# Economics Questions By Topic:

# Aggregate Demand & Aggregate Supply (2.2 & 2.3)
# Mark Scheme

# A-Level Edexcel Theme 2

# Table Of Contents
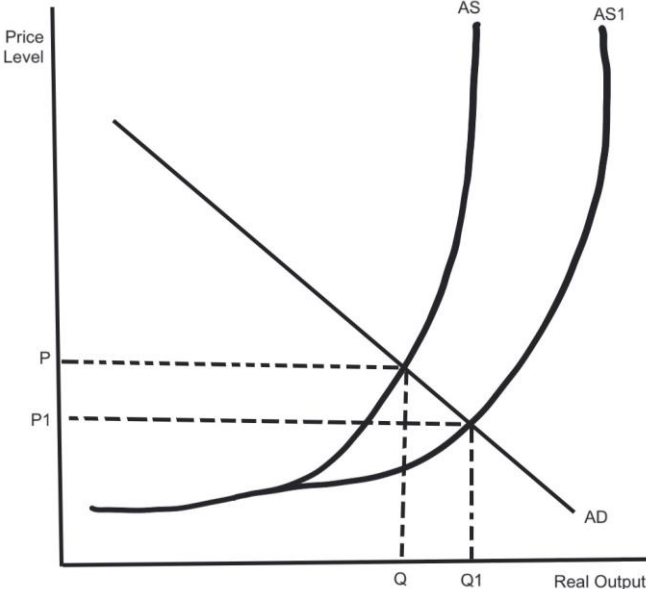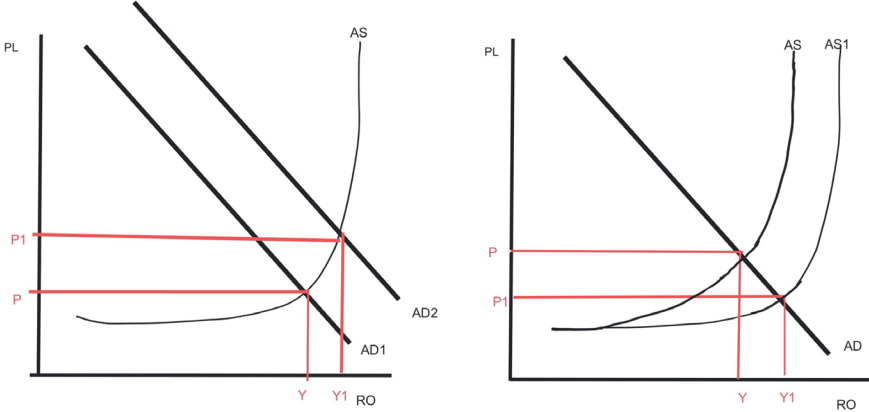
**SECTION A**

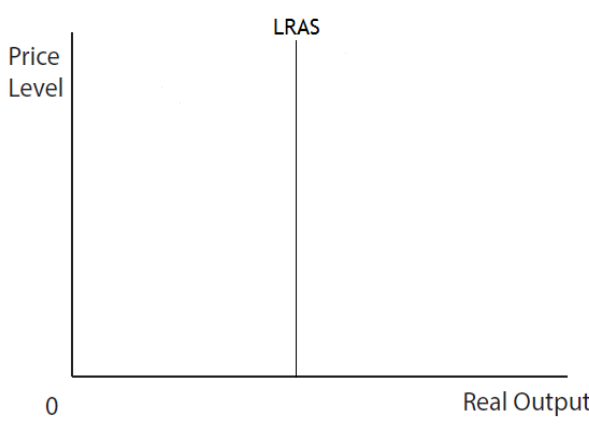| Question Number | Answer | Mark |
|---|---|---|
| **1(a)** | **The only correct answer is A**<br><br>*B is not correct because this is a Classical LRAS curve*<br><br>*C is not correct because this shows AD decreasing*<br><br>*D is not correct because this is a Classical LRAS curve* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **1(b)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge/understanding (1):**<br>There would be no change in real output (1)<br><br>**Analysis (1):**<br><br>E.g. since classical economists believe the economy will be at full employment in the long run<br><br>Diagram to illustrate this:<br><br> | **(2)** |

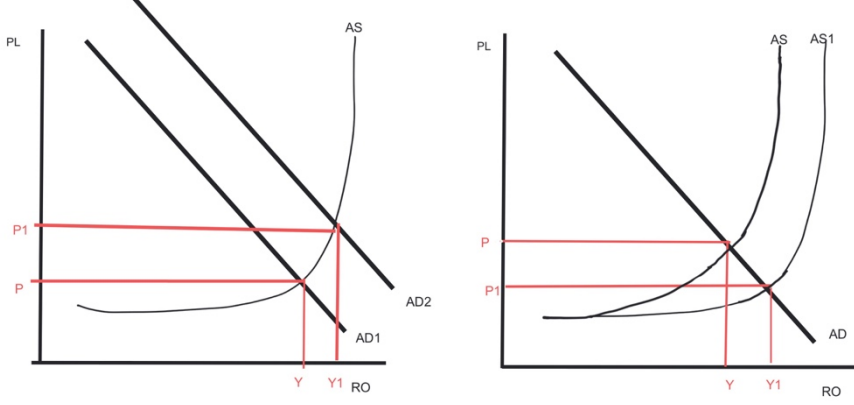| Question Number | Answer | Mark |
|---|---|---|
| **1(c)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge/understanding (1):**<br>Identification of likely impact:<br>• Aggregate demand will fall/decrease<br><br>**Analysis:**<br>1 mark for linked development, e.g.<br>• Negative wealth effect<br>• Reduction in consumer confidence and consumption | **(2)** |

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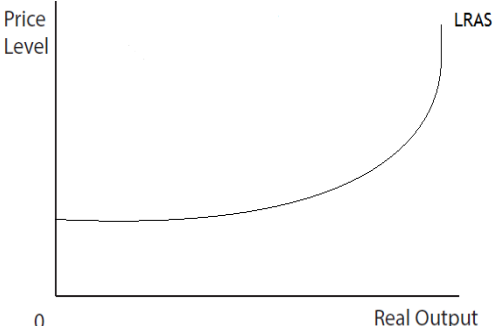
| Question Number | Answer | Mark |
|---|---|---|
| **2** | **Knowledge 2, Application 1, Analysis 1**<br><br>**Knowledge** 2 marks e.g.<br>• Aggregate supply will increase (1)<br>• Improvement in UK's capital (1)<br>• Increase in productivity/efficiency of UK economy (1)<br>• Correct diagram illustrating an increase in AS (2), e.g.:<br><br><br><br>**Application** 1 mark, e.g.<br>• Reduce journey times by as much as 50%<br>• £56bn spending<br><br>**Analysis** 1 mark for linked development e.g.<br>• Faster journey times means people can get to work quicker, increasing their productivity<br>• Moving freight more quickly will increase efficiency for firms | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **3** | **Knowledge 2, Application 2** | |
| | **Knowledge/understanding:** Correct labels on axes (1) and lines (1) | |
| | **Application:** Correct shift of line(s) (1) showing change in price level and/or real output (1) For example:  N.B. Other AS curves are acceptable Candidates can illustrate an increase in AD, AS, or both | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| 4(a) | **Knowledge 1**<br><br>**Knowledge:**<br><br> | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| 4(b) | **Knowledge 2**<br><br>**Knowledge/understanding:**<br>2 marks for, e.g.<br>• Economy operates at full capacity/no spare capacity (1) so there are no unused factors of production/ resources (1)<br>• Wages and prices are seen as flexible, and markets efficient (1) so that the labour market adjusts to maintain full employment (1) | **(2)** |
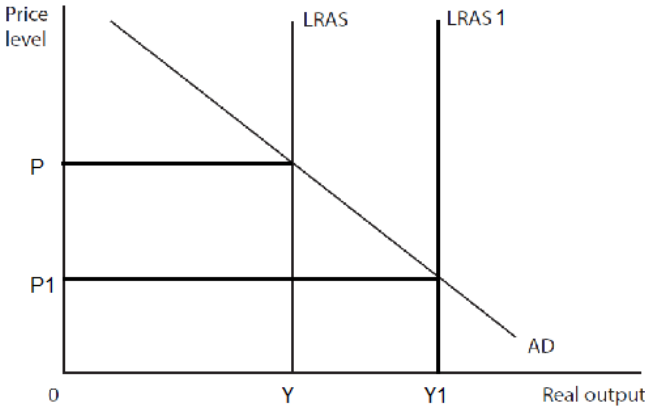
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| Question Number | Answer | Mark |
|---|---|---|
| 5 | **Knowledge 2, Application 2**<br><br>**Knowledge/understanding:**<br>Accurate diagram with correct labels on axes (1) and lines (1)<br><br><br><br>**Application:**<br>Correct shift of line(s) (1) showing change in price level and/or real output (1)<br>For example:<br><br>N.B. Other AS curves are acceptable. Allow outward shift of both AD and AS. | **(4)** |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **6(a)** | **Knowledge 1** <br><br> **Knowledge:** <br> e.g. possible diagram <br><br>  | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **6(b)** | **Knowledge 2** <br><br> **Knowledge/understanding:** <br> 2 marks (1+1) for, e.g. <br> • Equilibrium level of output can occur below the full employment level of output / the economy is not operating at full capacity/employment (1) <br> • There is a negative output gap in the economy (1) <br> • Award use of a LRAS diagram to illustrate spare capacity / the economy is operating at the elastic segment of LRAS (1) <br> • Award the use of a PPF diagram to illustrate spare capacity / economy is operating inside the PPF (1) <br> • Under-utilisation of the factors of production / the resources not being used to their full potential (1) so there is room to increase supply/output (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **6(c)** | **The only correct answer is D** <br><br> **A** is not correct because changes in competition policy shifts the long-run AS <br><br> **B** is not correct because changes in relative productivity shifts the long-run AS <br><br> **C** is not correct because changes in the cost of raw materials shifts the short-run AS | **(1)** |

**EXPERT** TUITION

| Question Number | Answer | Mark |
|---|---|---|
| 7 | **Application 2**<br><br>**Application:**<br>2 marks for,<br>&bull; Correct rightward shift of LRAS (1)<br>&bull; Correct new equilibrium point showing lower price level and higher real output (1)<br><br> | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **8(a)** | **The only correct answer is D**<br><br>*B is not correct because this would cause AD to decrease*<br><br>*C is not correct because this would cause AD to decrease*<br><br>*D is not correct because this would cause AD to decrease* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **8(b)** | **Knowledge 2, Application 2**<br><br>**Knowledge/understanding:**<br>Correct labels on axes (1) and lines (1)<br><br>**Application:**<br>Correct shift of line(s) (1) showing change in price level and/or real output (1)<br>For example:<br><br><br><br>N.B. Other AS curves are acceptable | **(4)** |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **9(a)** | **Knowledge 1**<br><br>**Knowledge/understanding**<br>1 mark for definition, e.g.<br>• AD = C+I+G+(X-M)  (1)<br>• Total amount of planned spending on goods and services at any price level in an economy (1) | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **9(b)** | **Application 2**<br><br>**Application**<br>2 marks for,<br>• Correct leftward shift of SRAS (1)<br>• Correct new equilibrium point showing higher price level and lower real output (1)<br> | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **9(c)** | **The only correct answer is B**<br><br>**A** is not correct because a decrease in investment will reduce capital stock of the economy, reducing LRAS<br><br>**B** is not correct because increase in level of unemployment benefits will reduce the incentive to work, reducing LRAS<br><br>**D** is not correct as reduced access to credit would decrease investment as banks would be unwilling to lend | **(1)** |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **10** | <div align="center">**Knowledge 1**</div><br>**Knowledge/understanding**<br>1 mark for definition, e.g.<br>    • Budget deficit is when government spending exceeds (tax) revenue/receipts | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **11(a)** | **Application 2**<br><br>**Application**<br>2 marks for, e.g.<br>   • Correct rightward shift in AD: (1)<br>   • Correct new equilibrium point showing higher price level and higher real output (1)<br><br><br><br>NB Allow shift in AS curve to the right with lower price level and higher real output (1 + 1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **11(b)** | **Knowledge 1**<br><br>**Knowledge/understanding**<br>1 mark for, e.g.<br>   • Tax on **income / earnings** (1)<br>   • Tax on business **profits** (1) | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **11(c)** | **C** | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **12(a)** | **Knowledge 1, Application 1, Analysis 1**<br><br>**Knowledge/understanding**<br>1 mark for identifying a reason e.g.<br><ul><li>Falling unemployment (1)</li><li>Rising incomes / economic growth (1)</li><li>Lower inflation rates (1)</li></ul><br>**Application**<br>1 mark for identifying an **improvement** in consumer confidence (1) or other single use of figures from the chart e.g. a low of -25 in 2012 (1)<br><br>**Analysis**<br>1 mark for linked development of reason (1) e.g. economic growth leads to more predictable job security | **(3)** |

| Question Number | Answer | Mark |
|---|---|---|
| **12(b)** | D | **(1)** |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **13** | D | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **14(a)** | D | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **14(b)** | **Knowledge 2, Application 2**<br><br>AD/AS diagram showing:<br>• initial AD/AS curves and axes correctly labelled (1)<br>• initial equilibrium correctly labelled (1)<br>• increase (rightwards/outwards shift) in AD (1)<br>• new equilibrium correctly labelled showing an increase in the equilibrium level of real national output and the equilibrium average price level (1). | **(4)** |

**END OF SECTION A**

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **15 (a)** | **Knowledge 2, Application 2**<br><br>**Knowledge/understanding**<br>2 marks for, e.g.<br>• Government spending equals (1) tax revenue/ income (1)<br>• Neither a budget deficit nor a budget surplus (1)<br><br>**Application**<br>2 marks for 2 data references from Figure 1 (1+1), e.g.<br>• UK experienced a balanced budget in 1990 (1) at nearly 35% of GDP (1)<br>• Overall trend/data point shows there is a budget deficit (1) | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **15(b)** | **Knowledge 1, Application 2, Analysis 2**<br><br>**Knowledge/understanding**<br>1 mark, for e.g.<br>• Explanation/formula of aggregate demand (1)<br>• Understanding of a depreciation of the exchange rate (1)<br>• Simple explanation of what a weaker currency means (1)<br><br>**Application**<br>2 marks (1+1), for e.g.<br>• Aggregate demand will increase (1) shown on a diagram (1)<br>• Weaker pound due to a lack of confidence as a result of the UK's decision to leave the EU (1)<br>• Low interest rate and less hot money flows (1)<br><br>**Analysis**<br>2 marks for linked development (1+1), e.g.<br>• Imports become relatively more expensive, so aggregate demand rises (1)<br>• Exports become relatively cheaper, so aggregate demand rises (1) | **(5)** |
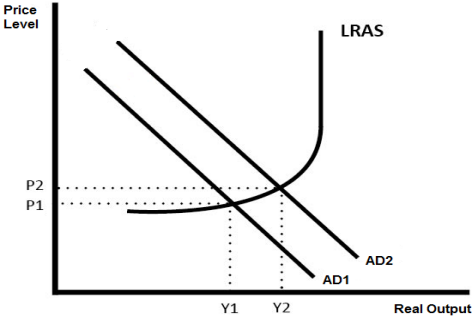
EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **15(c)** | **Knowledge 2, Application 2, Analysis 2** | |
| | **Knowledge/understanding**<br>Identification of two influences (1+1) for, e.g.<br>• Interest rates<br>• Disposable incomes<br>• Consumer confidence<br>• Positive wealth effects<br><br>**Application**<br>1 mark for data reference from Figure 2 and 1 mark from Extract A (1+1), e.g.<br>• Figure 2 – real household consumption increased by approximately 1.7% between 2016 and 2017<br>• Extract A – Annual spending per person increased by £589 (1)<br>• Increase in consumption has also been driven by low interest rates / average increase of 5.1% in house prices (1)<br><br>**Analysis**<br>Linked development (1+1), e.g.<br>• Low interest rate implies low reward for saving / low cost of borrowing (1)<br>• Higher incomes incentivise consumers to spend, but at a slower rate as people tend to save more as earnings rise (1)<br>• High consumer confidence / wealth effects implies consumers are likely to make purchases that they know they can pay for in the future (1) | **(6)** |

EXPERT TUITION

| Question Number | Indicative content | Mark |
|---|---|---|
| **15(d)** | **Knowledge 2, Application 2, Analysis 2**<br><br>• Explanation of the term consumption, e.g. the expenditure on consumer goods and services<br>• Consumption is a component of aggregate demand<br>• Aggregate demand will increase from AD1 to AD2<br>• Inflationary pressures will increase from P1 to P2<br>• Real output will increase from Y1 to Y2<br>• Consequently, unemployment will decrease<br>• Figure 1: household consumption has increased by nearly 117% between 1998 and 2018<br>• Extract A: spending per person increased by £589<br><br>Diagram, e.g.:<br><br><br><br>**NB Candidates must answer with a valid AD/AS diagram showing an increase in AD to access Level 3** | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no link between causes and consequences. |
| Level 2 | 3–4 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance. |

| Level 3 | 5–6 | Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question. |
|---|---|---|

| Question Number | Indicative content | Mark |
|---|---|---|
| **15(d)** continued | **Evaluation 4**<br><br>• Consumption is largest component of aggregate demand, therefore will have a significant impact<br>• Significance of the elasticity of the AS curve and the state of the UK economy<br>• UK consumers have financed their spending by borrowing – "borrowing on credit cards rose by 9.6%": it creates an unstable and unbalanced economy<br>• Consumer spending could be constrained in the long term if the central bank raises the base interest rate – "more expensive credit could constrain the ability of households to spend"<br>• Depends on other factors in the economy, such as net trade and investment | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **16** | **Knowledge 2, Application 2, Analysis 2**<br><br>• An injection into the circular flow of income<br>• Economic growth is the increase in real GDP / increase in productive capacity of the economy<br>• Positive relationship between an increase in exports and economic growth<br>• Reference to the multiplier<br>• Exports is a component of AD<br>• AD will increase<br>• Economic growth / real output will increase<br>• Figure 3: since mid-2016, exports grew due to the fall in the exchange rate of the pound as a result of the referendum vote<br><br><br><br>**NB Candidates must answer with an accurately drawn AD/AS diagram presenting an increase in AD to access Level 3** | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
|  | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no link between causes and consequences. |
| Level 2 | 3–4 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance. |
| Level 3 | 5–6 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **16** continued | **Evaluation 4** <br><br> • Exports are only a small component of AD <br> • Invetment might be more significant as it is 10% to 15% of AD – "Economic growth is expected to speed up again as investment rises" <br> • Exporters are vulnerable to changes in demand in other countries and exchange rates which are out of UK's control – "which is largely due to the fall in the value of the pound" <br> • Figure 3 – UK exports have not risen significantly since the start of 2017 <br> • Depends on other factors in the economy, such as imports, government spending and consumption <br> • Significance of the global economic recovery in increasing exports | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context. <br> No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question. |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **17** | **Knowledge 1, Application 2, Analysis 2**<br><br>**Knowledge/understanding**<br>1 mark for identification, e.g.<br>  • Income (1)<br>  • Interest rates (1)<br>  • Unemployment (1)<br>  • Consumer confidence (1)<br><br>**Application**<br>2 marks for data reference (1+1), e.g.<br>  • real incomes in the UK have fallen (1) by 10.4% (1)<br>  • unemployment fell (1) according to ILO and CC (1)<br>  • savings ratio has fallen (1) between 2010 and 2015 (1)<br>  • Britain's vote to leave the EU – Extract A Line 6 (1)<br><br>**Analysis**<br>Linked development (1+1), e.g.<br>  • Fall in income is likely to reduce savings leading to a fall in the marginal propensity to save<br>  • Lower unemployment is likely to cause a rise in consumer spending due to greater disposable incomes, leading to fall in savings ratio | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **18** | **Knowledge 1, Application 2, Analysis 2** | |
| | **Knowledge**<br>1 mark for, e.g.<br><ul><li>Business confidence (1)</li><li>Interest rates (1)</li><li>Access to credit (1)</li><li>Rise in demand for UK exports (1)</li></ul><br>**Application**<br>2 marks for relevant references to context  or one reference to context plus development, e.g.<br><ul><li>5% growth in investment (1)</li><li>Output rising at the fastest rate in the G7 (1)</li><li>GDP growth has remained strong (1)</li><li>Unemployment continued to drop (1)</li></ul><br>**Analysis**<br>Linked development (1+1), e.g.<br><ul><li>Lower interest rates reduces cost of borrowing incentivising firms to invest</li></ul> | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **19** | **Knowledge 1, Application 2, Analysis 2**<br><br>**Knowledge/understanding**<br>1 marks, e.g.<br>• Definition of aggregate demand<br>• Understanding of a rise in value of the pound<br><br>**Application**<br>2 marks (1+1), e.g.<br>• Aggregate demand will fall (1)<br>• Lagged effect (1)<br>• Declining imported food and commodity prices (1)<br><br>**Analysis**<br>Linked development (1+1), e.g.<br>• Imports become cheaper so aggregate demand falls (1)<br>• Exports become expensive so aggregate demand falls (1) | **(5)** |

| Question Number | Answer | Mark |
|---|---|---|
| **20** | 2 marks for analysis of one point, e.g.:<br><br>Aggregate supply increases due to reduced costs of production for firms, meaning they can now increase production<br><br>Aggregate demand increases as consumers are now spending less on fuel and so have money to spend on other goods/services<br><br>2 marks for explaining the impact on price level and real output<br><br>Up to 4 marks for AD/AS diagram consistent with analysis ; correct shift in line (1), lines labelled (1), axes labelled (price level and real GDP/output/income) (1), equilibria labelled (both original and new) (1).<br><br>Evaluation 4 marks (2+2 or 4):<br>- fall in oil prices may be only short-term<br>- other factors affecting AD/AS<br>- AS shifts more long-term<br>- depends on magnitude of oil price change | **(12)** |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 1 convincing impact with AD/AS diagram, with at least one evaluative point |
| Level 2 | 5-8 | 1 convincing effect with evaluation but no/incorrect diagram, or 1 convincing impact with diagram but no evaluative point; less-convincing impact or diagram with some evaluation |
| Level 1 | 1-4 | Identification of relevant impacts with or without brief evaluative keywords |

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| Question Number | Indicative Content | Mark |
|---|---|---|
| **21** | KAA 8<br><br>Up to 4 marks for identification and explanation of each point. Award 2 points only.<br>1 mark for only an identification of a point, 2 marks for identification and very brief explanation, further 2 marks for analysis/development of the point.<br><br>For example:<br>- worsening current account deficit<br>- fall in aggregate demand<br>- rising unemployment<br><br>Evaluation 4 marks (2+2 or 4):<br>- current account may not worsen if imports also fall<br>- relatively small fall in exports<br>- other factors also affect aggregate demand<br><br>**Quality of written communications will be assessed in this question based on the candidate's ability:**<br>• To present an argument and conclude on the basis of that argument<br>• To organise information clearly and coherently<br>• To use economic vocabulary appropriately<br>• To use grammar, spelling and punctuation appropriately | **(12)** |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 2 convincing reasons with at least one evaluative point |
| Level 2 | 5-8 | 2 convincing reasons with no connections, or 1 convincing impact with some good analysis but no evaluative point; 1 or 2 less-convincing impacts with some evaluation |
| Level 1 | 1-4 | Identification of relevant reasons with or without brief evaluative keywords |

EXPERT TUITION

| Question Number | Indicative Content | Mark |
|---|---|---|
| **22(a)** | KAA 8<br><br>**Up to 4 marks for the diagram:** Diagram demonstrating a leftward shift of AD:<br><br>correct shift of AD **(1)**,<br>lines labelled **(1)**,<br>axes labelled **(1)**,<br>equilibria labelled **(1)**<br><br>**Up to 2 marks for the analysis:**<br>• AD=C + I + G + (X-M); widening deficit means (X-M) is a negative value and so AD will fall (1)<br>• Impact on price level and real output (1)<br>• Reference to the circular flow of income: leakages are greater than injections (1)<br>• Reference to the multiplier effect causing impact across economy (1)<br><br>**2 marks for reference to data** - Only 1 mark if no/inaccurate figures used.<br>Maximum 6/8 if no data reference present<br><br>Evaluation 4 marks (2+2 or 4):<br>• depends on other factors (e.g. could be offset by a change in consumption)<br>• other factors may be more significant parts of aggregate demand<br>• exports have increased<br>• may be due to short-term shifts in exchange rates<br>• consideration of magnitude<br>• consideration of time lags<br>• elasticity of the AS curve<br>• depends on the size of the multiplier<br><br>**Quality of written communications will be assessed in this question based on the candidate's ability:**<br>• To present an argument and conclude on the basis of that argument<br>• To organise information clearly and coherently<br>• To use economic vocabulary appropriately<br>• To use grammar, spelling and punctuation appropriately | **(12)** |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 1 convincing impact with AD/AS diagram, with at least one evaluative point |
| Level 2 | 5-8 | 1 convincing effect with evaluation but no/incorrect diagram, or 1 convincing impact with diagram but no evaluative point; less-convincing impact or diagram with some evaluation |
| Level 1 | 1-4 | Identification of relevant impacts with or without brief evaluative keywords |

| Question Number | Indicative Content | Mark |
|---|---|---|
| **22(b)** | KAA 8 marks:<br>1 mark for solely identifying a relevant point<br>1 mark for limited development of this<br>up to 2 further marks for clear analysis of this point<br><br>Award 2 reasons only. Do not double award.<br><br>For example:<br>• Increased demand for UK exports as they are now relatively less expensive for foreigners / exports become more competitive<br>• Reduced demand for UK imports as they are now relatively more expensive for UK citizens / imports less competitive<br>• Increase in UK aggregate demand due to increase in net exports<br>• Increase in imported / cost push inflation pushing up UK inflation rate<br>• Increased employment in the UK due to an increased demand for domestic production and exports | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| 23(a) | KAA 8 marks<br><br>Use of data 1+1 marks- e.g. fell from approx. 6.5% in Q3 2012 to approx. 3% in Q1 2013<br>2 factors up to 3 marks each (2 x 3 marks). 1 mark for the identification and 2 marks for the explanation of each factor.<br>• Increased consumer confidence<br>• Low interest rates<br>• Greater availability of credit following various initiatives e.g. quantitative easing; Help to Buy; Funding for Lending<br>• Falling unemployment/greater job security<br>• Rising incomes (savings ratio as a % of income) | (8) |

EXPERT TUITION

| Question Number | Indicative content | Mark |
|---|---|---|
| 23(b) | KAA 8 marks (maximum of 6 marks for KAA if no reference to data)<br><br>Reference to data 2 marks e.g. from figure 3 house prices rising by over 10% in 2007; from extract 1: 'in September 2013 British house prices rose at their fastest monthly rate in 11 years'<br><br>2 marks for analysis of one point, e.g.:<br>Identification of the wealth effect only (1)<br>Analysis of wealth effect (1) e.g. an increase in the value of houses that will increase householder's confidence and thus encourage them to consume more (and/or save less)<br>Also award for discussion of other effects beside the wealth effect (2) e.g. impact on:<br>• Mobility of labour<br>• Unemployment<br>• Budget deficit<br><br>Up to 4 marks for diagram demonstrating rightward shift of AD; correct shift in line (1), lines labelled (1), axes labelled (price level and real GDP/output/income) (1), equilibria labelled (both original and new) (1).<br>Note diagrams where the line shift is incorrect receive no marks.<br><br>Where candidates do not use a diagram but do write that real output and the price level should increase award 1 mark for each.<br><br>Maximum 6/8 if no diagram.<br><br>Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include:<br>• Houses are a significant component of consumers' wealth and effect a large proportion of households (approximately 65% owner occupied) in the UK which will therefore have a **major effect** in expanding AD<br>• Significance of elasticity of AS curve and the state of the UK economy<br>• Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship<br>• Wealth effects take some time to trigger spending changes<br>• Other factors may be more important in generating confidence such as the strength of the global economy's recovery<br>• Regional differences in impact<br>• Effect on first-time buyers so may lead to their consumption falling<br><br>**Quality of written communications will be assessed in this question based on the candidate's ability:**<br>• To present an argument and conclude on the basis of that argument<br>• To organise information clearly and coherently<br>• To use economic vocabulary appropriately<br>• To use grammar, spelling and punctuation appropriately | (12) |

| Question Number | Indicative content | Mark |
|---|---|---|
| 24(a) | KAA 4 marks<br>Up to 2 marks for a definition of investment, e.g.<br><ul><li>Increase/spending/purchase of capital stock/machinery (2)</li><li>asset build up and replacing of depreciated assets (2)</li></ul><br>Up to 2 marks for explanation of '2010 prices': e.g.<br><ul><li>discounts effect of inflation/real (1) since 2010 (1)</li><li>base year (1) of 2010 (1)</li></ul><br>Up to 2 marks for reference to data e.g.,<br><ul><li>investment was £40bn (1) in 2008 (1)</li><li>investment fell from 2008 onwards (1)</li><li>investment fluctuated during the period shown on figure 1 (1)</li></ul> | (6) |

EXPERT TUITION

| Question Number | Indicative content | Mark |
|---|---|---|
| 24(b) | Use of data 1+1 marks- e.g. fell from approx. £39bn in 2008 to £29bn in 2013<br><br>2 factors up to 3 marks each (2 x 3 marks). 1 mark for the identification and 2 marks for the explanation of each policy.<br><br>Factors may include:<br>• Low domestic growth led to greater uncertainty of return on investment<br>• Less business confidence<br>• Interest rates<br>• Low growth in export markets reducing confidence<br>• Unwillingness of banks to lend to business because of high risk of default in a period of low economic growth<br>• Firms had spare capacity as demand was well below 2007 and/or firms were labour hoarding<br>• Banks lacking capital to lend out for investment<br><br>Also award for factors increasing investment if supported by appropriate data reference | (8) |

| Question Number | Indicative content | Mark |
|---|---|---|
| 24(c) | KAA 8 marks<br><br>AD/AS diagram, consistent with the candidate's analysis (4 marks); correct shift in line (1), lines labelled (1), axes labelled (price level and real GDP/output/income) (1), equilibria labelled (both original and new) (1).<br><br>2 marks for correct effect on price level and real output . falling AD means price level falls (1) and real output falls (1)<br><br>Up to 2 marks- transmission mechanism(s) explained, either AD or AS:<br><br>Evaluation 4 marks (1 x 4 or 2 x 2)<br>• Depends on the effects of other factors in the economy (consumer confidence and consumer debt)<br>• Knowledge that investment is small but significant component of AD (about 15%)<br>• Long term or short term effects<br>• Relative importance each effect<br>• Size of the multiplier<br>• Other factors are more important<br>• Different effects in different industries or parts of the country<br>• Elasticity of AD and/or AS | (12) |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | Explanation of the effect with a good diagram and at least one evaluative point |
| Level 2 | 5-8 | Explanation of the effect with a good diagram but no evaluative point; or good diagram but with limited explanation or; explanation of the effect but no diagram and some evaluation |
| Level 1 | 1-4 | Identification of relevant effect with or without brief evaluative keywords |

| Question Number | Indicative content | Mark |
|---|---|---|
| 25(a) | KAA 8 marks<br><br>Definition of multiplier (2); the number of times a rise in national incomes exceeds the rise in injections that cause it. It measures the subsequent effects when an injection or withdrawal changes. Accept formula 1/(1-m.p.c.) or 1/m.p.w. or 1/(m.p.s.+m.p.m.+m.p.t.)<br><br>Maximum 6 marks for KAA if no multiplier reference<br><br>Other 6 marks for one or more of the following (maximum 4 marks if no reference to output/growth):<br>• Increase in C as people spend money in the UK on tickets and food and merchandise and therefore AD and real output rises<br>• Increase in exports as tourists spend money on tickets and holidays in the UK and therefore AD and real output rises<br>• Impact on employment: boost to construction industry; higher wages for construction workers;<br><br>Reward up to 2 marks for a relevant diagram which helps explain the transmission mechanism<br><br>Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include:<br>• Size of the multiplier will have an impact on the increase in economic growth<br>• Significance of elasticity of AS curve on growth in output<br>• Consumption is likely to have had a larger effect than exports on AD and therefore on growth in output<br>• Regional differences in impact (i.e. most of the events of the Olympics and Jubilee were held in London)<br>• Short-term/long term- impacts<br>• One-off events unlikely to cause sustained growth<br>• Extract: 'confidence is fragile'. | (12) |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 2 convincing impacts with at least one evaluative point |
| Level 2 | 5-8 | 2 convincing impacts with no connections, or 1 convincing impact with some good analysis but no evaluative point; 1 or 2 less-convincing impacts with some evaluation |
| Level 1 | 1-4 | Identification of relevant impacts with or without brief evaluative keywords |

| Question Number | Indicative content | Mark |
|---|---|---|
| **25(b)** | KAA 8 (2 x 4 marks: 2 for identification of point; 2 for analysis). Do not double award analysis <br><br> • Impact on current account balance: UK goods and services will be less competitive. Therefore, exports will become relatively more expensive and imports are relatively less expensive <br><br> • Increase in unemployment <br> • Lowering of output <br> • Reduction in investment <br> • Increase in inflation <br> • Exchange rate will weaken <br> • Lower profits for firms leading to lower investment <br> • Downwards pressure on wages <br><br> Up to 2 marks for relevant diagram <br><br> Evaluation 4 marks (1 x 4 or 2 x 2) <br> • Depends on the price elasticity of demand for X and M <br> • Other factors may be more important in determining the current account e.g. exchange rate, quality of goods and services <br> • Problems with measuring productivity <br> • Changes will take some time to come into effect <br> • Impact of other factors <br> • Magnitude <br><br> **Quality of written communications will be assessed in this question based on the candidate's ability:** <br> • To present an argument and conclude on the basis of that argument <br> • To organise information clearly and coherently <br> • To use economic vocabulary appropriately <br> • To use grammar, spelling and punctuation appropriately | **(12)** |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | Effect identified and explained with at least one evaluative point |
| Level 2 | 5-8 | Effect identified and explained , or effect identified and explained with some good analysis but no evaluative point; effect identified, less-convincing explanation with some evaluation |
| Level 1 | 1-4 | Identification of relevant effects with or without brief evaluative keywords |

EXPERT TUITION

| Question Number | Indicative content | Mark |
|---|---|---|
| **26** | KAA 8 marks<br><br>**Up to 4 marks for the diagram:**<br>Diagram demonstrating leftward shift of AS **and/or** AD if linked to higher imports: correct shifts in line **(1)**, lines labelled **(1)**, axes labelled **(1)**, equilibria labelled **(1)**.<br>**Note** diagrams where a single line shift is shown and it is incorrect receive no marks, even if curves and axes are labelled correctly. If one line shift is correct and the other shift is wrong then award 2 marks assuming the rest of the diagram is labelled correctly.<br><br>**Up to 4 marks for the analysis** e.g.<br><ul><li>Explanation that oil is a factor of production / costs of production rise **(2)** and that inflation occurs **(2)**</li><li>Aggregate supply and/or aggregate demand falls so real output will fall **(2)** and this could lead to a rise in unemployment **(2)**</li><li>Worsening of balance of payments on current account / trade balance **(2)** through increase in value of oil imports **(2)**</li><li>Rising costs of production for firms may lead them to reduce investment **(2)** causing further falls in AD and AS and hence real output **(2)**</li><li>Negative effect on income distribution **(2)** as price rise is regressive / could result in fuel poverty **(2)**</li></ul><br>Evaluation 4 marks **(1x4 or 2x2)**<br><ul><li>The extent of the effect on the balance of payments on current account depends on the PED of oil. Oil is likely to have a low PED leading to a significant worsening of the current account balance.</li><li>The effect being offset by technological change/use of substitutes</li><li>Supply chain, stocks and fixed price contracts may mean price rise is not felt immediately</li><li>Different effects on different industries</li><li>Dependency on oil may be falling due to deindustrialisation / increasingly service-based economy, and/or increasing use of renewable energy sources</li><li>Magnitude of price increases</li><li>Extent of other factors offsetting this effect (questioning ceteris paribus)</li><li>Length of time oil price remains high for and timescale of the effects</li></ul> | (12) |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | One convincing effect with AS/AD diagram, with at least one evaluative point |
| Level 2 | 5-8 | One convincing effect with evaluation but no/incorrect diagram, or one convincing effect with diagram but no evaluative point; Less-convincing effect or diagram with some evaluation |
| Level 1 | 1-4 | Identification of relevant effect with or without brief evaluative keywords |

| Question Number | Answer | Mark |
|---|---|---|
| **27(a)** | Up to 4 marks:<br>• Consumption (1)<br>• Investment (1)<br>• Government Spending (1)<br>• Exports minus Imports (1)<br>• Award AD = C+I+G+X-M as a maximum of 2 marks unless each component stated in full (i.e. 'consumption')<br><br>Reference to data (2) | **(6)** |

| Question Number | Answer | Mark |
|---|---|---|
| **27(b)** | Award **two** influences only<br><br>Two factors identified (2 marks each) and linked to investment (2 marks each)<br><br>Factors may include:<br>• business confidence or start of the recovery/fear of a recession/uncertainty<br>• interest rates<br>• Willingness of banks to lend to business<br>• Government incentives such as a reduction in corporation tax or tax breaks for investment<br>• level of aggregate demand/spare capacity/unemployment/average incomes in the economy<br>• level of consumer confidence<br>• rate of corporation tax<br>• level of pre-tax profits made, or existing debt owed by firms<br>• economic conditions in export markets<br>• exchange rate fluctuations<br>• availability of new technology<br>• the rate of inflation | **(8)** |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **27(c)** | KAA - 8 marks (4 marks for diagram, 4 marks for explanation and analysis)<br><br>Diagram demonstrating effect on AD and/or AS (4); correct shifts in line(s) - shift in AD to the left and/or shift in AS to left (1), lines labelled (1), axes labelled (1), equilibria labelled (1). (**Note**: diagrams where a single shift is incorrect receive no marks. If one shift is correct and the other wrong then award up to 2 marks, assuming the rest of the diagram is labelled correctly)<br><br>Up to 4 marks:<br>Each effect identified (2) and explained (2)<br>• Change in unemployment<br>• Fall in output<br>• Change in price level or inflation<br>• PPF moves inward<br>• Loss of international competitiveness (2) and worsening of the current account deficit (2)<br>• Fall in productivity<br><br>**NB: if no AS/AD diagram, award a maximum of 4 KAA marks**<br><br>Evaluation - 4 marks (1 x 4 or 2 x 2) factors might include:<br>• Long term or short term effects<br>• Relative importance each effect<br>• Size of the multiplier<br>• Other factors are more important - ceteris paribus might not hold<br>• Investment is the smallest component of AD, so effects might not be large<br>• Effects depend on the level of spare capacity/shape of the AS curve/elasticity of AD<br>• Effect on the price level may be cancelled out by decrease in AS as well as AD<br>• Different effects in different industries or parts of the country | **(12)** |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 1 convincing effect with a correct AS/AD diagram and at least one evaluative point |
| Level 2 | 5-8 | 1 convincing effect with a correct AS/AD diagram but no evaluative point; 1 or 2 less-convincing effect with an incorrect, incorrect or no AS/AD diagram, with some evaluation |
| Level 1 | 1-4 | Identification of relevant effect, incorrect, incomplete or no AS/AD diagram, with or without brief evaluative keywords |

| Question Number | Answer | Mark |
|---|---|---|
| **28** <br> * | KAA - 8 marks (4 marks for diagram, 4 marks for explanation and analysis) <br><br> Diagram demonstrating rightward shift of AD and/or AS (4); correct shifts in lines (1), lines labelled (1), axes labelled (1), equilibria labelled (1). (**Note:** diagrams where a single shift is incorrect receive no marks.  If one shift is correct and the other wrong then award 2 marks assuming the rest of the diagram is labelled correctly) <br><br> Up to 4 marks: <br> Each effect identified (2) and explained (2) <br> &bull; Price level should fall or remain the same if shifts cancel each other out, or rise if AD shifts only/more <br> &bull; Real output should rise <br> &bull; Increase in productivity <br> &bull; Increase in competitiveness of UK goods and services, leading to an improvement in the Balance of Payments on current account <br> &bull; Reduction in unemployment / increased occupational mobility of labour <br> &bull; Effects on the government budget position <br> &bull; Improvement in the UK's HDI <br><br> **NB: if no AS/AD diagram, award a maximum of 4 KAA marks** <br><br> Evaluation - 4 marks (1 x 4 or 2 x 2) <br> &bull; Spending might not affect quality of output – e.g. managerial expenses may absorb expenditure <br> &bull; Effects depend on the type/level of education improved <br> &bull; Time lag <br> &bull; The effects depends on the shape of the AS curve <br> &bull; Reduction in government spending elsewhere (opportunity cost) <br> &bull; Increase in taxation elsewhere may have an effect on incentives <br> &bull; Other determinants of AD such as exchange rates changing - ceteris paribus may not hold <br> &bull; Long run and short run effects <br> &bull; May have no effect on price level if shift in AD cancels out the effect on AS <br><br> **Quality of written communications will be assessed in this question based on the candidate's ability:** <br> &bull; To present an argument and conclude on the basis of that argument <br> &bull; To organise information clearly and coherently <br> &bull; To use economic vocabulary appropriately | **(12)** |

EXPERT TUITION

| | |
|---|---|
| • To use grammar, spelling and punctuation appropriately | |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 2 convincing effects with a correct AS/AD diagram and at least one evaluative point |
| Level 2 | 5-8 | 2 convincing effects with a correct AS/AD diagram but no evaluative point; 1 or 2 less-convincing effect with an incorrect, incorrect or no AS/AD diagram, with some evaluation |
| Level 1 | 1-4 | Identification of relevant effect, incorrect, incomplete or no AS/AD diagram, with or without brief evaluative keywords |

EXPERT
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| Question Number | Indicative Content | Mark |
|---|---|---|
| **29** | KAA 8 marks<br><br>Explanations of likely impact up to 4 marks include:<br>• Falling real incomes lead to falling consumption (2)<br>• With lower consumption firms will reduce investment (2)<br>• Written description of fall in price level (1) and in real output (1)<br><br>Diagram up to 4 marks; AD/AS diagram showing leftward shift in AD curve; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction.<br><br>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include<br>• The relative impact of other factors<br>• Elasticity of AD and AS<br>• Timing – Short Run- Long Run<br>• Regional/sectoral/occupational differences<br>• Inequality or equity issues<br>• Magnitude of the fall | **(12)** |

| Question Number | Indicative Content | Mark |
|---|---|---|
| **30** | KAA 8 marks<br><br>2 factors related to Extract 1 up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each factor – linked to effect on AD.<br>• Fall in consumer confidence (2) from economic uncertainty of government fiscal tightening and fear of a double dip recession (2)<br>• Recession (2) leading to rising unemployment/reducing consumption/fall in value of exports (2)<br>• Fall in investment (2) from economic uncertainty of government fiscal tightening and fear of a double dip recession (2)<br>• Cuts to Government sector spending (2) will lead to a fall in AD (2) and a further reduction through the multiplier effect resulting in further job cuts and AD falling further (2)<br>• Increase in tax e.g. increase in VAT; increase in income tax (50% tax rate)<br>• Depreciation in value of the pound (2); impact on exports & imports (2)<br>• Rise in value of imports (2) from price rises of necessities with inelastic demand such as oil and food (2)<br>• Increase in costs servicing household debt<br><br>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include<br>• Extent of change depends on magnitude of multiplier (increased savings ratio because of lack of confidence)<br>• Relative impact of each factor<br>• Relative importance of each component (Consumption 65% approx)<br>• Time lag (e.g. unemployment is a lagging indicator)<br>• Effect of other factors counterbalancing or exacerbating the effect | **(12)** |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 1 convincing factor and diagram with at least one evaluative point |
| Level 2 | 5-8 | 2 convincing factor with no connections, or 1 convincing factor with some good analysis and diagram but no evaluative point; 1 or 2 less-convincing factor with some evaluation |
| Level 1 | 1-4 | Identification of relevant factor with or without brief evaluative keywords |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| 31(a) | KAA 4 marks<br>Output per worker or output per hour worked (2) measured either in volume or value; or output per unit of labour (2)<br>If refers only to efficiency or lower costs then only 1 mark<br><br>Use of data. Only 1 data reference needed for 2 marks. (2)<br>N.B. No marks for data reference if definition is incorrect. | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 31(b) | KAA 8 marks<br>4 marks per reason<br>• Fall in demand leading to reduced value of work per employee<br>• Fall in demand leading to reduced volume of work per employee<br>• Labour costs rising faster than labour output (eg pay rise)<br>• Employers holding on to staff hoping the recession will end (to avoid redundancy, recruitment and training costs)<br>• The high value industries in the UK were particularly hard hit (financial services)<br>• Lack of investment will contribute to low labour productivity<br>• Reduced training opportunities<br>• Accept minimum wage increases prevented wages falling as far as they should<br>• Reduction in incentives to work for those in work e.g. rise in income tax/NIC<br>• Demotivation e.g. resulting from job insecurity | (8) |

| Question Number | Answer | Mark |
|---|---|---|
| 31(c) | KAA 8 marks<br>Maximum 6 out of 8 marks if there is no data reference<br>Relevant data reference: e.g. UK productivity; UK growth; or reference from Extracts 1 or 2 (2 marks)<br><br>Loss of international competitiveness or rising costs of UK goods relative to foreign goods (2) leading to<br>• Reduction in exports (2) and<br>• Increase in imports (2)<br>• Leading to a worsening of the current account deficit (2)<br><br>Reward other valid explanations e.g.<br>reduction in economic growth; increased unemployment; cost push inflation: up to 6 marks.<br><br>Award up to 2 marks for a diagram if it develops the analysis.<br><br>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include<br>• No great change in the short run but more significant in the long run<br>• The size of the fall in productivity<br>• The importance of non price factors (eg quality or branding)<br>• Significance of gradient of AS curve<br>• Impact will be greater on US trade component than on EU component<br>• EU a more significant (approx. 60% of exports) than US (approx. 15%) | (12) |

EXPERT TUITION

| Level | Mark | Descriptor |
|-------|------|------------|
| Level 3 | 9-12 | 2 convincing effects with at least one evaluative point |
| Level 2 | 5-8 | 2 convincing effects with no connections, or 1 convincing effect with some good analysis but no evaluative point; 1 or 2 less-convincing effects with some evaluation |
| Level 1 | 1-4 | Identification of relevant effect with or without brief evaluative keywords |

| Question Number | Answer | Mark |
|-----------------|--------|------|
| **31(d)** | KAA 8 marks<br>Award two factors only (2 x 4 marks)<br>Two factors identified (2 marks each) and explained (2 marks each)<br><br>Factors may include:<br>• Increase in business confidence or start of the recovery<br>• Lower interest rates for borrowers<br>• Greater willingness of banks to lend to business/credit easing<br>• Government incentives such as a reduction in corporation tax or tax breaks<br>• Subsidies for investment | (8) |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **32** | KAA 8 marks<br><br>Up to 4 marks for the diagram<br>AD shifts to the left; correct movement (1), lines labelled (1), axes labelled (1), equilibria labelled (1). Note diagrams where the movement is incorrect receive no marks.<br><br>Up to 4 marks for an explanation of transmission mechanism:<br>Less employment leads to less government expenditure and/or consumption and/or less investment (2), falling AD leading to less output (2).<br><br>The following analysis with accompanying diagram could be awarded all KAA marks:<br>If AS is shifted to left on the basis that productivity will fall if (maximum of 2 marks):<br>• quality of health and education fall<br>• workers leave the workforce<br>• deteriorating human capital resulting from long term unemployment<br>and therefore reducing the PPF or full employment output (2)<br><br>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include<br>• Rise in unemployment leads to a rise in benefits (G) and so automatically stabilises<br>• Smaller change in the short run but more significant in the long run<br>• Size of the multiplier<br>• Large impact as unemployment already high so many won't be able to get jobs immediately<br>• Effect of other factors counterbalancing or exacerbating the effect | (12) |

| Level | Mark | Descriptor |
|---|---|---|
| Level 3 | 9-12 | 2 convincing points with at least one evaluative point |
| Level 2 | 5-8 | 2 convincing points with no further analysis or explanation, or 1 convincing point with some good analysis but no evaluative point; 1 or 2 less-convincing point with some evaluation |
| Level 1 | 1-4 | Identification of relevant points with or without brief evaluative keywords |

| Question Number | Answer | Mark |
|---|---|---|
| **33** | KAA 10 marks

Connection between oil and aggregate supply e.g. oil is general production cost which increases when oil price rises(2 marks)

AD/AS diagram showing leftwards/upwards shift in aggregate supply (4 marks max), made up from: axes labelled (1 mark), equilibria labelled (1 mark), AD/AS lines labelled (1 mark) and correct shift of AS to left (1 mark).

(Note: no marks to be awarded for the diagram if the shift is incorrect or if AD/AS are wrong way round or labelled incorrectly even if axes are labelled correctly)

Fall in real output described (2 marks) and rise in price level (2 marks) described.

Accept also the explanation that the total value of an oil importing country's imports might rise and so AD shift to the left. Above point is not really valid in the context of extract 1 -i.e. inflation above target so only half marks should be given for analysis (1 marks).

AD/AS diagram showing leftwards/downwards shift in aggregate demand (2 marks Max), made up from: axes and equilibria (1 mark), AD/AS lines and correct shift of AD to the left (1 mark).

Fall in real output described (1 mark) and fall in price level described (1 marks) in writing. | (10) |

| Question Number | Answer | Mark |
|---|---|---|
| **34(a)** | Candidates can give reasons for the fall and/or reasons for the rise in the household savings ratio.<br><br>Mark as follows: 2 + 2 or 3 + 1 (1 mark identify + 1 or 2 for development.)<br>• Degree of job security/ confidence<br>• changes in house prices and/or share prices<br>• interest rates paid by banks<br>• savings schemes e.g ISAs; index-linked savings certificates<br>• changes in incomes<br>• credit should also be given for convincing points made about an ageing population requiring increased savings in the longer term as a result of the level of welfare benefit provided.<br>2 for reference to data | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| **34(b)** | KAA 10 marks<br><br>Note that the definition of the rate of savings is given in Figure 3 so no marks are to be awarded for it.<br><br>AD/AS diagram showing leftwards/downwards shift in aggregate demand (4 marks), made up from axes labelled (1 mark), equilibria labelled (1 mark), AD/AS labelled (1 mark), and correct movement of AD to the left (1 mark).<br>(Note: no marks to be awarded for the diagram if the AD shift is incorrect or if AD/AS are wrong way round or labelled incorrectly even if axes are labelled correctly; max 3 marks if AS shifted but not valid explanation)<br><br>Reference to Figure 3 (2 marks)<br>State fall in price level (2 marks) and state fall in real output (2 marks). | (10) |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **35(a)** | 2 marks for definition of deficit, 2 marks for reference to increase<br><br>• Government spending is more than revenue/taxation **(4 marks)**<br>• Government spending is too high, it has overspent, or government has to borrow **(2 marks)**<br>• Explanation of modest **(2 marks)**<br><br>Reference to data **(2 marks)** e.g. £178 billion in 2009/10 or he increased planned spending by around £15 billion in total over 2011/12 and 2012/13, while recovering only £9 billion through new tax increases. | **(6)** |

EXPERT TUITION

| Question Number | Answer | Mark |
|---|---|---|
| **35(b)** | KAA 12 marks.<br>Up to 8 marks<br>• Appropriate AD/AS diagram showing enlarged shift or second shift of AD **(4 marks)**; axes labelled(1), equilibria labelled(1), correct shift (AD to right)(1), enlarged shift or second shift of AD to the right (1).<br>• Written explanation of effect on price level **(2 marks)** and output **(2 marks)**<br>• Definition of an injection: an addition to the level of I+G+X demand in the circular flow e.g. an increase in government spending **(2 marks)**.<br>• Initial impact on the level of AD without graph **(2 marks)**<br><br>Up to 4 marks for 2 x 2 marks for the following points;<br>• Definition of the multiplier as the number of times a rise in income exceeds the rise in injections that caused it. It measures the more than proportionate increase in the circular flow of income **(2 marks)**.<br>• Rise in incomes of those affected **(2 marks)**.<br>• These people in turn increase their consumption **(2 marks)**<br>• and the extended repercussions result as the increase in demand goes round the circular flow **(2 marks)**<br>• the process fades due to withdrawals (S,T,M) at each stage **(2 marks)**<br><br>Evaluation 2 x 2 marks or 1 x 4 marks. Points may include<br>• the magnitude of multiplier effect<br>• changes over time<br>• magnitude of the injection<br>• other things are not equal e.g. confidence might change<br>• fall in one of the other components of AD<br>impact on price level depends on elasticity of AS curve | (16) |

| Question Number | Answer | Mark |
|---|---|---|
| **35(c)** | Definition up to 2 marks<br>• Identification of exports as an injection and/or imports as a withdrawal **(2 marks)**<br>• Define circular flow of income as the flow of goods and services between households and firms and their corresponding payments in money terms. **(2 marks)**<br>• Accept AD shift to the right or when taken in the context of a other components of AD decreasing, then award a shift to the left that is not as great because of the more positive impact **(2 marks)**<br><br>Explanation up to 4 marks<br>• Imports have fallen faster than exports **(2 marks)**<br>• Identify it as a reduction in the size of withdrawal or a net injection on previous year **(2 marks)**<br><br>Use of data up to 2 marks, such as the correct comparison of absolute figures or percentage changes for Exports and Imports, or Export-Imports. | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| **36(a)(i)** | Up to 2 marks for each figure<br>Trend (1 mark) correct use of numerical data (1 mark)<br><br>e.g. fig. 1<br>House prices peaked (1) in 2007 (1) or at £200 000 (1)<br>e.g. fig. 2<br>Affordability similar path (1) - reached over 5 times earnings of first time buyers (1), but houses are now more affordable (1), at 4 times earnings (1)<br>Affordability peak in 2007, but give credit for 2008. (1) | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| **36(a)(ii)** | When asset (accept house prices or shares etc.) values change (accept data) (2 marks)<br><br>This affects changes in spending (or similar, e.g. confidence) (2 marks). | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| **36(b)** | KAA 12<br><br>Diagram AD shifts to left. Axes labelled (1), Lines labelled (1), correct movement (1), Equilibrium labelled (1) (4 marks)<br>State output falls (2 marks) and price level falls (2 marks)<br>Transmission mechanisms (1x4 or 2x2 marks) showing:<br>• house price effect on consumption and/or other elements of AD<br>• AD falls with multiplier effects, as C falls. Refer to mortgage equity withdrawal, credit problems or confidence issues.<br><br>Evaluation (1 x 4 marks or 2 x 2 marks) might include:<br>• This appears to be a return to trend of affordability.<br>• Housing is a very significant proportion of UK assets<br>• Confidence is likely to improve, but it depends on other factors too.<br>• Other things may not be equal, e.g. global recession effects on confidence<br>• First time buyers can now enter the market.<br>• Time factors might delay impact<br>• There is only limited and possibly inaccurate information.<br>• Depends on elasticity of AS<br>• Magnitude of the multiplier effect | (16) |

**END OF SECTION B**

**EXPERT** TUITION

| Question Number | Indicative content | Mark |
|---|---|---|
| **37** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9** | |
| | Understanding that oil has a macroeconomic consequence through the effect on the net trade component of AD and/or shifting the costs of production for all firms as SRAS or LRAS shift. | |
| | Possible macroeconomic consequences may include: | |
| | • An increase in overall economic activity (real GDP) as the cost of production decreases for businesses, especially for those that are heavily dependent on oil inputs. Application, e.g. a 10% fall in oil prices boosts growth by 0.1 to 0.5 percentage points. | |
| | • Some sectors such as agriculture, air transport, services involving other travel and oil-intensive manufacturing sectors will benefit as the price of their key input falls. | |
| | • Benefits for consumers, e.g. real household incomes after essential costs also rise as oil prices fall, which may increase consumer spending, ***but this is not automatically awarded as a factor increasing AD***. The connection involves two possible mechanisms: overall consumer prices fall as cost savings are passed on to households which spend more in domestic markets, and real wages increase as demand for labour rises in fast-expanding sectors. | |
| | • Oil importing countries e.g. S Korea can stop subsidising energy, enjoy reduced external debt | |
| | • As a result of growing economic activity, government tax revenues may rise as the tax take from corporate and personal income taxes increase | |
| | • The fall in the oil price should also have a small impact in narrowing the UK trade deficit. | |
| | • Application, e.g. prices have fallen by over 75% in 18 months | |

**EXPERT TUITION**

Possible evaluation points include:

- Problems for oil producers, with macro effects on employment, tax revenue etc.
- The problems in the financial sector – stock markets respond by seeing most prices collapse, especially fuel producers, and stock markets might collapse
- Increased external debt for oil exporting countries (and gas, as gas prices are also falling) e.g. Russia, Venezuela
- Negative effect on consumer confidence, political instability with impact on markets
- Reduced research into new exploration of oil
- Reduced investment into new technologies to replace oil ($380 billion)
- Externalities might increase or decrease (depending on effect on carbon fuels, fracking firms etc)
- Depends on how long the oil prices stays low, and who much further it went/will go
- Risks from 'sectoral stagnation' in developed economies or continued problems in the Eurozone e.g. the oil and gas extraction sector is negatively affected by the reduction in the oil price
- Government experiences declining tax revenues from the oil and gas sector.

**NB For a Level 4 response there must be a logical connection for a change in aggregate demand – do not automatically award an increase/decrease in AD.**

**(25)**

## Knowledge, application and analysis

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 5–8 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only. |
| Level 3 | 9–12 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 13–16 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

## Evaluation

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

**END OF SECTION C**

EXPERT TUITION