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OCR A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

The Financial Sector

OCR A-level Economics H460 — Topic MACRO 5

16 questions · 133 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.

16 questions · 133 marks · lowest tariff first

	QUESTION	SOURCE	MARKS	PAGE
1.	Section A (MCQ), Q11	H460/03 Themes in Economics · June 2022	1 mark	5
2.	Section A (MCQ), Q20	H460/03 Themes in Economics · June 2022	1 mark	6
3.	Section A (MCQ), Q28	H460/03 Themes in Economics · June 2022	1 mark	7
4.	Section A (MCQ), Q24	H460/03 Themes in Economics · May 2024	1 mark	8
5.	Section A (MCQ), Q3	H460/03 Themes in Economics · May 2024	1 mark	9
6.	Section A (MCQ), Q14	H460/03 Themes in Economics · October 2020	1 mark	10
7.	Section A (MCQ), Q16	H460/03 Themes in Economics · October 2020	1 mark	11
8.	Section A (MCQ), Q19	H460/03 Themes in Economics · October 2020	1 mark	12
9.	Section A (MCQ), Q2	H460/03 Themes in Economics · October 2021	1 mark	13
10.	Section A (MCQ), Q5	H460/03 Themes in Economics · October 2021	1 mark	14
11.	Section B, Q37	H460/03 Themes in Economics · June 2019	8 marks	16
12.	Section B (Essay), Q36*	H460/03 Themes in Economics · May 2024	15 marks	19
13.	Section B (Essay), Q3*	H460/02 Macroeconomics · June 2023	25 marks	23
14.	Section C (Essay), Q5*	H460/02 Macroeconomics · June 2023	25 marks	28
15.	Section C (Essay), Q5*	H460/02 Macroeconomics · May 2019	25 marks	33
16.	Section B (Essay), Q3*	H460/02 Macroeconomics · October 2020	25 marks	38

QUESTIONS

16 questions · 133 marks · lowest tariff first

1-MARK QUESTION

10 questions in this booklet

6

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

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

Your answer

[1]

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

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

Your answer

[1]

10

- 19 The separation between ownership and control means managers are likely to be more incentivised to pursue sales revenue maximisation over profit maximisation. What type of firm is this most likely to describe?

- A Public limited company
- B Public sector company
- C Small business
- D Voluntary organisation

Your answer

☐

[1]

- 20 Money fulfils a number of important functions, including acting as a medium of exchange. What characteristic would prevent money from fulfilling this function?

- A Durable to use
- B Portable to carry
- C Scarce in supply
- D Volatile in value

Your answer

☐

[1]

- 21 Who is most likely to be categorised as being unemployed?

- A 19 year old full time student.
- B 38 year old father who chooses to stay at home to be a home-maker.
- C 42 year old former bank worker who is economically active.
- D 68 year old who worked in the steel industry and who is now claiming the state pension.

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]

13

24 What is the least liquid asset?

- A Central bank reserves
- B Sight deposits
- C Notes and coins
- D Time deposits

Your answer

[1]

25 A maximum price for rent is imposed in the London housing market.

What is the likely impact?

- A A decrease in consumer surplus
- B An excess demand for rental housing
- C An increase in government tax revenue
- D An increase in producer surplus

Your answer

[1]

26 What is a characteristic of both a market operating under perfect competition and a contestable market?

- A Freedom of entry and exit
- B Homogenous goods
- C Many firms
- D Price discrimination

Your answer

[1]

2

Section A

Write your answer to **each** question in the box provided.

1 What is the reward to enterprise?

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

Your answer

[1]

2 The marginal propensity to withdraw (mpw) in an economy is 0.6.
There is an injection of £150bn into the economy.

What is the final increase in GDP?

- A £90 billion
- B £100 billion
- C £250 billion
- D £375 billion

Your answer

[1]

3 Which of these is a function of money?

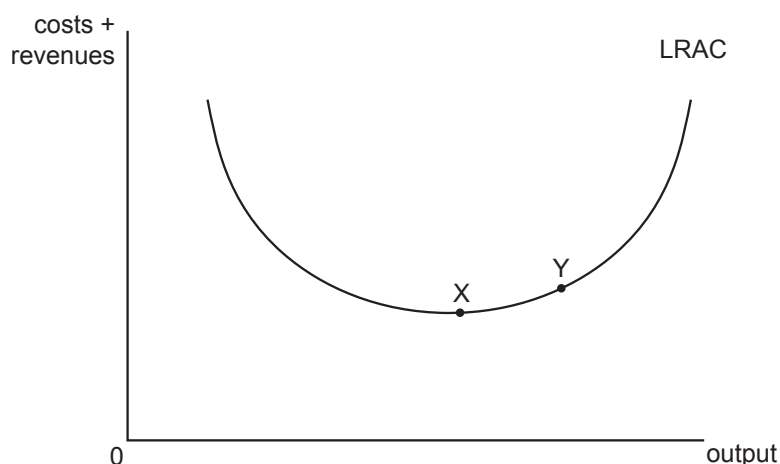
- A Divisibility
- B Durability
- C Limited supply
- D Unit of account

Your answer

[1]

7

13 What is the most likely cause of a movement from X to Y in the diagram below?



- A A rival firm entering the market increases the cost of inputs into the production process
- B Organisational slack increases as a result of a firm developing monopoly power
- C The growth of the industry results in more individuals undertaking relevant education or training
- D Workers become less motivated after the firm they work for takes control of another firm in the industry

Your answer

☐

[1]

14 In response to a global recession, Central Banks in ten closely linked economies reduce interest rates by an average of 1.5%. What is the likely impact on one of these economies where its Central Bank decided to reduce interest rates by 0.5%?

- A Hot money will flow in, causing the exchange rate to appreciate
- B Hot money will flow in, causing the exchange rate to depreciate
- C Hot money will flow out, causing the exchange rate to appreciate
- D Hot money will flow out, causing the exchange rate to depreciate

Your answer

☐

[1]

8

15 What efficiencies occur in the model of perfect competition in the long run?

- A Allocative and dynamic efficiency
- B Allocative, dynamic and productive efficiency
- C Allocative, productive and X efficiency
- D Allocative, dynamic, productive and X efficiency

Your answer

[1]

16 What is classed as narrow money?

- A Commercial banks' deposits at the Bank of England
- B Government bonds with a maturity of less than five years
- C Money held in savings accounts
- D Retail deposits held current accounts

Your answer

[1]

17 What would cause unit labour costs to decrease?

- A A decrease in corporation tax
- B An increase in output
- C An increase in the National Living Wage
- D An increase in the quality of capital equipment

Your answer

[1]

9

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

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

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

Your answer

[1]

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

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

Your answer

[1]

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

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

Your answer

[1]

2

SECTION A

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

Write your answer for each question in the box provided.

1 What is a characteristic of positive economic statements?

- A They are subjective opinions
- B They can be proven true or false
- C They explain correctly what is happening in an economy
- D They explain the best outcome from a choice that can be made

Your answer

[1]

2 Which of the industries below operates in the tertiary sector?

- A Construction
- B Fishing
- C Leisure
- D Manufacturing

Your answer

[1]

4

- 5 Many developing nations face the problem of a poorly developed financial sector. This is partly because individuals are unwilling to save their money in financial institutions. Some are worried that the financial institutions may go bankrupt, which will result in them losing their savings. How can a central bank help to overcome this problem?

- A Act as a lender of last resort
- B Issue banknotes and coins
- C Maintain price stability
- D Manage the government's borrowing

Your answer

☐

[1]

- 6 What is likely to be the most effective policy solution to overcome the market failure caused by the existence of positive externalities of production?

- A Competition policy
- B Regulation
- C Subsidy
- D Taxation

Your answer

☐

[1]

- 7 Which form of economic integration describes a situation in which there is free trade between members who set common external tariffs but each have different currencies?

- A Customs union
- B Economic union
- C Free trade area
- D Monetary union

Your answer

☐

[1]

8-MARK QUESTIONS

1 question in this booklet

27

- 37** Evaluate, using appropriate diagrams, the impact of subsidising electric car production on the market for traditional diesel and petrol cars.

[8]

END OF QUESTION PAPER

Handwriting practice area with horizontal dotted lines.

15-MARK QUESTIONS

1 question in this booklet

22

36* Evaluate, using the information in **Extract 2**, whether increasing the interest rate was an effective way to combat rising inflation. **[15]**

[illegible]

Area with horizontal dotted lines for writing.

Area for writing the answer to Question 36. The page contains horizontal dotted lines for writing.

25-MARK QUESTIONS

4 questions in this booklet

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]

Question No.

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SECTION C

Answer Question 4 or Question 5.

EITHER

- 4*** Since 1978, more than 800 million people have been lifted out of poverty in China. In this period, the Chinese government has made increasing use of supply side policy measures.

Evaluate the effectiveness of using supply side policy measures to reduce poverty. [25]

OR

- 5*** In 2020, the Saudi Arabian government tripled Value Added Tax from 5% to 15%. It did not change the country's corporate tax rate.

Evaluate whether a government should rely more on indirect or direct taxation as a source of revenue. [25]

Question No.

[illegible]

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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

Start your answer here

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MARK SCHEMES

official OCR mark schemes

11	A	A	Correct: The financial provides a mechanism for firms to borrow or raise funds through the equity or bond market to carry out investment.	AO1	
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20	D	A	Money needs to be durable so that it can be used repeatedly to carry out transactions.	AO1	
		B	Money needs to be portable, so it is a practical means of carrying out a transaction.		
		C	This makes individuals willing to exchange a good or service for it because they know it has some value.		
		D	Correct: If the value of money does not remain reasonably stable over time individuals will not trust it as a medium of exchange.		

28	D	A	The opportunity cost of spending has increased, so it will be rational for consumers to spend less and save more.	AO3	
		B	Inferior goods have a negative income elasticity of demand, so when income falls demand will increase.		
		C	This is rational as once the firm has increased its market share it will have more pricing power,		

24	D	A Central bank reserves are included in M0 and are considered narrow money and are highly liquid. B Money held in sight accounts are highly liquid. C Notes and coins in circulation are included in M0 and are considered narrow money and are highly liquid. D Correct: Accounts that have a time deposit are the least liquid as they require the saver to leave their money in the account for a specified time period or give a period of notice to withdraw money.	AO1	
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- 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

14	A	A Correct: Foreign investors will get a relatively greater return from investing in the economy because the interest rate has fallen by less than in other economies, which will cause hot money to flow into the economy. This increases the demand for the currency, causing the value of it to appreciate. B The exchange rate will appreciate as a result of hot money flowing in. C Although the interest rate has fallen, it has fallen by less than in other countries, meaning hot money will flow in. D Although the interest rate has fallen, it has fallen by less than in other countries, meaning hot money will flow in.	AO1	
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16	A	A	Correct: This is a component of narrow money, along with notes and coins.	AO1	
		B	This is part of broad money, and is more illiquid than narrow money.		
		C	This is part of broad money, and is more illiquid than narrow money.		
		D	This is part of broad money, and is more illiquid than narrow money.		

19	A	A	Correct: Without money to act as a medium of exchange goods and services will need to be traded directly for each other.	AO1	
		B	There would be no role for a central bank in an economy without money.		
		C	In an economy without money goods and services are traded directly for each other – there is therefore no one price of a good or service, making price controls less likely.		
		D	Protectionism places restrictions upon imports into a country – this is not related to the existence of money.		

2	C	A Construction is a secondary sector industry.	AO2	
		B Fishing takes place in the primary sector.		
		C Correct: The leisure industry operates in the service sector.		
		D Manufacturing is a secondary sector industry.		

5	A	A	Correct: This reduces the risks of banks failing, as if they run into problems they can be bailed out by the central bank. This increases confidence in the financial sector.	AO3	
		B	This is a function of a central bank but would not help overcome the problem explained in the question.		
		C	This is a function of a central bank but would not help overcome the problem explained in the question.		
		D	This is a function of a central bank but would not help overcome the problem explained in the question.		

37	Evaluate, using appropriate diagrams, the impact of subsidising electric car production on the market for traditional petrol cars. Level 2 (5–8 marks) Good knowledge and understanding of a subsidy. Good – strong analysis of how subsidising electric cars will impact the market for traditional petrol cars. 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 the extent to which subsidising electric cars will impact the market for traditional petrol cars. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment. Strong evaluation should include a supported judgment. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of a subsidy. Limited – reasonable analysis of how subsidising electric cars will impact the market for traditional petrol cars. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will have correct analysis largely in the form of single links. These address the	8 AO1 x 1 AO2 x 1 AO3 x 2 AO4 x 4 Guidance: - For Knowledge & Understanding to be Good, there must be both an accurate diagram and application to the car industry - An explanation of the impact on the electric or traditional car market without a diagram is Limited analysis. - An explanation of the impact on the electric and traditional car market without a diagram is Reasonable analysis. - An explanation of the impact on the electric or traditional car market with a diagram is Reasonable analysis. - An explanation of the impact on the electric and traditional car market with one diagram is Good analysis. - An explanation of the impact on the electric and traditional car market with two diagrams is Strong analysis. - Evaluation cannot go beyond Reasonable if only the electric or traditional car market is considered. - Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation.
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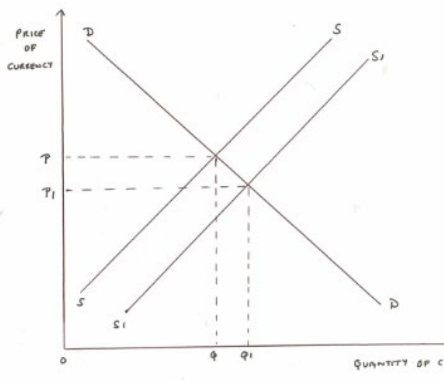
36* Evaluate, using the information in Extract 2, whether increasing the interest rate was an effective way to combat rising inflation.

Level / mark	Descriptor
Level 3 (11-15 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement
Level 2 (6-10 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement,
Level 1 (1-5 marks)	Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement, or the absence of a judgement.

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. Level 5 (21 – 25 marks) Good – Strong knowledge and understanding of a central bank and the exchange rate. Strong analysis of how a central bank can influence the exchange rate and how a decline in the exchange rate can affect the macroeconomy. 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 central bank should resist a fall in the exchange rate, weighing up both the advantages and disadvantages of a fall in the exchange rate, 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) Good knowledge and understanding of a central bank and the	25 (AO1*6 AO2*6 AO3*6 AO4*7)	<table><tr><th colspan="3">Annotation</th></tr><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 - An exchange rate is the value of one currency in terms of another. - All developed and most developing economies have a central bank. That bank fulfils a range of roles including issuing currency. - A decline in the exchange is a fall in its value against another currency. Context - Turkish Lira - Selling foreign currency reserves - Fall in Lira against the US Dollar - Fall from 4.73 to 7.32	Annotation			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
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Evaluation	EVAL	Grouped beside the body of the evaluation																	

5	In 2020, the Saudi Arabian government tripled Value Added Tax from 5% to 15%. It did not change the country's corporate tax rate. Evaluate whether a government should rely more on indirect than on direct taxation as a source of revenue. Level 5 (21 – 25 marks) Good – Strong knowledge and understanding of indirect and direct taxation. Strong analysis of the effects of indirect taxation and direct taxation. 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. The diagram(s) must be integral to the analysis. Strong evaluation of whether a government should rely more on indirect or direct taxation, weighing up both the advantages and disadvantages of the two types of taxation, 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 entirely relevant and substantiated.	25 (AO1*6 AO2*6 AO3*6 AO4*7)	<table><tr><th colspan="3">Annotation</th></tr><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 - Indirect tax is a tax on spending. - Direct tax is a tax on income. Context - Saudi Arabia - VAT - Tripled the VAT from 5% to 15% - Corporation tax remaining the same.	Annotation			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
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Evaluation	EVAL	Grouped beside the body of the evaluation																	

Question	Answer	Marks	Guidance
5 *	Evaluate whether the UK financial sector makes a positive contribution to the UK economy. Level 5 (21–25 marks) Good-Strong knowledge and understanding of the UK financial sector. Strong analysis of the contribution the UK financial sector makes to the UK economy. 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 the contribution the UK financial sector makes to the UK economy, weighing up both the positive and negative impacts it has had on the UK economy 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 the UK financial sector. Strong analysis of the contribution the UK financial sector makes to the UK economy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis.	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content Reasons why the financial sector makes a positive contribution to the UK Economy The UK financial sector has and continues to provide a range of services that help the UK economy to operate. Banks enable the government, firms and households to make and receive payments, to save and to borrow. They act as an intermediary between those who have more funds than they currently want to spend and those who want more funds than they have available at the moment. Banks, insurance companies, hedge funds and pension companies enable firms and households to pool risks. The stock exchange deals in second hand shares and government securities. By providing a market for the purchase and sale of shares and government bonds. It makes it easier for firms and the government to sell shares and government securities. The existence of the stock exchange also enables firms to grow externally by merging or taking over other firms. The foreign exchange market provides importers and exporters and those investing overseas to buy and sell currencies. Most of the trade is, however, undertaken by those speculating on changes in the value of different currencies. Speculation can cause large fluctuations in exchange rates which can create uncertainty and discourage investment. It does, though, enable governments to influence the value of their currencies by buying and selling their currency. The UK has a relatively large financial sector. It contributes just over 10% of the country's output and

Question	Answer	Marks	Guidance
3 *	In 2018, the US President accused China and Russia of lowering the value of their currencies to artificially low levels. Evaluate, with the use of an appropriate diagram(s), whether a central bank's decision to reduce the exchange rate to an artificially low level will benefit its economy. Level 5 (21–25 marks) Good - Strong knowledge and understanding of what is meant by a fall in the exchange rate. Strong analysis of how a fall in the exchange rate to an artificially low level will affect an economy. 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 fall in the exchange rate to an artificially low level will benefit an economy, weighing up both why it might and why it might not and reaching a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of what is meant by a fall in the exchange rate. Strong analysis of how a fall in the exchange rate to an	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content An artificially low exchange rate is one below the free market equilibrium price. A central bank could achieve this by either selling the country's currency and/or reducing the rate of interest to discourage financial investors from purchasing the currency. The diagram shows the free market equilibrium price being P. An increase in the supply of the currency reduces the price to P₁.  A fall in the exchange rate can give a country a price competitive advantage abroad and at home. It will lower