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OCR A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Economic Policy Objectives

OCR A-level Economics H460 — Topic MACRO 2

83 questions · 418 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.

83 questions · 418 marks · lowest tariff first

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7. Section A (MCQ), Q20	H460/03 Themes in Economics · June 2019	1 mark	12
8. Section A (MCQ), Q21	H460/03 Themes in Economics · June 2019	1 mark	13
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QUESTIONS

83 questions · 418 marks · lowest tariff first

1-MARK QUESTION

43 questions in this booklet

2

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

1

Indicator	2005	2006	2007	2008	2009
Economic Growth Rate (%)	2.97	2.50	2.56	−0.63	−4.33
Inflation Rate (%)	2.05	2.33	2.32	3.61	2.17
Interest Rate (%)	4.50	5.00	5.50	2.00	0.50
Unemployment Rate (%)	4.75	5.35	5.26	5.61	7.54

The data above shows changes in macroeconomic variables in the period 2005–09 in the UK economy. In which year was the economy most at risk of being in a liquidity trap?

- A 2005
- B 2007
- C 2008
- D 2009

Your answer

[1]

- 2 Statement 1: Qatar is more economically developed than Norway because GDP per capita is \$127 660 USD in Qatar and \$69 249 USD in Norway.

Statement 2: The claimant count rate of unemployment is higher in Norway than in Qatar.

Which of the following correctly categorises these statements?

	Statement 1	Statement 2
A	Normative	Normative
B	Normative	Positive
C	Positive	Normative
D	Positive	Positive

Your answer

[1]

7

12 Which pair of diagrams below illustrates long run economic growth?

A		
B		
C		
D		

Your answer

[1]

8

13 Which of the following is a harm caused by a high rate of inflation?

- A Imports become relatively more expensive
- B Investment decreases
- C Real wage flexibility occurs
- D The real value of debt increases

Your answer

[1]

14 Two firms, Y and Z, are competing in an oligopoly market. They are deciding whether to price their good at £10 or £5. Game theory can be used to analyse their behaviour. If collusion breaks down, which of the options below represents the profits firms will earn in the long run?

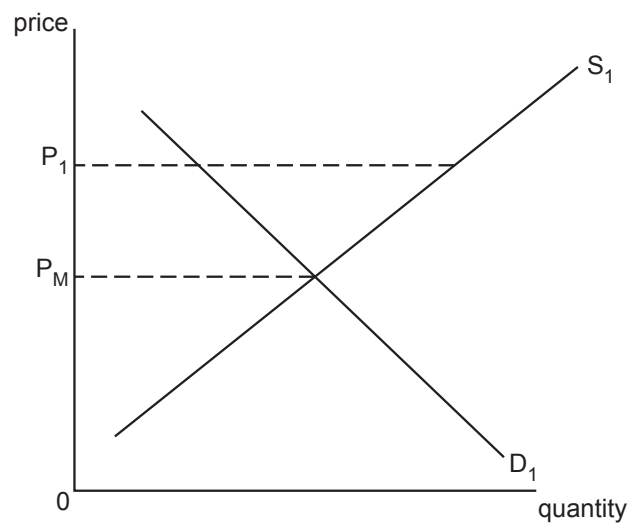
		Firm Z	
		£10	£5
Firm Y	£10	Option A £150m, £150m	Option B £30m, £250m
	£5	Option C £250m, £30m	Option D £80m, £80m

Your answer

[1]

9

15 The market equilibrium price is P_M . What could have caused the price to be at P_1 ?



- A Maximum price
- B Minimum price
- C Subsidy
- D Tax

Your answer

☐

[1]

16 Which of the following is an insight from the Austrian school of thought?

- A Increasing public spending can promote economic recovery in times of recession
- B Prices are determined by subjective factors such as individual preference
- C The economy will rapidly converge to the natural rate of output
- D There is a trade-off between unemployment and inflation

Your answer

☐

[1]

10

17 Which component of the balance of payments accounts for dividends from foreign stocks and shares?

- A Capital account
- B Credit account
- C Current account
- D Financial account

Your answer

[1]

18 The demand for a good is expected to decrease from 52 000 to 46 000 when average incomes increase from £20 000 to £24 000. What is the income elasticity of demand for the good?

- A -1.73
- B -0.78
- C -0.58
- D 1.73

Your answer

[1]

19 When would the quantity of labour supplied increase more than proportionally to an increase in the wage rate?

- A It is easy to substitute labour for capital
- B Labour costs take up a high proportion of total costs
- C There is a high level of skill required in the job
- D The job requires minimal training

Your answer

[1]

2

SECTION A

Answer **all** the questions in this section.

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[1]

11

20 When will remittances make a significantly positive contribution to a country's GDP?

- A The financial account of the balance of payments is in surplus
- B The level of emigration is high
- C The level of immigration is high
- D The rate of unemployment is low

Your answer

[1]

21 In 2016 Argentina experienced negative economic growth, with output falling by 2.3% to \$571.3bn. Population growth was 1% over the same period. Calculate the change in GDP per capita in Argentina between 2015 and 2016 if in 2015 Argentina had a population of 43.42 million people.

- A -\$444
- B -\$440
- C -\$178
- D \$172

Your answer

[1]

22 Which condition will a sales volume maximising firm use to determine its level of output?

- A $AC = AR$
- B $AR = AVC$
- C $MC = MR$
- D $MR = 0$

Your answer

[1]

23 What can the government do to finance a budget deficit?

- A Devalue the exchange rate
- B Increase export subsidies
- C Issue government bonds
- D Reduce the money supply

Your answer

[1]

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[1]

12

24 The data below shows key macroeconomic performance indicators for four countries.

	2016 Inflation Rate (CPI)	2016 Unemployment Rate (ILO)	2015 GDP Growth Rate	2016 GDP Growth Rate
Ireland	0%	8.1%	26.3%	5.2%
Malta	0.6%	5.3%	7.4%	5%
Ukraine	13.9%	8.9%	−9.8%	2.3%
United Kingdom	0.6%	4.8%	2.2%	1.8%

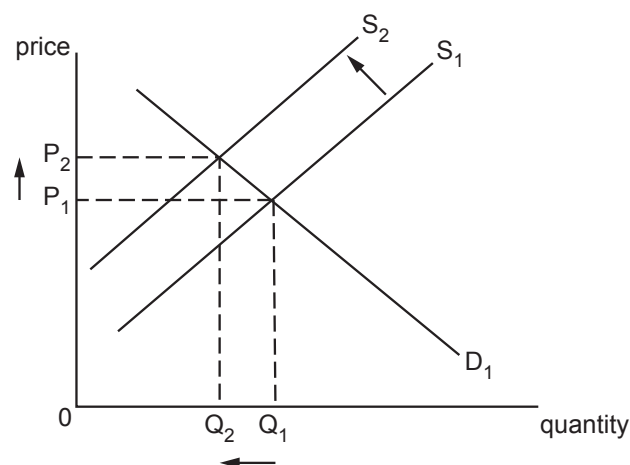
If an economist was judging the performance of these economies from the perspective of the UK government macroeconomic policy objectives, which would they decide performed best?

- A Ireland
- B Malta
- C Ukraine
- D United Kingdom

Your answer

[1]

25



In each of the cases on page 13, firms are operating as profit maximisers. Which would cause the response on an industry level indicated in the diagram above?

14

- 26 The table below illustrates the utility derived from consuming lettuce. What is the marginal utility of consuming the fourth lettuce?

Quantity	Total Utility (Utils)
1	9
2	17
3	23
4	28
5	32
6	35
7	37

- A 4
B 5
C 6
D 7

Your answer

[1]

- 27 Why might the ILO (International Labour Organisation) unemployment rate overestimate the level of unemployment there is in an economy?

- A Sampling errors may exist in the data
B Some individuals may be claiming benefits but are not actually willing to work
C The economically inactive are included
D There may be underemployment where part-time workers cannot find full-time jobs

Your answer

[1]

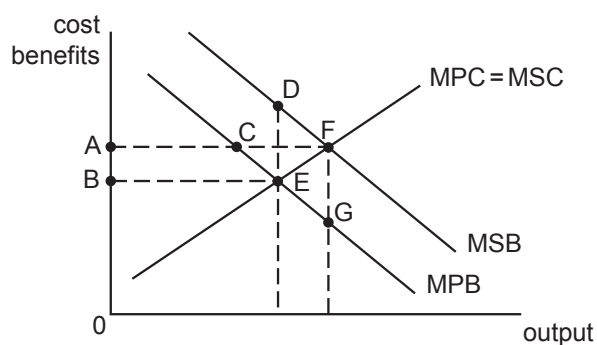
3

- 3 The theory of comparative advantage seeks to explain patterns of trade. Which of the following is a weakness of the theory of comparative advantage?
- A A developing country may lack the capital to have an absolute advantage in the production of any good or service over a developed country
 - B Countries will import goods from countries that can produce those goods at a lower opportunity cost
 - C Heckscher-Ohlin theory suggests countries should specialise in producing goods which intensively use factors of production they have large endowments of
 - D High transport costs mean countries are more likely to trade with neighbouring countries

Your answer

[1]

- 4 Which area represents the size of the welfare loss if provision of the good in the diagram below is left to the free market?



- A ABEF
- B CEF
- C DEF
- D EFG

Your answer

[1]

4

5 What is the reward for capital?

- A Interest
- B Profit
- C Rent
- D Wages

Your answer

☐

[1]

6 What is the accelerator effect?

- A An increase in aggregate demand causes a greater final change in real GDP
- B As economic growth pushes the economy towards full capacity the rate of inflation increases rapidly
- C Increases in expected demand will increase the level of investment in the economy
- D Sacrificing the production of consumer goods for capital goods in the short run can increase the rate of economic growth in the long run

Your answer

☐

[1]

7 Which theory argues a high savings ratio is fundamental to achieving economic growth?

- A Harrod-Domar model
- B Heckscher-Ohlin model
- C Marshall-Lerner condition
- D Prebisch-Singer hypothesis

Your answer

☐

[1]

4

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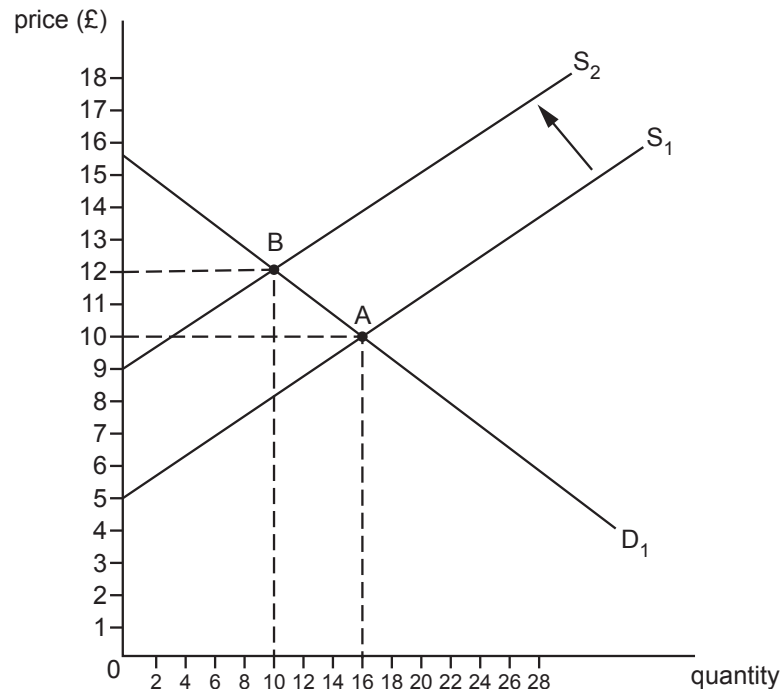
Your answer

☐

[1]

5

- 8 What is the change in producer surplus as a result of the market equilibrium moving from point A to point B in the diagram below?



- A -£31
 B -£25
 C £25
 D £31

Your answer

[1]

- 9 Sweden is generally considered to have relatively high unit labour costs. What might be the reason for this?

- A High investment in physical capital
 B High levels of employment protection laws
 C Low costs of living
 D Low tax rates

Your answer

[1]

9

- 16 An individual going on holiday to Spain exchanges £100 into euros when the exchange rate was 1.26 euros to 1 pound. They spend 82 euros and when they return from holiday exchange what they have left into pounds. By this point the exchange rate has changed to 1.14 euros to 1 pound. How many pounds are they left with?

- A £34.92
- B £38.60
- C £44.00
- D £50.16

Your answer

[1]

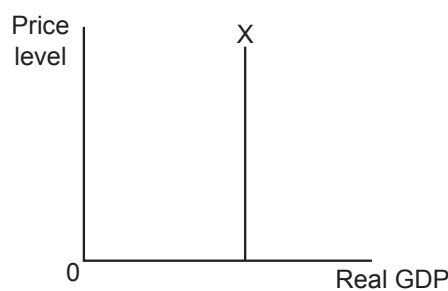
- 17 Which elasticity is the availability of stock of the product likely to impact?

- A Cross elasticity of demand
- B Income elasticity of demand
- C Price elasticity of demand
- D Price elasticity of supply

Your answer

[1]

- 18 What does curve X represent?



- A Long run Aggregate Supply
- B Long run Phillips Curve
- C Short run Aggregate Supply
- D Short run Phillips Curve

Your answer

[1]

2

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

1 What is the impact of a decrease in price?

- A An increase in quantity demanded
- B An increase in quantity supplied
- C A shift to the right of the demand curve
- D A shift to the right of the supply curve

Your answer

[1]

2 If real GDP in 2019 was \$482bn and \$476bn in 2020, what was the rate of economic growth in 2020?

- A -1.26%
- B -1.24%
- C 1.24%
- D 1.26%

Your answer

[1]

12

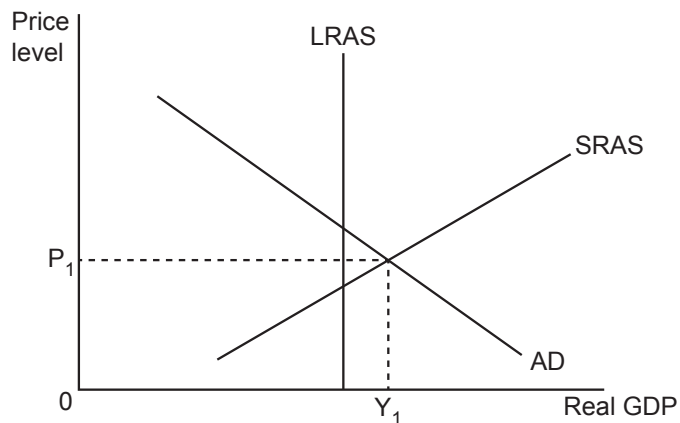
- 24 Kai purchases a second-hand car for £12000. However, they only derive £7000 utility from the car during the five years that they own it. What is likely to have occurred at the point of purchase to cause this?

- A Information failure
- B Moral hazard
- C Negative externalities of consumption
- D Opportunity cost

Your answer

[1]

- 25 An economy is producing at Y_1 , P_1 . What is happening at this point?



- A Deflation
- B Inflation
- C Negative output gap
- D Positive output gap

Your answer

[1]

13

26 A group of firms reaches an agreement on prices and output. What sort of collusion is this?

- A A cartel
- B Price leadership
- C Strategic alliances
- D Tacit collusion

Your answer

[1]

27 What is an example of an automatic stabiliser in response to a period of negative economic growth?

- A A decrease in the corporation tax rate
- B An increase in expenditure on education and training
- C An increase in expenditure on unemployment benefits
- D An increase in the income tax-free personal allowance

Your answer

[1]

28 What is likely to be an irrational act?

- A Consumption decreasing when the interest rate increases
- B Consumers demanding more of an inferior good when their income falls
- C Firms engaging in predatory pricing to increase their market share
- D Firms increasing the price of a product with price elastic demand

Your answer

[1]

4

- 5 The table below shows the output of corn and golf clubs Country X and Country Y could produce if they used all of their resources to produce one of these goods. What can be concluded about Country X from the data?

	Corn	Golf clubs
Country X	1000 units	450 units
Country Y	5000 units	900 units

- A It has an absolute advantage in the production of corn and golf clubs
- B It has an absolute advantage in the production of golf clubs
- C It has a comparative advantage in the production of corn
- D It has a comparative advantage in the production of golf clubs

Your answer

☐

[1]

- 6 What could cause the natural rate of unemployment to decrease?

- A An increase in corporation tax
- B An increase in government spending on welfare benefits
- C An increase in government spending on education and training
- D An increase in the price level

Your answer

☐

[1]

- 7 *'There are insufficient resources to meet society's wants.'*

What does this statement describe?

- A Positive externalities of consumption
- B Positive externalities of production
- C The basic economic problem
- D The free rider problem

Your answer

☐

[1]

2

SECTION A

Write your answer to each question in the box provided.

1 What would a shift in the long run aggregate supply curve to the right be most likely to cause?

- A A decrease in the level of income inequality
- B A decrease in the rate of inflation
- C An increase in the current account deficit
- D An increase in unemployment

Your answer

[1]

2 A Central Bank is operating a fixed exchange rate.

What intervention can it take to prevent the value of the currency falling?

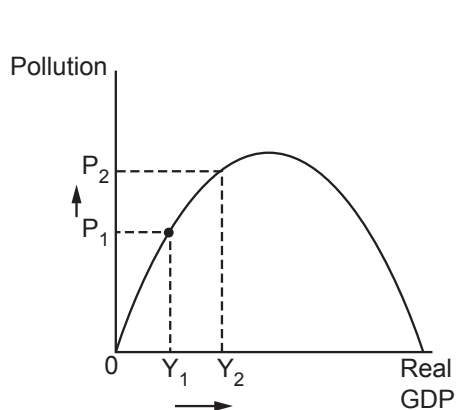
- A Decreasing the interest rate
- B Imposing tariffs
- C Quantitative easing
- D Selling foreign currency reserves

Your answer

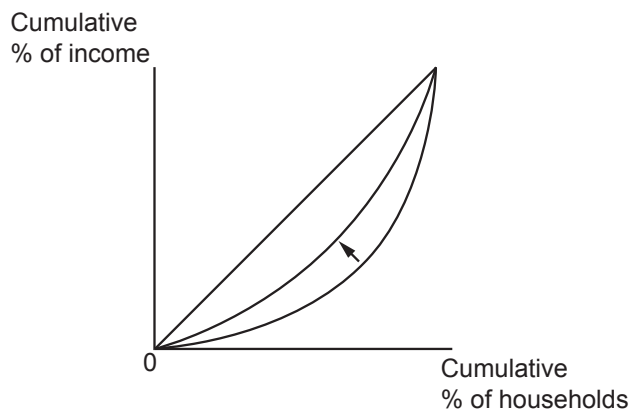
[1]

7

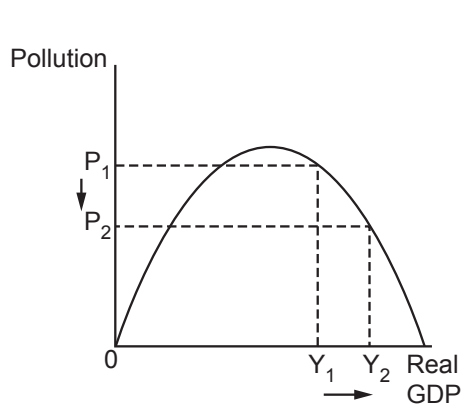
12 Which of the diagrams illustrates the impact of an increase in the Gini coefficient?



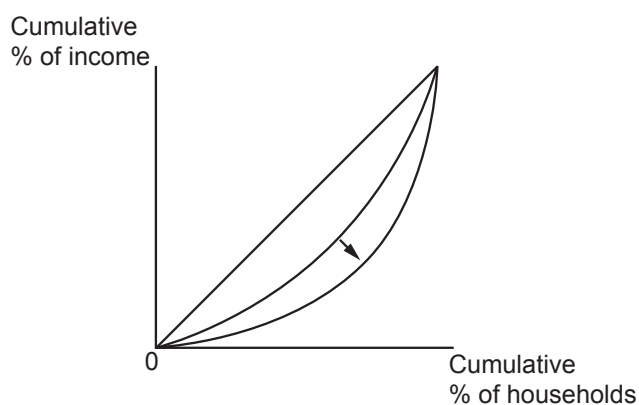
A



B



C



D

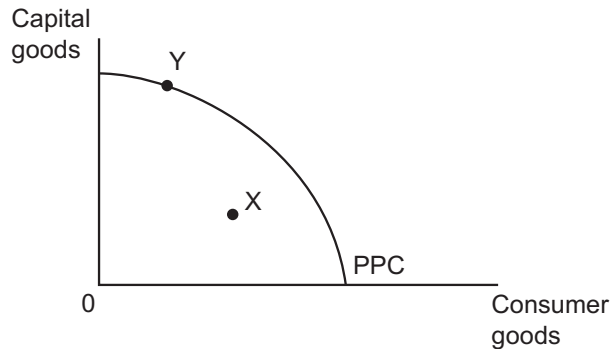
Your answer

[1]

10

- 17 Output in an economy moves from point X to point Y in the diagram.

What does this represent?



- A An increase in allocative efficiency
- B An increase in productive efficiency
- C An increase in the demand for capital goods
- D An increase in the opportunity cost of producing consumer goods

Your answer

[1]

- 18 What is the key insight from the Fisher equation using the quantity theory of money?

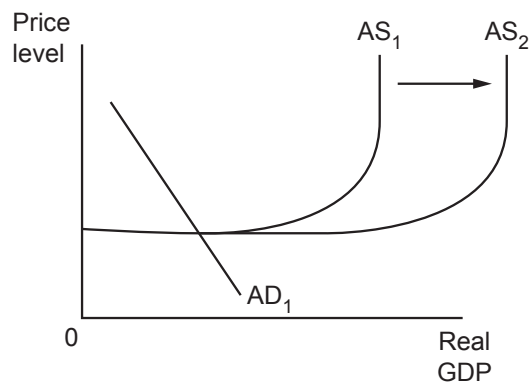
- A Inflation is caused by increases in the money supply
- B Money avoids the need for a double co-incidence of wants
- C Output will return to the full employment level of output in the long run
- D There is a trade-off between unemployment and inflation

Your answer

[1]

12

- 21 What is the impact of a shift in the aggregate supply curve from AS_1 to AS_2 in the diagram?



- A Long run economic growth
- B Neither short run or long run economic growth
- C Short run and long run economic growth
- D Short run economic growth

Your answer

☐

[1]

- 22 An individual renting a car for a week's holiday can pay a premium of £85 to the car rental company. If they damage the car during the rental period they do not need to pay.

Evidence suggests individuals are more likely to damage their rental cars as a result of paying this premium.

What is this an example of?

- A Asymmetric information
- B Moral hazard
- C Negative externalities of consumption
- D Negative externalities of production

Your answer

☐

[1]

13

23 What is a barter system?

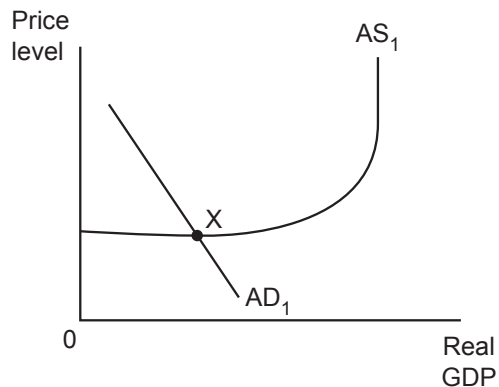
- A Firms collude to agree on prices
- B Goods and services are directly exchanged
- C The government intervenes in a commodity market to stabilise the price
- D Workers are assigned to particular stages of the production process

Your answer

[1]

24 A government managing an economy currently operating at point X in the diagram is considering pursuing demand-side economic growth.

Which macroeconomic policy objective is this most likely to conflict with?



- A Economic development
- B Full employment
- C More even distribution of income
- D Sustainable balance of payments position

Your answer

[1]

14

- 25** An individual recently lost their full-time job as an architect earning £60 000 a year.

They are seeking a similar job whilst temporarily on a zero hours contract at a distribution centre, where their hours have ranged from 4 to 18 hours a week.

Under which measure of unemployment would they be classed as being unemployed?

- A** Claimant Count
- B** Claimant Count and Labour Force Survey
- C** Labour Force Survey
- D** Neither Claimant Count or Labour Force Survey

Your answer

[1]

- 26** A firm produces 85 units of output.

The fixed costs associated with running the business total £4000 with an average variable cost of £3.20.

If average variable cost is unchanged, what is the change in average total cost when the firm increases production to 86 units of output?

- A** Decreases by £46.51
- B** Decreases by £0.55
- C** Remains the same
- D** Increases by £3.20

Your answer

[1]

15

- 27 The European Central Bank aims to keep the price level in the Eurozone rising at a rate of below but close to 2% a year.

What is this an example of?

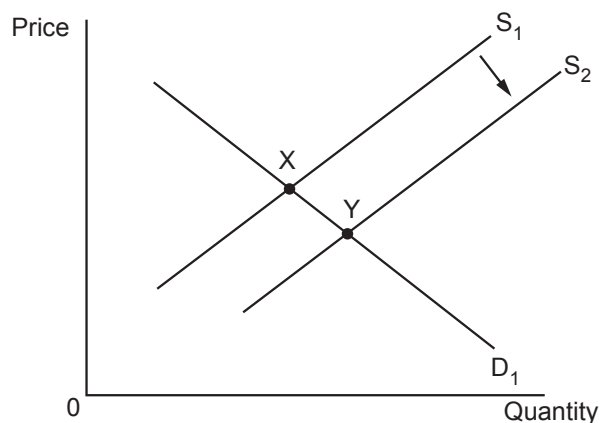
- A A conflict between macroeconomic policy objectives
- B A satisfactory balance of payments position
- C A symmetric inflation target
- D An asymmetric inflation target

Your answer

[1]

- 28 The diagram shows the market for fried chicken.

What is the most likely cause of the market equilibrium moving from point X to point Y?



- A A change in tastes and preferences
- B An increase in labour productivity
- C An increase in regulation
- D A reduction in income tax

Your answer

[1]

16

29 Which of these is only seen in a planned economy?

- A Government ownership and allocation of all resources
- B Inequality in the distribution of income and wealth
- C Profit maximising behaviour results in monopoly firms exploiting consumers
- D The price mechanism fails to achieve allocative efficiency

Your answer

[1]

30 What is the main role of the World Bank?

- A To act as the banker to governments
- B To promote free trade
- C To provide finance for long-term development projects
- D To provide short-term financing for countries experiencing balance of payments problems

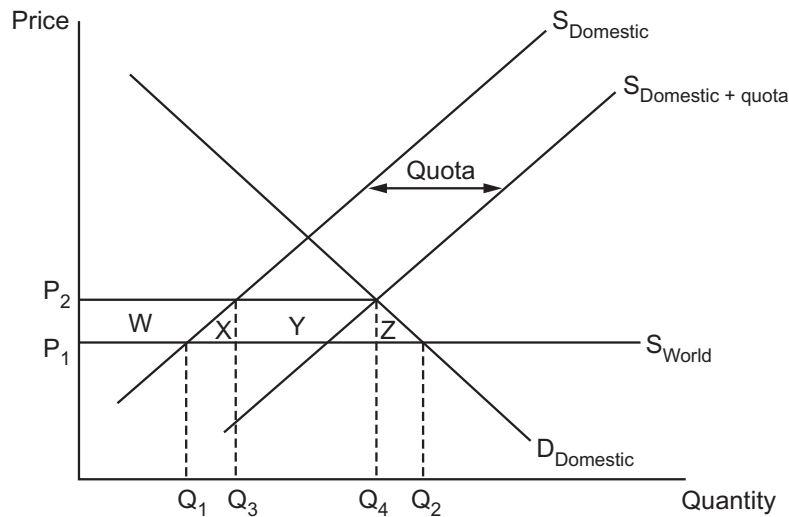
Your answer

[1]

4

- 5 The diagram shows the impact of imposing a quota on imports, which causes the price of a good to increase from P_1 to P_2 .

Which area(s) represents the net welfare loss to economic agents in the domestic economy from imposing this quota?



- A W
B $W + X + Y + Z$
C $X + Y + Z$
D $X + Z$

Your answer

[1]

- 6 What is relative poverty in the UK?

- A Households are unable to afford the essentials needed for survival
B Household income is below 60% of median household income
C Individuals are not incentivised to work because of the high level of welfare benefits
D Individuals earn below the living wage

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?

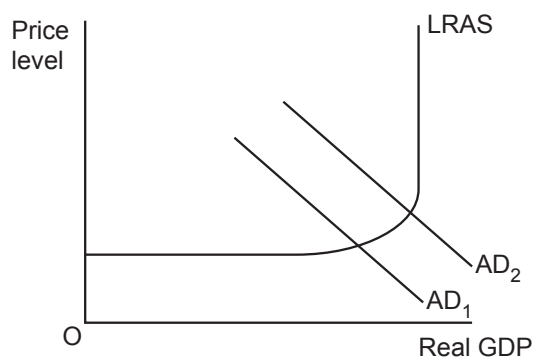
- A -1
- B 0
- C 1
- D Infinity

Your answer

[1]

14

27 What is likely to have caused the shift in Aggregate Demand shown in the diagram?



- A A decrease in consumer confidence
- B A reduction in income tax rates
- C An increase in corporation tax rates
- D An increase in the price of oil

Your answer

☐

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28 Which of these is measured as part of the Human Development Index (HDI)?

- A Costs of environmental degradation
- B GNI per capita
- C Literacy rates
- D Population with no access to health services

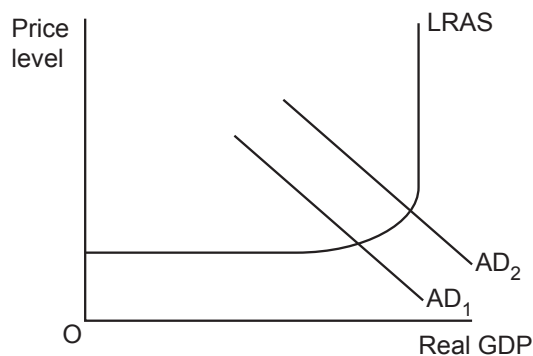
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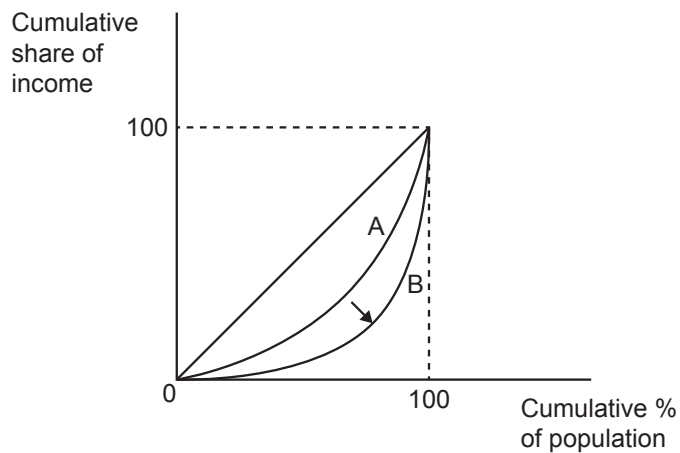
Your answer

☐

[1]

15

29 What could have caused the shift in a country's Lorenz curve shown in the diagram?



- A An increase in access to healthcare that is free at the point of use
- B An increase in the inheritance tax rate
- C An increase in the market power and influence of large firms
- D New legislation that protects workers from discrimination based on their race or gender

Your answer

[1]

30 Where would Foreign Aid appear on the current account of the balance of payments?

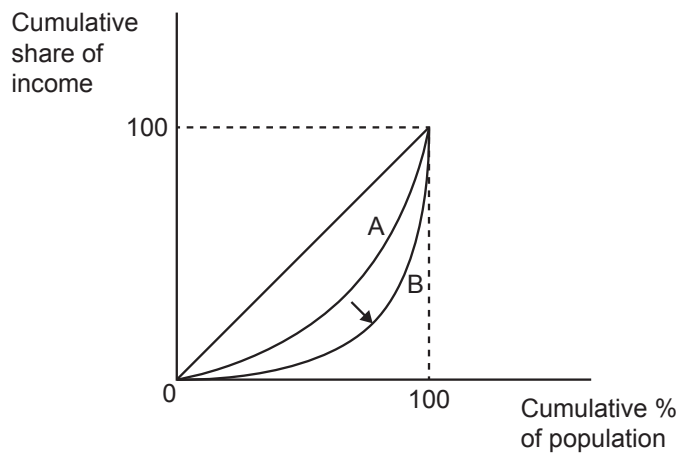
- A Primary income
- B Secondary income
- C Trade in goods
- D Trade in services

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2

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

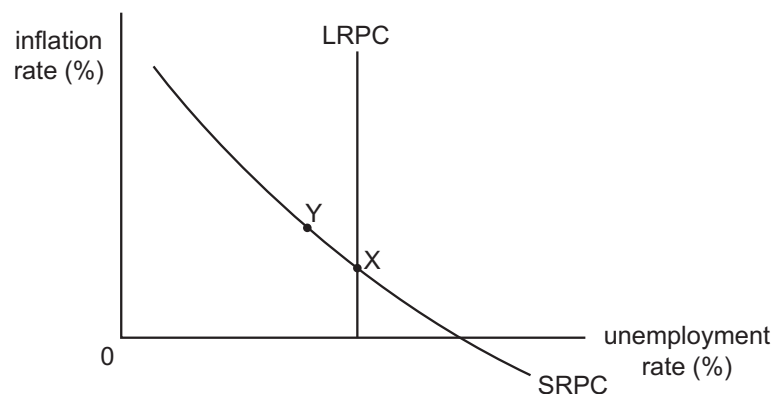
1 What is the short run?

- A A period of time in which all factors of production are fixed
- B A period of time in which all factors of production are variable
- C A period of time in which at least one factor of production is fixed
- D A period of time in which at least one factor of production is variable

Your answer

[1]

2 What is the most likely explanation of the movement from X to Y in the diagram below?



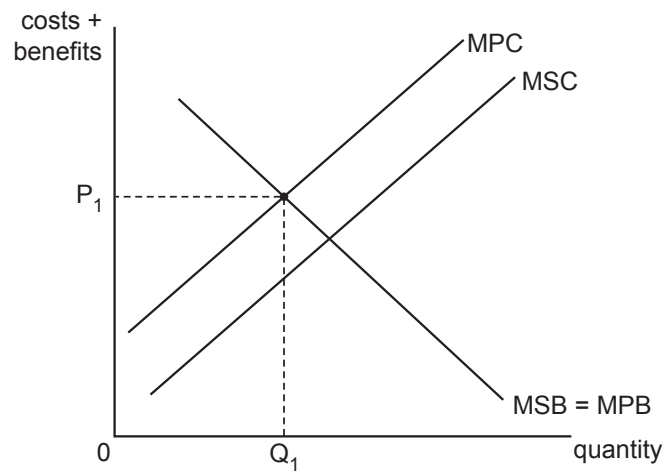
- A A decrease in the natural rate of unemployment
- B An adjustment in inflationary expectations
- C Contractionary fiscal policy
- D Money illusion

Your answer

[1]

11

23 What type of inefficiency is illustrated at (Q_1, P_1) in the diagram below?



- A Allocative
- B Dynamic
- C Productive
- D X

Your answer

☐

[1]

24 What is a component of the Human Development Index?

- A Air quality
- B GDP per capita
- C Life expectancy
- D Proportion of population with tertiary education

Your answer

☐

[1]

12

25 What could cause wages in an occupation to be lower than in other occupations?

- A A long training period is required before starting the job
- B A high proportion of workers in the occupation are members of a trade union
- C Wages take up a high proportion of total costs
- D Workers have a high marginal revenue product of labour

Your answer

[1]

26 In 2014, researchers found that up to a third of women were not taking folic acid supplements in the first 12 weeks of their pregnancy. In response the government increased its efforts to provide information to women about the need for folic acid to aid the healthy development of their baby's spine. On the basis of this information, what type of good is folic acid?

- A A demerit good
- B A good with negative externalities of consumption
- C A good with positive externalities of consumption
- D A merit good

Your answer

[1]

27 Using the table below, what was the inflation rate in 2017?

Year	Consumer Price Index
2014	98.2
2015	100.0
2016	103.4
2017	101.9
2018	103.6

- A -1.50%
- B -1.45%
- C 1.47%
- D 1.90%

Your answer

[1]

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6

9 What is most likely to cause a decrease in wealth inequality?

- A A decrease in capital gains tax
- B A decrease in income inequality
- C An increase in house prices
- D An increase in the tax-free inheritance allowance

Your answer

[1]

10 What is most likely to lead to allocative efficiency being achieved in an industry that is a natural monopoly?

- A Collusion
- B Competition policy
- C Information provision
- D Regulation

Your answer

[1]

11 What is an example of a supply side policy measure?

- A Imposing a tariff
- B Increasing interest rates
- C Privatisation
- D Quantitative easing

Your answer

[1]

12 What is the impact of the Marshall-Lerner condition holding?

- A An exchange rate appreciation will only reduce a current account deficit in the long run
- B An exchange rate appreciation will reduce a current account deficit
- C An exchange rate depreciation will only reduce a current account deficit in the long run
- D An exchange rate depreciation will reduce a current account deficit

Your answer

[1]

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7

10 What indicates a structural budget deficit?

- A Government expenditure exceeds tax revenue in the downturn of a business cycle
- B Government expenditure exceeds tax revenue when the economy is at full employment
- C Tax revenue exceeds government expenditure in the downturn of a business cycle
- D Tax revenue exceeds government expenditure when the economy is at full employment

Your answer

[1]

11 In 2019 the price level in Nigeria increased by 11.4%, compared to a 12.1% increase in prices in 2018. What does this represent?

- A Deflation and disinflation
- B Disinflation and hyperinflation
- C Hyperinflation and inflation
- D Inflation and disinflation

Your answer

[1]

12 What is marginal external cost equal to?

- A Marginal private cost – marginal social cost
- B Marginal social cost
- C Marginal social cost + marginal private cost
- D Marginal social cost – marginal private cost

Your answer

[1]

8

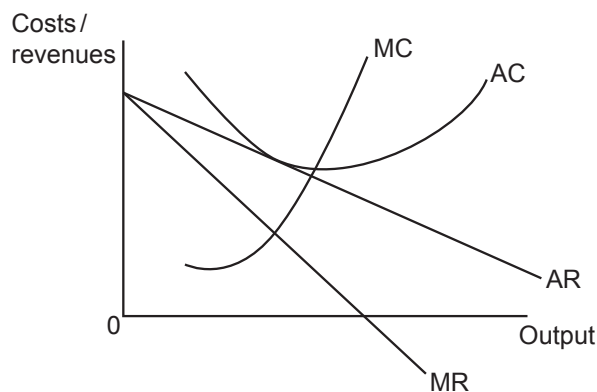
13 What does the neo-classical approach to aggregate supply suggest will be the impact of expansionary demand side policy in the long run?

- A It will be purely inflationary
- B It will cause economic growth and reduce the rate of inflation
- C It will cause economic growth at the cost of higher inflation
- D It will result in non-inflationary growth

Your answer

[1]

14 What is the diagram below most likely to illustrate?



- A Monopolistic competition in the long run
- B Monopolistic competition in the short run
- C Monopoly in the long run
- D Monopoly in the short run

Your answer

[1]

9

- 15 Output is one way of measuring the level of economic activity in an economy. What is another way?

- A Employment
- B Expenditure
- C Human Development Index
- D Inflation

Your answer

[1]

- 16 The table below outlines how import and export prices in a country have changed over time. How much has the country's terms of trade increased by between 2000 and 2020?

Year	Price index of exports	Price index of imports
2000	103	117
2020	109	119

- A 3.6%
- B 4.1%
- C 10.8%
- D 13.0%

Your answer

[1]

- 17 A local restaurant employs five staff – a manager, a chef, a barman and two waiters. What economic theory is this an example of?

- A Bilateral monopoly
- B Comparative advantage
- C Derived demand for labour
- D Division of labour

Your answer

[1]

14

28 What does the data in the table indicate has happened in the economy from 2016 to 2020?

Year	Gini-coefficient
2016	0.52
2017	0.49
2018	0.53
2019	0.58
2020	0.59

- A Environmental degradation has decreased
- B Environmental degradation has increased
- C The distribution of income has become more equal
- D The distribution of income has become more unequal

Your answer

☐

[1]

29 What type of firm is most likely to engage in profit satisfying?

- A Charity
- B Public limited company
- C Public sector
- D Sole trader

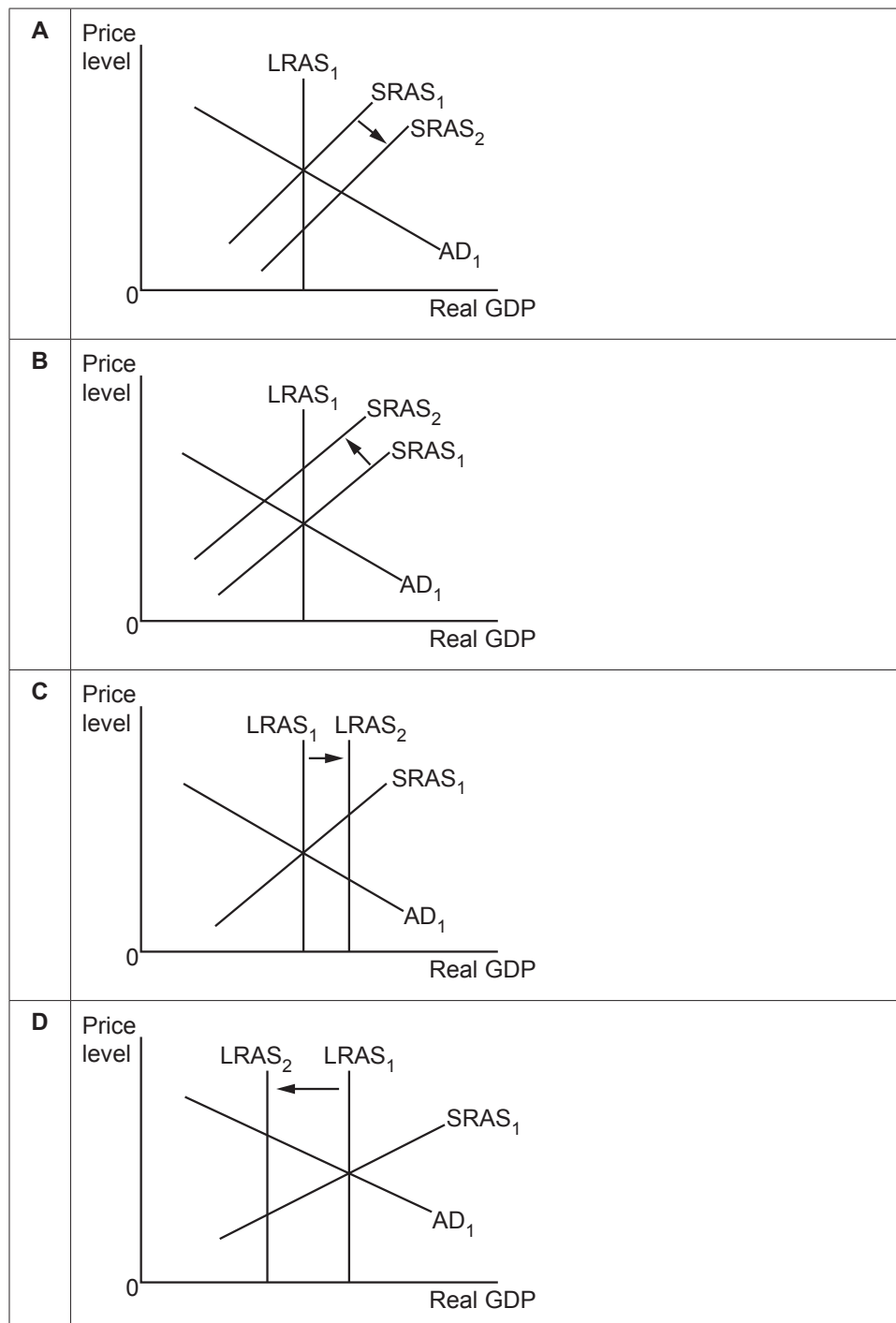
Your answer

☐

[1]

15

- 30 Which of the diagrams below illustrates the most likely impact of the end of free movement of labour in the EU on a member state that has net emigration to the EU?



Your answer

[1]

5

8 What does the accelerator effect show?

- A An increase in a component of aggregate demand causes a greater final change in real GDP
- B Economic growth will increase the rate of environmental degradation
- C Firms undertake investment to replace depreciating capital and expand their capacity
- D When the economy is approaching full capacity increases in aggregate demand cause inflation

Your answer

[1]

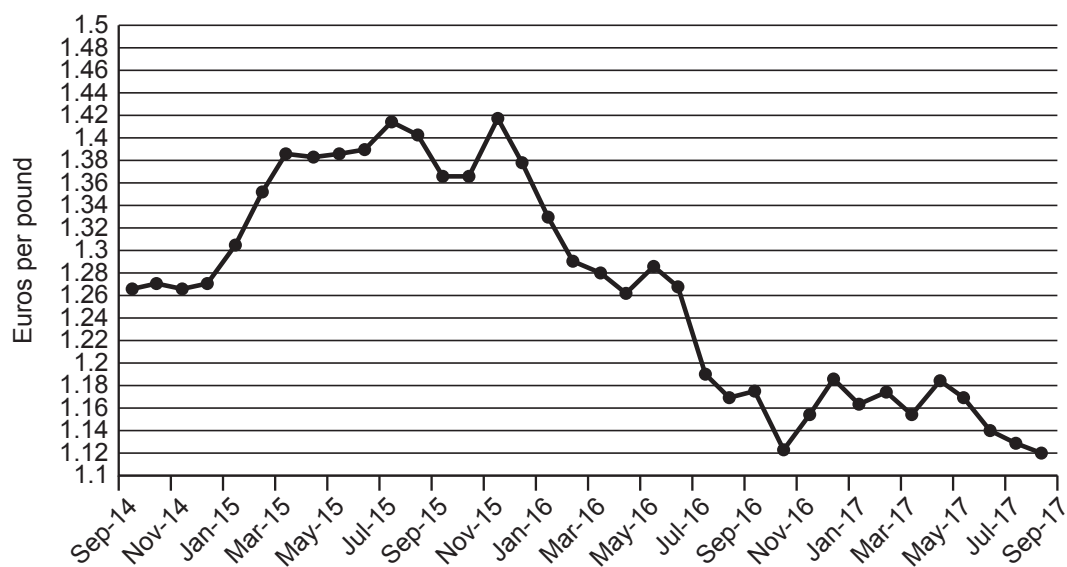
2-MARK QUESTIONS

16 questions in this booklet

18

The value of the pound is a crucial determinant of the international competitiveness of UK firms. Fig. 1.2 illustrates the impact the vote to leave the EU had on the exchange rate.

Fig. 1.2 – Sterling-Euro Exchange Rate 2014–2017



21

- 31** Using Fig. 1.1 and the information in Extract 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market.

[2]

- 32** Some economists argued membership of the European Single Market caused a number of trade distortions, including in the beef market, where Irish firms had an artificial advantage over US firms as a result of being able to export to the UK tariff-free.

Explain, using an appropriate diagram and the information in Extract 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free.

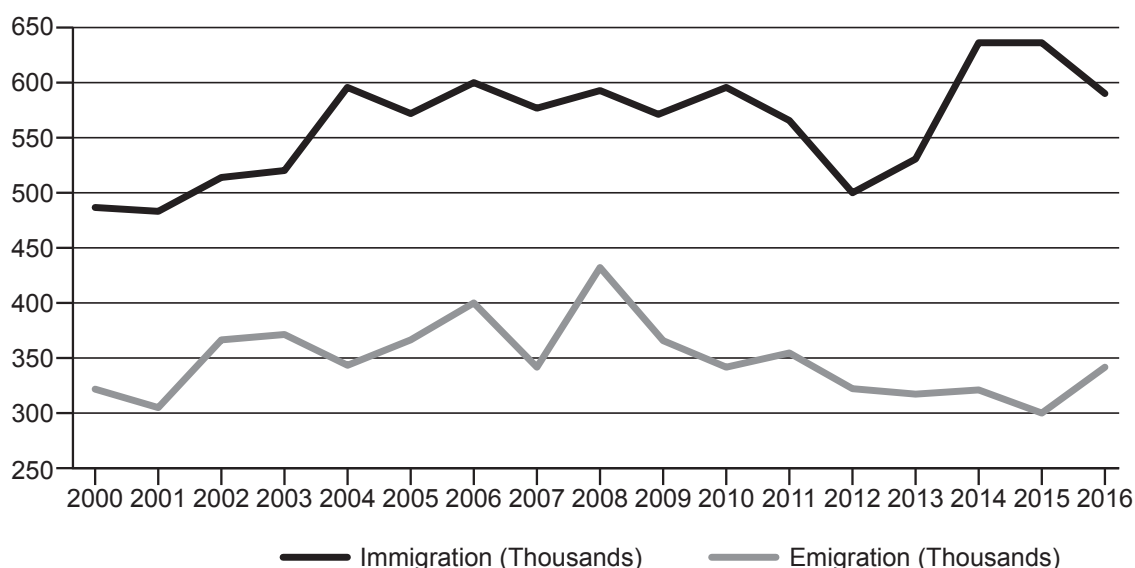
..... [6]

19

Extract 2 – European Union membership & migration

The 'four freedoms' of the European Union – the freedom of movement of goods, people, services and capital across borders – are a core element of EU membership. In the UK, it was disagreement over the relative merits of the most contentious of these – the free movement of people – that arguably led to the country voting to leave the EU.

The freedom of movement came under sharper focus in 2004, when the EU experienced its largest ever expansion that saw ten new member states join and the population increase by more than 100 million citizens. This resulted in a large influx of immigrants into the UK from individuals attracted by the relatively high wages on offer, with nearly a million workers coming from Poland alone in their first ten years of EU membership. The further expansion of the EU in 2007 to include the low wage countries Bulgaria and Romania fuelled concerns that immigration would spiral in the UK, with much debate over the potential impact of this. Fig. 2.1 illustrates how migration in the UK changed during this period.

Fig. 2.1 – UK Migration 2000–2016

One of the main benefits Leave campaigners argued would result from leaving the European Union was the ability this would give the UK government to take control of its borders. They argued that rising immigration had put increasing pressure on public services, pushed house prices up and depressed the wages and employment opportunities for low skilled workers.

However, many economists argued the end of free movement presented many risks to the prosperity of the UK economy. Empirical evidence suggests that EU immigrants tend to be younger than the native population and more likely to work and pay taxes than claim benefits, in doing so addressing the problems an ageing population could cause the economy. Moreover, a number of industries such as healthcare and construction are reliant on immigrants to fill skills shortages, with immigration allowing the UK to benefit from greater labour market flexibility.

22

- 33** Using Fig. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union.

[2]

- 34** Using Fig. 2.1, explain what has happened to migration in the UK between 2000 and 2016.

[2]

- 35** Evaluate, using the information in Extract 2, the impact on the UK labour market and wider economy of the UK ending the free movement of labour with EU countries. **[15]**

[illegible]

2

SECTION A

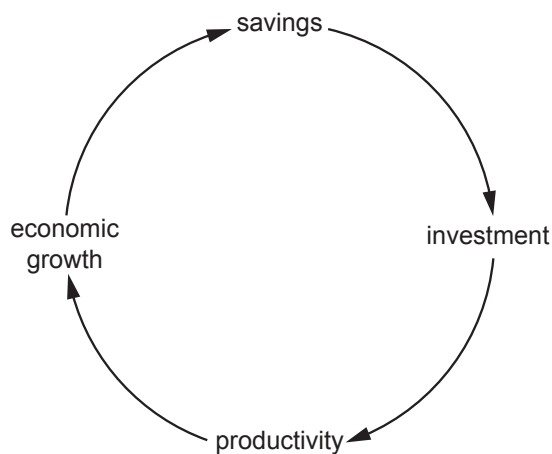
Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

Does rising national debt matter?

At the start of 2020, there were reasons to think there was both a greater need for government borrowing and a reduced concern about rising national debt. There had been a slowdown on the growth of aggregate demand. Although interest rates were low, private sector investment was not making full use of available savings. Fig. 1 shows a virtuous circle between savings and economic growth.

Fig. 1

A virtuous circle

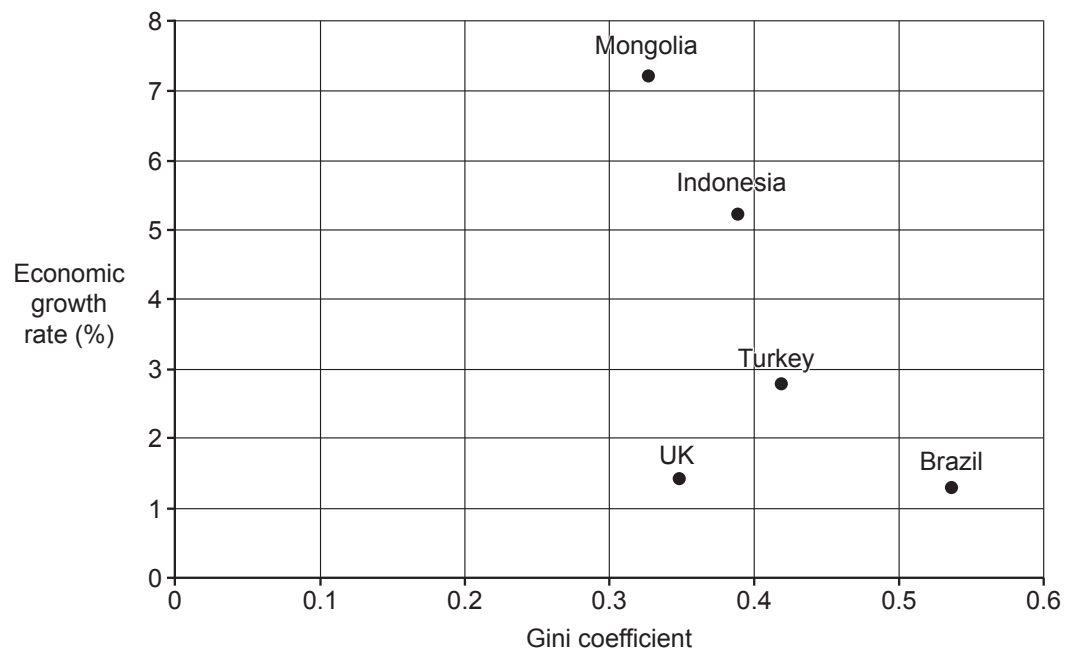


However, more savings, if not used for investment, can slow down economic growth. One cause of an increase in savings can be greater income inequality. Fig. 2 shows the Gini coefficient and economic growth rates for selected countries.

3

Fig. 2

The Gini coefficient and economic growth rate for selected countries 2018



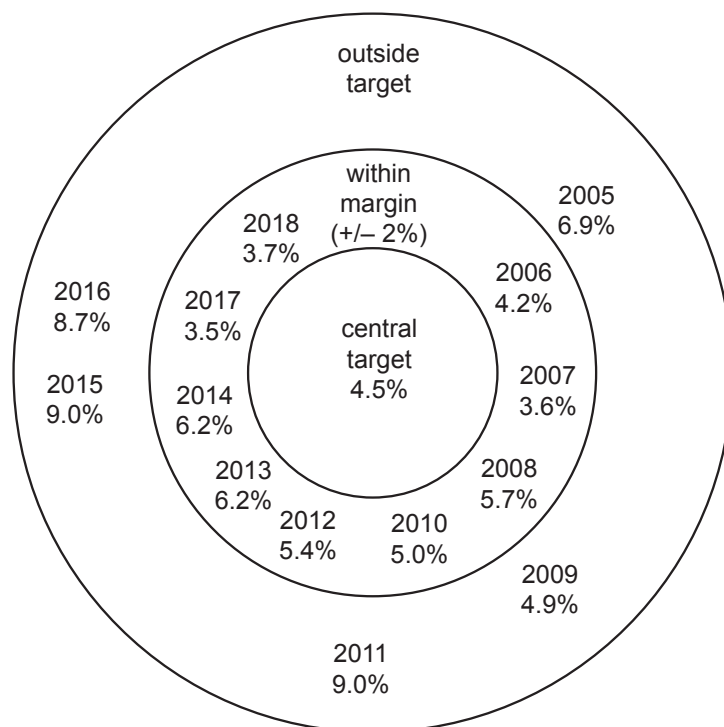
- The slowdown in aggregate demand in the UK kept the country's inflation rate low. Between
- 10 January 2019 and January 2020, the Consumer Prices Index increased from 106.3 to 108.2. If a central bank can convince households, workers and firms that inflation will be at a low and stable rate, it can affect expectations and investment in a beneficial way. One way of doing this is by setting an inflation rate target. Of course, trying to achieve an inflation rate target can be affected by adverse demand-side and supply-side shocks. If the target is not met, it can also cause
- 15 households, workers, and firms to question the central bank's ability to control inflation.

4

Some governments change their inflation rate target. For example, the Brazilian government between 2005 and 2018 had kept the inflation rate target fixed at 4.5% with a margin of plus or minus 2%. In 2019 however, the target was changed to 4.25% and in 2021 it was set at 3.75%. In both years the margins were set at plus or minus 1.5%. Fig. 3 shows Brazil's inflation rate performance in terms of its target rate over the period 2005–2018.

Fig. 3

Brazil's performance in meeting its inflation rate target



The UK's low inflation rate at the start of 2020 was combined with a low economic growth rate. The economy was experiencing a negative output gap. There was the possibility that higher government spending, financed by borrowing, could increase economic growth. Higher government borrowing, however, increases the national debt, at least in the short run. In January 2020, the UK's national debt was 72% of GDP. An increase in government debt also runs the risk of increasing the inflation rate. This is influenced by, among other factors, who the government borrows from. There is the possibility that higher government debt may make it more difficult to attract lenders who are willing to buy the debt. Japan, however, which had a much higher national debt of 230% of GDP at this date, was not having any difficulty selling its debt.

5

- 1 (a) Using information from the stimulus material, identify **two** reasons why crowding out may **not** occur.

1

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2

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[2]

- (b) Using **Fig. 1**, explain how savings can promote economic growth.

.....

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[2]

- (c) Using **Fig. 2**, explain the relationship between the Gini coefficient and economic growth rate.

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[4]

- (d) Using information from the stimulus material, calculate the UK's 12 month inflation rate in January 2020.

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[2]

2

SECTION A

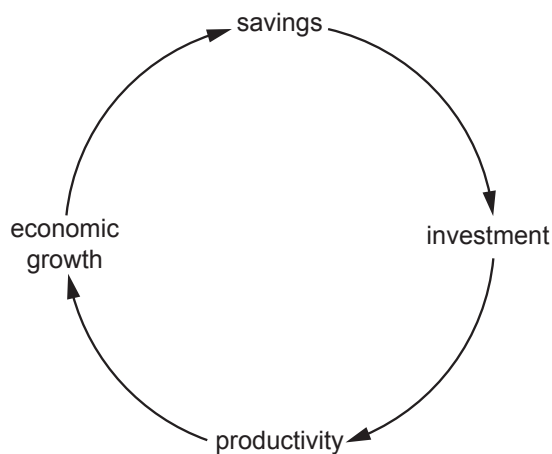
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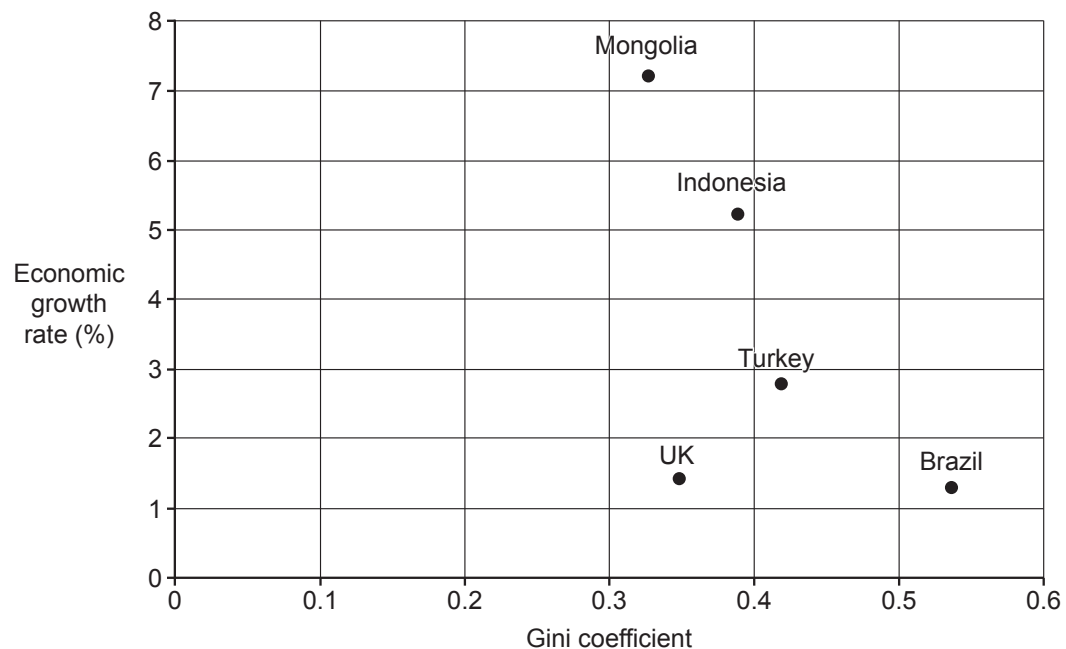


However, more savings, if not used for investment, can slow down economic growth. One cause of an increase in savings can be greater income inequality. Fig. 2 shows the Gini coefficient and economic growth rates for selected countries.

3

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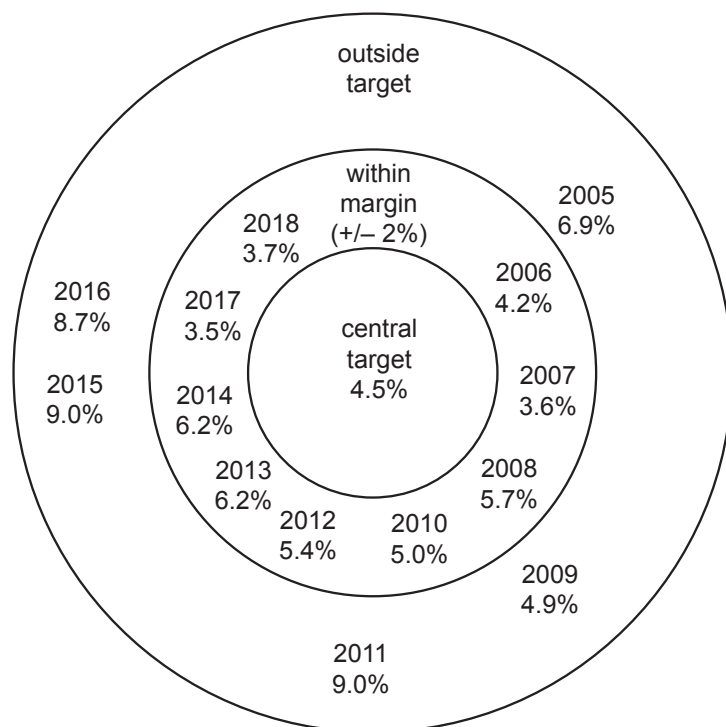
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[4]

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[2]

2

SECTION A

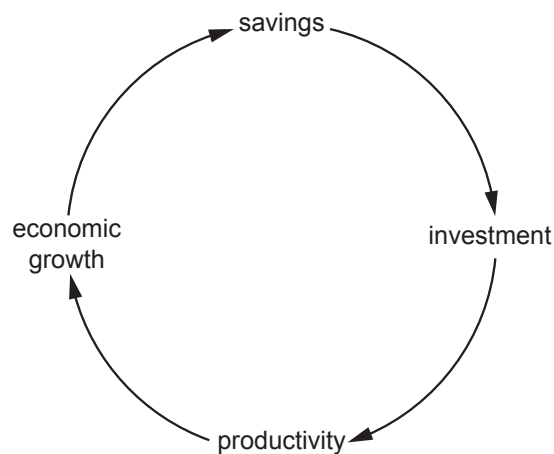
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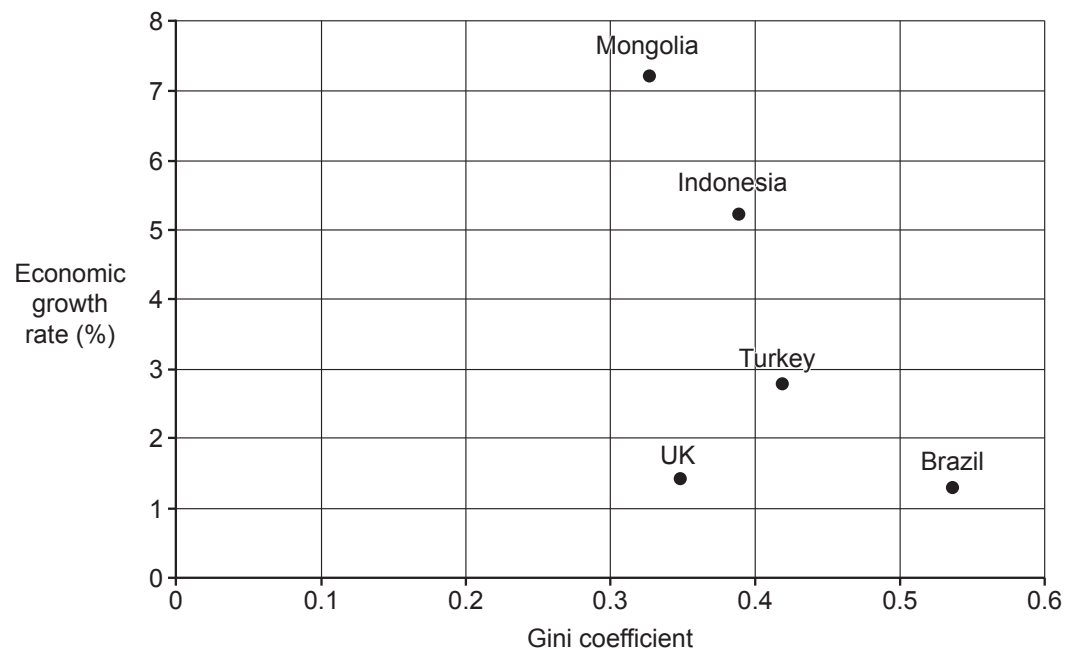


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Fig. 2

The Gini coefficient and economic growth rate for selected countries 2018



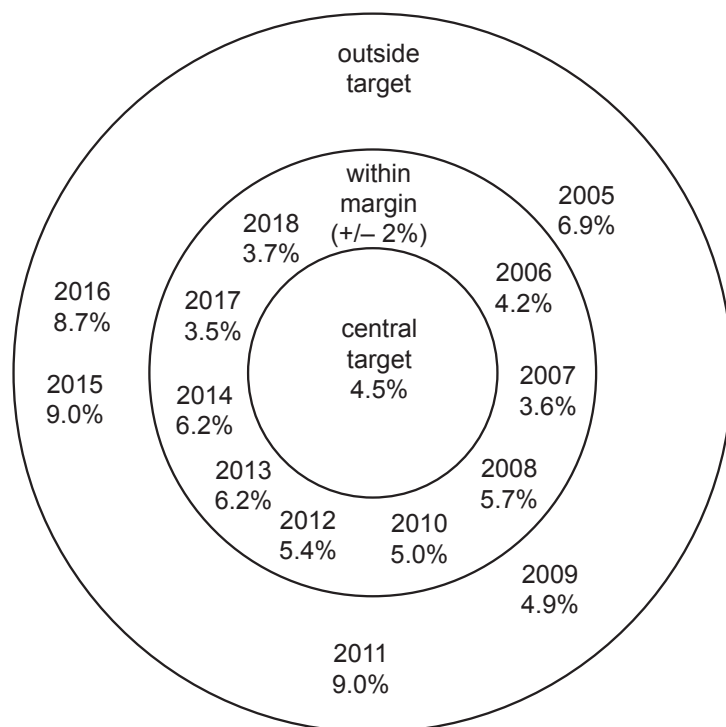
- The slowdown in aggregate demand in the UK kept the country's inflation rate low. Between
- 10 January 2019 and January 2020, the Consumer Prices Index increased from 106.3 to 108.2. If a central bank can convince households, workers and firms that inflation will be at a low and stable rate, it can affect expectations and investment in a beneficial way. One way of doing this is by setting an inflation rate target. Of course, trying to achieve an inflation rate target can be affected by adverse demand-side and supply-side shocks. If the target is not met, it can also cause
- 15 households, workers, and firms to question the central bank's ability to control inflation.

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Some governments change their inflation rate target. For example, the Brazilian government between 2005 and 2018 had kept the inflation rate target fixed at 4.5% with a margin of plus or minus 2%. In 2019 however, the target was changed to 4.25% and in 2021 it was set at 3.75%. In both years the margins were set at plus or minus 1.5%. Fig. 3 shows Brazil's inflation rate performance in terms of its target rate over the period 2005–2018.

Fig. 3

Brazil's performance in meeting its inflation rate target



The UK's low inflation rate at the start of 2020 was combined with a low economic growth rate. The economy was experiencing a negative output gap. There was the possibility that higher government spending, financed by borrowing, could increase economic growth. Higher government borrowing, however, increases the national debt, at least in the short run. In January 2020, the UK's national debt was 72% of GDP. An increase in government debt also runs the risk of increasing the inflation rate. This is influenced by, among other factors, who the government borrows from. There is the possibility that higher government debt may make it more difficult to attract lenders who are willing to buy the debt. Japan, however, which had a much higher national debt of 230% of GDP at this date, was not having any difficulty selling its debt.

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- 1 (a) Using information from the stimulus material, identify **two** reasons why crowding out may **not** occur.

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- (b) Using **Fig. 1**, explain how savings can promote economic growth.

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- (c) Using **Fig. 2**, explain the relationship between the Gini coefficient and economic growth rate.

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- (d) Using information from the stimulus material, calculate the UK's 12 month inflation rate in January 2020.

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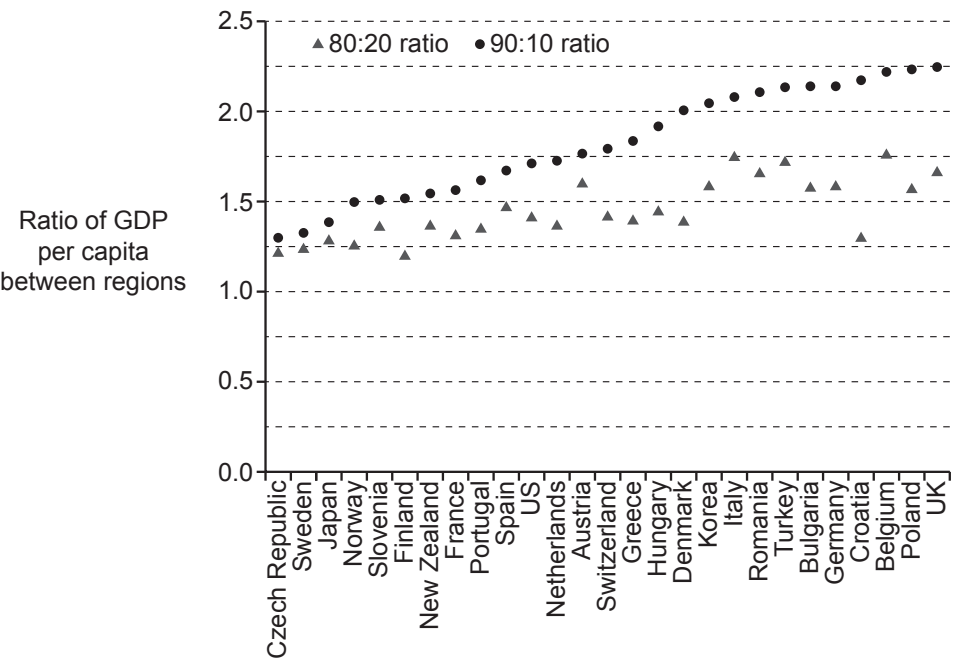
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Extract 2 – The policy response

The data in Fig. 2.1 compares the level of regional inequality around the world. For example, the 90:10 figures denote the ratio between regional GDP per capita in the 90th percentile (income level which only 10% of the country's regions exceed) to the 10% percentile (the level which only 10% of the country's regions have less than).

Fig. 2.1
Measures of inequality in regional GDP per capita, by country



It demonstrates the need for an urgent policy response by the UK government. In November 2020 a £4 billion fund was announced, which prioritised the need to upskill much of the population to address low productivity levels and invest heavily in improving the public transport network. 5

The commitment to this fund follows a report by the Institute of Fiscal Studies in October 2020, which presented a number of policy options the government could implement to address regional inequality: 10

- Invest in high speed rail in the North, in doing so addressing current inequality in government spending on transport which is 2.8 times per capita higher in London than in the rest of the UK. 5
- Subsidise research and development to create prosperous, knowledge-based local economies in left behind regions to tackle unbalanced spending in this area (research and development spending in the South East of England is 1.8 times higher per capita than in the rest of the UK). 15
- Move a number of government departments and civil service jobs away from London to the regions to address the fact that at present 20% of all civil servants are based in London, along with 64% of the most senior government jobs. 20

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- 34 Explain, how the data in **Fig. 2.1** can be used to measure the level of income inequality in the UK.

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- 35 Explain, why infrastructure such as high speed rail is unlikely to be provided in a market economy without government intervention.

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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

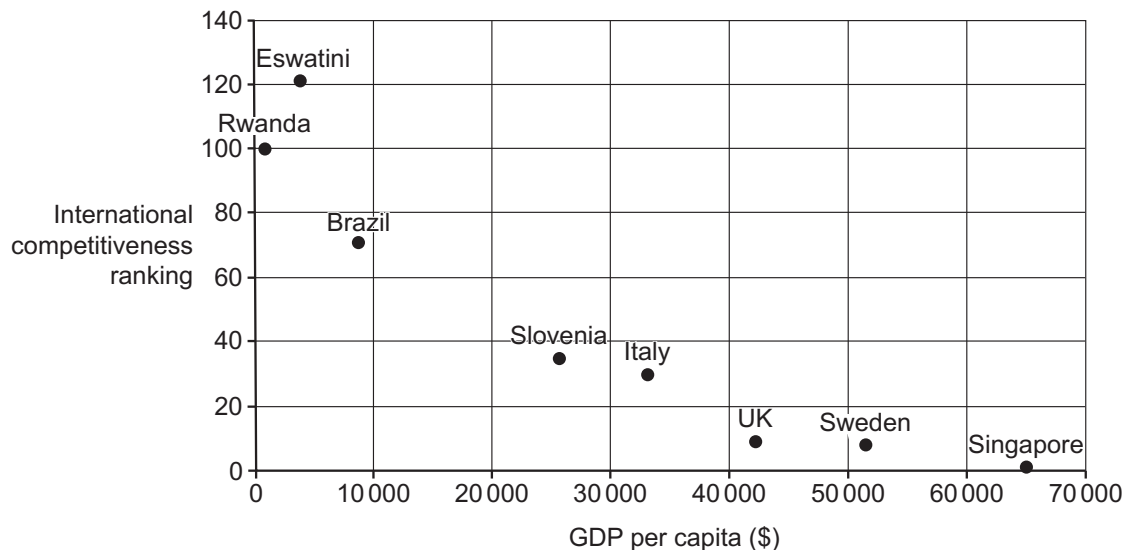
The UK was placed 11th in the skills category. A more skilled labour force is likely to have higher productivity. In turn, productivity can also be affected by working hours. Between 2018 and 2019, average working hours fell in Germany, the UK and the USA and labour productivity rose. In contrast, both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

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Fig. 1

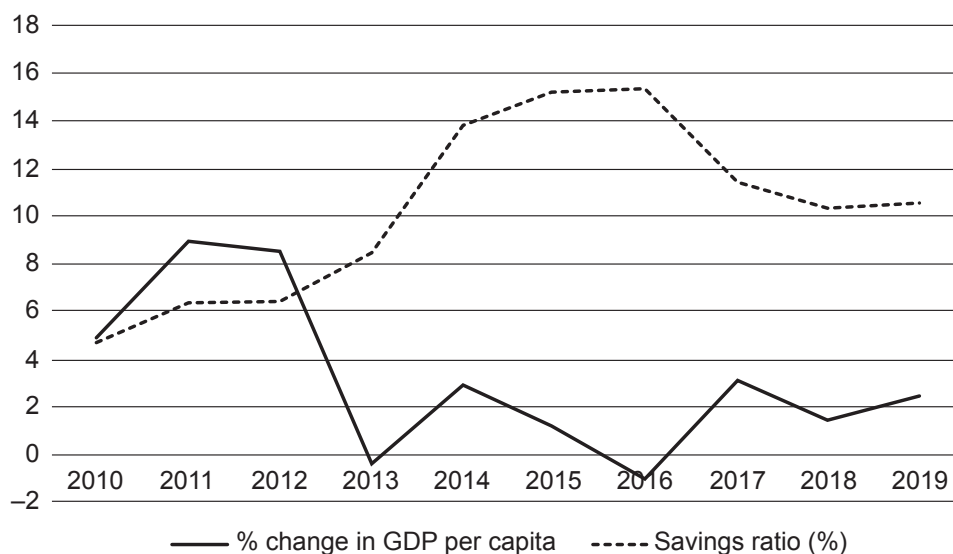
International competitiveness ranking and GDP per capita of selected countries



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.

Fig. 2

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



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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.

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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.

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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.

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- 1 (a) Using information from the stimulus material, calculate the balance on the UK's primary and secondary income in 2019.

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- (b) Using information from the stimulus material, identify **two** causes of an increase in the money supply.

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- (c) Explain how a change in working hours is likely to affect productivity.

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- (d) Using **Fig. 1**, explain the relationship between international competitiveness and GDP per capita.

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SECTION A

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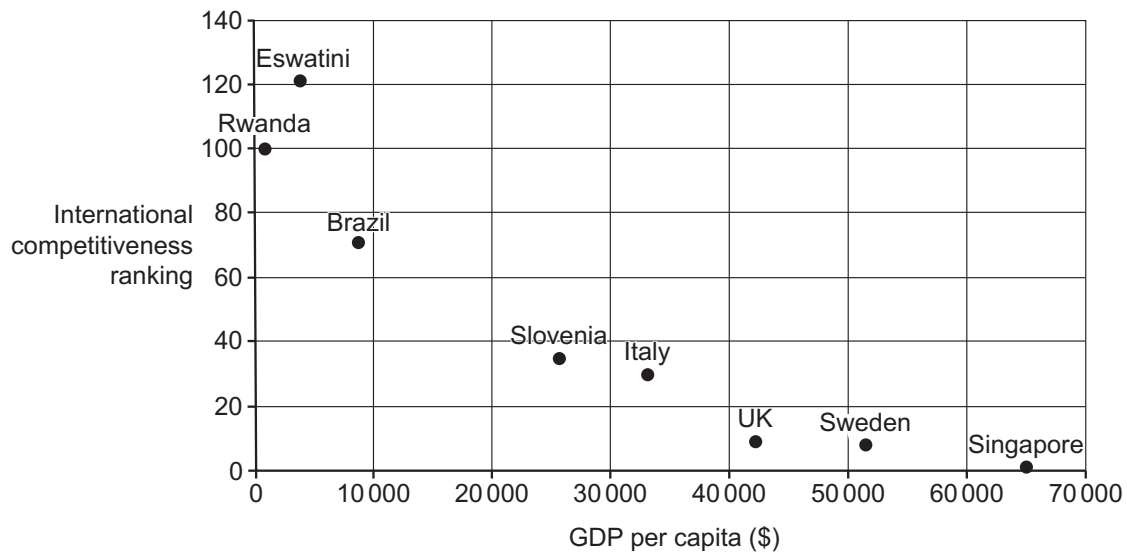
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Fig. 1

International competitiveness ranking and GDP per capita of selected countries

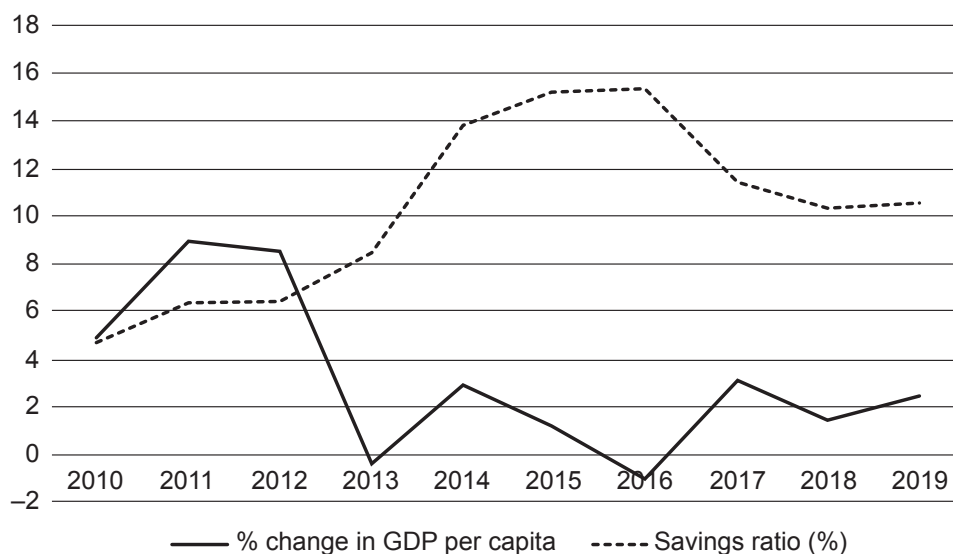


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Fig. 2

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



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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

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- (b) Using information from the stimulus material, identify **two** causes of an increase in the money supply.

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- (c) Explain how a change in working hours is likely to affect productivity.

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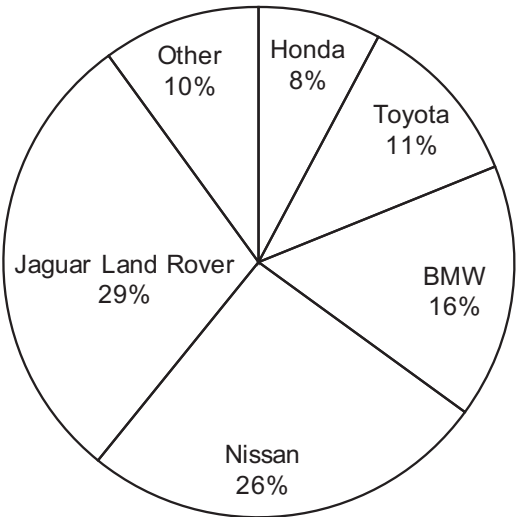
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Extract 2

The automotive industry

Our continued reliance on travel by car is good news for the automotive industry, a vital part of the UK's economy which contributes more than £150bn to GDP. With the production of many other goods having moved abroad in recent decades the industry has become an increasingly important element of the manufacturing sector as a whole, now accounting for 10% of the UK's total manufacturing output. It is also a major source of employment, with 180 000 workers employed directly in car manufacturing and 864 000 employed across the wider industry. Fig. 2.1 illustrates how the production of cars in the UK is distributed by brand. 5

Fig. 2.1
Car production in the UK by brand, 2019



Output in the industry is relatively volatile, with demand particularly sensitive to the macroeconomic climate. The global economic downturn that resulted from the financial crisis saw car manufacturing output decrease by more than 25% in 2009 – a much more pronounced fall than in other manufacturing industries – whilst new car sales fell by almost 30% in 2020 when the economy experienced a deep recession. 10

The export market represents by far the biggest source of demand for the UK automobile industry, with 80% of cars produced in the UK exported. This accounts for 13% of the total exports of UK goods, making the industry a crucial component of the country's international trade. This is also the case in other developed European economies such as Germany, which is why for a number of years the UK and European governments have given annual subsidies in excess of £30bn to the industry. 15

There are concerns that the UK's new relationship with the European Union following Brexit poses a number of problems to the industry. This is because of its reliance on global supply chains being threatened by any barriers to trade imposed and a potential shortage of workers arising from the end of the free movement of labour. Some therefore argue that significant state aid (effectively acting as an export subsidy) is needed to ensure UK car manufacturing remains internationally competitive. However, critics are concerned such action goes against the principles of comparative advantage and could do more harm than good in the long run. 20 25

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- 34 Explain, using the data in **Fig. 2.1**, the most likely market structure of the car manufacturing industry in the UK.

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- 35 Explain, using the information in **Extract 2** and a relevant diagram, the impact on the market for new cars of the 2020 recession.

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SECTION A

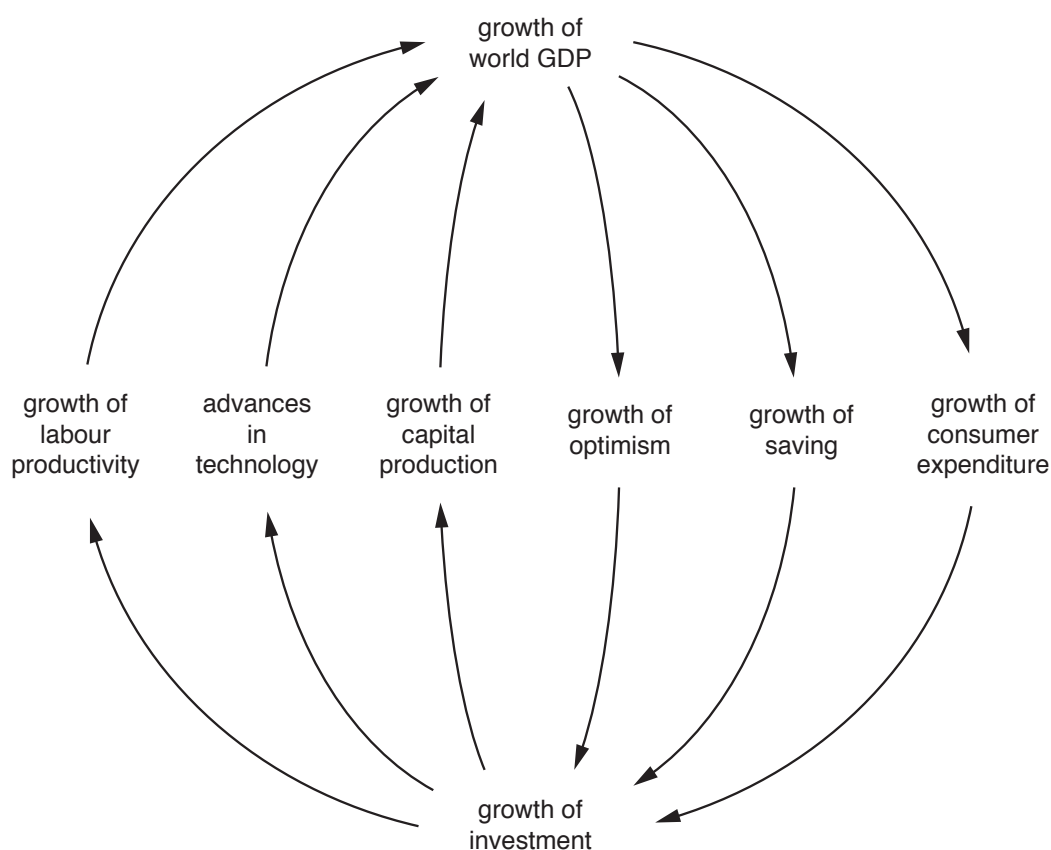
Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

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

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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.

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

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

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

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

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Section B

Read the extracts before answering the questions.

Extract 1**Global heating and the water market**

In August 2022 temperatures in the UK hit 40 °C for the first time. This is part of a longer-term trend for higher temperatures: the ten hottest years since records began have occurred since 2002. The lack of rainfall across the country placed many regions in an official drought.

Water companies faced problems as reservoir levels fell and demand for water increased along with the temperature. The provision of water and sewage services in England and Wales was privatised in 1989 when ten newly created private sector firms took control of the market.

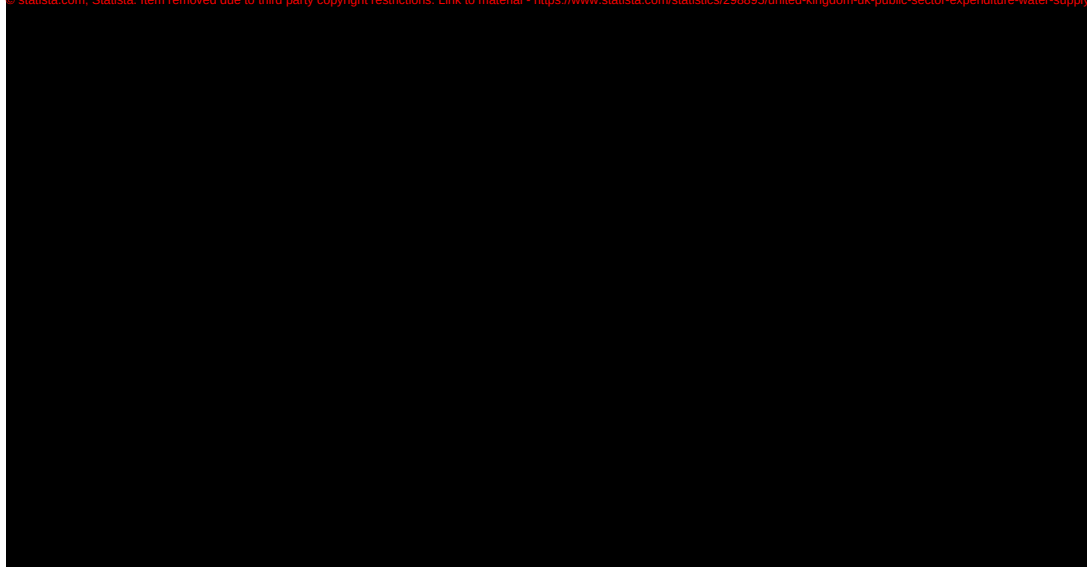
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Each firm is a regional monopoly and consumers have no choice over their supplier. Water supply in Scotland and Northern Ireland remains a nationalised industry run by the government. Public sector expenditure on water supply can be seen in Fig. 1.1, this expenditure can be considered in relation to the size of GDP which was £1,101 billion in 2021/22.

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Fig. 1.1**Public sector expenditure on water supply from 2009/10 to 2021/22 in £ million.**

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Private sector firms made profits of over £2.8 billion in 2020 and have been criticised for paying out over £16 billion in dividends in the past decade. The pay of some Chief Executives has been questioned with some earning close to £3m per year. The regulator of the industry, OFWAT, has no formal powers to control profits or dividends but does stress the importance of water companies making enough profit to fund large scale investment and maintain quality and environmental standards.

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A recent Environment Agency report highlighted problems with water companies dumping sewage into English rivers and seas. In 2021 Southern Water was fined £90m for dumping billions of litres of untreated sewage into the sea. The government’s Water Minister called for greater investment by private sector firms to prevent leakages. It is estimated that water companies lost over 1 trillion litres of water in 2021. 20

As summers look set to heat up further, pressure will mount on the efficiency of water supply. Whether England and Wales should continue to be two of the few countries in the world with a privatised water industry may be called into question.

31 Using the data in **Fig. 1.1** and information in **Extract 1**, calculate public sector expenditure on water supply as a proportion of GDP in 2021/22.

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32 Explain why privatisation may increase long run aggregate supply (LRAS).

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Extract 2**The impacts on inflation**

Heatwaves have been linked to a fall in productivity and drought causes output of agricultural goods to fall, driving up prices. Food and energy prices in the UK were also on the rise due to the instability in Europe. Tightening labour markets and disruption to supply chains caused by the pandemic have also contributed to inflation soaring above the 2% target in the UK in 2022.

The Monetary Policy Committee (MPC) has responded to rising inflation. It raised the official bank (base) rate from 0.75% in April 2022 to 2.25% by September 2022. The MPC was hoping that the increased interest rates would cause an appreciation in the value of Sterling as well as increasing the household savings ratio. There are close to 11 million mortgages in the UK totaling over £1.6 billion, over three quarters of mortgage holders are on a fixed rate and in recent years the number of new mortgages being taken out at fixed rates has been even higher as house buyers looked to lock in to historically low interest rates.

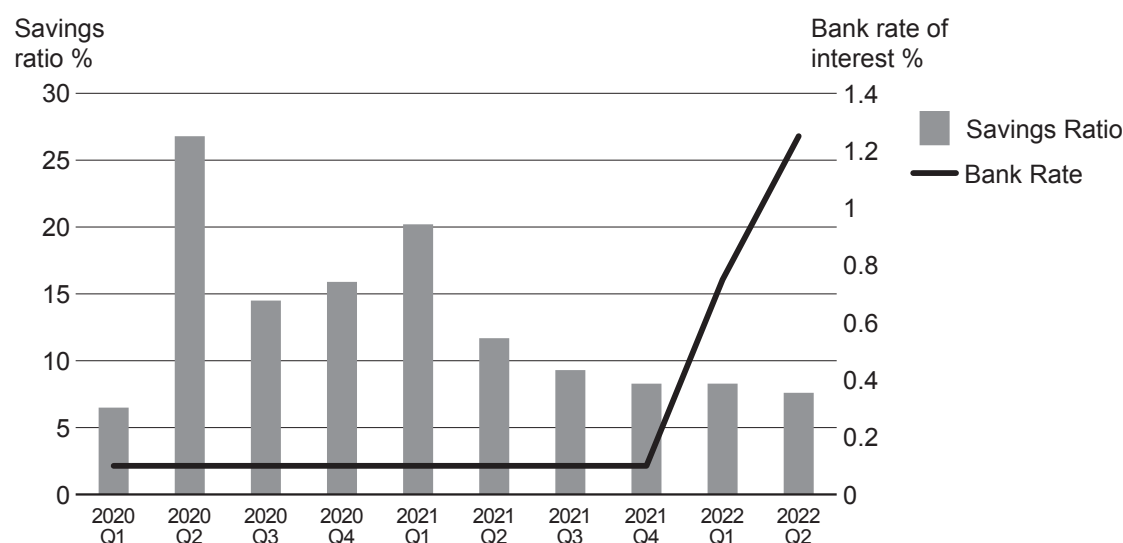
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Some economists have argued that attempts to tighten demand at a time when economic growth is flat is not the best policy option.

Fig. 2.1**The Consumer Price Index (CPI) of inflation for the UK (Base Year = 2015)**

Date	Value
August 2018	106.5
August 2019	108.4
August 2020	108.6
August 2021	112.1
August 2022	123.1

Fig. 2.2**The Bank of England bank rate of interest and the household savings ratio in the UK 2020–2022**

The household savings ratio is the proportion of disposable income that is not spent.

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- 34** Using the data in **Fig. 2.1**, compare the annual inflation rate in August 2022 to the annual inflation rate in August 2019.

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- 35** Using **Fig. 2.2**, identify what evidence there is that the rate of interest may not have been a large determinant of household saving in the UK between 2020 and 2022.

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Turn over for the next question

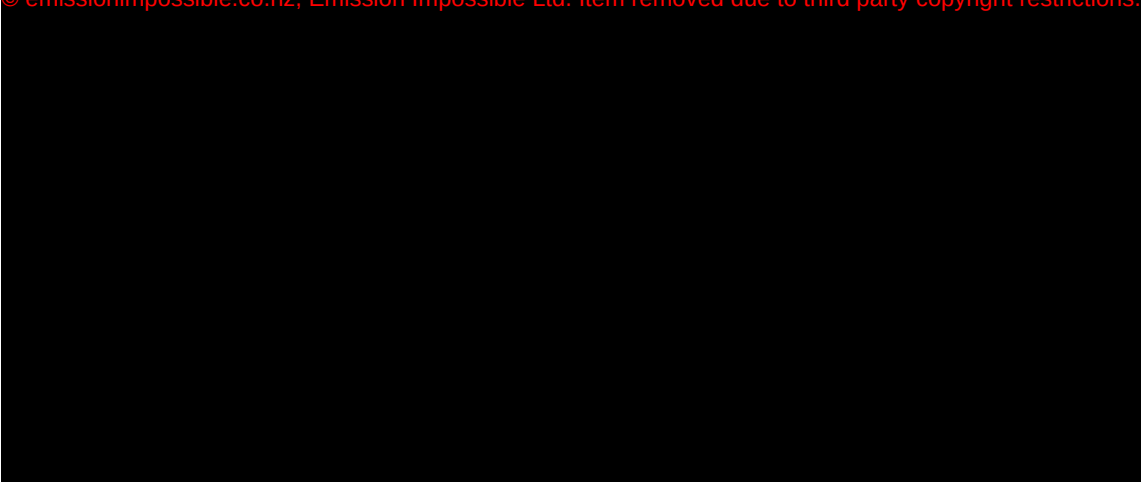
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Extract 3
Firefighters' pay

The high temperatures and prolonged drought in the summer of 2022 led to a surge in the number of fires. The economic impact of these fires is difficult to capture. The distress of losing a home and possessions, and the impacts to wildlife are not captured by Gross Domestic Product (GDP). An issue with GDP is that it measures any positive impact from the aftermath of fires, such as rebuilding a house, but it fails to capture all of the negative impacts. Some economists argue that measures such as the Human Development Index, (HDI), are more useful than GDP. 5

Fig. 3.1
Change in UK Gross Domestic Product (GDP) and UK Human Development Index (HDI) score

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Firefighters are under increasing pressure and the job is becoming ever more dangerous. The Fire Brigades Union (FGU) which represents firefighters in the UK is considering strike action in response to government proposals to offer a 2% pay rise to firefighters, a rise well below the rate of inflation. The FGU has over 30,000 members, more than 80% of the workforce. The FGU face a monopsony employer; the government is the only buyer of labour for fire services. 10

To become a firefighter people must complete a 12-18 week training programme which includes medical, fitness and written tests. Once they begin work, firefighters must complete a further 18-24 months of on the job training. However there are no formal qualifications required to join the Fire Service. The number of firefighters in the UK has fallen around 20% from 2010 to 2021. In 2022, however, average wages for firefighters in the UK stand at £38,800 which is higher than average wages for police officers, paramedics and those in the Armed Forces. It is also higher than the UK median average pay. 15

37 Using Fig. 3.1, compare GDP and HDI growth between 2011 and 2021.

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SECTION A

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

Are low-income countries playing catch up?

The global economy is changing. It is becoming more integrated and China is moving towards becoming the world's largest economy. Lower costs of transport continue to increase the volume of international trade. Producing in different countries and buying products from anywhere in the world are being made easier by advances in communications.

- 5 World trade grew by 4.4% in 2017 and is predicted to grow by 4.7% in 2018. China is accounting for a higher proportion of this global trade and a higher proportion of global output. The country has experienced a significant rise in its GDP per head in recent years. This has had an impact on its citizens' life expectancy. Fig. 1 shows the average income and life expectancy in a number of countries.

Fig. 1 GDP per head and life expectancy in selected countries 2017

Country	GDP per head (\$)	Life expectancy (years)
Bangladesh	4200	73.7
China	16 700	75.8
Egypt	12 700	73.2
Germany	50 800	80.9
Guinea	2200	62.1
Japan	42 900	85.5
UK	44 300	80.9
USA	59 800	80.1

- 10 Developments in the Chinese economy can be illustrated by both movements in the country's production possibility points and in the position of the production possibility curve as shown in Fig. 2.

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- 1 (a) Using information from the stimulus material, identify **two** causes of globalisation.

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- (b) Using Fig. 1, explain the relationship between GDP per head and life expectancy.

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- (c) Using Fig. 2, explain the difference between short run and long run economic growth.

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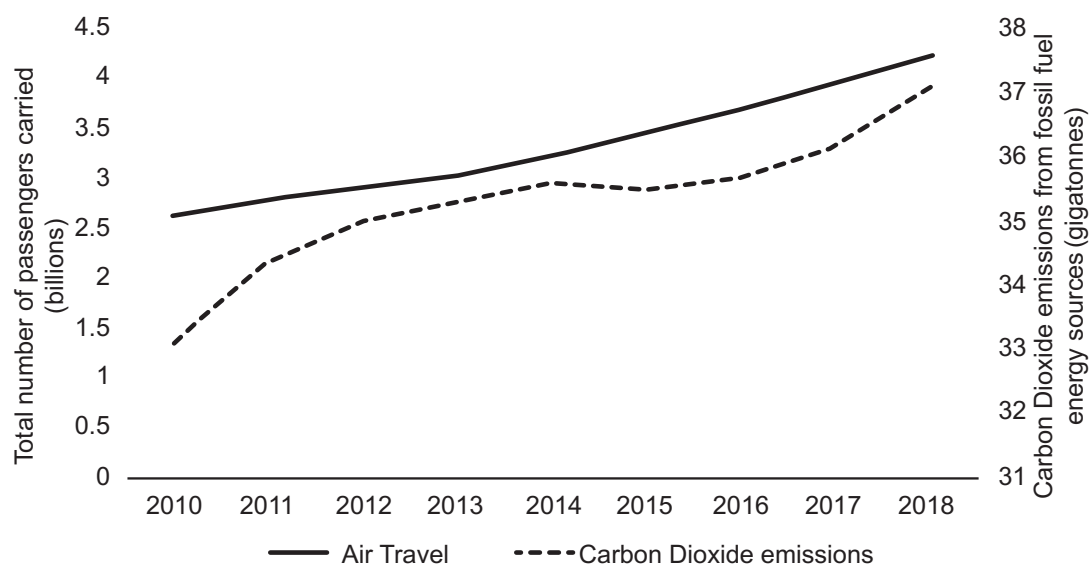
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Fig. 3.2 – Air passenger journeys and carbon emissions 2010–2018



A proposal made by some environmental lobbyists is for the government to legislate to limit all individuals to one return flight per year. It is argued this would help reduce the negative externalities associated with air travel and make a substantial contribution to addressing the challenge of climate change. However, business groups remain concerned about the detrimental impact such an action would have on the UK's status as a global centre of financial services, more broadly suggesting it would limit the potential gains from globalisation that are needed to generate future economic growth. Such groups argue such extreme action is not necessary when there remain less damaging alternative policy solutions to reduce global emissions.

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37 Using Fig. 3.2, explain the relationship between air travel and carbon dioxide emissions.

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38* Evaluate, using the information in Extract 3, the economic implications of limiting individuals to one return flight a year. [15]

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SECTION A

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

Are we moving towards a cashless society?

- Recent years have seen a change in both the amount consumers spend and how they make their payments. How much consumers spend is influenced by a variety of factors. These include changes in income and changes in confidence. During an economic boom, consumer expenditure is likely to be high. Indeed, an economic boom is often consumer-led. In contrast, consumer expenditure can fall to a low level during a recession. Fig. 1 shows how consumer expenditure can vary as income changes.

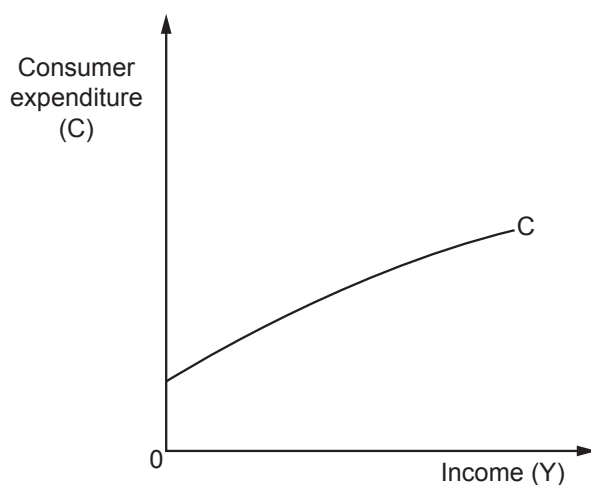


Fig. 1 The relationship between changes in income and changes in consumer expenditure

- Changes in injections and leakages can alter a country's income. It has been estimated, for instance, that an injection of \$200m of government spending in the Swiss economy would cause a rise in GDP of \$300m.
- 10 The proportion of payments made in cash in Switzerland is declining. It is also falling in the UK. In 2005, 70% of payments in the UK were made in cash. By 2015, this had fallen to 50% and is forecast to decline to 30% by 2025. The extent to which cash is used influences the number of banknotes printed and in circulation. Fig. 2 shows the value of banknotes in circulation in the UK over a five year period.

3

Year	£5	£10	£20	£50	Total
2014	1 540	7 182	36 483	11 025	56 230
2015	1 601	7 371	38 912	11 788	59 672
2016	1 645	7 767	41 037	13 157	63 606
2017	1 912	8 006	43 357	15 601	68 876
2018	1 910	7 789	42 692	16 508	68 899

Fig. 2 The value of banknotes in circulation (£million) 2014–2018

- 15 Some central banks favour ending the use of cash. One reason is because of the role that cash plays in a number of criminal activities including money laundering and drug dealing. A more significant motive is probably to enable central banks to charge negative interest rates when needed to stimulate economic activity. If people and banks can take money out of their deposits and hold them as cash, negative interest rates are likely to have less power to encourage an increase in spending.

25 Negative interest rates involve commercial banks having to pay to hold deposits at the central bank. As commercial banks often have excess funds held at the central bank, a negative interest rate may encourage them to lend the funds instead. If commercial banks pass on the negative rates to their customers, people will have to pay to save. Negative interest rates would have an impact on borrowing, the cost of servicing government debt and probably on the exchange rate.

A number of central banks, including the Bank of Japan, the Swiss National Bank, Denmark's National Bank and the European Central Bank (ECB) have used negative interest rates in a bid to avoid deflation. These banks received some criticism for the effect that the negative interest rates had on confidence, saving and bank profitability.

- 30 The Bank of England has yet to introduce a negative interest rate. Fig. 3 shows how the UK interest rate has changed in recent years.

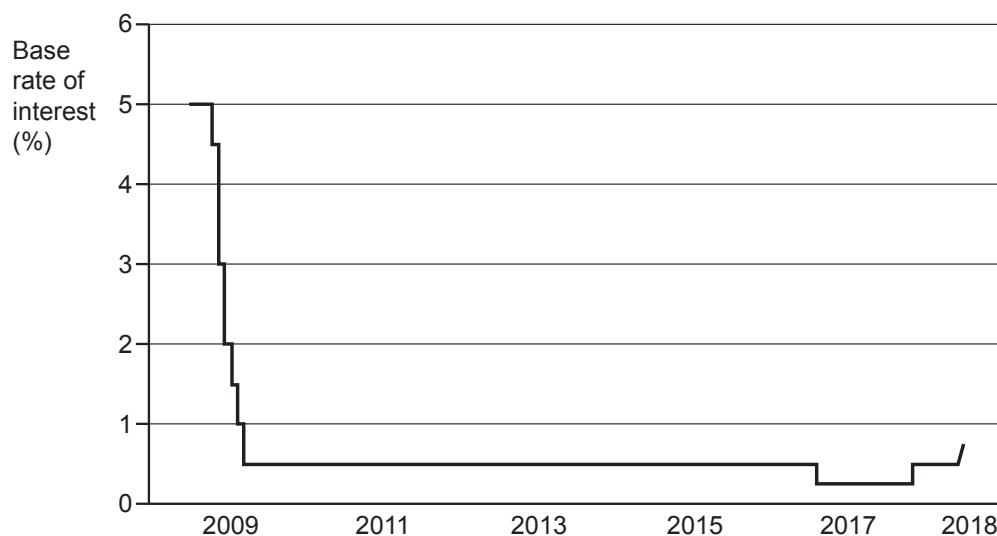


Fig. 3 UK interest rates 2009–2018

4

- 35 While the ECB has stopped producing its €500 note, the Bank of England has not yet scrapped any notes. Getting rid of cash is likely to affect the poor most. Nearly 1.5 million UK adults do not have a bank account and most of these are poor. Some of them are unemployed. The number of people unemployed may increase during a recession. The impact on unemployment will depend on a number of factors. These include firms' stock levels, the length of the recession, how easily firms can adjust working hours and the number of people they employ and whether the numbers in the labour force stay the same.

- 1 (a) Using information from the stimulus material, identify **two** stages of the economic cycle.

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2 [2]

- (b) Using **Fig. 1**, explain the relationship between changes in consumer expenditure and changes in income.

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- (c) Calculate Switzerland's marginal propensity to withdraw.

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3-MARK QUESTIONS

4 questions in this booklet

20

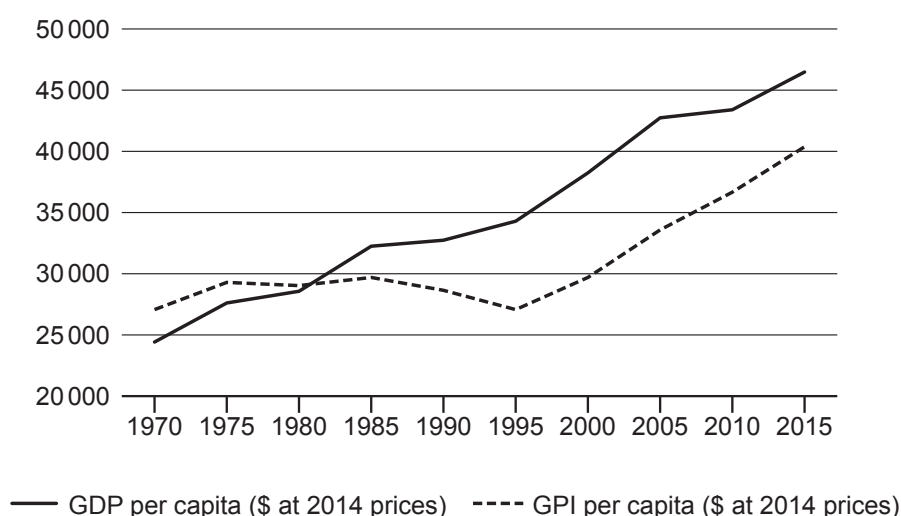
Extract 3 – Growth at all costs?

The UK government has been very clear that 'levelling up' is not about redistributing income from London to the North but by increasing incomes across the UK, with incomes in the North rising faster than in London to enable them to catch up. However, the principle underpinning this – that economic growth is desirable – is increasingly coming under question. It can be argued that economic growth will not always lead to an improvement in welfare, with some economists suggesting the Genuine Progress Indicator (GPI), which includes factors such as the distribution of income, environmental standards and the cost of crime, is a more effective measure of standard of living. Fig. 3.2 charts the relationship between GDP and GPI in New Zealand between 1970 and 2015.

5

Fig. 3.1

GDP and GPI per capita in New Zealand, 1970–2015



There is growing support for the 'degrowth' movement, which criticises the global capitalist system that pursues growth at all costs, causing human exploitation and environmental destruction. The degrowth movement instead argues in favour of prioritising social and ecological well-being over profits and consumption. Achieving this would require a strong commitment to reducing global GDP, in doing so utilising less natural resources and requiring us to live our lives differently to the way we do today. Supporters point to data in many developed countries that shows despite significant economic growth welfare has largely stagnated since the 1970s as powerful evidence in favour of this approach. However, such action would clearly require a radical change to the way economists think – virtually no attempt has been made to develop an economic model that doesn't rely on long term growth.

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- 37** Explain, whether **Fig. 3.1** supports the view that “economic growth will **not** always lead to an improvement in welfare”.

[3]

- 38*** Evaluate, using the information in **Extract 3**, the impact of removing economic growth as one of the government's primary macroeconomic objectives. **[15]**

[illegible]

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.

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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 expressed in terms of index figures.

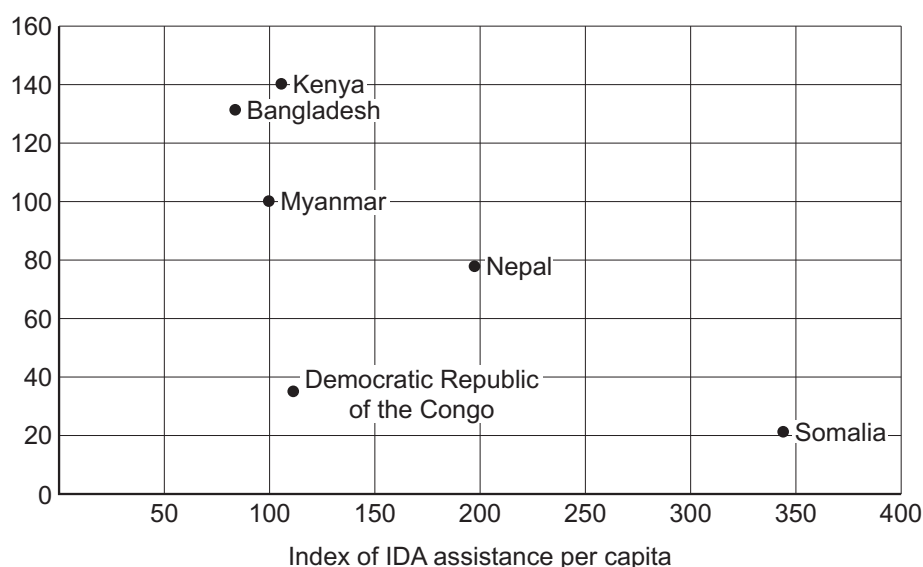
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Fig. 1

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.

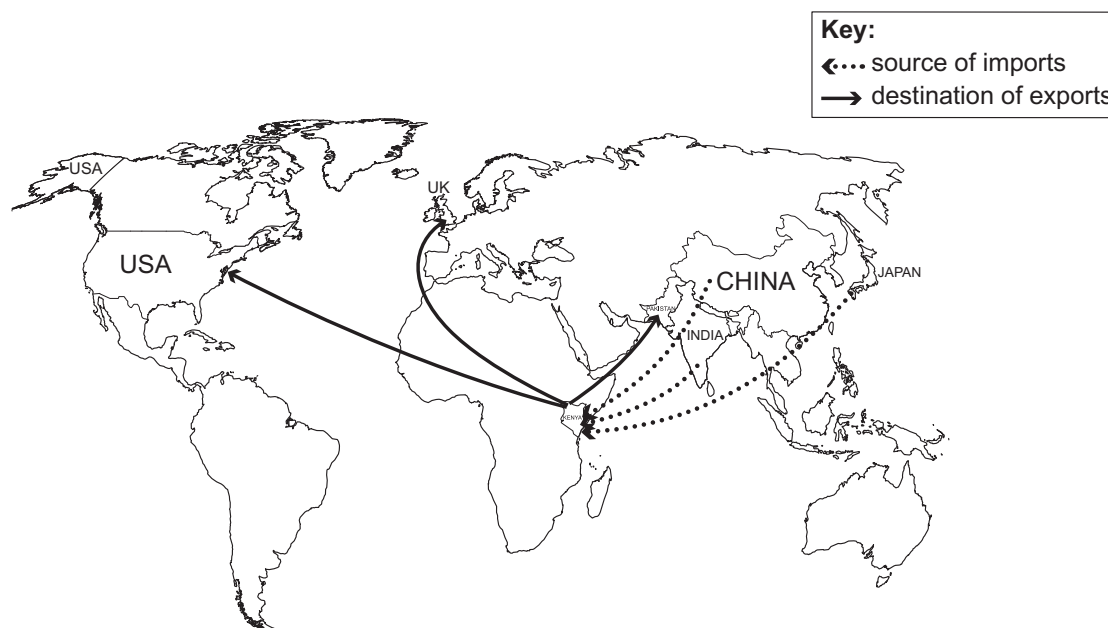
Table 1
Mean years of schooling and life expectancy 2019

Table 1 is a table showing mean years of schooling and life expectancy for 2019 across six countries. The table content is obscured by a black box.

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.

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

Component 1

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Component 2

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[2]

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

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- (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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Extract 2**The impacts on inflation**

Heatwaves have been linked to a fall in productivity and drought causes output of agricultural goods to fall, driving up prices. Food and energy prices in the UK were also on the rise due to the instability in Europe. Tightening labour markets and disruption to supply chains caused by the pandemic have also contributed to inflation soaring above the 2% target in the UK in 2022.

The Monetary Policy Committee (MPC) has responded to rising inflation. It raised the official bank (base) rate from 0.75% in April 2022 to 2.25% by September 2022. The MPC was hoping that the increased interest rates would cause an appreciation in the value of Sterling as well as increasing the household savings ratio. There are close to 11 million mortgages in the UK totaling over £1.6 billion, over three quarters of mortgage holders are on a fixed rate and in recent years the number of new mortgages being taken out at fixed rates has been even higher as house buyers looked to lock in to historically low interest rates.

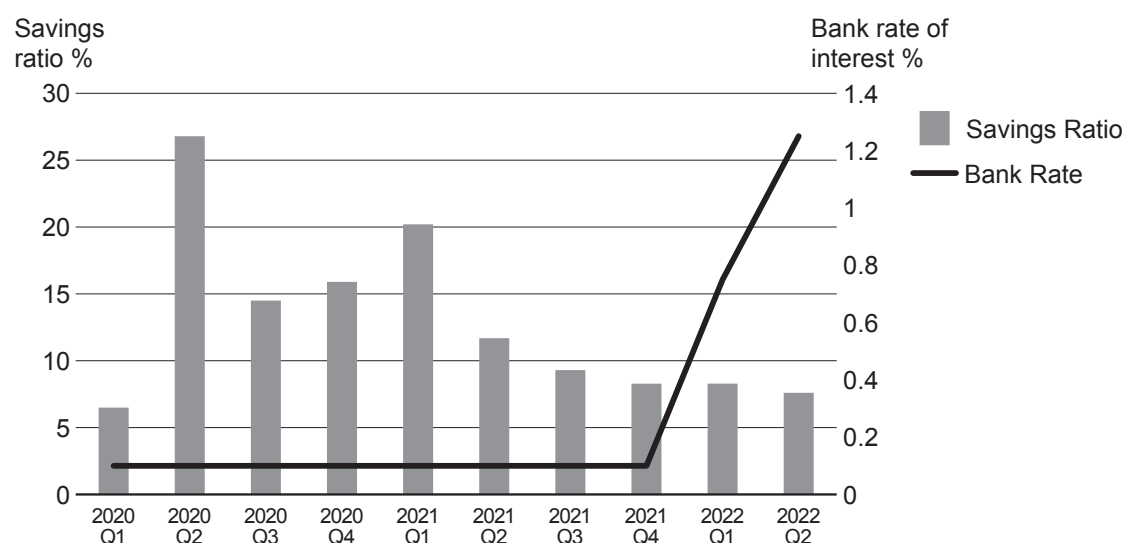
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Some economists have argued that attempts to tighten demand at a time when economic growth is flat is not the best policy option.

Fig. 2.1**The Consumer Price Index (CPI) of inflation for the UK (Base Year = 2015)**

Date	Value
August 2018	106.5
August 2019	108.4
August 2020	108.6
August 2021	112.1
August 2022	123.1

Fig. 2.2**The Bank of England bank rate of interest and the household savings ratio in the UK 2020–2022**

The household savings ratio is the proportion of disposable income that is not spent.

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21

- 34** Using the data in **Fig. 2.1**, compare the annual inflation rate in August 2022 to the annual inflation rate in August 2019.

[3]

- 35** Using **Fig. 2.2**, identify what evidence there is that the rate of interest may not have been a large determinant of household saving in the UK between 2020 and 2022.

[2]

Turn over for the next question

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

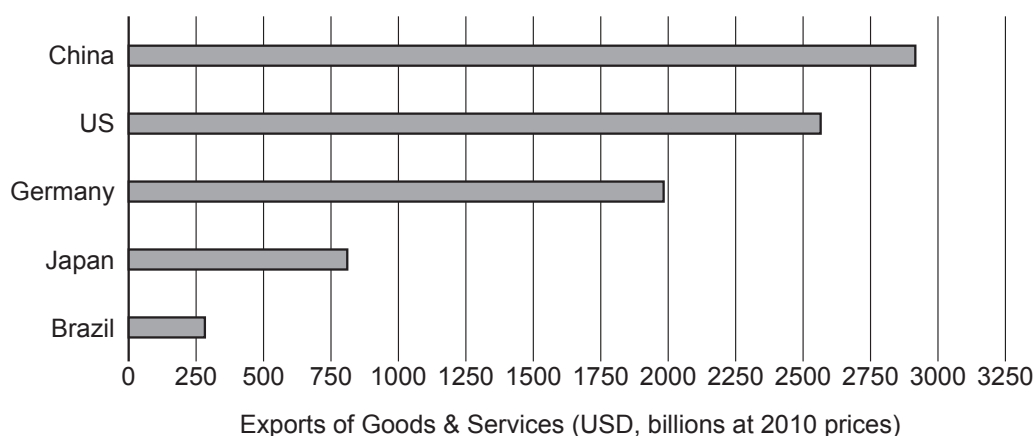
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Fig. 3.1 – GDP and Population of selected countries 2000–19

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.

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

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

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- 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.

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4-MARK QUESTIONS

5 questions in this booklet

2

SECTION A

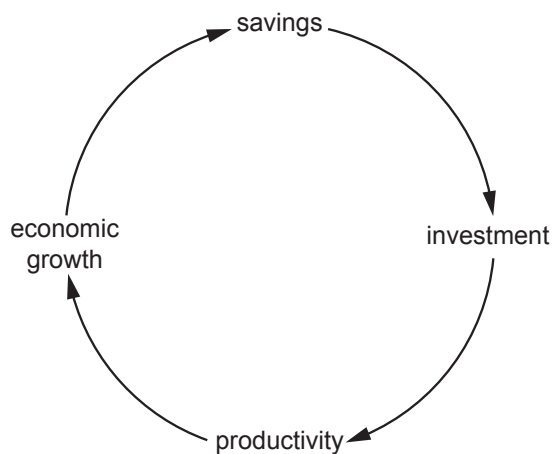
Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

Does rising national debt matter?

At the start of 2020, there were reasons to think there was both a greater need for government borrowing and a reduced concern about rising national debt. There had been a slowdown on the growth of aggregate demand. Although interest rates were low, private sector investment was not making full use of available savings. Fig. 1 shows a virtuous circle between savings and economic growth.

Fig. 1

A virtuous circle

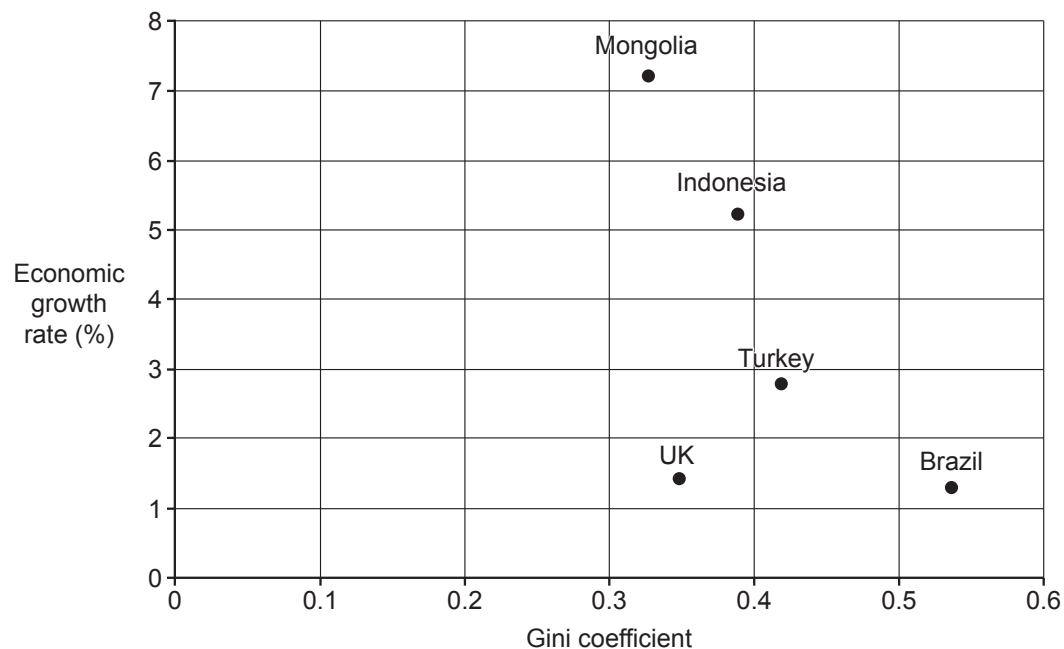


However, more savings, if not used for investment, can slow down economic growth. One cause of an increase in savings can be greater income inequality. Fig. 2 shows the Gini coefficient and economic growth rates for selected countries.

3

Fig. 2

The Gini coefficient and economic growth rate for selected countries 2018



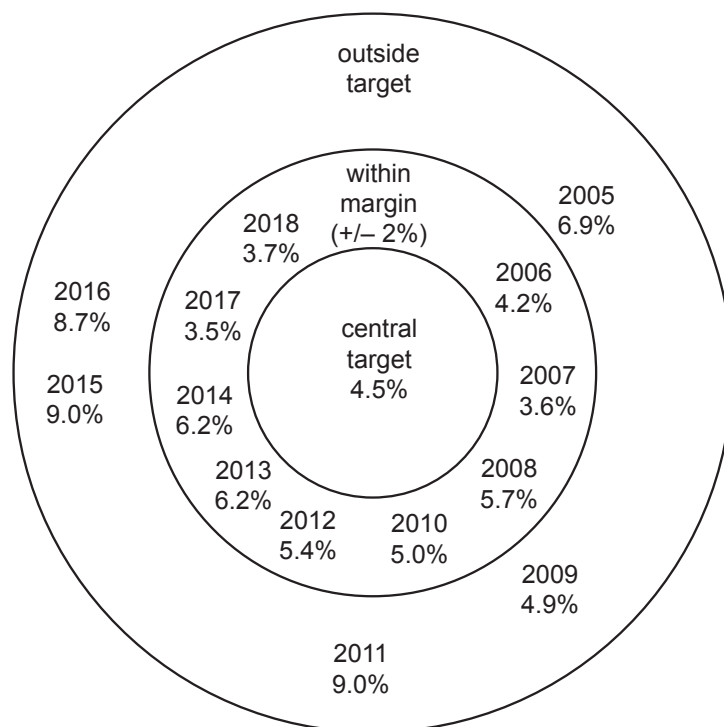
- The slowdown in aggregate demand in the UK kept the country's inflation rate low. Between
- 10 January 2019 and January 2020, the Consumer Prices Index increased from 106.3 to 108.2. If a central bank can convince households, workers and firms that inflation will be at a low and stable rate, it can affect expectations and investment in a beneficial way. One way of doing this is by setting an inflation rate target. Of course, trying to achieve an inflation rate target can be affected by adverse demand-side and supply-side shocks. If the target is not met, it can also cause
- 15 households, workers, and firms to question the central bank's ability to control inflation.

4

Some governments change their inflation rate target. For example, the Brazilian government between 2005 and 2018 had kept the inflation rate target fixed at 4.5% with a margin of plus or minus 2%. In 2019 however, the target was changed to 4.25% and in 2021 it was set at 3.75%. In both years the margins were set at plus or minus 1.5%. Fig. 3 shows Brazil's inflation rate performance in terms of its target rate over the period 2005–2018.

Fig. 3

Brazil's performance in meeting its inflation rate target



The UK's low inflation rate at the start of 2020 was combined with a low economic growth rate. The economy was experiencing a negative output gap. There was the possibility that higher government spending, financed by borrowing, could increase economic growth. Higher government borrowing, however, increases the national debt, at least in the short run. In January 2020, the UK's national debt was 72% of GDP. An increase in government debt also runs the risk of increasing the inflation rate. This is influenced by, among other factors, who the government borrows from. There is the possibility that higher government debt may make it more difficult to attract lenders who are willing to buy the debt. Japan, however, which had a much higher national debt of 230% of GDP at this date, was not having any difficulty selling its debt.

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- 1 (a) Using information from the stimulus material, identify **two** reasons why crowding out may **not** occur.

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- (b) Using **Fig. 1**, explain how savings can promote economic growth.

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- (c) Using **Fig. 2**, explain the relationship between the Gini coefficient and economic growth rate.

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- (d) Using information from the stimulus material, calculate the UK's 12 month inflation rate in January 2020.

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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

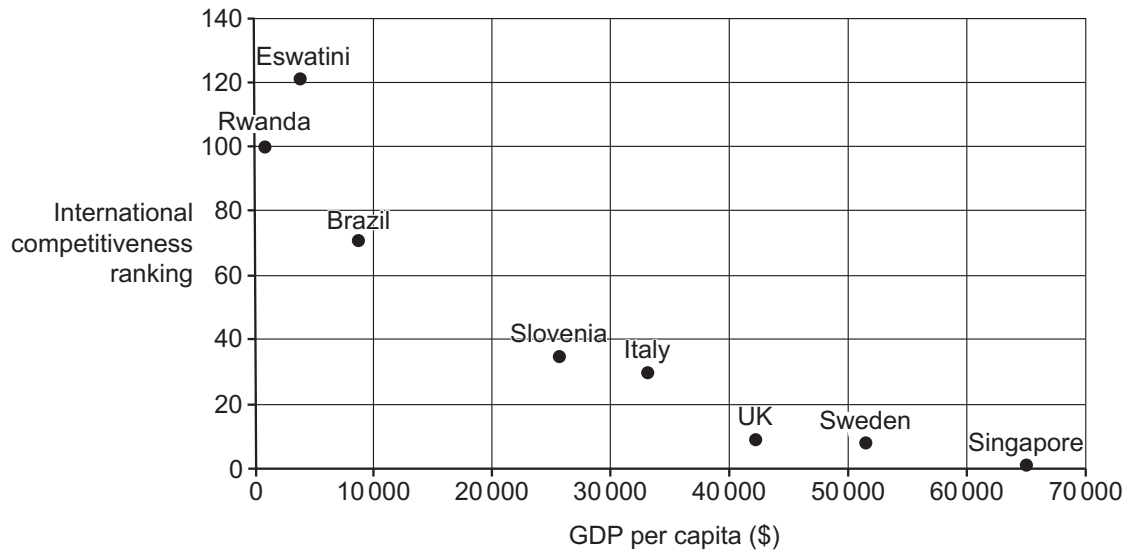
The UK was placed 11th in the skills category. A more skilled labour force is likely to have higher productivity. In turn, productivity can also be affected by working hours. Between 2018 and 2019, average working hours fell in Germany, the UK and the USA and labour productivity rose. In contrast, both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

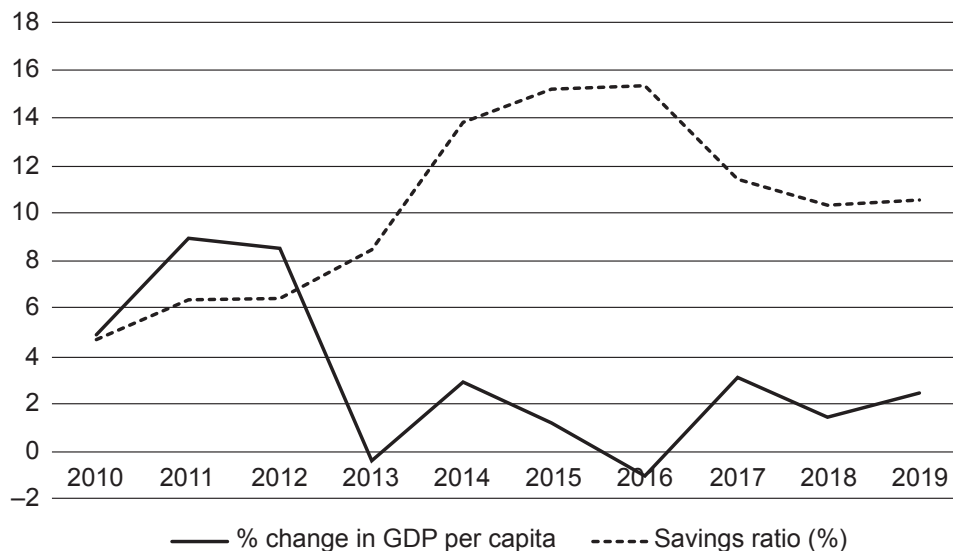


The country which experienced the largest increase in international competitiveness ranking between 2018 and 2019 was Rwanda. The main destination of Rwanda's exports is the UAE and its main source of imports is China. Rwanda's imports to GDP rose from 28% in 2010 to 35% in 2019 and GDP per capita increased 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.

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Fig. 2

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



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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.

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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.

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- 1 (a) Using information from the stimulus material, calculate the balance on the UK's primary and secondary income in 2019.

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- (b) Using information from the stimulus material, identify **two** causes of an increase in the money supply.

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- (c) Explain how a change in working hours is likely to affect productivity.

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- (d) Using **Fig. 1**, explain the relationship between international competitiveness and GDP per capita.

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- 34 Explain, using the data in **Fig. 2.1**, the most likely market structure of the car manufacturing industry in the UK.

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- 35 Explain, using the information in **Extract 2** and a relevant diagram, the impact on the market for new cars of the 2020 recession.

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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.

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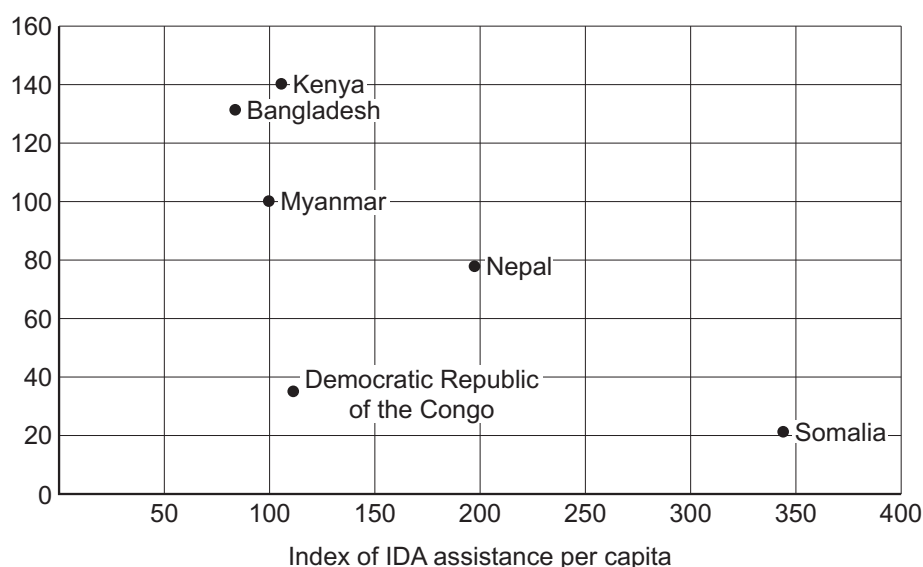
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Fig. 1

Index figures for the IDA assistance per capita and GDP per capita 2020

Index of GDP
per capita



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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

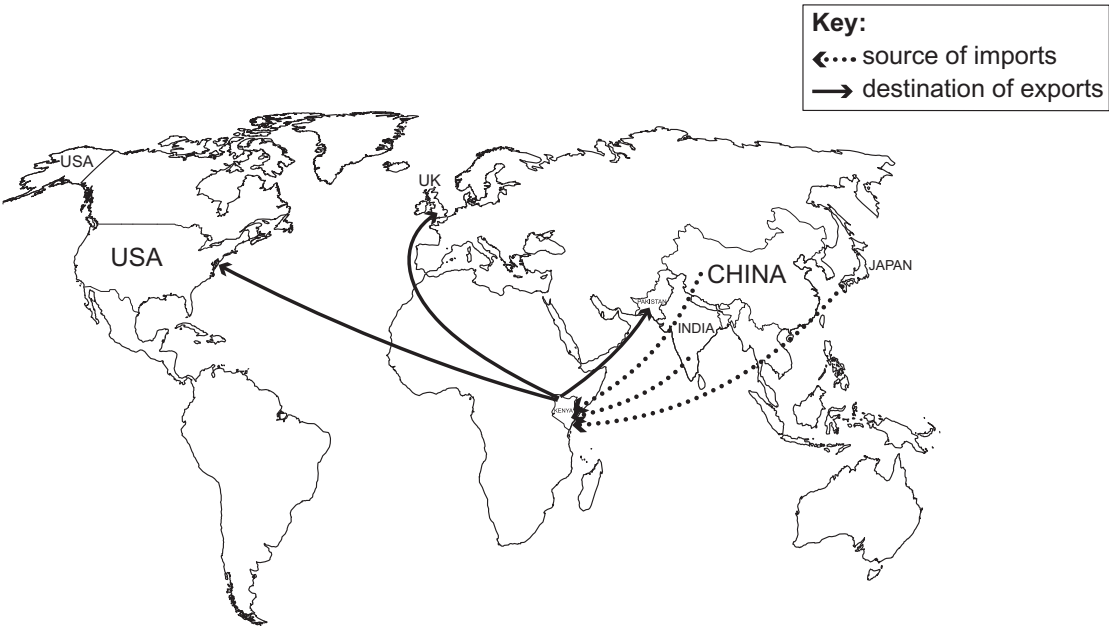
Table content is obscured by a black box.

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.

20

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.

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(d) Using **Table 1**, explain the relationship between mean years of schooling and life expectancy.

[4]

Question continues on the next page

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SECTION A

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

Are low-income countries playing catch up?

The global economy is changing. It is becoming more integrated and China is moving towards becoming the world's largest economy. Lower costs of transport continue to increase the volume of international trade. Producing in different countries and buying products from anywhere in the world are being made easier by advances in communications.

- 5 World trade grew by 4.4% in 2017 and is predicted to grow by 4.7% in 2018. China is accounting for a higher proportion of this global trade and a higher proportion of global output. The country has experienced a significant rise in its GDP per head in recent years. This has had an impact on its citizens' life expectancy. Fig. 1 shows the average income and life expectancy in a number of countries.

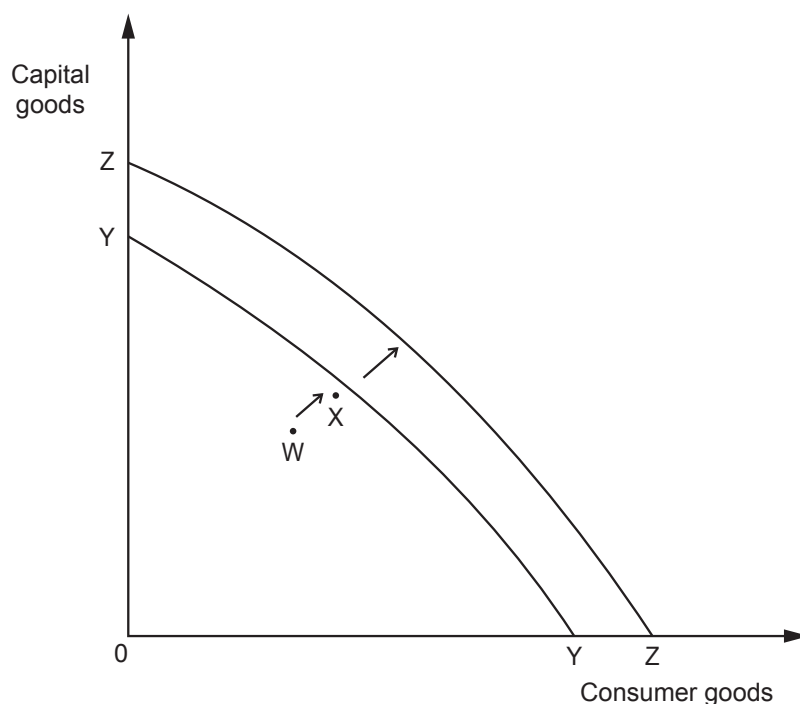
Fig. 1 GDP per head and life expectancy in selected countries 2017

Country	GDP per head (\$)	Life expectancy (years)
Bangladesh	4200	73.7
China	16 700	75.8
Egypt	12 700	73.2
Germany	50 800	80.9
Guinea	2200	62.1
Japan	42 900	85.5
UK	44 300	80.9
USA	59 800	80.1

- 10 Developments in the Chinese economy can be illustrated by both movements in the country's production possibility points and in the position of the production possibility curve as shown in Fig. 2.

3

Fig. 2 A country's production possibility curve and points



The Bangladeshi economy has also grown in recent years, but its growth has been more erratic. In 2017, the country's main export destinations were the USA, Germany, UK and France. Its main sources of imports were China, India, Singapore and Japan. In 2017, the value of its exports to the UK was £2251 m while the value of its imports from the UK were £190 m. Bangladesh is also a recipient of UK overseas aid. In 2016, the UK government spent £13.4 bn on overseas aid, in line with its target of 0.7% of GDP. Bangladesh was the 11th largest recipient, receiving £170 m. Fig. 3 provides some more information on the Bangladeshi economy.

Fig. 3 Details on the Bangladeshi economy 2017

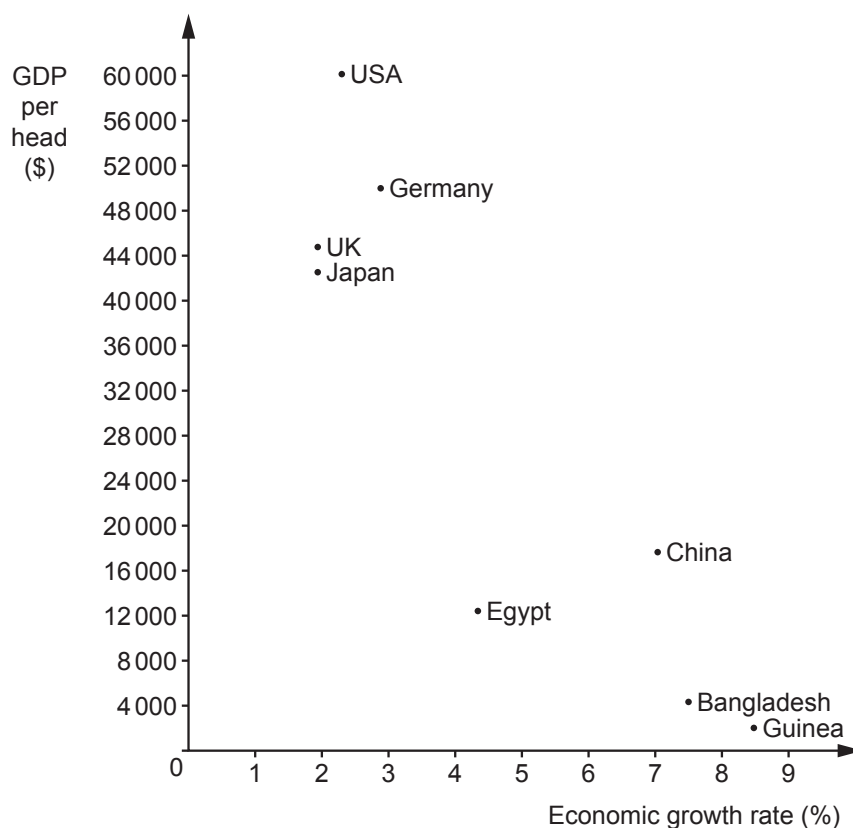
	\$ billion
Consumer expenditure	191
Exports	50
Government spending	13
Investment	76
Imports	68
Tax revenue	25

Bangladesh's finance minister suggested in 2017 that he would cut the country's corporate tax rates as they are much higher than most other countries. He argued that such a move would increase the country's rate of economic growth.

4

Some economists suggest that low-income countries are likely to grow more rapidly than high-income countries. Fig. 4 shows GDP per head and economic growth rates of a number of countries.

Fig. 4 GDP per head and economic growth rate of selected countries 2017



- 25 People in low-income countries may have a greater incentive to work hard to improve their living standards. Perhaps more significantly, the countries may be able to take advantage of technology transfer from high-income countries and their relatively low wages may attract foreign direct investment. The countries may also have greater potential to reallocate resources from low to high value activities.
- 30 To date, Asian countries have been more successful in narrowing the income gap than African countries. A number of African countries have poor infrastructure, low labour productivity, rapidly growing populations and a lack of economic and political stability.

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- 1 (a) Using information from the stimulus material, identify **two** causes of globalisation.

Cause 1

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Cause 2

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[2]

- (b) Using Fig. 1, explain the relationship between GDP per head and life expectancy.

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[4]

- (c) Using Fig. 2, explain the difference between short run and long run economic growth.

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[2]

8-MARK QUESTIONS

2 questions in this booklet

2

SECTION A

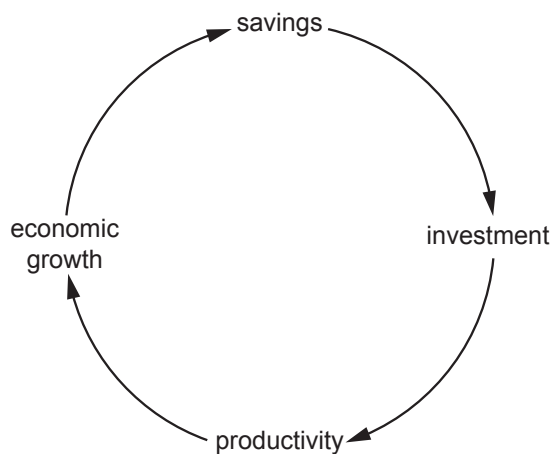
Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

Does rising national debt matter?

At the start of 2020, there were reasons to think there was both a greater need for government borrowing and a reduced concern about rising national debt. There had been a slowdown on the growth of aggregate demand. Although interest rates were low, private sector investment was not making full use of available savings. Fig. 1 shows a virtuous circle between savings and economic growth.

Fig. 1

A virtuous circle

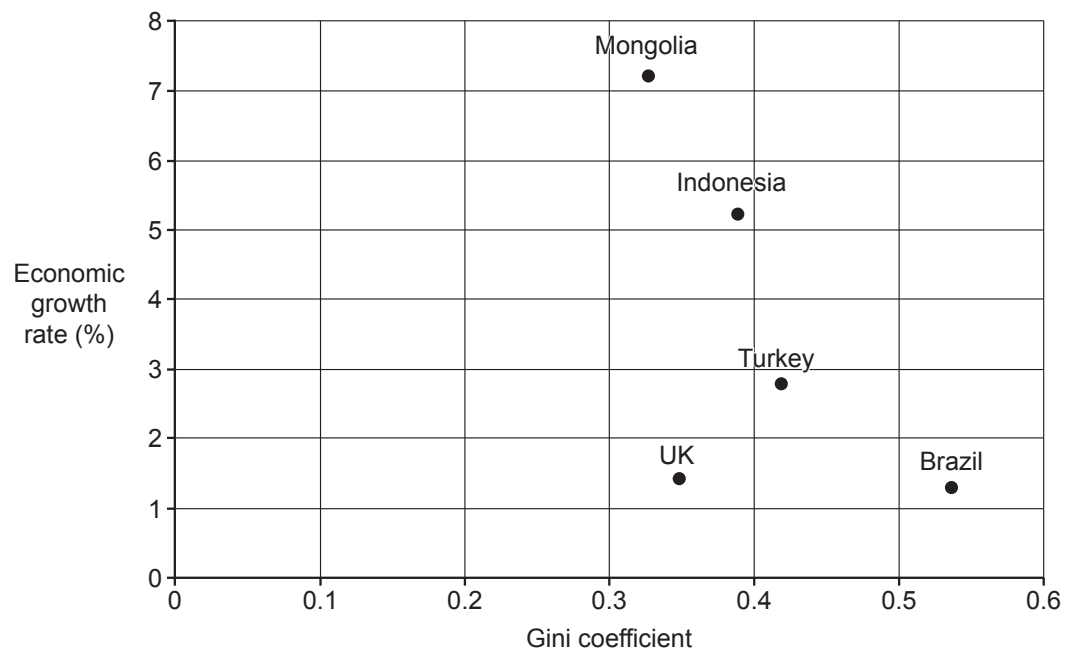


However, more savings, if not used for investment, can slow down economic growth. One cause of an increase in savings can be greater income inequality. Fig. 2 shows the Gini coefficient and economic growth rates for selected countries.

3

Fig. 2

The Gini coefficient and economic growth rate for selected countries 2018



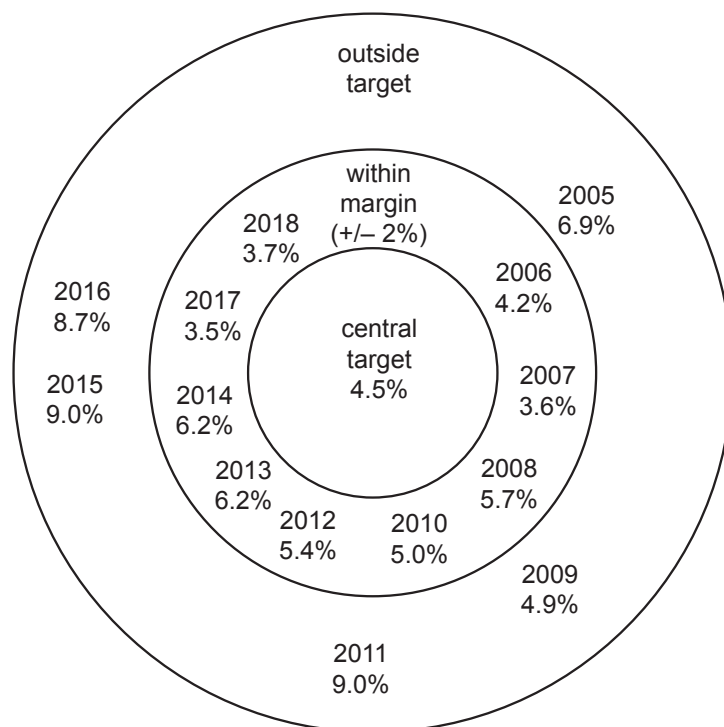
- The slowdown in aggregate demand in the UK kept the country's inflation rate low. Between
- 10 January 2019 and January 2020, the Consumer Prices Index increased from 106.3 to 108.2. If a central bank can convince households, workers and firms that inflation will be at a low and stable rate, it can affect expectations and investment in a beneficial way. One way of doing this is by setting an inflation rate target. Of course, trying to achieve an inflation rate target can be affected by adverse demand-side and supply-side shocks. If the target is not met, it can also cause
- 15 households, workers, and firms to question the central bank's ability to control inflation.

4

Some governments change their inflation rate target. For example, the Brazilian government between 2005 and 2018 had kept the inflation rate target fixed at 4.5% with a margin of plus or minus 2%. In 2019 however, the target was changed to 4.25% and in 2021 it was set at 3.75%. In both years the margins were set at plus or minus 1.5%. Fig. 3 shows Brazil's inflation rate performance in terms of its target rate over the period 2005–2018.

Fig. 3

Brazil's performance in meeting its inflation rate target



The UK's low inflation rate at the start of 2020 was combined with a low economic growth rate. The economy was experiencing a negative output gap. There was the possibility that higher government spending, financed by borrowing, could increase economic growth. Higher government borrowing, however, increases the national debt, at least in the short run. In January 2020, the UK's national debt was 72% of GDP. An increase in government debt also runs the risk of increasing the inflation rate. This is influenced by, among other factors, who the government borrows from. There is the possibility that higher government debt may make it more difficult to attract lenders who are willing to buy the debt. Japan, however, which had a much higher national debt of 230% of GDP at this date, was not having any difficulty selling its debt.

6

- (e) Using information from the stimulus material, evaluate whether setting an inflation rate target is likely to result in low and stable inflation.

[8]

- (f) Using information from the stimulus material, evaluate whether an increase in national debt will harm an economy. [12]

[illegible]

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2

SECTION A

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

Are we moving towards a cashless society?

- Recent years have seen a change in both the amount consumers spend and how they make their payments. How much consumers spend is influenced by a variety of factors. These include changes in income and changes in confidence. During an economic boom, consumer expenditure is likely to be high. Indeed, an economic boom is often consumer-led. In contrast, consumer expenditure can fall to a low level during a recession. Fig. 1 shows how consumer expenditure can vary as income changes.

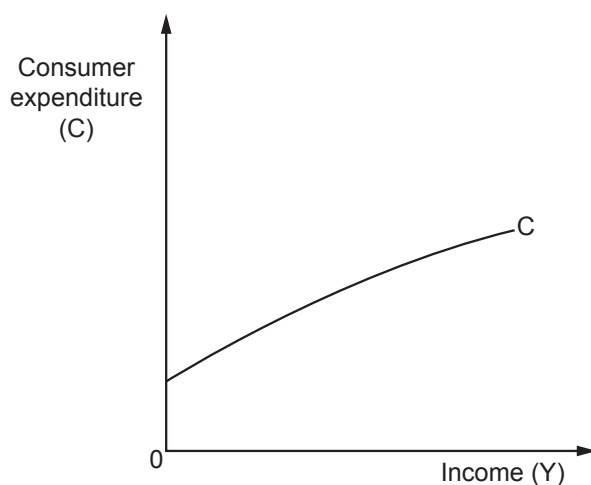


Fig. 1 The relationship between changes in income and changes in consumer expenditure

Changes in injections and leakages can alter a country's income. It has been estimated, for instance, that an injection of \$200m of government spending in the Swiss economy would cause a rise in GDP of \$300m.

- 10 The proportion of payments made in cash in Switzerland is declining. It is also falling in the UK. In 2005, 70% of payments in the UK were made in cash. By 2015, this had fallen to 50% and is forecast to decline to 30% by 2025. The extent to which cash is used influences the number of banknotes printed and in circulation. Fig. 2 shows the value of banknotes in circulation in the UK over a five year period.

3

Year	£5	£10	£20	£50	Total
2014	1 540	7 182	36 483	11 025	56 230
2015	1 601	7 371	38 912	11 788	59 672
2016	1 645	7 767	41 037	13 157	63 606
2017	1 912	8 006	43 357	15 601	68 876
2018	1 910	7 789	42 692	16 508	68 899

Fig. 2 The value of banknotes in circulation (£million) 2014–2018

- 15 Some central banks favour ending the use of cash. One reason is because of the role that cash plays in a number of criminal activities including money laundering and drug dealing. A more significant motive is probably to enable central banks to charge negative interest rates when needed to stimulate economic activity. If people and banks can take money out of their deposits and hold them as cash, negative interest rates are likely to have less power to encourage an increase in spending.

20 Negative interest rates involve commercial banks having to pay to hold deposits at the central bank. As commercial banks often have excess funds held at the central bank, a negative interest rate may encourage them to lend the funds instead. If commercial banks pass on the negative rates to their customers, people will have to pay to save. Negative interest rates would have an impact on borrowing, the cost of servicing government debt and probably on the exchange rate.

25 A number of central banks, including the Bank of Japan, the Swiss National Bank, Denmark's National Bank and the European Central Bank (ECB) have used negative interest rates in a bid to avoid deflation. These banks received some criticism for the effect that the negative interest rates had on confidence, saving and bank profitability.

- 30 The Bank of England has yet to introduce a negative interest rate. Fig. 3 shows how the UK interest rate has changed in recent years.

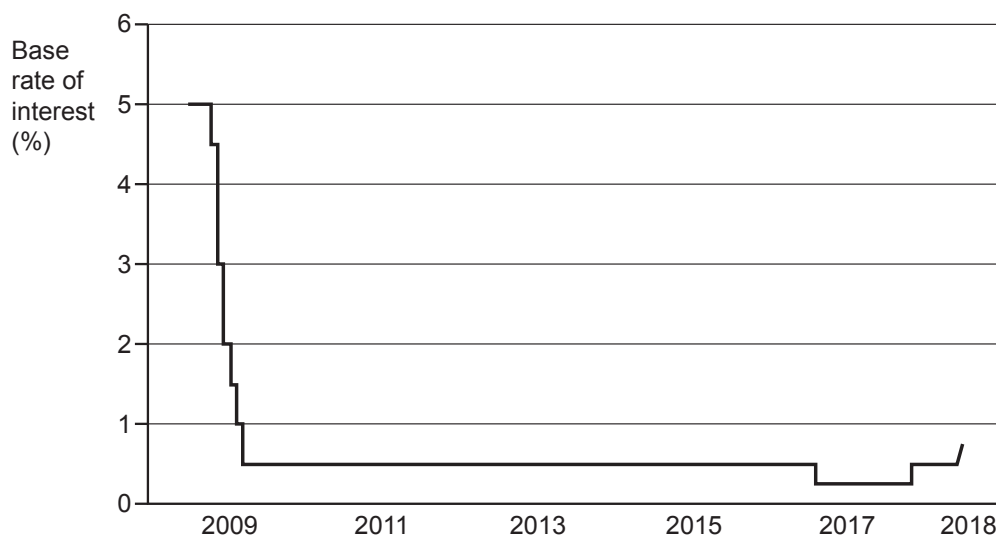


Fig. 3 UK interest rates 2009–2018

4

- 35 While the ECB has stopped producing its €500 note, the Bank of England has not yet scrapped any notes. Getting rid of cash is likely to affect the poor most. Nearly 1.5 million UK adults do not have a bank account and most of these are poor. Some of them are unemployed. The number of people unemployed may increase during a recession. The impact on unemployment will depend on a number of factors. These include firms' stock levels, the length of the recession, how easily firms can adjust working hours and the number of people they employ and whether the numbers in the labour force stay the same.

- 1 (a) Using information from the stimulus material, identify **two** stages of the economic cycle.

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2 [2]

- (b) Using **Fig. 1**, explain the relationship between changes in consumer expenditure and changes in income.

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- (c) Calculate Switzerland's marginal propensity to withdraw.

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- (d) Using **Fig. 3**, explain what is likely to have happened to UK share prices at the start and the end of the period shown.

[4]

- (e) Using information from the stimulus material, evaluate whether a recession will increase the number of people unemployed. [8]

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15-MARK QUESTIONS

3 questions in this booklet

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- 37 Explain, whether **Fig. 3.1** supports the view that “economic growth will **not** always lead to an improvement in welfare”.

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- 38* Evaluate, using the information in **Extract 3**, the impact of removing economic growth as one of the government's primary macroeconomic objectives. [15]

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- 31 Using Fig. 1.1, explain the relationship between the budget deficit and national debt between 2010 and 2019.

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- 32 Explain, using an example from Extract 1, what is meant by capital expenditure.

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- 33* Evaluate, with the use of an appropriate diagram(s), whether ending austerity is likely to result in the government achieving higher levels of economic growth. [15]

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37 Using Fig. 3.2, explain the relationship between air travel and carbon dioxide emissions.

[2]

38* Evaluate, using the information in Extract 3, the economic implications of limiting individuals to one return flight a year. **[15]**

[illegible]

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25-MARK QUESTIONS

10 questions in this booklet

SECTION B

Answer **EITHER** Question 2 **OR** Question 3.

EITHER

- 2*** Poland's unemployment rate fell from 10.3% in 2013 to 3.3% in 2019 while its inflation rate rose from 0.9% to 2.3% over this period.

Evaluate, with the use of an appropriate diagram(s), whether the Phillips curve is useful for economic policy makers.

[25]

OR

- 3*** In 2020, several governments were considering cutting taxes to get their countries out of recession.

Evaluate, with the use of an appropriate diagram(s), whether a cut in tax rates will end a recession.

[25]

Question No.

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SECTION B

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SECTION C

Answer **EITHER** Question 4 **OR** Question 5.

EITHER

- ^{4*} In some recent years, Mongolia has experienced high rates of economic growth. In 2019, its government adopted a long term development strategy known as Mongolia's Sustainable Development Vision 2030.

Evaluate whether a country with a high economic growth rate can achieve sustainable development.

[25]

OR

- 5*** In recent years there has been a rise in protectionism. For example, the US Trump administration argued that higher tariffs on Chinese imports would reduce US unemployment.

Evaluate whether protectionism always reduces unemployment.

[25]

Question No.

[illegible]

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8
SECTION B

Answer Question 2 or Question 3.

EITHER

- 2* Consumer expenditure rose in the USA in 2019. In that year, US unemployment fell to a 50-year low of 3.5%.

Evaluate, with the use of an appropriate diagram(s), whether an increase in consumer expenditure will always reduce a country's unemployment rate. [25]

OR

- 3* Between July 2018 and August 2020, the value of the Turkish lira fell from 4.73 lira to 1 US dollar to 7.32 lira to 1 US dollar. The Turkish central bank spent much of its foreign currency reserves in attempt to stop the decline in the country's exchange rate.

Evaluate, with the use of an appropriate diagram(s), whether a central bank should try to stop a decline in a country's exchange rate. [25]

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16
SECTION C

Answer EITHER question 4 OR question 5.

EITHER

- 4* Over the last twenty years China has experienced rapid economic growth but surveys suggest that this has not increased happiness.

Evaluate whether economic growth increases happiness. [25]

OR

- 5* In 2018 the UK Prime Minister said she would put financial services at the heart of a new trade deal with the EU.

Evaluate whether the UK financial sector makes a positive contribution to the UK economy. [25]

SECTION C

Question No

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9

Section B

Answer Question **2** or Question **3**.

- 2*** Finland and the Philippines are experiencing rapid advances in technology. In 2021, they both had an unemployment rate of 8.7%.

Evaluate, with the use of an appropriate diagram(s), whether advances in technology will help a government to achieve its macroeconomic policy objectives. **[25]**

OR

- 3*** In recent years, household and business surveys have revealed improved economic expectations in many African countries.

Evaluate, with the use of an appropriate diagram(s), whether improved economic expectations will benefit an economy. **[25]**

Question No.

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9
Section B

Answer Question 2 or Question 3.

2* Finland and the Philippines are experiencing rapid advances in technology. In 2021, they both had an unemployment rate of 8.7%.

Evaluate, with the use of an appropriate diagram(s), whether advances in technology will help a government to achieve its macroeconomic policy objectives. [25]

OR

3* In recent years, household and business surveys have revealed improved economic expectations in many African countries.

Evaluate, with the use of an appropriate diagram(s), whether improved economic expectations will benefit an economy. [25]

Question No.

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SECTION C

Answer **EITHER** question 4 **OR** question 5.

EITHER

- 4*** The UK's deficit on the current account of its balance of payments in the first quarter of 2018 was £17.7bn (3.4% of GDP). This was a reduction on the deficit of £19.5bn (3.8% of GDP) in the last quarter of 2017.

Evaluate whether the UK would benefit from a reduction in the deficit on the current account of the balance of payments. [25]

OR

- 5*** In 2018 both Australia and Ireland had a high Human Development Index (HDI), 0.939 and 0.938. They did, however, have different rates of poverty.

Evaluate whether a country with a high HDI is likely to have a low rate of poverty. [25]

Question

[illegible]

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SECTION C

Answer **EITHER** question 4 **OR** question 5.

EITHER

- 4* The UK's deficit on the current account of its balance of payments in the first quarter of 2018 was £17.7bn (3.4% of GDP). This was a reduction on the deficit of £19.5bn (3.8% of GDP) in the last quarter of 2017.

Evaluate whether the UK would benefit from a reduction in the deficit on the current account of the balance of payments. [25]

OR

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Evaluate whether a country with a high HDI is likely to have a low rate of poverty. [25]

Question

[illegible]

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MARK SCHEMES

official OCR mark schemes

1	D	A B C D	There is still room to cut nominal interest rates significantly to impact the real economy There is still room to cut nominal interest rates significantly to impact the real economy There is still room to cut nominal interest rates significantly to impact the real economy Correct: when interest rates are near zero traditional monetary policy becomes ineffective as a policy tool as interest rates cannot be cut significantly further to stimulate aggregate demand	AO2	/
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12	D	A These diagrams illustrate short run economic growth – output is rising but the productive capacity isn't B The diagram on the right illustrates short run growth C The diagram on the left illustrates short run growth D Correct: in both cases the productive capacity of the economy is increasing, meaning long run economic growth has occurred	AO1	/
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13	B	A Imports are likely to become relatively cheaper, as when inflation is high the price of domestic goods is likely to be rising at a faster rate than the price of imports	AO1	
		B Correct: Inflation creates uncertainty, which deters investment and could harm economic growth		
		C This is a benefit of inflation, as it enables firms to decrease real wages despite nominal wages being sticky downwards		
		D High inflation erodes the value of money, decreasing the real value of debt		

16	B	A This is a contribution from the Keynesian economics	AO1	
		B Correct: Austrian economics argues traditional economic models have failed to predict and explain what we observe in the real world		
		C This is a neoclassical view		
		D This trade-off is illustrated by the Phillips Curve		

17	C	A This comprises changes in ownership of assets, the most significant of which occurs as a result of migration	AO2	
		B This is not a component of the balance of payments		
		C Correct: This is part of the income item of the current account		
		D This is concerned with international borrowing/lending		

2	B	A Statement 2 is a positive statement B Correct: Statement 1 is a normative statement because a value judgement has been made that GDP per capita is the measure of economic development – this is subjective as other economists may conclude Norway is more economically developed than Qatar because they weight GDP per capita as being less important than, for example, healthcare and education. Statement 2 is a positive statement as it is possible to objectively compare the unemployment rate in Qatar with the unemployment rate in Norway and therefore test whether the statement is factually correct. C Statement 1 is a normative statement and statement 2 is a positive statement D Statement 1 is a normative statement	AO2	
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20	B	A	Remittances are part of the current account so the position of the financial account is not relevant	AO3	
		B	Correct: when emigration is high this makes it more likely that citizens working abroad will send income home, representing an injection into the circular flow		
		C	This makes it more likely that remittances will make a negative contribution to GDP, as immigrants may send money back to their country of origin		
		D	A low rate of unemployment does not directly impact upon income from remittances		

21	B	A This incorrectly specifies population as 43.42 million in 2016, therefore calculating population in 2015 to be 42.99 million: $\\$13,158 - \\$13,602 = -\\$444$ B Correct: 2016 GDP per capita = $\\$571.3\text{bn} / 43.42\text{m} \times 1.01 = \\$571.3 / 43.8542 \times 1000 = \\$13,027$. 2015 GDP per capita = $\\$571.3\text{bn} / 0.977 / 43.42\text{m} = \\$584.75 / 43.42 \times 1000 = \\$13,467$. Change in GDP = $\\$13,027 - \\$13,467 = -\\$440$ C Decreases rather than increases 2015 population by 1% so calculates 2016 population to be 42.99 million: $\\$13,289 - \\$13,467 = -\\$178$ D Decreases rather than increases 2016 GDP by 2.3% so calculates 2015 GDP to be $\\$558.16\text{bn}$: $\\$13,027 - \\$12,855 = \\$172$	AO3	/
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24	B	A	Whilst the economic growth rate was highest in Ireland in 2016 this followed a period of exceptionally high growth in 2015, suggesting there is a question mark over the sustainability of growth. There is a risk of deflation and the unemployment rate is high.	AO3	/
		B	Correct: Malta has significantly higher growth than the UK, whilst the unemployment rate is relatively similar and inflation is the same.		
		C	Inflation is well above target with very high unemployment.		
		D	The growth rate is less than half of that seen in Malta, which has similar inflation and only slightly lower unemployment.		

27	A	A Correct – The ILO measure is calculated from the Labour Force Survey, which only surveys a sample of the population and uses extrapolated data to estimate the rate of unemployment B This would be a reason why the claimant count might overestimate the level of unemployment C An individual who is economically inactive would not be classed as being unemployed using the ILO measure because they would not declare themselves as actively seeking work D Some economists would argue underemployment is a reason why unemployment statistics underestimate the level of unemployment	AO1	
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4	C	A	The welfare loss is the divergence between MSC and MSB between the market equilibrium quantity and the social optimum.	AO3	/
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6	C	A This is the multiplier effect B This is demand-pull inflation C Correct: accelerator theory states that capital investment will increase as a result of expected increases in demand so that productive capacity can meet the demands of increased output D This illustrates the principle of opportunity cost, where a short run sacrifice in material standards of living can contribute to long run economic growth by expanding the economy's productive capacity	AO1	
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7	A	A Correct: the Harrod-Domar model demonstrates that a high savings ratio is essential in enabling the high levels of investment required to achieve high rates of economic growth B This is a theory of international trade which suggests countries will specialise in the production of goods which intensively use the factors of production they have high factor endowments of C This suggests that a devaluation of the currency will only improve the current account if the sum of the price elasticities of demand for exports and imports is greater than one	AO1	
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9	B	A This would increase productivity, lowering unit labour costs	AO1	
		B Correct: If individuals are less likely to be fired for poor performance productivity is likely to be lower, resulting in high unit labour costs		
		C Low costs of living are associated with low wages, meaning unit labour costs will be low		
		D Low tax rates generally reduce wage costs for firms, meaning unit labour costs will be low		

18	A	A	Correct: The LRAS curve shows the productive capacity of the economy, which is not determined	AO1	✓
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2	B	A	Incorrectly calculates economic growth as $(476 - 482) / 476 \times 100$.	AO2	✓
		B	Correct: $(476 - 482) / 482 \times 100 = -1.24\%$		
		C	Incorrectly calculates economic growth as $(482 - 476) / 482 \times 100$.		
		D	Incorrectly calculates economic growth as $(482 - 476) / 476 \times 100$.		

25	D	A	This occurs when there is a fall in the price level – the price level is static at P_1 .	AO1	✓
		B	This occurs when there is a fall in the price level – the price level is static at P_1 .		
		C	This occurs when there is spare capacity.		
		D	Correct: The economy is temporarily producing beyond its productive capacity – actual output exceeds potential output.		

27	C	A	This is discretionary fiscal policy as it is an active policy intervention by the government.	AO1	
		B	This is discretionary fiscal policy as it is an active policy intervention by the government.		
		C	Correct: Without the government having to implement any changes to the tax and benefits system expenditure on unemployment benefits will increase automatically as a result of more people being eligible to claim unemployment benefits because of the likely increase in unemployment resulting from negative economic growth.		
		D	This is discretionary fiscal policy as it is an active policy intervention by the government.		

6	C	A	Demand-side policy may reduce unemployment temporarily, but once inflationary expectations adjust the rate of unemployment will return to the natural rate.	AO3	
		B	Demand-side intervention will be purely inflationary. In fact, increasing welfare benefits could even increase the natural rate of unemployment if it increases frictional unemployment.		
		C	Correct: This will increase occupational mobility of labour which decreases the natural rate of unemployment.		
		D	There is a trade-off between inflation and unemployment in the short run but the natural rate of unemployment is a long run concept which is not determined by the price level.		

1	B	A This depends upon the cause of the shift in the long run aggregate supply curve. For example, if it is caused by technological progress then this could increase income inequality if it results in capital-labour substitution. B Correct: An increase in LRAS increases the economy's productive capacity, meaning there is less competition for factors of production, which should decrease the price level. C If anything an increase in the economy's productive capacity is more likely to decrease the current account deficit because it is likely to result in an increase in domestic output, although this will depend upon the cause of the shift in LRAS. D This depends upon the cause of the increase in LRAS. For example, if it occurred as a result of investment in education and training it is likely unemployment would decrease.	AO3	
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12	D	A	This diagram shows that pollution often increases at the early stages of economic development, typically because of industrialisation.	AO2	✓
		B	This shows a decrease in income inequality which would occur as a result of a decrease in the Gini coefficient.		
		C	This shows that pollution often decreases at the later stages of economic development, typically as a result of deindustrialisation and/or technological progress.		
		D	Correct: As the Gini coefficient moves closer to one the level of income inequality increases, which is shown by a shift of the Lorenz curve further away from the line of equality.		

18	A	A	Correct: $MV = PY$. Assuming V and Y are fixed, any increase in the money supply will lead to a corresponding increase in the price level.	AO1	
		B	This is one of the key benefits of money but is not explained by the quantity theory of money.		
		C	This is the neo-classical school of thought.		
		D	This is shown by the Phillips Curve.		

21	A	A	Correct: The productive capacity of the economy will increase, representing long run economic growth.	AO3	✓
		B	There is long run economic growth as the productive capacity of the economy increases.		
		C	There is no short run economic growth as output does not change.		
		D	There is no short run economic growth as output does not change.		

24	D	A An increase is most likely to promote economic development, as it will increase the material standard of living of those whose income has increased and has the potential to increase the quality of public services and the welfare system as a result of increased tax revenue. B Demand side growth would increase the level of employment, helping to achieve this policy objective. C This depends upon the nature of the demand side policy, but it is more likely to be the case that reducing a negative output gap that is this significant will improve the distribution of income through reducing high levels of unemployment. D Correct: It is likely that when output increases incomes will rise. Given imports have an income elastic demand, it is likely demand for imports will rise, which would worsen the current account and potentially harm this objective.	AO3	✓
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25	D	A	An individual is not categorised as being unemployed when they are in employment – this individual works in a distribution centre.	AO1	
		B	An individual is not categorised as being unemployed when they are in employment – this individual works in a distribution centre.		
		C	An individual is not categorised as being unemployed when they are in employment – this individual works in a distribution centre.		
		D	Correct: This individual is best described as being underemployed – they are not unemployed because they are in work, albeit not in their chosen occupation or on a full-time basis.		

27	D	A This information only refers to one policy objective – price stability – meaning there is no suggestion of a conflict between objectives. B This is an alternative macroeconomic policy objective. C A symmetric target means undershooting the inflation target is as problematic as overshooting the target. In this instance it is only considered problematic if inflation rises above 2% - anything below 2% meets the target. D Correct: The European Central Bank only intervenes when inflation exceeds the 2% target – there is no intervention required by the target when inflation falls well below 2%.	AO1	
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30	C	A This is the role of Central Banks. B This is the role of the World Trade Organisation. C Correct: The World Bank typically provides funds for large scale infrastructure projects in developing nations, which commercial financial institutions would consider too risky to fund. D This is the role of the International Monetary Fund.	AO1	
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6	B	A	This is absolute poverty.	AO1	
		B	Correct: When households earn below 60% of median income, they are likely to be poor compared to those around them, placing them in relative poverty.		
		C	This is the poverty trap, which could mean people are stuck in relative poverty. It is not though a definition of relative poverty.		
		D	This is sometimes used to indicate the wage an individual would have to earn to have a satisfactory standard of living. It is an alternative measure of welfare/inequality to relative poverty.		

17	C	A B C D Values for the Gini Coefficient are between 0 and 1. A value of zero represents a situation a perfect income equality where every individual has the same income. Correct: A value of one represents the situation of perfect inequality where one individual earns all of the income. Values for the Gini Coefficient are between 0 and 1.	AO3	
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27		A If consumer confidence falls then households would be likely to consume less and AD would shift inwards. B Correct: A fall in income tax rates would increase disposable incomes for households. This would lead to an increase in consumption and therefore an outward shift of AD. C Faced with higher corporation tax rates firms would be likely to reduce investment spending causing AD to shift inwards. D Higher oil prices would impact firms' costs and shift SRAS.	AO3	✓
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28		Higher oil prices have impacted many countries and the world. A This is measured as part of the Index of Sustainable Economic Welfare (ISEW). B Correct: GNI per capita is used to measure living standards as part of the HDI calculation. C Literacy rates have not been part of the HDI since 2010. Education is measured by the mean and expected years of schooling and not the literacy rate. D This is measured as part of the Human Poverty Index (HPI).	AO1	
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29	C	A Increased access to free at point of use healthcare would improve health outcomes for those from lower income households and make it easier for them to supply their labour. This would reduce income inequality and shift the Lorenz curve to the left. B Increased inheritance tax would reduce wealth and income inequality, particularly if the tax revenue is spent on improved public services. This would shift the Lorenz curve to the left. C Correct: If firms can successfully lobby government this will increase rent seeking behaviour and income inequality will increase, shifting the Lorenz curve to the right. D This would reduce discrimination in labour markets ensuring workers are paid according to the value of their output. This would reduce income inequality and shift the Lorenz curve to the left.	AO3	
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30	B	A	On their capital, the world record income inequality and emit the severe harm to the rest.	AO1	
		B	This records income earned on assets held overseas.		
		C	Correct: This records money transfers between countries that are not in exchange for goods or services and are not income generated from assets.		
		D	This records transactions of goods traded between countries.		

2	D	A	This would cause the LRPC to shift to the left.	AO3	✓
		B	This would cause a shift in the SRPC.		
		C	This is likely to cause an extension along the SPRC, rather than a contraction.		
		D	Correct: In the short run workers misinterpret an increase in their nominal wage as an increase in their real wage, meaning they supply more labour – they have not yet realised that inflation has increased.		

24	C	A	There is no environmental component in the HDI.	AO1	
		B	The output component in the HDI is GNI per capita at PPP, not GDP per capita.		
		C	Correct: This acts as a proxy for the quality of healthcare in the country.		
		D	The education component of the HDI is mean years of schooling and expected years of schooling.		

27	B	A	Calculates the inflation rate as $101.9 - 103.4 = -1.50\%$	AO2	✓
		B	Correct: Inflation rate = $(101.9 - 103.4) / 103.4 \times 100 = -1.45\%$		
		C	Calculates the inflation rate as $(103.4 - 101.9) / 101.9 \times 100 = 1.47\%$		
		D	Calculates the inflation rate as $101.9 - 100 = 1.90\%$		

9	B	A	This would increase the wealth of asset holders, increasing wealth inequality.	AO3	
		B	Correct: A decrease in income inequality will mean those at the bottom of the distribution can afford to save more to acquire wealth, whilst the ability of those at the top of the income distribution to build their wealth will be reduced.		
		C	This increases wealth inequality as home owners become wealthier whilst those without a home find it harder to get on the property ladder.		
		D	This would increase wealth inequality as more wealth will be passed between generations, benefitting wealthier individuals whose wealth previously exceeded the tax-free threshold but now falls below it.		

11	D	A	Deflation is a fall in the price level – the price level is rising in both 2018 and 2019.	AO1	
		B	Hyperinflation is where there is rapid inflation, with prices typically more than doubling each year		
		C	Hyperinflation is where there is rapid inflation, with prices typically more than doubling each year.		
		D	Correct: There is inflation in both years as the price level is rising, but as it is increasing at a slower rate this means there is also disinflation.		

13	A	A Correct: The economy will equilibrate at the full employment level of output – any increase in AD will simply cause inflation. B This would only be possible if demand side policy resulted in a significant increase in the productive capacity of the economy. This is by no means guaranteed and depends upon the nature of the demand side policy implemented. C Keynesian economists argue demand side intervention could cause a trade-off between growth and inflation as the economy approaches full capacity. D Keynesian economists suggest this may be possible, but only when there is significant spare capacity. Neo-classical economists do not believe in the existence of a negative output gap as the economy always reverts to the full employment level of output.	AO1	
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15	B	A	Achieving high levels of employment/low unemployment is one of the government's macroeconomic objectives but does not measure the level of economic activity.	AO1	
		B	Correct: the circular flow of income shows there are three ways of measuring the level of economic activity in an economy – output, expenditure and income.		

28	D	A The Gini-coefficient is a measure of income inequality, not pollution. B The Gini-coefficient is a measure of income inequality, not pollution. C The distribution of income becomes more equal as the Gini coefficient gets closer to zero. D Correct: The distribution of income becomes more unequal as the Gini coefficient gets closer to one.	AO3	✓
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30	C	A A change in the quantity of labour will affect the productive capacity in the economy, which impacts LRAS. B A change in the quantity of labour will affect the productive capacity in the economy, which impacts LRAS. C Correct: A reduction in net emigration means the size of the labour force will increase, increasing productive capacity and therefore shifting LRAS to the right. D This shows a reduction in productive capacity, which would occur in a country that previously relied on immigration (i.e. had net immigration).	AO3	✓
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8	C	A	This is the multiplier effect.	AO1	
		B	This is often true in the early stages of economic development and is shown by the Kuznets curve.		

31		Using Fig. 1.1 and the information in Extract 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market. • EU is a crucial trading partner (1) • Tariffs imposed on UK exports to EU mean exports will fall (1) • Large proportion of UK exports go to non-EU countries (1) • Importance of EU as a trading partner is declining over time/increasingly more trade is taking place with non-EU countries (1) • Free trade deals with non-EU countries could increase exports (1) • Imports from EU may fall (1)	2 AO2 x 2	Simply saying that 44% of UK exports go to the EU should not be credited – there needs to be some recognition that this is a significant volume.
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34		Using Fig. 2.1, explain what has happened to migration in the UK between 2000 and 2016. <i>Award two marks for an explanation of what has happened to net migration over the period:</i> • Net migration increased between 2000 and 2016 (2) • Immigration has increased faster than emigration (2) <i>Award one mark for a statement about what has happened to immigration or emigration over the period:</i> • The level of immigration and/or emigration has increased (1) OR • The level of immigration was higher than the level of emigration throughout the period (1) OR • Migration has increased (1)	2 (AO2 x 2) No credit should be given for a description of the data year by year.
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1	a	Using information from the stimulus material, identify two reasons why crowding out may not occur. Low interest rates (1). More savings / increase in savings / excess savings / savings exceeding investment (1). Slowdown of growth and aggregate demand /negative output gap (1)	2 (AO1*2)	Annotate with  Private sector investment was not making full use of available savings (1)
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	b	Using Fig.1, explain how savings can promote economic growth. Savings provide finance for investment (1) more / better capital equipment increases output per worker (1) higher productivity/efficiency increases productive capacity, raises national output (1)	2 (AO2*2)	Annotate with  Do not award AD/AS analysis that does not use Fig 1
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1	d	Using information from the stimulus material, calculate the UK's 12 month inflation rate in January 2020. 1.8% (2) Correct working (1).	2 (A02*2) Annotate with  Correct working: $1.9 / 106.3 \times 100$. (1) Accept 1.79% or to more than two decimal places using 1.78739417%. Award 1 mark for -1.79% Award 1 mark for 1.79
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34

Explain, how the data in Fig 2.1 can be used to measure the level of income inequality in the UK.

2

AO1 x 1

AO3 x 1

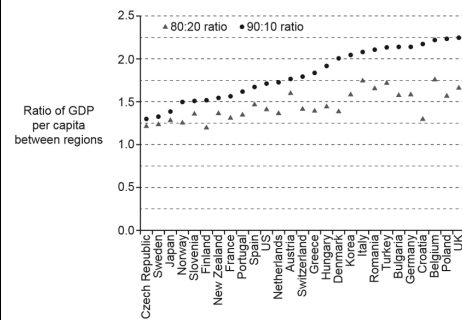
Award up to 2 marks for any of the following:

- The 90:10 ratio of 2.25 for the UK means a region (accept individual) in the 90th percentile of the income distribution earns 2.25 times more (1) than a region (accept individual) in the 10th percentile of the income distribution. (1)
- The 80:20 ratio of 1.7 for the UK means a region (accept individual) in the 80th percentile of the income distribution earns 1.7 times more (1) than a region (accept individual) in the 20th percentile of the income distribution. (1)
- The UK has the highest level of income inequality of all the countries in Fig. 2.1 using the 90:10 ratio (1)
- The UK has one of the highest levels of income inequality of all the countries in Fig. 2.1 using the 80:20 ratio (1)
- The gap between the 90:10 and 80:20 ratios is bigger in the UK than in most other countries (1)
- The gap between the 90:10 and 80:20 ratios in the UK shows that those at the top of the income distribution account for a very high proportion of national income (1)

Annotate with 

Fig. 2.1

Measures of inequality in regional GDP per capita, by country



1	a	Using information from the stimulus material, calculate the balance on the UK's primary and secondary income in 2019. -£64.8bn (2) or £64.8bn deficit Correct working i.e. - £30.5bn + ? = - £95.3bn OR £95.3bn - £30.5bn (1).	2	Annotate with  (AO1*1 AO2*2) One mark if missing • – sign, • £ or • bn 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.
Question	Answer		Marks	Guidance

1	c	Explain how a change in working hours is likely to affect productivity. A fall in working hours is likely to increase productivity / a rise in working hours is likely to reduce productivity / inverse relationship (1). Fewer working hours is likely to mean workers are less tired / more working hours are likely to mean workers are more tired (1).	2	Annotate with  Award 1 mark for identifying the relationship. Award 1 mark for explaining the relationship. 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.
Question		Answer	Marks	Guidance

34	Explain, using the data in Fig. 2.1, the most likely market structure of the car manufacturing industry in the UK. • The car manufacturing industry is likely to be an oligopoly (1) • There is a high 5 firm concentration ratio of 90% (1) Or • The car manufacturing industry is likely to be a monopoly (1) • Jaguar Land Rover / Nissan has a market share of over 25% (1)	2 AO1 x 1 AO2 x 1	• Also award the second mark for a correct calculation of the three or four firm concentration ratios. 3 firm concentration ratio = 71% and 4 firm = 82% • Accept the term market share instead of concentration ratio, provided calculations correct
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1	(c)	(ii)	Using Table 1, calculate Russia's GDP in 2017. \$1 468.21bn (2). Correct workina i.e. \$254bn/17.3 x 100 (1)	2 (AO1 x1 AO2 x1)	Accept: \$1468bn/\$1468.2bn/\$1468.208bn. If just \$1468 or 1468bn (1)
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31		Using the data in Fig 1.1 and information in Extract 1, calculate public sector expenditure on water supply as a proportion of GDP in 2021/22. <i>Award 2 marks for correct answer:</i> Spending on water = £970,000,000 Total GDP = £1,101,000,000,000 $(£970,000,000 / £1,101,000,000,000) \times 100 = 0.09\%$	2	Annotate with  Accept 0.088% Award 1 mark for: • missing % • correct working and figures, wrong answer • correct answer rounded the wrong way ie 0.08%
Question	Answer	Marks	Guidance	

35		Using Fig. 2.2, identify what evidence there is that the rate of interest may not have been a large determinant of household saving in the UK between 2020 and 2022. Valid use of the data. E.g.: Q1 to Q2 of 2020 interest rates remained constant but savings ratio rose (1) from 6% to over 25% (1) Q2 2020 to Q4 2021 interest rates remained constant but savings ratio fell (1) from over 25% to less than 10% (1) Q4 2021 to Q2 2022 interest rates rose but saving ratio fell (1) interest 0.1% to 1.3% (1) savings ratio fell 8% to 6.5% (1)	2	Annotate with  1 mark for relationship 1 mark for evidence
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37		Using Fig. 3.1, compare GDP and HDI growth between 2011 and 2021. • They both grew over the whole period/ GDP and HDI follow the same trend (1) • GDP grew at a faster rate than HDI/ the difference in growth rates has increased over time/ changes in GDP were more pronounced than HDI (1).	2	Annotate with  1 mark for similarity in trends 1 mark for differences in trends As long as statements are valid there is no need to show data evidence. Only credit answers which refer to the whole period Do not credit answers that refer to a decrease in GDP or HDI
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1	(c)	Using Fig.2, explain the difference between short run and long run economic growth. Short run economic growth is an increase in actual growth / higher output resulting from greater use of existing resources – $w \rightarrow x$ (1). In contrast, long run economic growth is an increase in productive capacity – $YY \rightarrow ZZ$. (1)	2 (AO1 x 1 AO2 x 1)	Annotate with  Figure 2 must be used
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37		Using Fig 3.2, explain the relationship between air travel and carbon dioxide emissions. • An increased number of air passenger journeys have contributed to rising carbon emissions. (1) • Air passenger journeys have increased (65%) by more than carbon emissions (12%). (1) • In 2014-15 carbon dioxide emissions decreased despite air travel increasing, suggesting air travel may not be the main cause of carbon emissions/the	2 AO2 x 1 AO3 x 1	Do not award a mark for 'positive relationship' or 'both increased' – there has to be an understanding that the increased air travel is contributing to the increase in carbon dioxide emissions.
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Question	Answer	Marks	Comments
1 (a)	Using information from the stimulus material, identify two stages of the economic cycle. Economic boom (1). Recession (1).	2 (AO1 x 2)	Annotate with  Accept Boom (1)

37	Explain whether Fig. 3.1 supports the view that “economic growth will not always lead to an improvement in welfare”. <i>1 mark for a statement of whether Fig. 3.1 supports the view</i> <i>2 marks for supporting use of data to</i> • Yes (1) ○ from 1970 - 1995 GDP per capita is rising (1) whereas GPI per capita staying the same / falling (1) • No (1) ○ over the whole period / 1995 - 2015 GDP per capita increased (1) and GPI per capita increased (1) • Maybe (1) ○ from 1970 - 1995 GDP per capita is rising whereas GPI per capita staying the same / falling (1) ○ from 1995 - 2015 GDP per capita and GPI per capita both rising (1)	3 AO1 x 2 AO2 x 1	Annotate with ✓ Fig. 3.1 GDP and GPI per capita in New Zealand, 1970–2015 — GDP per capita (\$ at 2014 prices) - - - GPI per capita (\$ at 2014 prices)
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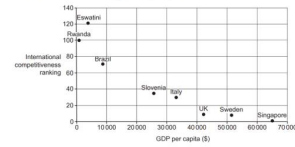
1	(c)	Explain if the relationship in Fig.1 between IDA assistance per capita and GDP per capita is the expected one. • Yes / largely the expected relationship (1) • IDA expected to provide the most assistance to the lowest income countries (1) • supporting evidence e.g. four countries show an inverse relationship / Somalia is the lowest income country and receives the most assistance / Kenya and Bangladesh	3	Annotate with ✓ Relationship - 1 mark Why it is expected - 1 mark Supporting evidence - 1 mark Exception - 1 mark Evidence must explain why it shows a relationship or exception
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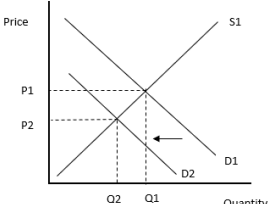
34		Using the data in Fig. 2.1, compare the annual inflation rate in August 2022 to the annual inflation rate in August 2019. <i>Award 1 mark for 2019:</i> $(108.4 - 106.5 / 106.5) \times 100 = 1.78\%$ <i>Award 1 mark for 2022:</i> $(123.1 - 112.1 / 112.1) \times 100 = 9.81\%$ <i>Award 1 mark for:</i> The rate of inflation has increased <i>Award 3 marks for:</i> The rate of inflation has increased by 8.03 percentage points.	3	Annotate with  Accept 2019 = 1.8% And 2022 = 9.8% Accept rate of inflation has increased by 8 percentage points Maximum of 1 mark if no figures used
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Question	Answer	Marks	Guidance
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35		Using the data in Fig. 3.1, calculate the growth rate in GDP per capita in Brazil between 2000 and 2019. <i>Award 1 mark for an understanding of how to calculate GDP per capita:</i> - GDP per capita = GDP / population <i>Award 1 mark for the correct calculation of GDP per capita in 2000 or 2019:</i> 2000 GDP per capita = \$1528bn / 175 million = \$8,789 2019 GDP per capita = \$2347bn / 211 million = \$11,123 <i>Award 1 mark for calculating the growth rate in GDP per capita:</i> - GDP per capita growth rate = $(\\$11,123 - \\$8,789) / \\$8,789 \times 100 = 27\%$.	3 AO1 x 1 AO2 x 2 Do not award the second mark where the \$ is missing or units are incorrect. Do not award 27 without a % sign. Accept non-rounded answer between 26.50 and 27.0. Award full marks where the correct answer is present.
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1	c	Using Fig.2, explain the relationship between the Gini coefficient and economic growth rate. The higher the Gini coefficient, the greater the degree of income inequality (1). Most of the data shows an inverse relationship (1) higher the Gini coefficient, the lower the economic growth rate / the lower the Gini coefficient, the higher the economic growth rate (1). UK is an exception / outlier (1). Aggregate demand may be low in countries with a high degree of income inequality (1) due to low consumer expenditure (1) but income inequality can increase incentive to work / innovation / enterprise (1).	4 (AO1*2 & AO2*2)	Annotate with  • identifying the inverse relationship (1) • any example from the data (1) • UK as the anomaly (1) • higher/lower the Gini coefficient, the lower/higher the growth rate (1) • a country with a high economic growth will have more income to spend on goods/services

1	d	Using Fig.1, explain the relationship between international competitiveness and GDP per capita. Generally, a direct relationship / the higher the ranking the higher the GDP per capita (1). Evidence: the five countries with the highest ranking have the five highest GDP per capita, in order (1). Exception: Eswatini and Rwanda are in a different order/ an anomaly (1). Reason: a country which is internationally competitive is likely to have a high output / income (1) demand for its products may be high at home and abroad (1). High GDP per capita may increase international competitiveness as productivity may be high due to good education / good health care / high investment (1).	4	Annotate with  Award 1 mark for identifying the relationship. Award up to 2 marks for Evidence: a country in correct rank order (1) naming the exception (1) Award up to 2 marks for the reason/explanation Fig. 1 International competitiveness ranking and GDP per capita of selected countries  The country which experienced the largest increase in international competitiveness ranking between 2015 and 2019 was Rwanda. The main destination of Rwanda's exports is the UK and its main source of imports is China. Rwanda's imports to GDP rose from 28% in 2015 to 35% in 2019 and GDP per capita increased from \$810 to \$402. Fig. 2 shows the savings rate (average propensity to save) and the changes in GDP per capita in Rwanda over the period.
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35	Explain, using the information in Extract 2 and a relevant diagram, the impact on the market for new cars of the 2020 recession. <i>Award up to 2 marks for a diagram:</i> 1 mark for correctly labelled D and S diagram 1 mark for leftward shift in D curve <i>Award up to 2 marks for a supporting explanation:</i> 1 mark for the change in equilibrium mark price and quantity - price and number of cars sold will fall as a result (1) 1 Mark for the explaining the cause of the drop in demand: - a recession causes real disposable income to fall, which decreases the demand for cars (1) - cars are a normal/luxury good so have a positive income elasticity of demand (1)	4 AO1 x 1 AO2 x 2 AO3 x 1 - Only maximum 1 mark for diagram when axes labels are missing or incorrect. Do not accept macro labels (e.g. price level). - Do not award the statement that a recession causes the demand for cars to fall unless linked to income. - Another appropriate reason for the shift in demand can be awarded if in context eg. less travel/more homeworking due to lockdown in 2020, lack of job security due to recession/Covid. - Do not award mark for shift in demand if there is also a shift in supply. 
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1	(d)	Using Table 1, explain the relationship between mean years of schooling and life expectancy. - There is not a strong relationship or Generally positive relationship (1) - Evidence e.g. Country with the highest number of mean years of schooling (Congo) has the second lowest life expectancy / country with the lowest number / but country (Somalia) with the lowest number of mean years of schooling does have the lowest life expectancy / not much difference in mean years of schooling but 14.6 years difference in life expectancy (1) - This is because more years of schooling is likely to increase income / health / nutrition (1). - Napal as an outlier having 5th lowest mean years of schooling but 2nd highest life expectancy (1) 'this suggests that there are other factors that affects a country's life expectancy apart from mean years of schooling'. (1)	4	Annotate with ✓ Relationship (type or strength)- 1 mark Evidence - 1 mark Explanation - 1 mark Exception - 1 mark
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1	(b)	Advances in communications technology (1). Using Fig.1, explain the relationship between GDP per head and life expectancy. AO1: Higher GDP per head would be likely to mean better health care/better education/better housing/better nutrition (1) AO2: Largely positive/expected relationship (1). Any of the four countries identified with the highest GDP per head have the longest life expectancy (1) Any of the four countries with the lowest GDP per head have the lowest life expectancy (1). Some exceptions in order e.g. USA has the highest GDP per head but only the 4th longest life expectancy/Egypt has a higher GDP per head than Bangladesh but lower life expectancy (1).	4 (AO1 x 1 AO2 x 3)	Annotate with  Figure 1 must be used
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1	e	Using information from the stimulus material, evaluate whether setting an inflation rate target is likely to result in low and stable inflation. Level 2 (5 – 8 marks) Good knowledge and understanding of how setting an inflation rate target can influence a country's inflation rate. Good – strong analysis of both the reasons why an inflation rate target may and may not keep the inflation rate within target. 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 both the reasons why an inflation rate target may and may not keep the inflation rate within target, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons on both sides but without reaching a strong judgement. Strong evaluation should include a supported judgement.	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3) Knowledge and Understanding - inflation targeting is an approach to monetary policy in which the central bank is given independence to set interest rates in order to meet an inflation target. Context - N.B. 2009 inflation figure should have been in the second ring - Brazil had set a target between 2005 and 2018 at 4.5% - use of any of the figures. - demand and supply side shocks - questioning of the ability of the central bank Analysis of why it might lead to low and stable inflation - an inflation rate target may convince households, workers and firms that inflation will stay low and stable. - if this is the case, they may act in a way that keeps inflation low and stable. - households may not buy extra products now in an anticipation of higher prices. - workers may not press for high wages to ensure their real incomes do not fall. - firms may not raise prices significantly as they will not expect a rise their costs of production, they may invest more as it will be easier to plan ahead - an inflation rate target also puts pressure on a central bank to keep the inflation rate low - In the case of the Bank of England, it has to
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1	(e)	payments may be lower (1/). Using information from the stimulus material, evaluate whether a recession will increase the number of people unemployed. Level 2 (5–8 marks) Good knowledge and understanding of a recession and unemployment. Good – strong analysis of how a recession may affect unemployment. 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 whether a recession will increase the number of people unemployed, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3) For a mark at the top of each level evidence must be provided from the stimulus material and / or the candidate's own knowledge. A recession occurs when a country's GDP falls over two successive quarters. Analysis of why a recession may lead to unemployment might include: • Consumer expenditure falls during a recession, so there is less demand/consumption leading to a fall in AD • A lower output may result in lower profits for firms. Producing less and earning less is likely to result in firms reducing the number of workers they employ. With lower aggregate demand, cyclical unemployment is likely to occur. • The unemployment generated may itself cause unemployment. When people are out of work for some time, they may lose skills and confidence, making it more difficult for them to get jobs when the economy picks up. They will also spend less, reducing aggregate demand even further. • The effect on unemployment may be greater if firms had high stock levels before the start of the recession. In this case, firms are likely to cut back significantly on their production. Evaluation of why a recession may not lead to a rise in the number of unemployed workers might include: • One is that some people who lose their jobs may leave
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38*	Evaluate, using the information in Extract 3, the impact of removing economic growth as one of the government's primary macroeconomic objectives. Level 3 (11–15 marks) Good knowledge and understanding of economic growth. Good – strong analysis of the impact of removing economic growth as one the government's primary macroeconomic objectives. 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. Good - strong evaluation of the impact of removing economic growth as one the government's primary macroeconomic objectives, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i>	15 AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6	Guidance: • The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation. • Good analysis requires: ◦ a relevant and explained diagram OR ◦ developed chains of reasoning • Strong analysis requires, in addition: ◦ use of the Extract 3 • Good evaluation requires: ◦ a relevant and explained diagram OR ◦ developed chains of reasoning • Strong evaluation requires, in addition: ◦ an explained judgement Context (Extract 3): • the GPI, which includes factors such as the distribution of income, environmental standards and the cost of crime, is a more effective measure of standard of living • economic growth causes human exploitation and environmental destruction • social and ecological well-being should be prioritised over profits and consumption • reducing global GDP will utilise less natural resources • despite significant economic growth, welfare has been largely stagnant since the 1970s
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33	Evaluate, with the use of an appropriate diagram(s), whether ending austerity is likely to result in the government achieving higher levels of economic growth. Level 3 (11–15 marks) Good knowledge and understanding of expansionary fiscal policy and economic growth. Good – strong analysis of the impact of ending austerity on economic growth. 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. Good - strong evaluation of the impact of austerity on economic growth, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of expansionary fiscal policy and economic growth. Reasonable analysis of the impact of ending austerity on economic growth. There is correct analysis largely in the	15 (AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6)	Guidance: • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • A relevant and explained diagram is required for the Analysis or Evaluation to be awarded above Reasonable. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for impacts of ending austerity that are mentioned in the case study: ○ Greek economy collapsed because of high debt/GDP ratio. ○ UK debt/GDP ratio was 69% in 2010 and forecast to increase to more than 100%. ○ Austerity is crucial in promoting future economic growth and stability. ○ Conservatives committed to increase public expenditure and cut taxes. ○ Labour committed to public sector pay rises, green transformation fund, compensating WASPI women and building social housing. ○ Low cost of borrowing. ○ UK has a relatively low debt/GDP ratio. ○ Destroys reputation of fiscal responsibility.
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38	Evaluate, using the information in Extract 3, the economic implications of limiting individuals to one return flight a year. Level 3 (11–15 marks) Good knowledge and understanding of market failure and or/macroeconomic policy objectives. Good – strong analysis of the economic implications of limiting individuals to one return flight a year. 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. Good - strong evaluation of the economic implications of limiting individuals to one return flight a year, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks)	15 (AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6) Guidance: • Candidates can approach this question from a microeconomic or macroeconomic perspective or a combination of the two. • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for the economic implications of limiting individuals to one return flight a year that are mentioned in the case study: ○ CO₂ emissions have increased by 90%, damaging communities around the world. ○ UK adopting climate change target may encourage other countries to follow. ○ Transportation accounts for 14% of all carbon emissions. ○ A journey by plane is 20 x more environmentally harmful than a journey by train. ○ Limiting flying will reduce negative externalities. ○ UK's status as a global centre of financial services would be harmed.
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2	*	Evaluate, with the use of an appropriate diagram(s), whether the Phillips curve is useful for economic policy makers. Level 5 (21 – 25 marks) Good – Strong knowledge and understanding of what the Phillips curve/s suggests to macroeconomic policy makers. Strong analysis of what the short run and the long run Phillips curves show. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. The relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. The diagram(s) must be integral to the analysis. Strong evaluation of how useful the Phillips curve(s) is for macroeconomic policy makers, weighing up both why it implies there may be a trade-off between unemployment and inflation and why there may not be, coming to a supported judgement. <i>There is a well-developed and sustained line of reasoning which is</i>	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Knowledge and understanding - Phillips curve: an empirical relationship suggesting that there is a trade off between unemployment and inflation Context - Poland's unemployment rate fell from 10.3% in 2013 to 3.3% in 2019 while its inflation rate rose from 0.9% to 2.3% over this period. - Stagflation in the UK in the 1970's Analysis of whether the Phillips curve is useful to economics policy makers - there is some disagreement about which version of the Phillips curve is most useful for macroeconomic policy makers. - Keynesian economists think that the relationship shown by the short run Phillips curve can be useful. - this version suggests that there can be a trade-off between unemployment and inflation. - it implies that unemployment can be reduced if a government is prepared to accept an increase in the inflation rate. - the diagram shows that a reduction in unemployment from 5% to 3% can result in a rise in inflation from 4% to 9%.
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3 *	Evaluate, with the use of an appropriate diagram(s), whether a cut in tax rates will end a recession. Level 5 (21 – 25 marks) Good – Strong knowledge and understanding of a recession. Strong analysis of how cuts in tax rates can affect aggregate demand and output. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. The relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. The diagram(s) must be integral to the analysis. Strong evaluation of how cuts in tax rates could influence real GDP, weighing up both why they may and may not end a recession, coming to 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)	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Knowledge and understanding • Recession: two successive quarters of negative growth • direct tax: a tax on income • indirect tax: a tax on expenditure Context • in 2020 several governments were considering cutting tax rates • reference to any country having or had a recession • response to the pandemic Analysis of whether tax cuts will end a recession • a cut in tax rates may end a recession by increasing aggregate demand. • lower indirect taxes could increase the willingness and ability of households to spend. • lower income tax would increase disposable income. This would increase the ability of households to buy goods and services and so consumer expenditure is likely to increase. • higher consumer expenditure and a cut in corporate tax could encourage firms to expand their output. • lower corporate tax increases both the funds available for firms to invest and the incentive for firms to invest as the rewards will have increased. • higher consumer expenditure and higher investment will increase aggregate demand.
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4	*	Evaluate whether a country with a high economic growth rate can achieve sustainable development. Level 5 (21 – 25 marks) Good – Strong knowledge and understanding of what is a high economic growth rate and what is sustainable development. Strong analysis of how a high economic growth rate can affect sustainable development. 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 diagram(s) must be integral to the analysis. Strong evaluation of how a high economic growth rate can affect sustainable development, weighing up both why a high economic growth rate may be accompanied by sustainable development and why it may not, coming to 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>	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7) Knowledge and understanding • short-run economic growth is an increase in actual GDP • long-run economic growth is an expansion of the productive capacity of an economy • sustainable development is development that meets the needs of the present without compromising the needs of future generations Context • In some recent years, Mongolia has experienced high rates of economic growth. In 2019, its government adopted a long-term development strategy known as Mongolia's Sustainable Development Vision 2030. • Logging in the Amazon • Other examples could include: • deforestation of some of the Amazon Forest through logging and clearance for farming, is threatening not only Brazil but also other countries' ability to achieve sustainable development. • the introduction of electric cars may both reduce pollution and raise living standards. • some firms are also working on electric planes which would reduce the pollution caused by foreign travel Analysis of how a high economic growth rate can achieve sustainable development • a high economic growth rate may be
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2	Consumer expenditure rose in the USA in 2019. In that year, US unemployment fell to a 50-year low of 3.5%. Evaluate, with the use of an appropriate diagram(s), whether an increase in consumer expenditure will always reduce a country's unemployment rate. Level 5 (21 – 25 marks) Good – Strong knowledge and understanding of how consumer expenditure and the unemployment rate. Strong analysis of how a rise in consumer expenditure can affect aggregate demand and the unemployment rate. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. The relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. The diagram(s) must be integral to the analysis. Strong evaluation of whether a rise in consumer expenditure will reduce the unemployment rate, weighing up both the reasons why it may and may not always reduce the unemployment rate, coming to a supported judgement. There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is	25 (AO1*6 AO2*6 AO3*6 AO4*7)	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 • consumer expenditure (consumption) is a component of aggregate demand. • unemployment is those who are willing and able to work but are unable to find work. • the unemployment rate is the number/percentage of the labour force who are unemployed.	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	Marks	Guidance
4	Evaluate whether economic growth increases happiness. Level 5 (21–25 marks) Good-Strong knowledge and understanding of economic growth and happiness. Strong analysis of how economic growth may affect happiness. 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. Any diagrams must be integral to the analysis. Strong evaluation of whether economic growth will increase happiness, weighing up both why it might and why it 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 economic growth and happiness.	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content Reasons why economic growth increases happiness. Economic growth has the potential to increase happiness. If output rises by more than inflation and population, real GDP per head will rise. With higher incomes, people are able to consume more goods and services. Higher incomes may enable people to purchase a range of products that will make life easier, such as dishwashers, and more products that will make life more enjoyable, such as foreign holidays. Producing more goods and services is likely to increase employment. This may reduce poverty. Some people who were unemployed may not only be able to afford basic necessities but also some luxuries. Economic growth may make workers happier. This is because they may feel more confident about retaining their jobs and more confident about gaining promotion. If firms are receiving more revenue they may also improve workers' working conditions. Economic growth is likely to increase tax revenue. Some of this may be spent on healthcare and education. A healthy population is likely to be a happy population. It is likely to experience less stress and less discomfort and a longer life expectancy than a less healthy one. A more

2. where they show relevance.
- Using 'best fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
- Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
 - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
 - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline', but they have only achieved some of the qualities in the band descriptors.

- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B: TOTAL MARKS

Question	Answer	Marks	Guidance
5	Microfinance has grown significantly in recent years. There has been a growth in microfinance institutions and microfinance is now available in most developing countries. Evaluate whether microfinance promotes economic development. Level 5 (21–25 marks) Good -Strong knowledge and understanding of microfinance. Strong analysis of how microfinance may affect economic development. 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 significantly errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether microfinance promotes economic development, weighing up both the positive and negative impacts it has had on the UK economy 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 microfinance. Strong analysis of how microfinance may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	<i>Indicative content</i> Microfinance involves giving small loans to the poor to help them start and develop small businesses that can take them out of poverty. For instance, a loan may be given a woman to buy a sewing machine, enabling her to sell the clothes she produces. A lower rate of interest is charged on the loans than on any money they might be able to borrow from money lenders. The poor are often not able to get loans from traditional banks. Muhammad Yunus is credited with starting microfinance. He founded the Grameen Bank to give loans to reduce poverty and promote economic development. There are various ways that microfinance can reduce poverty and promote economic development. One is that it can increase the income of those who start successful businesses. With higher incomes, the recipients of the loans may be able to enjoy better housing, healthcare and nutrition. If this is the case, their life expectancy is likely to increase. They may now also be able to educate their children. This is because the parents may no longer need their children to work to supplement the families' income and because the families may now be able to afford any school fees. With more education, the children may be able to gain well-paid jobs and enjoy a good standard of living. If the businesses started by the recipients of the loans are successful, they may employ other people in their area. This may reduce unemployment and raise the living standards of their employees. The businesses may buy goods and services from others in the area, thereby increasing employment. In

Question	Answer	Mark	Comments
4	The UK's deficit on the current account of its balance of payments in the first quarter of 2018 was £17.7bn (3.4% of GDP). This was a reduction on the deficit of £19.5bn (3.8% of GDP) in the last quarter of 2017. Evaluate whether the UK would benefit from a reduction in the deficit on the current account of the balance of payments. Level 5 (21–25 marks) Good -Strong knowledge and understanding of a deficit on the current account of the balance of payments. Strong analysis of the effects of a reduction in the deficit on the current account of the UK balance of payments. 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. Any diagrams must be integral to the analysis. Strong evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, weighing up both why it might and why it 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 a deficit on the current account of the balance of payments.	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	For a mark at the top of each level the response should be in context. A deficit on the current account means that a country (the UK) is importing more goods and services than they are exporting. Analysis of the benefit to the UK of a reduction in the deficit on the current account of the balance of payments might include: - A reduction in the deficit caused by an increase in the competitiveness of the country's products is highly likely to be beneficial. If the cost of producing the country's products falls and/or the quality rises, the country is likely to export more and import less. Output will rise probably rise which can, in turn, reduce unemployment. If costs of production have fallen, inflationary pressure may be reduced. - A reduction in the deficit resulting from the removal of trade restrictions on the country's exports by foreign governments is also likely to be beneficial. Such a change would allow the country to compete on more equal terms. - A reduction in a deficit caused by an increase in net primary income may arise from the country's firms with branches abroad earning more profits or banks earning a higher interest rate on its loans to residents abroad. - Worker's remittances appear as secondary income. An increase in UK workers' remittances may improve the living standards of their family members and will reduce the country's current account deficit. Evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the

Question	Answer	Marks	Comments
5	In 2018 both Australia and Ireland had a high Human Development Index (HDI), 0.939 and 0.938. They did, however, have different rates of poverty. Evaluate whether a country with a high HDI is likely to have a low rate of poverty. Level 5 (21–25 marks) Good -Strong knowledge and understanding of HDI and poverty. Strong analysis of the relationship between a country's HDI and its level of poverty. 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. Any diagrams must be integral to the analysis. Strong evaluation of whether a country with a high HDI is likely to have a low rate of poverty, weighing up whether a country with a high HDI is likely to have a low rate of poverty 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 HDI and poverty. Strong analysis of the relationship between a country's HDI and its level of poverty. It will have consistently	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	For a mark at the top of each level the response should be in context. There are three components of a country's HDI, each having an equal weighting. One is average income, measured by GNI per head. Another is education, measured in terms of mean and expected years of schooling. The third component is healthcare, measured by life expectancy at birth. Analysis of why a high HDI is likely to have a low rate of poverty might include: • If a country has a high GNI per head, it is possible that people in the country are able to afford not just luxuries but also the goods and services needed for them to participate fully in the normal activities of their society. This may mean that absolute and relative poverty are low. • High GNI per head may also mean that tax revenue is high which may enable a government to redistribute income to ensure greater equality of income and so reduce relative poverty. • A high number of years of education would contribute to a high HDI. If most of the population have access to both a high number of years of education and good quality education, they may be able to gain well-paid employment and enjoy a good standard of living. • People are likely to live a long life if there is good healthcare. Good quality healthcare, as well as good quality education. Should result in high labour productivity. Workers are likely to be mentally and physically fit. They are less likely to experience long periods of sickness which can be a cause of poverty.