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OCR AS ECONOMICS: QUESTIONS BY TOPIC

Implementing Policy

OCR AS Economics H060 — Topic MACRO 3

23 questions · 67 marks · Mark schemes included

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 Piccadilly Business Centre, Unit C, Aldow Enterprise Park
Blackett Street, Manchester, M12 6AE

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.

23 questions · 67 marks · lowest tariff first

	QUESTION	SOURCE	MARKS	PAGE
1.	Section A (MCQ), Q10	H060/02 Macroeconomics · June 2017	1 mark	5
2.	Section A (MCQ), Q1	H060/02 Macroeconomics · June 2018	1 mark	6
3.	Section A (MCQ), Q12	H060/02 Macroeconomics · June 2018	1 mark	7
4.	Section A (MCQ), Q1	H060/02 Macroeconomics · June 2019	1 mark	8
5.	Section A (MCQ), Q10	H060/02 Macroeconomics · June 2019	1 mark	9
6.	Section A (MCQ), Q15	H060/02 Macroeconomics · June 2019	1 mark	10
7.	Section A (MCQ), Q5	H060/02 Macroeconomics · June 2022	1 mark	11
8.	Section A (MCQ), Q1	H060/02 Macroeconomics · June 2023	1 mark	12
9.	Section A (MCQ), Q4	H060/02 Macroeconomics · June 2023	1 mark	13
10.	Section A (MCQ), Q1	H060/02 Macroeconomics · June 2024	1 mark	14
11.	Section A (MCQ), Q12	H060/02 Macroeconomics · June 2024	1 mark	15
12.	Section A (MCQ), Q2	H060/02 Macroeconomics · June 2024	1 mark	16
13.	Section A (MCQ), Q7	H060/02 Macroeconomics · June 2024	1 mark	17
14.	Section A (MCQ), Q1	H060/02 Macroeconomics · November 2020	1 mark	18
15.	Section A (MCQ), Q12	H060/02 Macroeconomics · November 2020	1 mark	19
16.	Section A (MCQ), Q2	H060/02 Macroeconomics · November 2020	1 mark	20
17.	Section A (MCQ), Q3	H060/02 Macroeconomics · November 2020	1 mark	21
18.	Section A (MCQ), Q4	H060/02 Macroeconomics · November 2020	1 mark	22
19.	Section B, Q16(b)(ii)	H060/02 Macroeconomics · June 2022	2 marks	24
20.	Section B, Q16(a)	H060/02 Macroeconomics · June 2023	3 marks	28
21.	Section B, Q16(d)	H060/02 Macroeconomics · June 2023	4 marks	32
22.	Section C (Essay), Q17*	H060/02 Macroeconomics · June 2017	20 marks	36
23.	Section C (Essay), Q17*	H060/02 Macroeconomics · June 2019	20 marks	41

QUESTIONS

23 questions · 67 marks · lowest tariff first

1-MARK QUESTION

18 questions in this booklet

4

- 9 The table shows the prices of a country's imports and exports over 4 successive years. In which year was there the most favourable terms of trade?

Year	Index of export prices	Index of import prices
1	100	100
2	106	111
3	108	114
4	118	114

- A Year 1
B Year 2
C Year 3
D Year 4

Your answer

☐

[1]

- 10 A government may reduce the national minimum wage in order to

- A achieve a more equal distribution of income.
B cut firms' costs.
C lower voluntary employment.
D reduce government spending on benefits.

Your answer

☐

[1]

2

SECTION A

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

Write your answer for each question in the box provided.

- 1 If a country's tax receipts are \$520bn and government expenditure is \$540bn, which of the following best describes the state of the macroeconomy?

- A Budget deficit
- B Budget surplus
- C Current account deficit
- D Current account surplus

Your answer

[1]

- 2 What could explain the trade-off between the policy objectives of economic growth and the balance of payments?

- A Economic growth caused by technological progress reduces the price of exports
- B If high earners see their income rise more than low earners then the benefits of growth will not be shared equally
- C Rising output increases the amount of goods and services available to export
- D When income rises the demand for imports increases

Your answer

[1]

- 3 A woman lost her job as a solicitor two months ago. She has since been searching for employment as a hotel manager. She has been too embarrassed to apply for any state benefits and has been living off her savings. Would she be classified as unemployed on the claimant count measure and the Labour Force Survey (ILO) measure?

	Claim count measure	Labour Force Survey (ILO) measure
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

Your answer

[1]

- 4 In what economic climate would money be most at risk of **not** fulfilling its function as a medium of exchange?

- A Deflation
- B Disinflation
- C Hyperinflation
- D Inflation

Your answer

[1]

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5

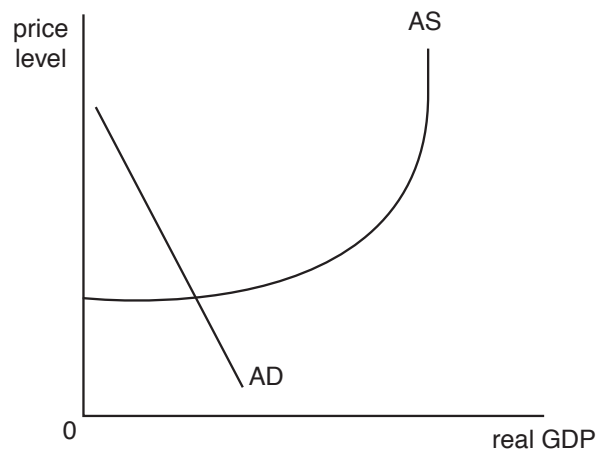
- 11 When will an appreciation of the currency result in the current account of the balance of payments improving?

Option	PED for exports	PED for imports
A	-0.4	-0.3
B	-0.5	-0.6
C	-0.6	-0.4
D	-0.7	-0.7

Your answer

[1]

- 12 The diagram below illustrates the macroeconomic equilibrium in an economy. Given the interest rate in the economy is 0.1%, which policy is the government most likely to pursue in these circumstances?



- A Contractionary monetary policy
- B Expansionary fiscal policy
- C Expansionary monetary policy
- D Supply side policy

Your answer

[1]

2

SECTION A

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

Write your answer for each question in the box provided.

1 Which of the following is an instrument of fiscal policy?

- A Income tax
- B Interest rates
- C Quantitative easing
- D Regulation

Your answer

[1]

2 What is Gross Domestic Product?

- A The average value of output per person produced in a country
- B The employment rate
- C The size of the workforce
- D The total value of goods and services produced in a country

Your answer

[1]

3 An increase in long run aggregate supply may lead to:

- A higher inflation and a fall in real output
- B higher unemployment and lower inflation
- C lower inflation and an increase in real output
- D lower unemployment and a fall in real output

Your answer

[1]

5

9 What impact will a fall in investment have on the aggregate demand curve?

- A Movement down the aggregate demand curve
- B Movement up the aggregate demand curve
- C Shifts the aggregate demand curve to the left
- D Shifts the aggregate demand curve to the right

Your answer

[1]

10 UK government spending on the new high-speed railway line from London to Birmingham is likely, in the short run, to:

- A increase the budget deficit
- B increase the current account deficit
- C reduce the budget deficit
- D reduce the current account deficit

Your answer

[1]

11 The interest rate paid to savers is 5% per year. However, the real rate of interest is only 2% per year. What is the rate of inflation?

- A 2.5%
- B 3%
- C 7%
- D 10%

Your answer

[1]

12 China's increased production of steel has led to the closure of UK steel manufacturers. This is likely to cause which of the following types of unemployment?

- A Cyclical
- B Frictional
- C Seasonal
- D Structural

Your answer

[1]

13 What impact is an appreciation of Sterling against the US Dollar likely to have?

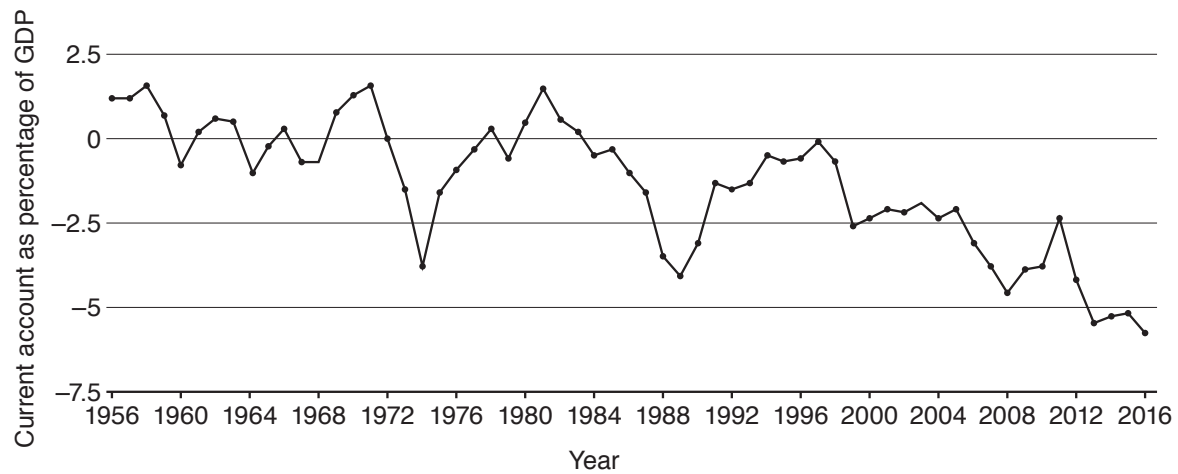
- A More UK consumers will go on holiday to the USA
- B More US consumers will buy UK exports
- C UK consumers will buy fewer US imports
- D UK firms will increase the Sterling prices of their exports

Your answer

[1]

6

14 The diagram below shows the current account position on the UK balance of payments.



What is true over most of the period from 1956 to 2016?

- A The current account deficit has improved
- B The current account was balanced
- C The gap between the value of goods and services the UK exports and imports has fallen
- D The UK imported a greater value of goods and services than it exported

Your answer

[1]

15 What impact is a decrease in quantitative easing of £200bn by the Bank of England most likely to have?

- A Increase economic growth and increase inflation
- B Increase economic growth and reduce inflation
- C Reduce economic growth and increase inflation
- D Reduce economic growth and reduce inflation

Your answer

[1]

2

SECTION A

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

Write your answer for each question in the box provided.

- 1 In the model of the circular flow of income, which of the following will cause national income to increase?

- A An increase in government spending
- B An increase in imports
- C An increase in savings
- D An increase in taxes

Your answer

[1]

- 2 What type of policy is deregulation?

- A Exchange rate
- B Fiscal
- C Monetary
- D Supply side

Your answer

[1]

- 3 Which of the following is a definition of hyperinflation?

- A Prices are constant
- B Prices are falling
- C Prices are rising at a slower rate than previously
- D Prices are rising excessively

Your answer

[1]

- 4 Which of the following may lead to a UK balance of payments current account deficit?

- A An appreciation of the UK pound
- B An increase in tariffs on UK imports
- C Lower UK inflation relative to other countries
- D Research and development subsidies for UK firms

Your answer

[1]

- 5 If government spending increases significantly during a recession, it may cause a:

- A capital account surplus
- B current account surplus
- C cyclical budget deficit
- D structural budget deficit

Your answer

[1]

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2

SECTION A

Write your answer to each question in the box provided.

1 Which of these is a tool of monetary policy?

- A Income tax
- B Interest rates
- C Subsidies to firms
- D Welfare payments

Your answer

[1]

2 Frictional unemployment occurs when:

- A cheap steel from abroad reduces demand for UK steelworkers
- B farm workers do not have a job during the winter months
- C the economy is in a period of recession
- D workers are transferring between jobs

Your answer

[1]

3 Which economic activity is found in the secondary sector?

- A Banking
- B Growing corn
- C Producing cars
- D Providing insurance

Your answer

[1]

4 Competition policy is an example of:

- A exchange rate policy
- B fiscal policy
- C monetary policy
- D supply side policy

Your answer

[1]

2

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SECTION A

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

1 A government budget deficit occurs when:

- A imports exceed exports
- B its expenditure is less than its revenue
- C its expenditure is more than its revenue
- D the national debt is decreasing

Your answer

[1]

2 What is **not** an example of a supply side policy?

- A Increasing expenditure on education
- B Increasing the rate of income tax
- C Investing in road infrastructure
- D Providing subsidies for research and development

Your answer

[1]

3 What would be the **least** effective way to increase long run economic growth?

- A Increase government expenditure on welfare payments
- B Increase labour productivity
- C Increase the level of technology
- D Increase the number of women joining the workforce

Your answer

[1]

5

10 Which group will be part of the labour force survey measure of unemployment?

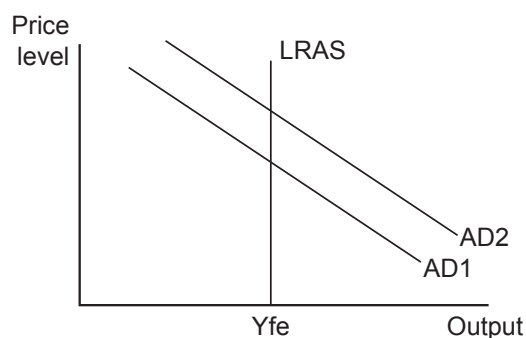
- A People claiming job seeker's allowance and not available for work
- B People without a job and actively seeking work in the last two weeks and available to start work the next week
- C People without a job and actively seeking work in the last four weeks and available to start work in the next two weeks
- D People working part-time but seeking other work

Your answer

☐

[1]

11 The diagram shows an increase in aggregate demand from AD1 to AD2.



What impact will this have on the economy?

- A Increased output only
- B Increased unemployment
- C Inflation and increased output
- D Inflation only

Your answer

☐

[1]

12 Which option will **not** improve labour market flexibility?

- A Better information about job vacancies
- B Increasing the minimum wage
- C Limiting the power of trade unions
- D Retraining of workers

Your answer

☐

[1]

2

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[1]

4

7 What is an example of a contractionary monetary policy?

- A Increasing government expenditure by £1bn
- B Increasing interest rates by 1%
- C Increasing quantitative easing by £100m
- D Increasing VAT by 2%

Your answer

[1]

8 Which of these is **most** likely to cause an increase in the rate of inflation?

- A An increase in labour productivity and a higher price of oil
- B An increase in technological advancements and falling employment
- C An increase in the budget deficit and falling consumer confidence
- D An increase in the minimum wage and a depreciation of the exchange rate

Your answer

[1]

9 The table shows the tax paid by an individual at different levels of income.

Annual income (£)	Tax paid (£)
15 000	1200
25 000	1700
35 000	2500
50 000	4000

What is the marginal tax rate for an individual whose annual income increases from £25 000 to £35 000?

- A 2%
- B 5%
- C 7%
- D 8%

Your answer

[1]

2

SECTION A

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

Write your answer for each question in the box provided.

1 Crowding out means:

- A fluctuations in tax revenue and government spending due to the economic cycle
- B government spending leads to a fall in private sector spending
- C households and firms saving part of their income
- D mismatch of skills between the unemployed and available jobs

Your answer

[1]

2 What does a Laffer curve show?

- A Difference between government spending and tax revenue
- B Difference between the value of imports and exports for a country
- C Level of supply in a country
- D Relationship between the tax rate and the amount of tax revenue

Your answer

[1]

3 If the Bank of England increases interest rates, which of these is **most** likely to occur?

- A Increase in consumer spending
- B Less investment by firms
- C Less saving in the economy
- D More borrowing in the economy

Your answer

[1]

4 A budget deficit for the UK means that:

- A exports are greater than imports
- B government spending is greater than tax revenue received by the government
- C government tax revenue is greater than government spending
- D imports are greater than exports

Your answer

[1]

4

- 9 A UK retailer purchases agricultural products from Europe which cost the retailer €12500. The retailer sells these items for a total of £14 000. How much profit or loss has the retailer made, if the exchange rate at the time of purchase was £1 = €1.25?

A Loss of £1625
B Loss of £1825
C Profit of £1500
D Profit of £4000

Your answer

[1]

- 10 Which of the following is a feature of a regressive tax system?

A Tax paid as a percentage of income decreases when income increases
B Tax paid as a percentage of income increases when income increases
C Tax paid as a percentage of income is the same for all income levels
D Tax paid does not change as a percentage of income

Your answer

[1]

- 11 Which of the following will cause aggregate supply to shift to the right?

A Increase in corporation tax rates
B Increase in marginal propensity to import
C Increase in national minimum wage
D Increase in subsidies for research and development

Your answer

[1]

- 12 When the Bank of England uses quantitative easing it:

A buys government bonds
B buys sterling
C sells government bonds
D sells sterling

Your answer

[1]

- 13 Which of the following is a supply side policy?

A Changes to the overall level of income tax
B Exchange rate manipulation
C National minimum wage
D Quantitative easing

Your answer

[1]

2

SECTION A

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- D imports are greater than exports

Your answer

[1]

2-MARK QUESTIONS

1 question in this booklet

6

SECTION B

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

Japan's GDP shrinks dramatically at the end of 2019

Link to material: <https://www.economist.com/finance-and-economics/2020/02/17/japans-gdp-shrinks-dramatically-after-a-tax-rise-and-a-typhoon>. Item removed due to third party copyright restrictions.

Source: Adapted from The Economist

7

Fig. 1

Japan's Unemployment Rate 2015–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.



Source: Trading Economics

Fig. 2

Japan's Interest Rate 2010–2020

Link to material: <https://tradingeconomics.com/japan/balance-of-trade>. Item removed due to third party copyright restrictions.



Source: Trading Economics

8

- 16 (a) (i) Using **Fig. 1**, explain how the unemployment rate changed in Japan between 2015 and 2020.

.....

.....

.....

..... [2]

- (ii) **Line 29** refers to "...unfilled jobs in IT related occupations."

Explain **one** supply side policy the Japanese government could implement to reduce the number of unfilled jobs.

.....

.....

.....

..... [2]

- (b) (i) Using **Fig. 2**, state what has happened to Japan's interest rate between 2017 and 2019.

.....

..... [1]

- (ii) **Other than interest rates**, explain **one** expansionary monetary policy that Japan's central bank could use.

.....

.....

.....

..... [2]

3-MARK QUESTIONS

1 question in this booklet

10

SECTION B

UK government spending pushes debt to £2 trillion

The UK national debt has risen above £2 trillion due to spending to support the economy during the coronavirus pandemic. This comes mainly from the introduction of public health measures and new government policies to support businesses and individuals.

In July 2020, the Chancellor announced a package worth up to £30 bn, which includes plans to protect jobs, help younger workers and encourage spending. This includes the 'Job Retention Scheme', where struggling employers can put their workers on furlough. This means they temporarily stop working and the government pays them 80% of their wages, up to a maximum of £2500 per month. In most cases, the alternative would have been for the employers to make some or all of their workers redundant. Increases were also announced to some welfare payments for the unemployed. 5

A number of training initiatives have also been introduced to provide support for young workers. These include:

- the 'Kickstart scheme' which is a £2 bn fund to pay for six-month work placements for 16 to 24-year-olds who are on universal credit
- a £1000 grant for employers who take on a new trainee aged 16–24 with the aim to triple trainee numbers 15
- doubling the number of work coaches at Jobcentre Plus centres with extra help for young jobseekers
- £150 m for the 'Flexible Support Fund' which provides help for jobseekers.

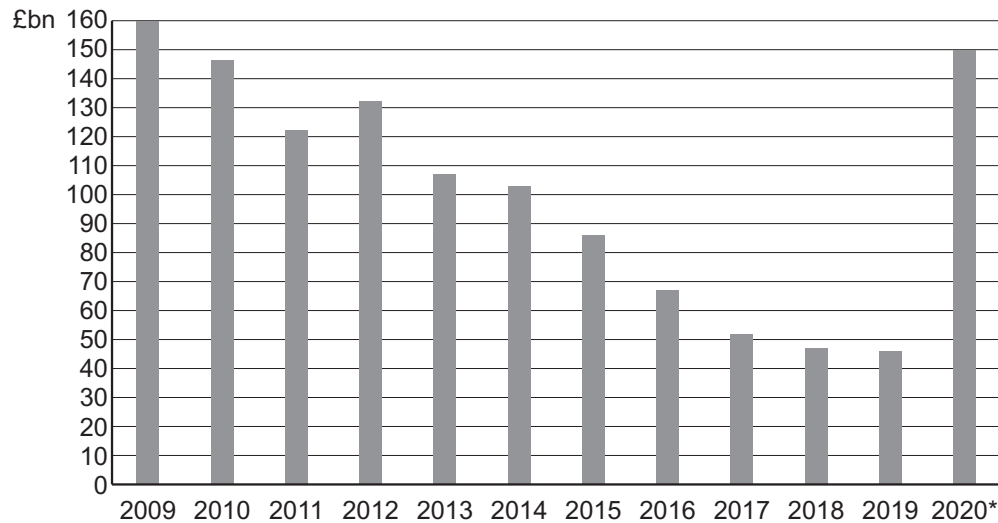
Measures have also been announced to improve energy efficiency and infrastructure. These include £1 bn of grants to public sector organisations to improve energy efficiency and £50 m to improve the energy efficiency of socially rented homes. A £5.6 bn package of infrastructure measures was also announced, including hospitals, school buildings, transport and housing. 20

The sales tax (VAT) included in the price of food, accommodation and leisure attractions will also be cut from 20% to 5% until at least March 2021. Tax revenue has been hit hard by the pandemic as people and businesses earn and spend less. 25

Source: Adapted from [bbc.co.uk/news](https://www.bbc.co.uk/news), Summer 2020

11

Fig. 1
UK Government Budget Deficit 2009–2020

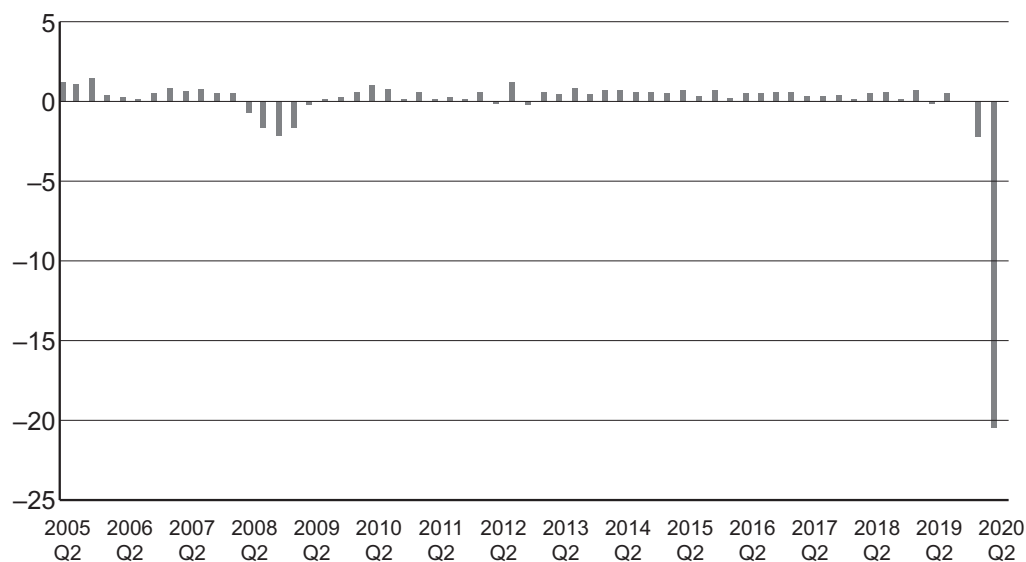


*2020 data is up to July only

Source: ONS

Fig. 2
UK GDP Growth (Q2 2005 to Q2 2020)

Quarter on quarter GDP growth (%)



Source: ONS

12

- 16 (a) Using **Fig. 1**, explain the difference between the government budget deficit and the national debt.

.....

.....

.....

.....

.....

..... [3]

- (b) (i) Using **Fig. 2**, explain at what stage of the economic cycle the UK economy was in Q2 2020.

.....

.....

.....

..... [2]

- (ii) **Lines 9–10** refer to increases in welfare payments for the unemployed.

Explain **one** impact this may have on the supply of labour.

.....

.....

.....

..... [2]

4-MARK QUESTIONS

1 question in this booklet

10

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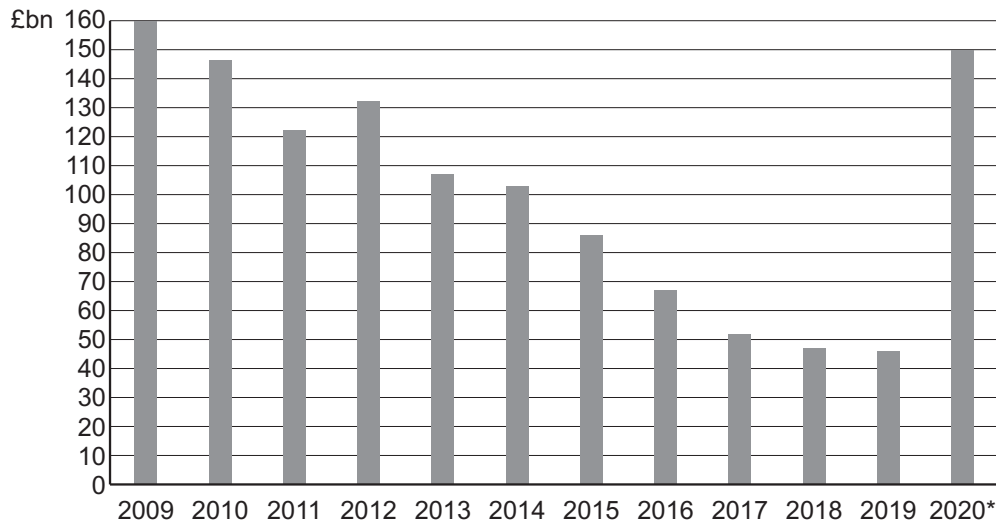
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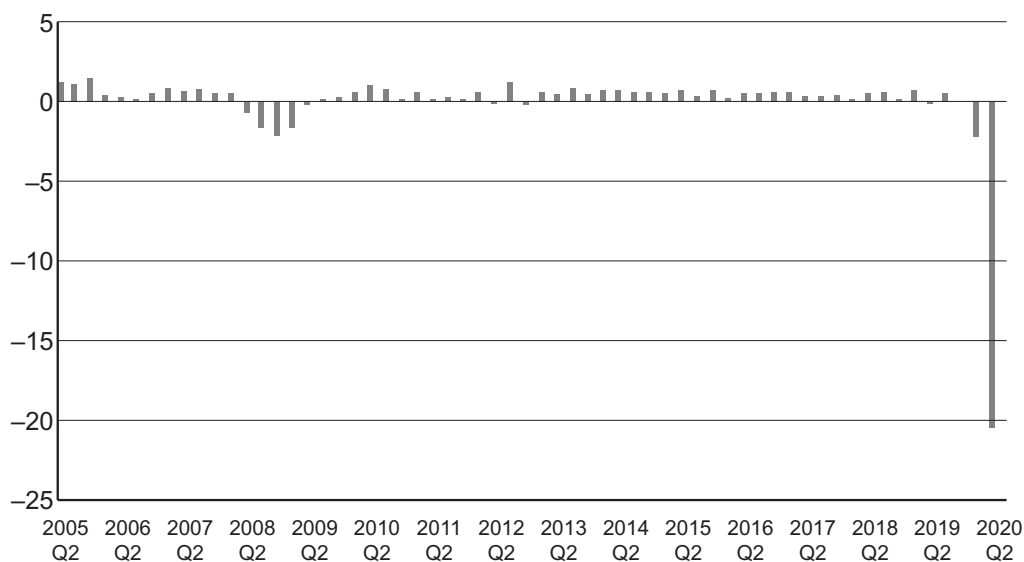


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Source: ONS

Fig. 2
UK GDP Growth (Q2 2005 to Q2 2020)

Quarter on quarter GDP growth (%)



Source: ONS

13

- (c) Lines 13–19 refer to a number of training initiatives announced by the UK government.

Using a diagram, explain what impact this is likely to have on long run economic growth in the UK.

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..... [4]

- (d) Using information from the case study, explain the difference between government current expenditure and government capital expenditure.

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20-MARK QUESTIONS

2 questions in this booklet

SECTION C

17* In the March 2016 budget the Chancellor of the Exchequer increased both the threshold at which people pay income tax and the threshold at which people pay the top rate of income tax.

Evaluate, using an appropriate diagram(s), the effectiveness of the use of fiscal policy as a method of achieving the UK's macroeconomic objectives. **[20]**

18* In the period September – December 2015 the rate of unemployment in the UK fell to its lowest level in more than ten years to 5.1%. The number of people out of work fell by 99,000 to 1.68 million in the same three-month period.

Evaluate, using an appropriate diagram(s), the consequences of a fall in the rate of unemployment for the UK economy. **[20]**

[illegible]

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Answer Question 17 **or** 18.

- Turn over**

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MARK SCHEMES

official OCR mark schemes

10	B	Rationale A If those on the lowest income see a fall in their income then income inequality will increase B Correct: if wages fall then firms will experience lower costs of production C If the minimum wage is lower more people may opt for voluntary employment instead of paid. D spending on social protection may increase if more people move into poverty	2	
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1	A	A B C D	Correct: there is a budget deficit of \$20bn as government spending exceeds tax revenue A budget surplus occurs when tax revenue exceeds government spending The current account measures international trade in goods and services The current account measures international trade in goods and services	AO2	✓
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12	B	A Raising the interest rate would cause the aggregate demand curve to shift to the left, creating even more spare capacity B Correct: This should boost aggregate demand, creating economic growth. C Reducing interest rates is likely to be ineffective as they are already close to zero D There is already substantial spare capacity in the economy; aggregate demand needs to be boosted.	AO3	✓
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1	A	Rationale: A Correct: direct taxes are fiscal policy B monetary policy C monetary policy D related to supply side policy	1	
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10	A	2. Which of these investment is correct? Rationale: A Correct: as the government spends more money without any increase in taxes B Does not directly impact exports and imports C Tax revenue would need to be higher or government spending lower D Does not directly impact exports and imports	2	
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15	D	Rationale: A Inflation and economic growth falls as QE decreases B Economic growth falls as QE decreases C Decrease in QE means less spending and investment as banks less incentivised to lend which reduces inflation D Correct: Investment falls which reduces economic growth and reduces inflation	1	
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5	C	~~C Increased demand for more competitive exports~~ Rationale: A More investment funds coming into the country than flowing out B Exports greater than imports C Correct: Government spending exceeds tax receipts due to changes in the economic cycle D Government spending exceeds tax receipts due to long term factors	1	
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1	B	Rationale: A Fiscal policy B Correct: Monetary policy C Supply side policy D Fiscal policy or Supply side policy	1	
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4	D	Rationale: A Exchange rate B Government spending C Interest rates D Correct: Competition policy	1	
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INDICATIVE ANSWERS

- 1 The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.

12	B	~~E Better information about vacancies will help unemployed people find jobs quicker~~ Rationale: A Better information about vacancies will help unemployed people find jobs quicker B Correct: This will increase costs for firms, so they may be less willing to take on unskilled workers C As trade unions have less power, they will have less opportunity to limit the flexibility of the labour market D Training will allow workers to enter jobs that they previously did not have skills to do	1	
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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.

7	B	Rationale: A Expansionary fiscal policy as this is government spending on the economy B Correct: Contractionary monetary policy as higher interest rates will reduce borrowing C Expansionary monetary policy as QE will inject further money into the economy D Contractionary fiscal policy as it involves raising taxes	2	
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Question	Answer	Score	Marking Scheme
1 B	Rationale: A Defines cyclical budget B Correct : defines crowding out C Defines leakage from circular flow of income D Defines structural unemployment	1	

12	A	~~C Correct: shifts right~~ Rationale: A: Correct: defines quantitative easing B Exchange rate manipulation C Funding government spending D Exchange rate manipulation	1	
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2	D	Reasons for natural unemployment Rationale: A Fiscal balance B Trade balance C Aggregate supply D Correct: Definition of Laffer curve	1	
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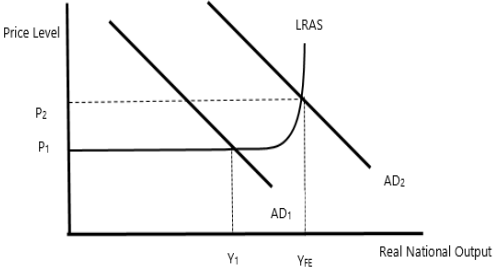
3	B	~~C Correct:~~ Downward-sloping demand curve Rationale: A Consumer spending decreases B Correct: Less Investment by firms as more expensive to borrow C More incentive to save D More expensive to borrow so less borrowing	3	
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4	B	more expensive to borrow so less borrowing Rationale: A Trade surplus B Correct: Budget deficit C Budget surplus D Trade deficit	1	
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16	(b)	(ii)	Other than interest rates, explain one expansionary monetary policy that Japan's central bank could use. Quantitative easing (1) where the central bank purchases assets/bonds from commercial banks (1) Money supply (1) where the central bank increases the quantity of money that is in circulation in the economy (1) Inflation rate targets (1) set by the government so the central bank relaxes spending controls (1)	2 (AO1x2)	Identification of monetary tool (1) Brief explanation of monetary tool which must show it is <u>expansionary</u> (1) Allow exchange rates as a monetary policy Do NOT reward interest rates unless mentioned in the context of inflation rate targets
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16	(a)	Using Fig. 1, explain the difference between the government budget deficit and the national debt. Budget deficit is when the amount spent by a government (in a year) is greater than the revenue received (1). National debt is the accumulation of borrowing that the government owes (1) The government budget deficit was falling from 2009 to 2019 but national debt was still increasing (1)	3 (AO1x2) (AO2x1) One mark for definition of budget deficit One mark for definition of national debt One mark for using Fig.1 correctly to exemplify how, even though the budget deficit was falling, the national debt was increasing Use of Fig.1 may be for one specific year or for a range of years – no specific numbers are required Quantitative skills rewarded in this question
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16	(d)	Using information from the case study, explain the difference between government current expenditure and government capital expenditure. Government current expenditure is spending on goods and services for immediate use (1) like the furlough payments (1). Government capital expenditure is spending on investment for the future benefit of the economy (1) such as the infrastructure spending on transport (1)	4 (AO1x2 AO2x2) 1 mark for definition of current expenditure 1 mark for example of current expenditure from case study 1 mark for definition of capital expenditure 1 mark for example of capital expenditure from case study. Current expenditure includes training grants for young people, the Kickstart scheme, the Flexible Support Fund, furlough Capital expenditure includes infrastructure spending on schools, hospitals, transport(work coaches) and housing as well as energy efficiency spending Do NOT reward examples that are not from the case study
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17	In the March 2016 budget the Chancellor of the Exchequer increased both the threshold at which people pay income tax and the threshold at which people pay the top rate of income tax. Evaluate, with the aid of an appropriate diagram (s), the effectiveness of the use of fiscal policy as a method of achieving the UK's macroeconomic objectives. Level 4 (16-20 marks) Good knowledge and understanding of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic objectives, weighing up both sides/comparing alternatives and reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (11-15 marks) Good knowledge and understanding of the effectiveness of the use of fiscal policy to achieve the UK's macroeconomic	20 (AO1*3 AO2*4 AO3*6 AO4*7) To encourage economic growth, the government can pursue an expansionary fiscal policy through increased government expenditure to stimulate increases in national income. Discretionary cuts in taxation can also be used to stimulate increases in investment and consumer expenditure. As components of aggregate demand increases in investment and consumption can lead to a shift in aggregate demand from AD_1 to AD_2 in the diagram and an increase economic growth. The increase in output from Y_1 to Y_2 leads to an increase in the derived-demand for labour, leading to a fall in the rate of unemployment.  Deflationary fiscal policy can also be used to reduce inflation (particularly demand-pull inflation), in order to bring inflation down to low levels, ideally within the target rate of 2 per cent. This could involve increasing taxation rates and reducing
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17*	The UK government has made some progress since 2010 in restoring public finances by implementing its fiscal rules. The budget deficit has been reduced from a post-war high of 9.9% of GDP in 2009-10 to 2.0% of GDP in 2017-18, its lowest level since before the financial crisis. Evaluate, using an appropriate diagram(s), how policies to correct a budget deficit may affect other UK macroeconomic objectives. Level 4 (16-20 marks) Good knowledge and understanding of how policies to correct a budget deficit may affect other UK macroeconomic objectives. Strong analysis of the impact of policies to correct the budget deficit on other UK macroeconomic objectives 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 extent to which policies to correct a budget deficit may affect other UK macroeconomic objectives, weighing up both sides/comparing alternatives and reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i>	20 (AO1*3 AO2*4 AO3*6 AO4*7)	Policies to correct a budget deficit will include reducing government spending and/or increasing taxation and/or reducing government borrowing. This will help the government to reduce the level of national debt and aim for a balanced budget. These policies are likely to reduce aggregate demand and economic growth as government spending is reduced. The level of impact will depend upon how much government spending/taxation is changed and for how long. If government spending is reduced the impact will also depend upon which areas government spending is reduced. If there is less investment by the government this is likely to impact longer term economic growth and the productive potential of the economy. It also depends on what extent the private sector can replace public sector spending and jobs. If taxes are increased, the impact will depend upon which taxes are increased (indirect tax/direct tax) and by how much and for how long. If direct taxes are increased only for top earners, this is likely to have less of an impact on the level of consumption in an economy than if taxes were also raised for low income earners. It may take consumers some time to change their spending behaviours. Also, it depends on the value of the mpc and if consumers are likely to save less and continue to spend. If income taxes are raised it may disincentivise people to work and others may work in the hidden economy - therefore government loses tax revenue.
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