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# A-level ECONOMICS 7136/2

Paper 2 National and International Economy

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Mark scheme

June 2024

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Version: 1.0 Final



Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

<b>Annotation</b>	<b>Description</b>
?	Unsure/unclear/somewhat confusing
KU	Knowledge and understanding
APP	Application
tick	Analysis for questions 3,4,7,8,9,10,11,12,13,14
EVAL	Evaluation
NR	Not relevant
NAQ	Not answering question
REP	Repetition
BD	Benefit of the doubt
X	Incorrect
tick	Correct for questions 1,2,5,6
Place marker	Seen

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## Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

### Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

### Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

**Section A**

Below is the levels of response marking grid to be used when marking any 25 mark question.

Level of response	Response	Max 25 marks
5	<b>Sound, focused analysis and well-supported evaluation that:</b> <ul style="list-style-type: none"> <li>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response</li> <li>• includes well-focused analysis with clear, logical chains of reasoning</li> <li>• includes supported evaluation throughout the response and in a final conclusion.</li> </ul>	<b>21–25 marks</b>
4	<b>Sound, focused analysis and some supported evaluation that:</b> <ul style="list-style-type: none"> <li>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response</li> <li>• includes some well-focused analysis with clear, logical chains of reasoning</li> <li>• includes some reasonable, supported evaluation.</li> </ul>	<b>16–20 marks</b>
3	<b>Some reasonable analysis but generally unsupported evaluation that:</b> <ul style="list-style-type: none"> <li>• focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>• includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response</li> <li>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places</li> <li>• includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.</li> </ul>	<b>11–15 marks</b>
2	<b>A fairly weak response with some understanding that:</b> <ul style="list-style-type: none"> <li>• includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely</li> <li>• includes some limited application of relevant economic principles to the given context and/or data to the question</li> <li>• includes some limited analysis but it may lack focus and/or become confused</li> <li>• includes some evaluation which is weak and unsupported.</li> </ul>	<b>6–10 marks</b>
1	<b>A very weak response that:</b> <ul style="list-style-type: none"> <li>• includes little relevant knowledge and understanding of economic terminology, concepts and principles</li> <li>• includes application to the given context which is, at best, very weak</li> <li>• includes attempted analysis which is weak and unsupported.</li> </ul>	<b>1–5 marks</b>

**Section A**

**Context 1**

**Total for this context: 40 marks**

**0 1**

Using the data in **Extract A**, calculate the ratio of the UK's GDP per hour worked to \$1 of GDP per hour worked in Hungary.

Give your answer to **two** decimal places.

**[2 marks]**

Response	Max 2 marks
For the correct answer (1.48:1) to two decimal places. Also allow \$1.48:\$1 Also allow Hungary \$1 : UK \$1.48 (allow the symbols : or = or the word "to")	<b>2 marks</b>
For a correct answer but not to two decimal places. <b>OR</b> For the correct answer (1.48 or \$1.48) but not displayed as a ratio. <b>OR</b> For an answer with the ratio displayed the wrong way round (1:1.48 or \$1:\$1.48) <b>OR</b> For the correct method but the wrong answer, to two decimal places, displayed as a ratio.	<b>1 mark</b>

Calculation:    59.1/39.9                      = 1.4812  
   = 1.48 (to 2 decimal places)  
   = 1.48:1

**MAXIMUM FOR QUESTION 01: 2 MARKS**

**0 2**

*Explain how the data in **Extract A** show that higher productivity may result in higher living standards.*

**[4 marks]**

<b>Response:</b>	<b>Max 4 marks</b>
<ul style="list-style-type: none"> <li>includes evidence that shows that higher productivity may result in higher living standards</li> <li>clearly explains how this data is evidence that higher productivity may result in higher living standards</li> </ul>	<b>4 marks</b>
<ul style="list-style-type: none"> <li>includes evidence that shows that higher productivity may result in higher living standards</li> <li>explanation of how this data is evidence that higher productivity may result in higher living standards.</li> </ul>	<b>3 marks</b>
<ul style="list-style-type: none"> <li>includes some limited evidence that shows that higher productivity may result in higher living standards</li> <li>limited explanation of how this data is evidence that higher productivity may result in higher living standards.</li> </ul>	<b>2 marks</b>
<ul style="list-style-type: none"> <li>includes evidence that does not clearly show that higher productivity may result in higher living standards</li> <li>no explanation of how this data is evidence that higher productivity may result in higher living standards.</li> </ul>	<b>1 mark</b>

**Relevant issues include:**

- the meaning of productivity or living standards
- explaining why higher productivity might be expected to result in higher living standards
- the UK has the highest productivity rate (\$59.1 GDP per hour worked) and has the highest life expectancy (80.7 years) indicating better healthcare provision
- Hungary has the lowest productivity rate (\$39.9 GDP per hour worked) and has the lowest life expectancy (74.5 years) indicating worse healthcare provision
- the UK has the highest productivity rate (\$59.1 GDP per hour worked) and has the longest expected years of schooling (17.3 years) indicating better education provision
- Hungary has the lowest productivity rate (\$39.9 GDP per hour worked) and has the lowest expected years of schooling (15.0 years) indicating worse education provision
- the UK has the highest productivity rate (\$59.1 GDP per hour worked) and has the lowest CO<sub>2</sub> emissions per capita (4.9 tonnes) indicating lower pollution levels per person from production
- Estonia has the second lowest productivity (\$42.9 GDP per hour worked) which is only marginally higher than Hungary, but has the worst CO<sub>2</sub> emissions per capita (7.9 tonnes) indicating higher pollution levels per person from production.

**MAXIMUM FOR QUESTION 02: 4 MARKS**

**0 3**

**Extract C** (lines 4–5) states ‘Energy and food bills had risen dramatically due to shocks to the economy, such as labour shortages, a depreciation of the pound...’

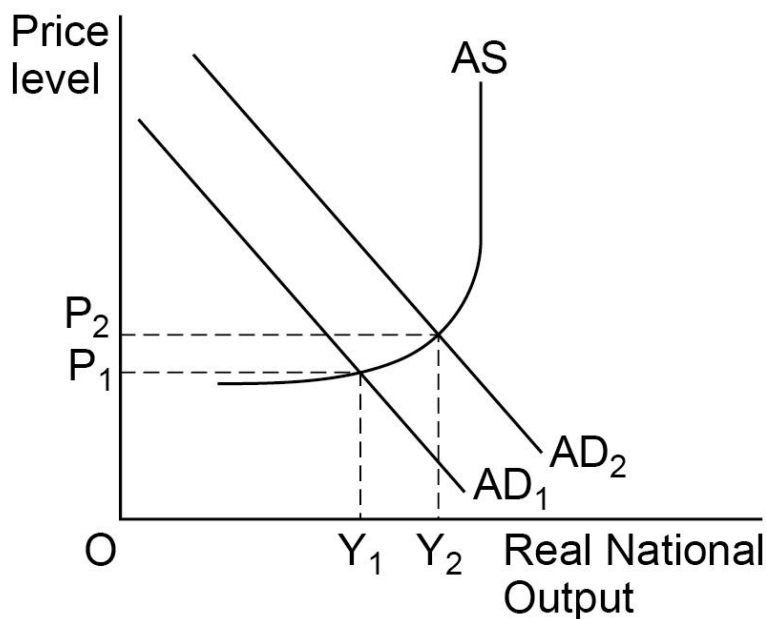
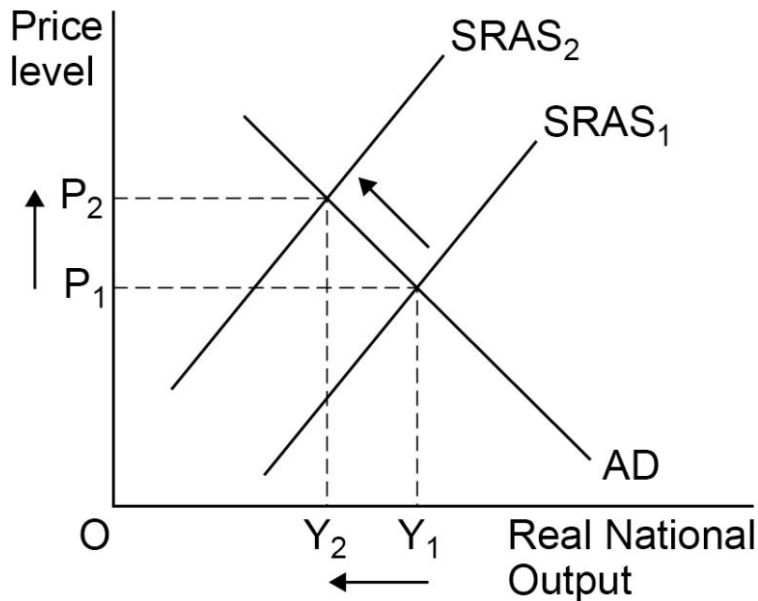
With the help of a diagram, explain how a depreciation of the pound may cause inflation.

**[9 marks]**

Level of response	Response:	Max 9 marks
<b>3</b>	<ul style="list-style-type: none"> <li>• is well organised and develops one or more of the key issues that are relevant to the question</li> <li>• shows sound knowledge and understanding of relevant economic terminology, concepts and principles</li> <li>• includes good application of relevant economic principles and/or good use of data to support the response</li> <li>• includes well-focused analysis with a clear, logical chain of reasoning</li> <li>• includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.</li> </ul>	<b>7–9 marks</b>
<b>2</b>	<ul style="list-style-type: none"> <li>• includes one or more issues that are relevant to the question</li> <li>• shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>• includes reasonable application of relevant economic principles and/or data to the question</li> <li>• includes some reasonable analysis but it might not be adequately developed and may be confused in places</li> <li>• may include a relevant diagram.</li> </ul>	<b>4–6 marks</b>
<b>1</b>	<ul style="list-style-type: none"> <li>• is very brief and/or lacks coherence</li> <li>• shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>• demonstrates very limited ability to apply relevant economic principles and/or data to the question</li> <li>• may include some very limited analysis but the analysis lacks focus and/or becomes confused</li> <li>• may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.</li> </ul>	<b>1–3 marks</b>

An AD/AS diagram which shows SRAS shifting leftward is likely to be used. Equally, some candidates may just show AS shifting leftward. Some candidates may consider the effect of a depreciation on net trade and AD rising.

Expected diagrams are:



Relevant issues include:

- definitions/explanations: depreciation, the exchange rate, inflation
- explaining the causes of a depreciation of the currency
- explaining the effect of a depreciation on raising the cost of imports
- linking increased import costs to cost-push inflation
- explaining the effect of a depreciation creating more competitive exports and rising AD
- explaining the effects on domestic consumption and rising AD
- linking rises in AD to demand-pull inflation
- considering how elasticity affects the relative changes in imports and exports

**MAXIMUM FOR QUESTION 03: 9 MARKS**



**0 4**

**Extract B** (lines 4–5) states: ‘Historically, productivity has increased over time, which has contributed to real wage rises and improved living standards.’

Using the data in the extracts and your knowledge of economics, assess the view that the government should make raising productivity a priority in order to improve living standards in the UK.

**[25 marks]**

**Areas for discussion include:**

- definitions/explanations: productivity, real wages, living standards
- linking rising productivity to supply-side policies
- explaining how the government could help raise productivity by using methods such as:
  - using the tax system to create incentives in labour markets
  - improving labour mobility
  - providing education to develop skills and human capital
  - improving healthcare
  - providing grants or subsidies for R&D or improving technology
  - using the tax system to encourage investment
  - deregulating markets
  - privatising markets
  - creating more competition
- explaining why raising productivity is likely to lead to an improvement in living standards
- assessing other benefits of raising productivity such as:
  - efficiency
  - the effects on real wages or GDP per capita
  - the effects on the macroeconomic objectives
  - the effects on living standards
  - international competitiveness
  - firms’ average costs and profits
- assessing alternative measures to improve living standards such as:
  - focusing on reducing unemployment
  - tackling inflation/reducing the cost of living
  - reducing inequality and poverty
  - focusing on the environment
  - improving the wages of public sector workers
  - improving public services and welfare
- the pros and cons of each method of raising living standards
- possible trade-offs in trying to improve living standards
- considering the term ‘priority’ and the current situation in the UK
- the possibility that multiple methods could be used
- the view that living standards may be subjective and desirable outcomes may change over time
- the difficulties of raising productivity, and the effectiveness of policies
- time lags and the costs of implementing policies
- productivity may be improved through the private sector, regardless of government intervention
- an overall assessment of whether the government should prioritise raising productivity to try to improve living standards in the UK.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

**Use the level mark scheme on page 4 to award students marks for this question.**

**MAXIMUM FOR QUESTION 04: 25 MARKS**

**Context 2****Total for this context: 40 marks****0 5**

Using the data in **Extract D**, calculate the percentage change in Vietnam's GDP per capita between the years 2010 and 2021.

Give your answer to **one** decimal place.

**[2 marks]**

Response	Max 2 marks
For the correct answer (120.8%) with the % sign and to 1 decimal place.	<b>2 marks</b>
For a correct answer (120.8) but without the % sign. <b>OR</b> For the correct answer with the % sign but not to 1 decimal place. <b>OR</b> For the correct method but the wrong answer, to 1 decimal place with the % sign.	<b>1 mark</b>

Calculation: Change in GDP per capita = 3694-1673 = 2021

Percentage change =  $(2021/1673) \times 100 = 120.80$

= 120.8% to 1 decimal place

**MAXIMUM FOR QUESTION 05: 2 MARKS**

**0 6**

*Explain how the data in **Extract D** show that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.*

**[4 marks]**

<b>Response:</b>	<b>Max 4 marks</b>
<ul style="list-style-type: none"> <li>includes evidence that shows Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021</li> <li>clearly explains how this data is evidence Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.</li> </ul>	<b>4 marks</b>
<ul style="list-style-type: none"> <li>includes evidence that shows Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021</li> <li>explanation of how this data is evidence Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.</li> </ul>	<b>3 marks</b>
<ul style="list-style-type: none"> <li>includes some limited evidence that shows Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021</li> <li>limited explanation of how this data is evidence Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.</li> </ul>	<b>2 marks</b>
<ul style="list-style-type: none"> <li>includes evidence that does not clearly show Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021</li> <li>no explanation of how this data is evidence that Vietnam may have outperformed the other selected Southeast Asian economies between 2010 and 2021.</li> </ul>	<b>1 mark</b>

**Relevant issues include:**

- the meaning of 'outperformed' in terms of macroeconomic objectives
- Vietnam has had the largest percentage increase in GDP per capita (120.8% from 2010 to 2021) compared to Malaysia (25.8%) and Thailand (42.5%) indicating the largest rise in living standards per person
- Vietnam has achieved the highest annual growth rate from 2010–2021 (5.9%) compared to Malaysia (4.3%) and Thailand (2.6%)
- Vietnam has a lower average rate of unemployment from 2010–2021 (1.6%) than Malaysia (3.4%) although not lower than Thailand
- Vietnam has had a rise in exports as a % of GDP (54.2% to 93.3%) whereas Malaysia and Thailand have both fallen. Malaysia (86.9% to 68.8%) and Thailand (66.5% to 58.2%)
- Vietnam now has the highest share of exports as a % of GDP in 2021 (93.3%) whereas in 2011, it was lowest (54.2%) indicating improved export performance.

**MAXIMUM FOR QUESTION 06: 4 MARKS**

**0 7**

**Extract E** (lines 17–18) states: ‘A low rate of corporation tax has also contributed to both short-run and long-run economic growth.’

With the help of a diagram, explain how a low rate of corporation tax may cause short-run **and** long-run economic growth.

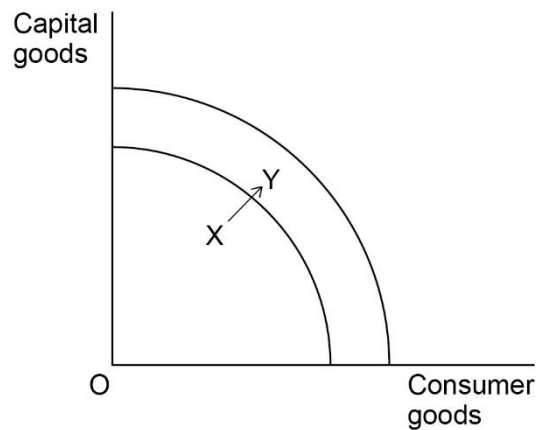
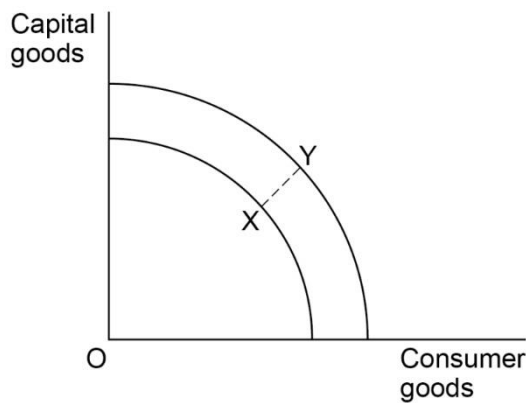
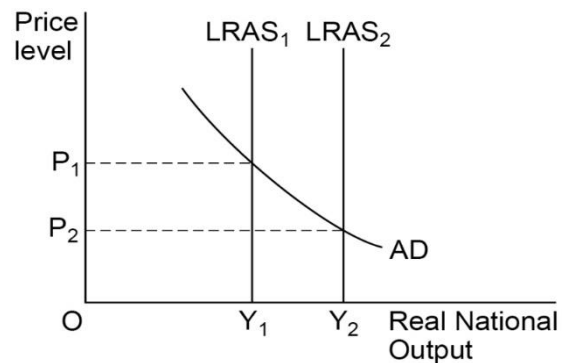
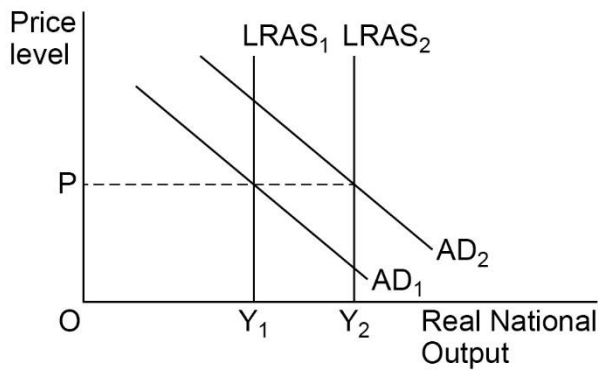
**[9 marks]**

Level of response	Response:	Max 9 marks
<b>3</b>	<ul style="list-style-type: none"> <li>is well organised and develops one or more of the key issues that are relevant to the question</li> <li>shows sound knowledge and understanding of relevant economic terminology, concepts and principles</li> <li>includes good application of relevant economic principles and/or good use of data to support the response</li> <li>includes well-focused analysis with a clear, logical chain of reasoning</li> <li>includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.</li> </ul>	<b>7–9 marks</b>
<b>2</b>	<ul style="list-style-type: none"> <li>includes one or more issues that are relevant to the question</li> <li>shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>includes reasonable application of relevant economic principles and/or data to the question</li> <li>includes some reasonable analysis but it might not be adequately developed and may be confused in places</li> <li>may include a relevant diagram.</li> </ul>	<b>4–6 marks</b>
<b>1</b>	<ul style="list-style-type: none"> <li>is very brief and/or lacks coherence</li> <li>shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>demonstrates very limited ability to apply relevant economic principles and/or data to the question</li> <li>may include some very limited analysis but the analysis lacks focus and/or becomes confused</li> <li>may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.</li> </ul>	<b>1–3 marks</b>

An AD/AS diagram showing a rise in AD **and** LRAS is expected. However, some candidates may just shift the LRAS curve. This is acceptable, provided it also includes an AD curve, because it shows an increase in actual and potential output. Also, candidates may use a PPF to show long-run growth by shifting out the boundary **and** illustrate short-run growth by including a point that moves closer to, or onto, the new boundary.

It is also acceptable for candidates to display the information on 2 separate diagrams, with short-run economic growth on one, and long-run economic growth on another.

**Expected diagrams are:**



**Relevant issues include:**

- definitions/explanations: corporation tax, short-run growth, long-run growth
- explaining that corporation tax is part of fiscal policy
- explaining that lower corporation tax leads to higher retained profit
- explaining how domestic firms may reinvest increased profits and expand
- explaining that lower corporation tax is likely to attract FDI
- explaining how increased investment (domestic and FDI) could lead to increased exports
- explaining that investment and exports are components of AD ( $C+I+G+X-M$ )
- explaining that investment and exports are likely to have a multiplier effect
- explaining how increased domestic investment and FDI will lead to short-run growth
- explaining how increased investment from domestic firms leads to increased productive capacity
- explaining how increased FDI leads to increased productive capacity
- linking increased productive capacity to long-run growth.

**MAXIMUM FOR QUESTION 07: 9 MARKS**

**0 8**

**Extract F** (lines 19–20) states: ‘The slowing, or reversal, of globalisation could mean that the benefits of specialisation and foreign direct investment are lost.’

Using the data in the extracts and your knowledge of economics, discuss the view that a slowing, or reversal, of globalisation would be harmful to developing economies such as Vietnam.

**[25 marks]**

**Areas for discussion include:**

- definitions/explanations: globalisation/deglobalisation, developing economies, specialisation, foreign direct investment
- linking the slowing or reversal of globalisation to reduced trade/protectionism/reduced FDI/reduced movement of labour/reduced international capital flows
- assessing reasons why the slowing or reversal of globalisation may be occurring such as:
  - to reduce a current account or trade deficits
  - to protect infant industries or employment
  - to help economic growth
  - to reduce dependence on other countries for essential components or materials
  - for political/strategic reasons or to protect culture
  - to protect against ‘dumping’
  - to insulate against economic shocks
- assessing the costs or problems of the slowing or reversal of globalisation such as:
  - retaliation if protectionist measures are used
  - higher prices or increased cost of living/inflation
  - potential job losses in other industries not protected
  - labour shortages, particularly in nations which have a large amount of migrant workers
  - firms don’t benefit from economies of scale
  - the benefits of comparative advantage being reduced
  - the effects of reduced FDI
  - reduced competition and efficiency arguments
  - reduction in remittances to developing economies from people living or working abroad
- considering reasons why exports are important for the economic performance of developing economies
- considering whether developing economies are primary product dependent
- analysing the effects of the slowing or reversal of globalisation on the macroeconomic objectives
- analysing the effects of the slowing or reversal of globalisation on other issues such as living standards, development, firms, government revenue, inequality or the environment
- assessing the costs and benefits of a reduction in international capital flows for developing economies
- contrasting the effects on developing economies against the effects on developed economies
- considering the difference between, and significance of, a slowing down or reversal of globalisation
- considering short-run versus long-run consequences for developing economies
- an overall assessment of whether the slowing or reversal of globalisation is likely to be harmful to developing economies.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question

**Use the level mark scheme on page 4 to award students marks for this question.**

**MAXIMUM FOR QUESTION 08: 25 MARKS**

**Section B**

Below is the levels of response marking grid to be used when marking any 15 mark question.

Level of response	Response	Max 15 marks
<b>3</b>	<b>A good response provides an answer that:</b> <ul style="list-style-type: none"> <li>• is well organised and develops a selection of the key issues that are relevant to the question</li> <li>• shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response</li> <li>• includes well-focused analysis with clear, logical chains of reasoning.</li> </ul>	<b>11–15 marks</b>
<b>2</b>	<b>A reasonable response provides an answer that:</b> <ul style="list-style-type: none"> <li>• focuses on issues that are relevant to the question</li> <li>• shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>• includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response</li> <li>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places.</li> </ul>	<b>6–10 marks</b>
<b>1</b>	<b>A weak response provides an answer that:</b> <ul style="list-style-type: none"> <li>• has identified one or more relevant issues</li> <li>• has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>• has very limited application of relevant economic principles to the given context and/or data to the question</li> <li>• might have some limited analysis but it may lack focus and/or become confused.</li> </ul>	<b>1–5 marks</b>

**Section B**

**Essay 1**

**Total for this essay: 40 marks**

**0 9**

*Explain possible reasons why a country may enter a recession.*

**[15 marks]**

**Relevant issues include:**

- definitions/explanations: recession, economic cycle
- explaining some of the main features of a recession or the difference between the depth or duration of a recession
- linking recessions to falling real national output
- explaining the causes of recessions due to falling AD such as:
  - reduced credit and/or supply of money
  - falling confidence
  - increased interest rates
  - increased taxation
  - reduced government spending
  - speculative bubbles bursting
  - appreciation of currency
  - falling global demand
- explaining the causes of recession due to supply-side issues such as
  - increased oil prices
  - increased indirect taxation
  - supply-side shocks such as rising commodity prices
- explaining the difference between internal and external causes of recessions
- explaining negative multiplier and/or accelerator effects
- explaining the role of expectations on consumption and investment.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

**Use the level mark scheme on page 15 to award students marks for this question.**

**MAXIMUM FOR QUESTION 09: 15 MARKS**



**1 0**

*Assess whether an increase in the money supply is always damaging for an economy.*

**[25 marks]**

**Areas for discussion include:**

- definitions/explanations: the money supply
- explaining how the effects of increases in the money supply could be measured such as the macroeconomic performance indicators
- explaining the difference between narrow and broad money
- explaining reasons why the money supply may grow such as lower interest rates, quantitative easing, central bank printing more cash, banks holding lower reserves, increased bank credit, increased government borrowing or expansionary fiscal policy
- assessing the possible problems caused by an increased money supply such as:
  - inflation
  - cyclical instability
  - asset price bubbles
  - inequality
  - malinvestment
  - possible future increases in interest rates
- assessing the possible benefits of an increase in the money supply such as:
  - increased output and growth
  - increased employment
  - increased investment
  - possible multiplier effects
  - increased income/wages
  - increased confidence
- explaining time-lags and delays in effects
- discussing short-run versus long-run effects
- explaining the quantity theory of money and the monetarist model
- explaining the Fisher equation of exchange  $MV=PQ$
- explaining possible trade-offs with macroeconomic objectives
- explaining that the effects depend on the rate of growth in the supply of money
- discussing the costs and benefits of each method of increasing the money supply
- considering how real wages may be affected by increases in the money supply
- discussing how relative bargaining power may determine the costs or benefits to individuals
- discussing possible government and central bank responses to increased money supply
- considering the term 'always'
- explaining why the consequences will be affected by the degree of spare capacity and the trend rate of growth of the economy
- an overall assessment of whether an increase in the money supply is always damaging for an economy.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

**Use the level mark scheme on page 4 to award students marks for this question.**

**MAXIMUM FOR QUESTION 10: 25 MARKS**

**Essay 2**

**Total for this essay: 40 marks**

**1 1** *Explain the factors which determine the natural rate of unemployment.*

**[15 marks]**

**Relevant issues include:**

- definitions/explanations: natural rate of unemployment (NRU), unemployment
- explaining that at the NRU there is no involuntary unemployment
- explaining the concept of voluntary unemployment
- explaining that the NRU is determined by supply-side factors
- explaining that the NRU is largely made up of frictional and structural unemployment but also real wage unemployment
- describing labour market ‘imperfections’
- explaining the determinants of the NRU such as:
  - the level of benefits
  - the level of income tax
  - skills and education
  - labour mobility (occupational and geographical)
  - labour market flexibility
  - real wage rates compared to expectations
  - availability of job information
  - the level of the NMW
  - trade union power
- explaining the replacement ratio and its significance
- explaining the unemployment trap and its significance.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

**Use the level mark scheme on page 15 to award students marks for this question.**

**MAXIMUM FOR QUESTION 11: 15 MARKS**

**1 2**

*Discuss the view that high levels of employment are always beneficial for an economy.*

**[25 marks]**

**Areas for discussion include:**

- definitions/explanations: employment, unemployment
- explaining the main objectives of government macroeconomic policy: economic growth, price stability, minimising unemployment and a stable balance of payments on current account
- assessing the benefits of high levels of employment such as:
  - reduced unemployment
  - the various costs of unemployment
  - economic growth
  - increased consumption possibilities
  - increased incomes
  - improved living standards
  - reduced government spending
  - increased tax revenue
  - reduced government borrowing
  - benefits to firms such as increased revenue and profits
- assessing the costs of high levels of employment such as:
  - demand-pull inflation caused by rising AD
  - cost-push inflation caused by a tight labour market
  - wage-price spirals
  - labour market shortages
  - increased spending on imports
  - possible reductions in productivity
- explaining trade-offs in terms of the short-run Phillips Curve
- explaining the various types of unemployment and linking them to how employment can be increased
- considering that increased employment does not necessarily mean falling unemployment
- linking increased employment to possible increases in the labour force
- linking to increased productive capacity/LRAS
- explaining increased employment may have been caused by new entrants or individuals returning to the labour force
- explaining government policies which may have been used to increase employment and the possible downsides of each method
- considering if the rise is temporary or long-run
- considering that the effects of increased employment may depend on where the economy is in the economic cycle
- an overall assessment of whether high levels of employment are always beneficial for an economy.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

**Use the level mark scheme on page 4 to award students marks for this question.**

**MAXIMUM FOR QUESTION 12: 25 MARKS**

**Essay 3**

**Total for this essay: 40 marks**

**1 3**

*Explain how the multiplier **and** accelerator affect the overall level of economic activity.*

**[15 marks]**

**Relevant issues include:**

- definitions/explanations: multiplier, accelerator, economic activity
- explaining the difference between the multiplier and accelerator
- explaining the circular flow of income
- explaining real national income or GDP
- explaining the various injections and withdrawals
- explaining the marginal propensity to consume or withdraw
- explaining the multiplier formula or multiplier coefficient
- explaining how the accelerator leads to rising investment
- explaining how a change in injections and/or withdrawals creates an initial change in output and employment
- explaining how the multiplier and/or accelerator can magnify the effects of a change in injections and/or withdrawals on output and employment
- explaining that the multiplier and accelerator can lead to magnified increases or decreases in economic activity
- explaining how the multiplier and accelerator interact to affect the level of economic activity.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

**Use the level mark scheme on page 15 to award students marks for this question.**

**MAXIMUM FOR QUESTION 13: 15 MARKS**

**1 4***Evaluate the view that increasing taxation is the best way to reduce a budget deficit.***[25 marks]****Areas for discussion include:**

- definitions/explanations: taxation, budget, budget deficit, fiscal policy
- explaining reasons why the government may wish to reduce a budget deficit
- explaining reasons why a budget deficit may exist
- explaining the difference between a cyclical and structural deficit
- explaining different forms of taxation
- explaining the differences between direct/indirect and regressive/progressive/proportional taxes
- assessing how increased taxation may be beneficial to reduce the budget deficit such as:
  - considering the ability to pay
  - reducing inequality
- assessing why increased taxation may cause problems such as:
  - creating disincentives to work/‘brain drain’
  - tax evasion/avoidance
  - linking disincentives and tax evasion avoidance to the Laffer curve
  - possible effects on investment/FDI if corporation tax is raised
  - possible effects on inequality depending on whether tax rises are regressive or not
  - considering the possible effects on inflation or employment depending on which tax is raised
  - negative multiplier effects
- assessing the effects of reduced government spending as an alternative such as:
  - reduced public/merit good provision
  - reduced spending on welfare and the effects on inequality/poverty
- considering efficiency arguments
- considering increasing tax rates versus tax revenue
- explaining increasing economic growth as an alternative to reduce the budget deficit (creating more tax revenue and reducing government spending)
- explaining the principles of taxation or how taxation may affect the pattern of economic activity
- explaining equity in taxation or differences in taxes on income or wealth
- explaining how taxation may also have effects on demerit goods or the environment
- assessing the various costs and benefits of alternative methods to reduce the budget deficit such as cutting government spending or creating economic growth
- explaining how the effectiveness of policies may depend on the current level of taxation
- considering the different ways in which tax revenue can be raised either through rate rises or threshold changes
- considering different types of taxation and the costs and benefits depend on which tax is raised
- an overall assessment of whether increasing taxation is the best way to reduce a budget deficit.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

**Use the level mark scheme on page 4 to award students marks for this question.**

**MAXIMUM FOR QUESTION 14: 25 MARKS**