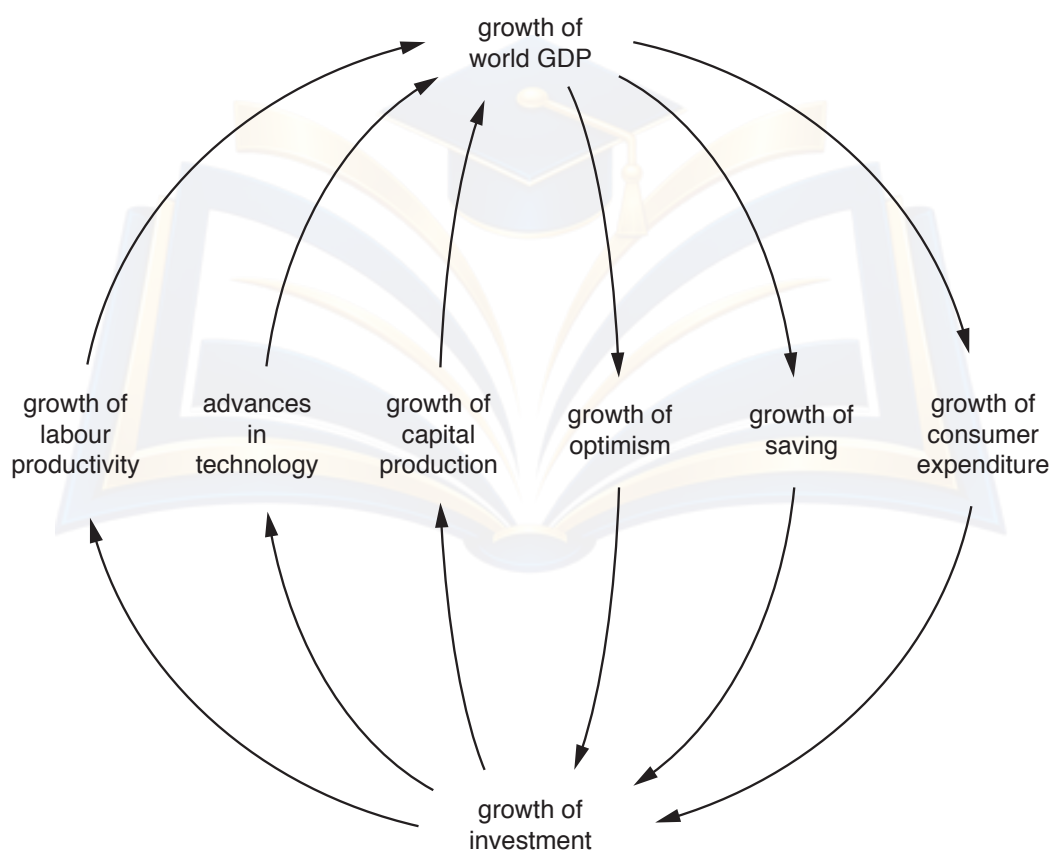
Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

Trade wars threaten globalisation

Trade wars were threatening the process of globalisation in 2018 and were restricting the ability of countries to exploit their comparative advantage and their absolute advantage. In the years before, advances in production and communication technology had lowered production and transport costs, had increased the ability of firms to move production around the world and increased the size of firms' markets.

World trade increased by 3.2% in 2017. This contributed to a growth in world GDP. Higher GDP can result in a virtuous circle as shown in Fig. 1.

Figure 1 A virtuous circle



While the benefits of globalisation are widespread, the costs are often concentrated in particular areas and among those unskilled workers who are geographically and occupationally immobile. One of the reasons why the US government imposed tariffs on steel imported from China was to protect the jobs of US steel workers.

Some economists are also concerned that globalisation can result in governments engaging in tax competition to keep firms and skilled workers in the country and to attract foreign MNCs and

3

foreign skilled workers into the country. Table 1 shows government tax revenue and expenditure
15 for selected countries in 2017.

Table 1 Government tax revenue and government expenditure 2017

Country	Government tax revenue (US\$ billion)	Government tax revenue as a % of GDP	Government expenditure (US\$ billion)
China	2672	22.4	3146
Germany	1598	43.8	1573
India	249	10.2	330
Ireland	85	26.2	87
Russia	254	17.3	288
UK	984	38.4	1076
USA	3336	22.0	3991

International competition may, on the other hand, encourage governments to spend more on education, training and health care to increase productivity and so attract foreign direct investment. Table 2 shows the corporate tax rates and the foreign direct investment attracted by the same selected countries.

Table 2 Corporate tax rates and foreign direct investment 2017

Country	Average corporate tax rate (%)	Foreign direct investment per head (US\$)
China	25.0	1098
Germany	29.8	17 963
India	34.6	287
Ireland	12.5	295 400
Russia	20.0	3378
UK	19.0	30 852
USA	40.0	12 489

- 20 The UK economy is more affected by changes in the global economy than the USA. This is because it is a more open economy. The UK has a relatively high marginal propensity to import. Between 2016 and 2017, average UK household income rose from £26 300 to £27 400 while average household spending on imports rose from £4950 to £5280.

- The growth of the emerging economies, including China and India, is having an impact on the UK.
25 For instance, Chinese steel firms have captured some of the UK's steel industry's market at home and abroad. Indian MNCs produced more than £26 billion of goods and services in the UK in 2016 and employed more than 100 000 workers in the UK.

4

- 1 (a) Distinguish between absolute advantage and comparative advantage.

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..... [2]

- (b) Explain how Fig. 1. illustrates the Harrod-Domar model.

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..... [2]

- (c) (i) Using Table 1, explain which country's government made a negative contribution to the country's aggregate demand.

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..... [2]

- (ii) Using Table 1, calculate Russia's GDP in 2017.

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..... [2]

2

Section A

Read the stimulus material and answer **all** the parts of Question 1.

Changing economic conditions in Kenya

At the start of the 2010s, Kenya experienced high and unstable inflation. The inflation rate peaked at 14.2% in 2011. This rapid rise in the price level reduced the amount of goods and services that Kenyans' households disposable income could buy. It also reduced the international competitiveness of the country's products, decreasing net exports.

At the end of the 2010s, Kenya's inflation rate was lower and more stable. It was 5.2% in 2019 and 5.4% in 2020. The country's relative export prices had also fallen. In 2019, Kenya's export price index was 146.2 and its import price index was 215.0.

5

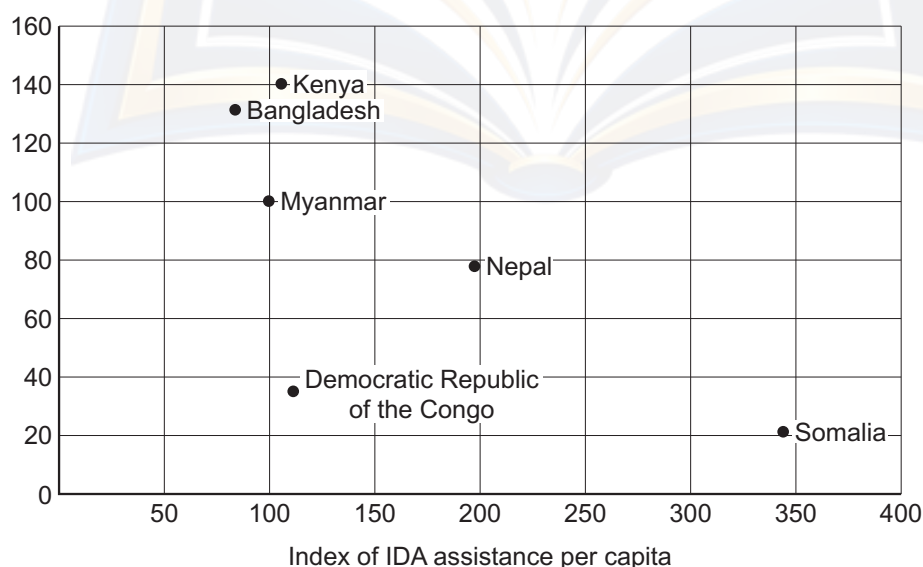
Kenya's economic growth rate and its government's attempts to raise the living standards of its citizens have been restricted by poor infrastructure. The country has received financial assistance from the International Development Association (IDA). This part of the World Bank is the world's largest multilateral source of concessionary financing for low- and lower middle-income countries. It provides development loans, grants and guarantees to these countries to help them increase their economic growth and development. In 2020, the IDA lent \$306 billion to 76 countries Fig. 1 shows the IDA assistance per capita received by six of those countries and their GDP per capita in 2020 expressed in terms of index figures.

10

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Fig. 1
Index figures for the IDA assistance per capita and GDP per capita 2020

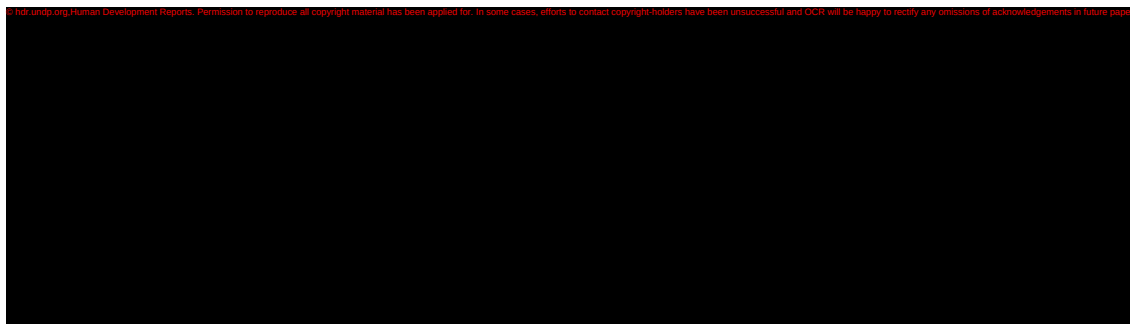
Index of GDP
per capita



3

The Kenyan government has raised its spending on education in recent years. Education can have an impact on life expectancy. Table 1 shows mean years of schooling and life expectancy in the six countries shown in Fig. 1.

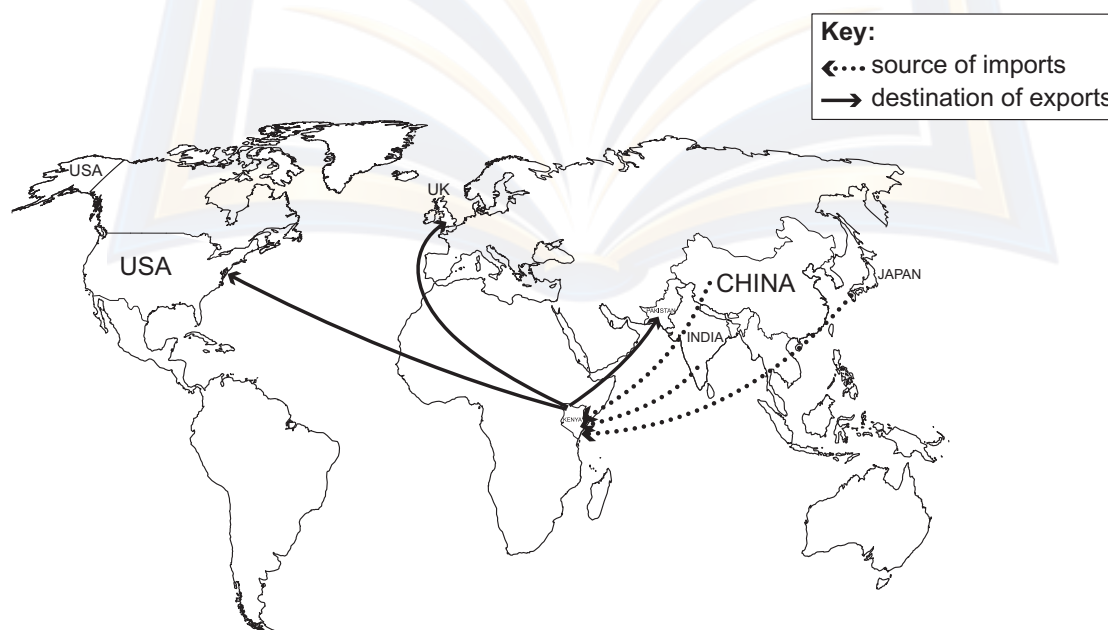
Table 1
Mean years of schooling and life expectancy 2019



As well as increases in spending on education, the Kenyan government has spent more on health care, infrastructure projects and subsidies given to farmers and tourist firms. It is expected that this increase in government spending will affect Kenya's international trade position. However, it is uncertain whether it will reduce or increase Kenya's government budget deficit.

Kenya's main exports include tea and cut flowers. Fig. 2 shows Kenya's main trading partners.

Fig. 2
Kenya's main trading partners 2020



Kenyans are affected by opportunities and challenges created by globalisation. In recent years, the prices of some products bought by Kenyans have fallen and their quality has increased. The gap between the pay of skilled and unskilled workers in the country has widened. Unemployment is high in the country although some Kenyans have gained employment in foreign multinational companies operating in Kenya.

4

1

- (a) Using information from the stimulus material, identify **two** components of Kenya's aggregate demand.

Component 1

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Component 2

.....

[2]

- (b) Using information from the stimulus material, calculate to one decimal place Kenya's terms of trade in 2019.

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..... [1]

- (c) Explain if the relationship in **Fig. 1** between IDA assistance per capita and GDP per capita is the expected one.

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..... [3]

3-MARK QUESTIONS

1 question in this booklet



18

Extract 3 – Emerging economies and international trade

Whilst much of the developed world grapples with the challenge of trying to reduce people's food intake to improve their health, it remains the case that in many of the world's least developed countries (LDCs), millions of citizens suffer from malnourishment as a result of living in absolute poverty. High and sustained rates of economic growth are considered essential in overcoming this problem, with the diet of individuals living in emerging economies noticeably improving as a result of the rapid economic growth they have seen in recent years. Fig. 3.1 illustrates how GDP and population size has changed in selected countries over the past 20 years.

5

Country	GDP (USD, billions at 2010 prices)		Population (millions)	
	2000	2019	2000	2019
Brazil	1538	2347	175	211
China	2232	11 537	1262	1398
Germany	3118	3959	82.2	83.1
Japan	5348	6210	127	126
US	12 620	18 318	282	328

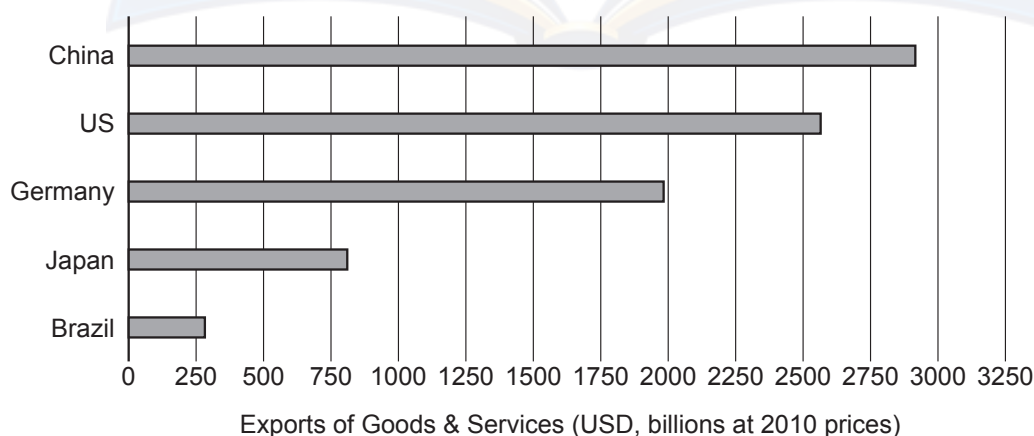
10

15

Fig. 3.1 – GDP and Population of selected countries 2000–19

Brazil's high rate of economic growth is often credited to the way it has embraced export-led growth, having liberalised its trade policy in the early 1990s. It is one of the world's largest producers of soybeans and exports soy across the globe. This expansion in exports has contributed to Brazilians enjoying higher levels of income and a reduction in poverty. Indeed, it is often argued that it is emerging economies such as Brazil with plentiful natural resources and China with an abundant labour supply that have benefited most from international trade, whilst a number of developed nations, such as the UK, suffer from persistent current account deficits. Fig. 3.2 details the value of exports in the same countries listed in Fig. 3.1.

20

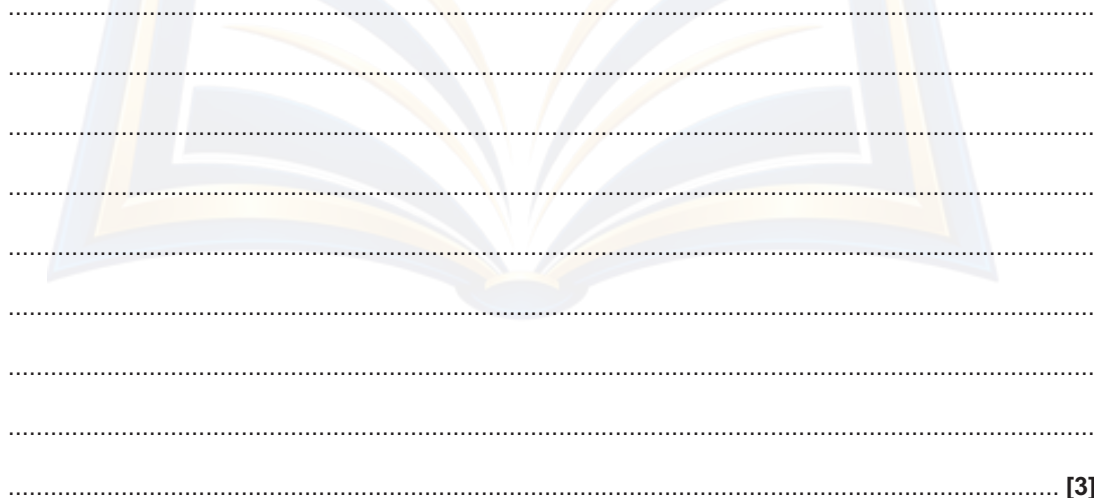
**Fig. 3.2 – Exports of Goods & Services of selected countries in 2019**

23

- 35** Using the data in **Fig. 3.1**, calculate the growth rate in GDP per capita in Brazil between 2000 and 2019.

[3]

- 36** Explain, using the data in **Fig. 3.1** and **Fig. 3.2**, in which country exports accounted for the greatest proportion of output in 2019.



[3]

8-MARK QUESTIONS

1 question in this booklet



2

SECTION A

Read the stimulus material and answer **all** parts of Question 1.

International competitiveness

In 2019, the UK had a trade in goods and services deficit of £30.5bn and a current account deficit of £95.3bn. A country's international competitiveness is influenced primarily by the relative price and quality of its products.

In the 2019 global competitiveness index, published by the World Economic Forum, the UK was ranked 9th out of 141 countries. This position was down one on 2018. Singapore was placed 1st in 2019 and 2nd in 2018. 5

The World Economic Forum considers 12 categories of influences on a country's international competitiveness. These include the country's financial system, the skills of its workers and its macroeconomic stability. The UK has a strong financial system and was placed 7th in this category. Its central bank has experience in, for instance, maintaining price stability and engaging in quantitative easing. The country's commercial banks provide savings facilities, loans and other services for their customers. 10

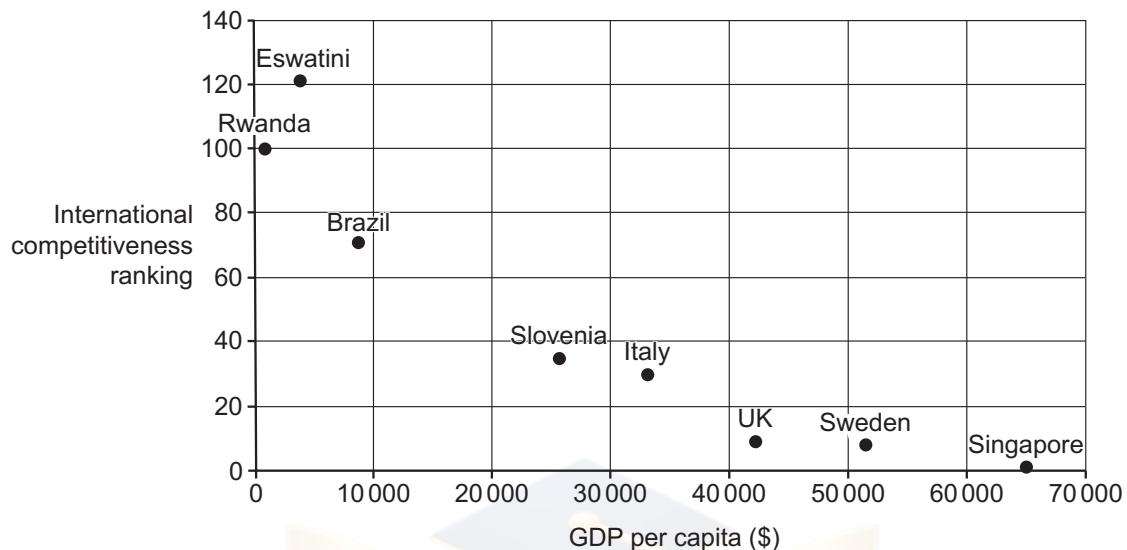
The UK was placed 11th in the skills category. A more skilled labour force is likely to have higher productivity. In turn, productivity can also be affected by working hours. Between 2018 and 2019, average working hours fell in Germany, the UK and the USA and labour productivity rose. In contrast, both average working hours and labour productivity rose in Poland and both fell in Mexico over this period. 15

The category in the global competitiveness index which the UK performed best in was macroeconomic stability. It came 1st achieving a maximum score of 100. Macroeconomic stability can increase business confidence. This can increase investment, international competitiveness and GDP per capita. Fig. 1 shows the international competitiveness ranking of eight countries and their GDP per capita. 20

3

Fig. 1

International competitiveness ranking and GDP per capita of selected countries

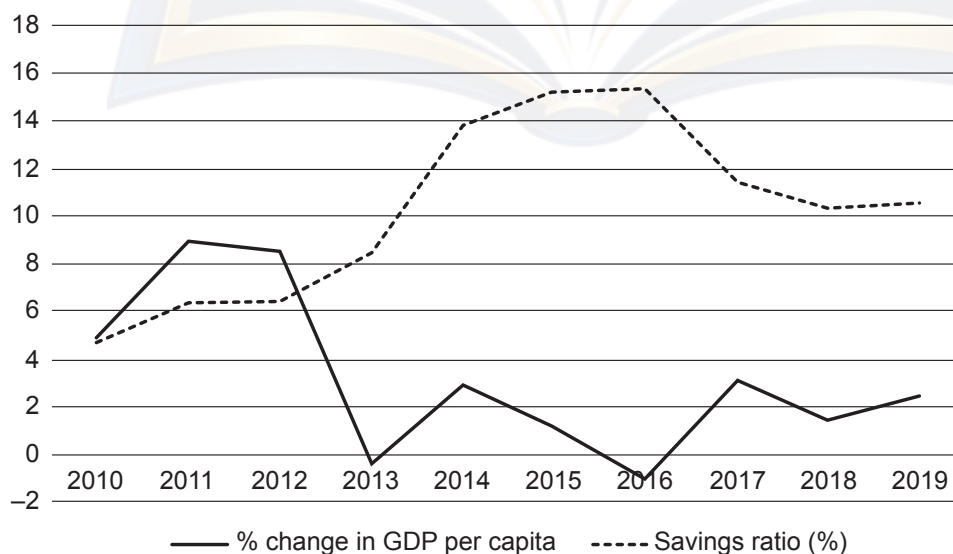


The country which experienced the largest increase in international competitiveness ranking between 2018 and 2019 was Rwanda. The main destination of Rwanda's exports is the UAE and its main source of imports is China. Rwanda's imports to GDP rose from 28% in 2010 to 35% in 2019 and GDP per capita increased from \$610 to \$802. Fig. 2 shows the savings ratio (average propensity to save) and the changes in GDP per capita in Rwanda over the period.

25

Fig. 2

Rwanda's savings ratio and change in GDP per capita 2010–2019



4

The Rwandan government tried to increase the savings ratio over the period. The government wanted to increase the domestic supply of finance for investment. It encouraged adults to open savings accounts at banks and students to join savings clubs. It did not, however, change tax rates over this period.

30

Higher investment would be likely to increase Rwanda's international competitiveness. The country's inflation rate also affects international competitiveness. Table 1 shows Rwanda's, China's and the UAE's inflation rates and the global average inflation rate over the period 2010 and 2019.

35

Table 1

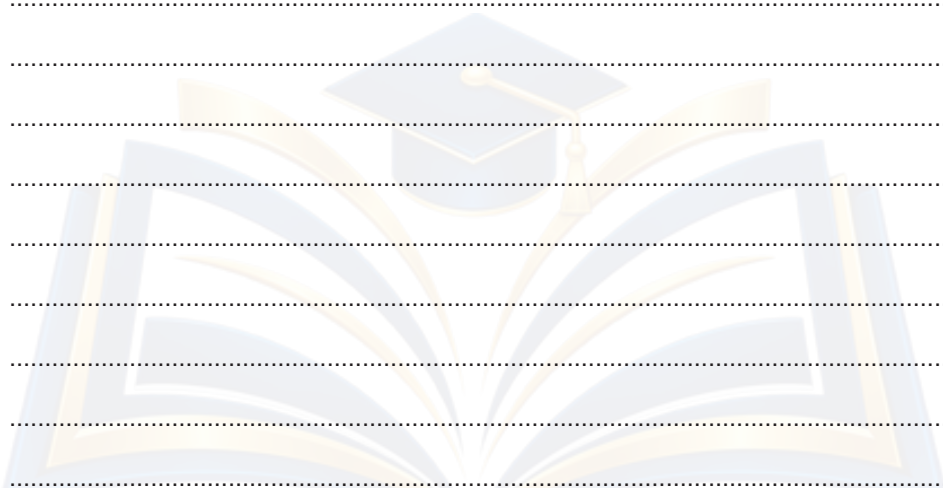
Inflation rates for Rwanda, China and the UAE and the global average inflation rate 2010 to 2019

Year	Rwanda's inflation rate (%)	China's inflation rate (%)	UAE's inflation rate (%)	Global average inflation rate (%)
2010	−0.3	3.2	0.9	3.3
2011	3.1	5.5	0.9	4.8
2012	10.3	2.6	0.7	3.7
2013	5.9	2.6	1.1	2.6
2014	2.3	1.9	2.3	2.3
2015	2.5	1.4	4.1	1.4
2016	7.2	2.0	1.6	1.5
2017	8.3	1.6	2.0	2.2
2018	−0.3	2.1	3.1	2.5
2019	3.4	2.9	−1.9	2.3

Wages rose in Rwanda between 2010 and 2019 at a higher rate for skilled than unskilled workers. Unemployment fell and foreign direct investment increased slightly, although it was still low.

6

- (e) Using information from the stimulus material, evaluate whether the size of Rwanda's multiplier is likely to have increased between 2010 and 2019.



[8]

.. [8]



25-MARK QUESTIONS

4 questions in this booklet



29









SECTION B

Answer **EITHER** question 2 **OR** question 3.

EITHER

- 2*** Between 2017 and 2018, households in Denmark saved more. Household saving as a percentage of disposable income rose from 5.6 to 5.9.

Evaluate, with the use of an appropriate diagram(s), whether an increase in the amount households save will harm an economy. **[25]**

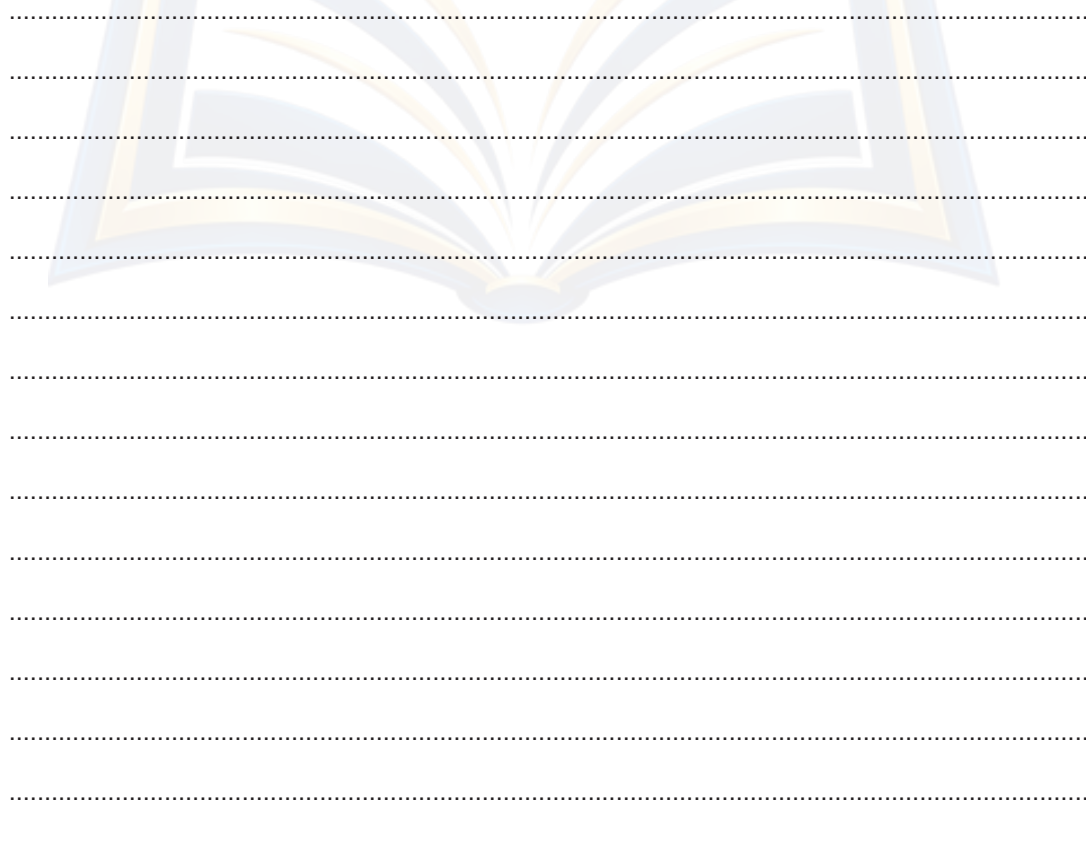
OR

- 3*** In 2018, the US President accused China and Russia of lowering the value of their currencies to artificially low levels.

Evaluate, with the use of an appropriate diagram(s), whether a central bank's decision to reduce the exchange rate to an artificially low level will benefit its economy. **[25]**

Question No

Start your answer here



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Turn over

















SECTION B

Answer **EITHER** question 2 **OR** question 3.

EITHER

- 2*** In 2017 Bosnia had a significant output gap while it was estimated that Slovenia did not have an output gap.

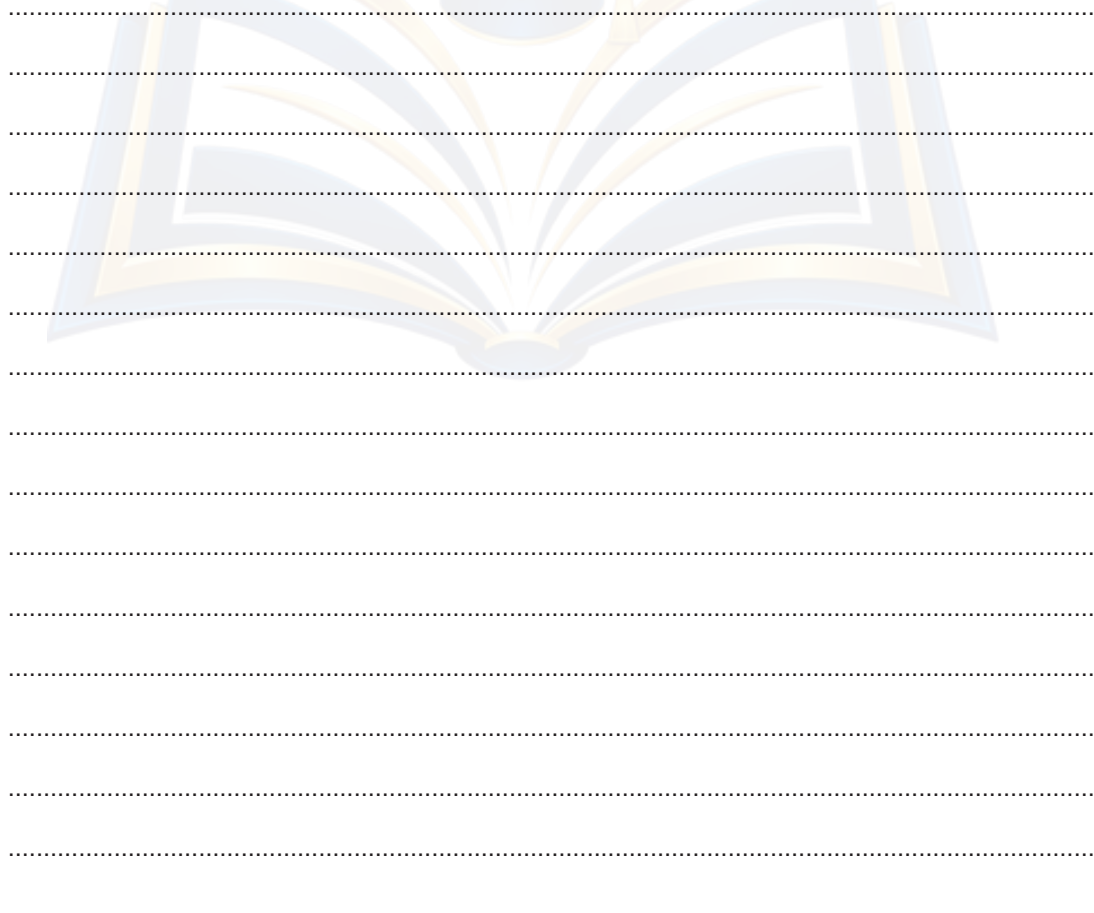
Evaluate, with the use of an appropriate diagram(s), whether a government should always seek to reduce an output gap. [25]

OR

- 3*** In March 2018 the French government announced that children would have to start school at age 3 rather than age 6 from September 2019.

Evaluate, with the use of an appropriate diagram(s), whether a fall in the compulsory school starting age will benefit an economy. [25]

Question











MARK SCHEMES

official OCR mark schemes



10	A	A	Correct: $1 / (0.34 + 0.18 + \text{MPS}) = 1.42$. $1 / (0.52 + \text{MPS}) = 1.42$. $1 / 1.42 = 0.52 + \text{MPS}$. $\text{MPS} = 0.18$.	AO2	✓
		B	This is the marginal propensity to consume.		
		C	Incorrectly specifies MPS as $1 - \text{MPM} - \text{MRT}$.		
		D	Incorrectly specifies MPS as multiplier $- \text{MPM} - \text{MRT}$.		



20	D	A This will decrease the marginal rate of taxation, which will increase the size of the multiplier. B This is likely to decrease the marginal propensity to save, which will increase the size of the multiplier. C This is likely to decrease the marginal propensity to save, which will increase the size of the multiplier. D Correct: This will make imports relatively cheaper, which is likely to increase the marginal propensity to import and reduce the size of the multiplier.	AO1	
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16	C	A B C D Income tax is not an indirect tax. It is paid by individuals straight to the government. Indirect taxes are paid through consumption. This is not a progressive tax. Progressive taxes take proportionally more from those earning higher incomes. Correct: The tax charges the same rate to everyone regardless of the level of income. This is not a regressive tax. Regressive taxes take proportionally more from those earning lower incomes.	AO1	
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19	B	A Exports are an injection as the money received from selling exports is added to the circular flow of income of the domestic country. B Correct: Imports are a leakage as the money spent on imports leaves the circular flow of income for the domestic country. C Investment spending by firms is an injection into the circular flow of income. D Wages are the reward to households for providing labour, they are neither an injection nor a leakage, they are already part of the circular flow of income.	AO1	
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18	C	A This is the marginal propensity to withdraw $(0.11 + 0.23 + 0.17) = 0.51$ B Calculates the multiplier by adding all terms in the table together $= 0.71 + 0.11 + 0.23 + 0.17 + 0.42 = 1.64$ C Correct: Multiplier $= 1 / MPW = 1 / (0.11 + 0.23 + 0.17) = 1 / 0.51 = 1.96$ D Calculates the multiplier as $1 / MPM + MPS = 1 / 0.11 + 0.23 = 2.94$	AO2	✓
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21	C	A This will reduce the effectiveness of expansionary fiscal policy. B This will reduce the effectiveness of expansionary monetary policy. C Correct: In this circumstance there is significant spare capacity, rendering supply side policy ineffective as it would simply create more spare capacity. Demand side policy would be more effective. D This suggests supply side policy would be very effective because the economy is likely to be operating close to full capacity.	AO1	
----	---	---	-----	--



25	A	A Correct: $[(€27,794 - €10,064) \times 0.14] + [(€74,517 - €27,794) \times 0.30] + [(€110,000 - €74,517) \times 0.41] / €110,000 \times 100 = (€2,482.20 + €14,016.90 + €14,548.03) / €110,000 \times 100 = 28.2\%$ B This is the rate of tax that the majority of the individual's income falls into but is not the average. C Incorrectly specifies total income as €157,806. $[(€27,794 - €10,064) \times 0.14] + [(€74,517 - €27,794) \times 0.30] + [(€157,806 - €74,517) \times 0.41] / €110,000 \times 100 = (€2,482.20 + €14,016.90 + €34,148.49) / €157,806 \times 100 = 32.1\%$ D This is the marginal rate of tax.	AO3	✓
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1	(c)	(i)	Using Table 1, explain which country's government made a negative contribution to the country's aggregate demand. Germany (1) government tax revenue exceeded government expenditure (1).	2 (AO1 x1 AO2 x1) Germany (1) government tax revenue US\$1598bn exceeds government expenditure of US\$1573bn. (1) Or Government tax revenue was higher than Government expenditure by US\$25bn (1)
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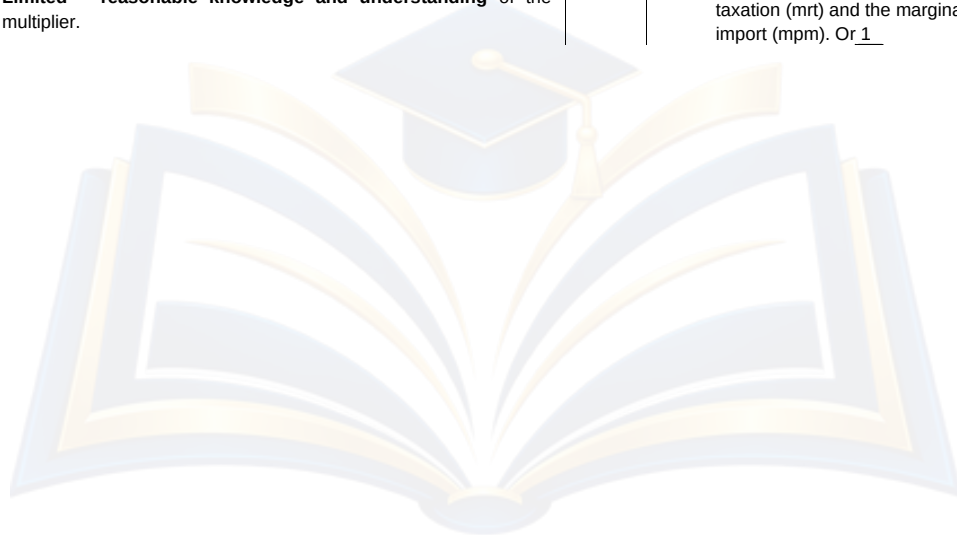
1	(a)	Using information from the stimulus material, identify two components of Kenya's aggregate demand. Two from: Net exports (1) Exports (1) Imports (1) Consumer expenditure/consumption (1) Government spending (1)	2	Annotate with ✓ Do not credit investment as it is not in the extract
Question		Answer	Mark	Guidance



36		Explain, using the data in Fig. 3.2, in which country exports accounted for the higher proportion of output in 2019. <i>Award 1 mark for identifying the correct country:</i> - Germany <i>Award up to 2 marks for supporting calculation:</i> $\\$1993\text{bn} / \\$3959\text{bn} \times 100 (1) = 50.3\% (2)$	3 AO2 x 2 AO3 x 1	Credit answers which use any value in the range of \$1950bn to \$1999bn for Germany's exports (49.3% - 50.5%). Award 2 marks for correct answer (in range of 49.3% - 50.5%) with no/incorrect working. Award 1 mark for the statement that Germany's exports account for nearly half of GDP where calculation is missing and/or incorrect.
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1	e	Using information from the stimulus material, evaluate whether the size of Rwanda's multiplier is likely to have increased between 2010 and 2019. Level 2 (5 - 8 marks) Good knowledge and understanding of the multiplier. Good - strong analysis of how leakages may have changed between 2010 and 2019. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of how the size of the multiplier may have changed, underpinned by appropriate theoretical analysis. Good evaluation will weigh up why the multiplier may have increased or decreased, but without reaching a strong judgement. Strong evaluation should include a supported judgement. Level 1 (1 – 4 marks) Limited – reasonable knowledge and understanding of the multiplier.	8	(AO1*1 AO2*1 AO3*3 AO4*3) Annotation <table><tr><td>Knowledge and Understanding</td><td>KU</td><td>Grouped at end of response</td></tr><tr><td rowspan="2">Application</td><td>APP ✓</td><td rowspan="2">End of response</td></tr><tr><td>APP ✗</td></tr><tr><td>Analysis</td><td>AN</td><td>Grouped beside the body of the analysis</td></tr><tr><td>Evaluation</td><td>EVAL</td><td>Grouped beside the body of the evaluation</td></tr></table> Knowledge and understanding: • The multiplier effect is when an initial injection (such as an increase in government spending) into the circular flow results in the actual change in national income being greater than the initial injection. • The size of the multiplier effect depends upon the rate at which money leaks out of the circular flow. • The size of a country's multiplier can be found by dividing 1 by the marginal propensity to save (mps), marginal rate of taxation (mrt) and the marginal propensity to import (mpm). Or 1	Knowledge and Understanding	KU	Grouped at end of response	Application	APP ✓	End of response	APP ✗	Analysis	AN	Grouped beside the body of the analysis	Evaluation	EVAL	Grouped beside the body of the evaluation
Knowledge and Understanding	KU	Grouped at end of response															
Application	APP ✓	End of response															
	APP ✗																
Analysis	AN	Grouped beside the body of the analysis															
Evaluation	EVAL	Grouped beside the body of the evaluation															

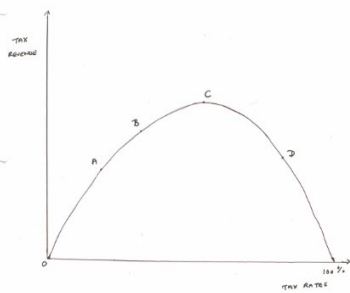


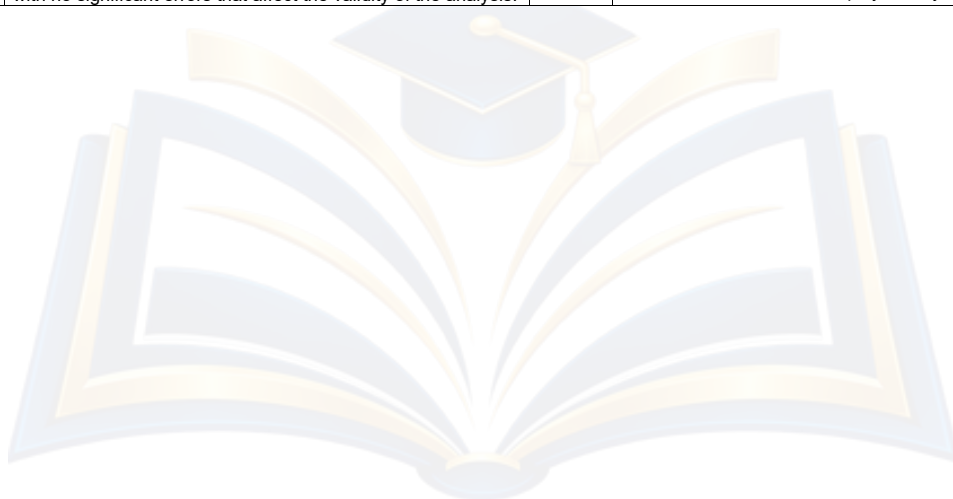
Question	Answer	Mark	Guidance
2 *	Evaluate, with the use of an appropriate diagram(s), whether an increase in private sector investment will help a government achieve its macroeconomic objectives Level 5 (21–25 marks) Good -Strong knowledge and understanding of investment and macroeconomic policy objectives. Strong analysis of whether an increase in private sector investment will help a government achieve its macroeconomic objectives Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether an increase in private sector investment will help a government achieve its macroeconomic objectives weighing up both why they might and why they might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of investment and macroeconomic policy objectives. Strong analysis of whether an increase in private	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content The reasons why it will help. An increase in private sector investment means that firms are purchasing more capital goods. This will increase aggregate demand. Investment is an injection into the circular flow of income, so there will be a multiplier effect. Aggregate demand will rise by a greater amount than the initial increase in investment. The higher demand will be likely to cause capital goods and consumer goods firms to increase their output. The country's economic growth rate may rise and unemployment may fall. In the longer run higher investment will increase aggregate supply as well as aggregate demand. This could allow an economy to grow without the economy experiencing inflation as shown in the diagram below.



Question	Answer	Marks	Guidance
2 *	Between 2017 and 2018, households in Denmark's saved more. Household saving as a percentage of disposable income rose from 5.6 to 5.9. Evaluate, with the use of an appropriate diagram(s), whether an increase in the amount households save will harm an economy. Level 5 (21–25 marks) Good -Strong knowledge and understanding of the nature of saving and macroeconomic indicators. Strong analysis of how an increase in the amount households save may affect an economy. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether an increase in household saving will harm an economy, weighing up both why they might and why they might not and reaching a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of the nature of saving and macroeconomic indicators. Strong analysis of how an increase in the amount households save may affect an economy. Strong analysis will have consistently well-developed links through a	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content If households save more, they may be spending less. A reduction in consumer spending may discourage investment. This is because firms will expect to sell less and earn lower profits. As a result their incentive and ability to spend on capital goods will be reduced. Lower consumer expenditure and investment will reduce aggregate demand. If the economy is operating at less than full capacity, a decrease in aggregate demand will reduce output. The diagram shows real GDP falling from Y to Y1.



Question	Answer	Marks	Guidance
4 *	In recent years, the UK government has cut both corporation and income tax rates. The 2013 cut in the top rate of income tax from 50% to 45% has been estimated to have reduced government tax revenue by £8.6bn between 2013/14 and 2017/18. Evaluate whether a cut in direct tax rates will always reduce tax revenue. Level 5 (21–25 marks) Good -Strong knowledge and understanding of direct tax rates. Strong analysis of the relationship between tax rates and tax revenue. It will consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a cut in direct tax rates will always reduce tax revenue, weighing up both why it might and why it might not and reaching a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of direct tax rates. Strong analysis of the relationship between tax rates and tax revenue. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis.	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content The Laffer curve suggests there is an optimum tax rate. The diagram shows that zero tax revenue is earned if tax rates are 0% or 100%. The tax revenue varies between these two rates, peaking at a rate of C.  The Laffer curve suggests to policy makers that raising the tax rate from a low rate of A to a rate of B would raise tax revenue. The curve is probably even better known for the suggestion that a cut from a high tax rate such as D towards the optimum tax rate would raise tax revenue. It might at first seem strange that charging a lower tax rate may increase tax revenue. There are, however, a number of reasons why this may occur. One is that it will increase the incentive to work, invest and save. For instance, some of the unemployed may be more willing



Question	Answer	Marks	Guidance
2	In 2017 Bosnia had a significant output gap while it was estimated that Slovenia did not have an output gap. Evaluate, with the use of an appropriate diagram(s), whether a government should always seek to reduce an output gap. Level 5 (21–25 marks) Good - Strong knowledge and understanding of output gaps. Strong analysis of why a government should seek to reduce an output gap. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a government should always seek to reduce an output gap, weighing up both why they might and why they might not and reaching a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of output gaps. Strong analysis of why a government should seek to reduce an output gap. Strong analysis will have	25	For a mark at the top of each level the response should be in context. An output gap is the difference between actual and potential output. A negative output gap involves an economy operating at less than its potential output. Possible analysis as to why a government should seek to reduce an output gap might include: When an economy has a negative output gap. Output is at Y_1, below the country's potential output of Y_F. The existence of unemployed resources can impose considerable costs. These include loss of tax revenue, higher spending on welfare benefits, reduced living standards and a decline in workers' skills. 