



## **Economics Questions By Topic:**

# **Inflation & Deflation (2.1.2) Mark Scheme**

## **A-Level Edexcel Theme 2**

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## SECTION A

Question Number	Answer	Mark
<b>1 (a)</b>	<b>Knowledge 1</b>  <b>Knowledge/understanding:</b> 1 mark for definition, e.g. <ul style="list-style-type: none"> <li>• Increase in the average prices/general price level (1)</li> <li>• Fall in purchasing power of money/currency (1)</li> </ul>	<b>(1)</b>

Question Number	Answer	Mark
<b>1 (b)</b>	<b>Knowledge 2</b>  <b>Knowledge/understanding:</b> 2 marks (1+1) for, e.g. <ul style="list-style-type: none"> <li>• Demand pull inflation/increase in AD (1) with reason, e.g. due to an increase in injections/ consumption/fall in interest rates/fall in unemployment (1)</li> <li>• Cost push inflation/decrease in SRAS (1) with reason, e.g. due to an increase in cost of raw materials and energy (1)</li> <li>• Increase in money supply (1) for e.g. due to an increase in quantitative easing (1)</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>1 (c)</b>	<p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because there is a difference in the rate of inflation between RPI and CPI</p> <p><b>B</b> is not correct because this does not show the difference in percentage points</p> <p><b>C</b> is not correct because this is a partial attempt to calculate the percentage change</p>	<b>(1)</b>

Question Number	Answer	Mark
2	<p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>• Price level is the <b>average</b> of the current prices of goods and services in the economy (1)</li> <li>• CPI or RPI (1)</li> </ul> <p><b>NB Do not accept inflation</b></p>	<b>(1)</b>

Question Number	Answer	Mark
<b>3(a)</b>	B	<b>(1)</b>

Question Number	Answer	Mark
<b>3(b)</b>	<p style="text-align: center;"><b>Knowledge 2, Analysis 1, Application 1</b></p> <p><b>Knowledge/understanding:</b> 2 marks for identifying how UK inflation is measured by the Consumer Prices Index (CPI);</p> <ul style="list-style-type: none"> <li>• Inflation rate measures change in average prices in an economy over a year (1)</li> <li>• A representative basket of goods and services used by average households is recorded (1)</li> <li>• A survey of average prices is recorded (1)</li> <li>• Reference to a base year (1)</li> <li>• Reference to Family/Household/Consumer Expenditure Survey (1)</li> </ul> <p><b>Analysis:</b> Items are weighted according to proportion of spending on each product (1)</p> <p><b>Application:</b> 1 mark for reference to the chart, e.g. Food and Fuel is dragging inflation downwards</p> <p>For example: A household expenditure survey (1) is completed to decide what goes in to the basket of goods (1). This is used to attach weights to products based on proportion of spending (1). In January 2015 CPI inflation was 0%. (1)</p> <p><b>NB: Candidates must refer to weights for the analysis mark.</b></p>	<b>(4)</b>

Question Number	Answer	Mark
<b>4(a)</b>	<p style="text-align: center;"><b>Application 2</b></p> <p><math>(128.2 - 128.4) / 128.4 \times 100</math> or correct formula (1)</p> <p>= (-)0.15%      Accept range (-)0.15 to (-)0.2</p> <p>NB 2 marks for correct answer.</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>4(b)</b>	<p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding</b></p> <p>1 mark for definition of deflation e.g.</p> <ul style="list-style-type: none"> <li>• A decrease in the general level of prices (1)</li> <li>• Negative change in average prices (1)</li> <li>• Negative inflation / inflation below zero (1)</li> </ul>	<b>(1)</b>

Question Number	Answer	Mark
<b>4(c)</b>	A	<b>(1)</b>

**END OF SECTION A**

## SECTION B

Question Number	Answer	Mark
<b>5(a)</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding</b>            Identification of impact (1) with development (1), e.g.</p> <ul style="list-style-type: none"> <li>• Imports relatively more expensive (1)</li> <li>• Leading to (cost push) inflation (1)</li>   <li>• Exports are relatively cheaper (1)</li> <li>• Leading to (demand pull) inflation (1)</li> </ul> <p><b>Application</b>            2 marks for two data references (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• There has been fall in the exchange rate/value of the pound/weaker pound (1)</li> <li>• UK is a net importer of food that has a relatively inelastic demand (1)</li> <li>• Food prices have increased by 3.5 percentage points (1)</li> <li>• Inflation has increased by 1 percentage point since the start of 2017 (1)</li> <li>• CPI has exceeded the 2% target (1)</li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
<b>5(b)</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b>  Identification of two effects (1+1) for, e.g.</p> <ul style="list-style-type: none"> <li>• Real value of personal debt falls</li> <li>• MPC raises base rate of interest</li> <li>• An increase in income inequality</li> <li>• Worsening of the current account</li> <li>• Fall in real wages/purchasing power</li> </ul> <p><b>Application</b>  1 mark for each data reference from Extract A or linked application (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Increase in size of personal debts as consumers are using credit cards and taking out short-term loan (1)</li> <li>• Base rate of interest increased by 0.25 percentage points to 0.5% in November 2017 (1)</li> <li>• Low fixed income households are left with very little money to spend on relatively more expensive items/ spend more on food (1)</li> <li>• Inflation is expected to rise by 3% (1) and wages are only expected to increase by 1% (1) / wages growth lower than inflation (1)</li> </ul> <p><b>Analysis</b>  1 mark for linked development of each effect (1+1) e.g.</p> <ul style="list-style-type: none"> <li>• Borrowers will benefit as the real value of their loan repayments are reduced over time (1)</li> <li>• Increases the cost of borrowing / reward for saving, hence consumption falls (1)</li> <li>• People on low fixed incomes spend larger proportion of income on necessities (1)</li> <li>• Exports become less internationally competitive (1)</li> <li>• Fall in real wages / purchasing power implies lower confidence, lower consumption and lower standard of living (1)</li> </ul> <p><b>NB Award up to 4 marks for one effect well developed (1kn + 1ap + 2an)</b></p>	<b>(6)</b>



Question Number	Answer	Mark
<b>5(c)</b>	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding</b> 1 mark for identification, e.g.</p> <ul style="list-style-type: none"> <li>• To ensure that inflation/cost of living/CPI basket is accurately measured (1)</li> <li>• To ensure that consumption trends/spending are reflected (1)</li> <li>• To adjust the weightings in the CPI basket (1)</li> </ul> <p><b>Application</b> 2 marks for 2 relevant data references (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Inclusion of non-dairy milk (1) / jigsaw puzzles (1) / child scooters (1) / cycling helmets (1)</li> <li>• Exclusion of menthol cigarettes (1) / apple cider (1) / child swings (1) / basic mobile phones (1)</li> <li>• A move towards health, fitness and gluten-free products (1)</li> </ul> <p><b>Analysis</b> Linked development (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Technological advancements (1) implies consumers switch to newly developed goods and services (1)</li> <li>• Consumer tastes change frequently (1) but the CPI basket is updated annually (1)</li> <li>• Consumers could have switched away (1) from those goods and services that have increased in price (1)</li> </ul>	<b>(5)</b>

Question Number	Indicative content	Mark
6	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6,</b></p> <ul style="list-style-type: none"> <li>• Implicit or explicit identification of the various UK's macroeconomic objectives</li> <li>• Understanding of inflation</li>   <li>• May reduce growth owing to costs of inflation</li> <li>• Reduction in purchasing power and real incomes</li> <li>• Equality e.g. effect on those who have fixed incomes (are not protected by inflation) who are often the poorest</li> <li>• May make the national debt smaller in real terms making it cheaper to finance and pay back</li> <li>• Reduction in competitiveness of British goods which worsens the current account of the balance of payments deficit and reduces international competitiveness</li> <li>• Unemployment may rise through increased levels of inefficiency and stagflation / using a Phillips curve</li> <li>• Higher inflation associated with increasing AD may have detrimental impact on environment</li> <li>• Possible beneficial effect on the environment as economic growth slows</li> <li>• Loss of both business and consumer confidence</li> <li>• The self-reinforcing effect on inflation through expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes</li> </ul> <p><b>NB KAA can be awarded for positive impacts on the objectives and evaluation as the negative impacts or vice versa</b></p>	<b>(14)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4-6	Displays elements of knowledge and understanding of economic principles, concepts and theories. 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 superficial, two stage chains of reasoning only.
Level 3	7-10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11-14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>6</b> continued	<p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Depends on the cause, (e.g. cost push or demand pull) duration and magnitude of inflation – may be discussed in recent context of the UK / using AD AS diagram</li> <li>• Inflation might not translate through to higher wages and unemployment if the workforce has little power</li> <li>• If growth is low, slightly higher inflation is worth the risk to avoid deflation or depression</li> <li>• Impact depends on the relative inflation rates</li> <li>• Impact of high inflation might depend on policy response - interest rates may have to be raised</li> <li>• Other factors may have a larger effect: exchange rates or other macro objectives (ceteris paribus)</li> <li>• Possible beneficial effect on the environment</li> </ul>	<b>(6)</b>
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	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Answer	Mark
7	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/understanding:</b> 2 marks for identification of two factors (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• falling oil prices</li> <li>• falling commodity prices</li> <li>• changing relative exchange rates</li> <li>• government fiscal tightening</li> <li>• low consumer or business confidence</li> <li>• increase in savings</li> </ul> <p><b>Analysis:</b> 2 marks for linked explanation of how these explain the fall in Eurozone inflation (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Falling oil prices in the world economy reduce key costs of production such as transportation, reducing prices of many products in the economy</li> </ul> <p><b>Application:</b> 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g.</p> <ul style="list-style-type: none"> <li>• From figure 2, Eurozone inflation 0.1% in 2015 (1)</li> <li>• ECB predicts Eurozone inflation to rise 'by just 1 per cent in 2016' (extract A) (1)</li> <li>• Figure 2 shows disinflation occurring (1)</li> <li>• Inflation fell from just over 3% in 2011 (1) to less than 0.25% in 2015 (1)</li> </ul> <p><b>Evaluation:</b> 2 marks for evaluation (1+1 / 2)</p> <ul style="list-style-type: none"> <li>• Inflation likely to rise in the future, with ECB expecting 1.6% in 2017</li> <li>• Oil prices are very volatile and could easily rise rapidly due to world events such as instability in the Middle East</li> <li>• Rising GDP in the Eurozone may mean more demand-pull inflation in the future</li> <li>• Depends on extent of fiscal tightening by government</li> <li>• Oil prices a significant cost of production for businesses</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
<b>8 (a)</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Knowledge</b>  Identification of two reasons (1+1)</p> <ul style="list-style-type: none"> <li>• Falling energy prices</li> <li>• Falling telecommunication prices</li> <li>• Falling shipping costs</li> <li>• Falling non-energy industrial goods prices</li> <li>• Slowdown in world economic growth</li> <li>• Slowdown in consumer spending</li> <li>• Slowdown in house construction</li> </ul> <p><b>Application</b>  2 relevant pieces of application from Extract B (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• inflation at 0.3% (1)</li> </ul> <p><b>Analysis</b>  Linked development of how reasons identified cause falling inflation rate (1+1)  e.g.</p> <ul style="list-style-type: none"> <li>• falling oil prices makes transport of goods cheaper (1)</li> </ul> <p>N.B. Falling inflation rate does not necessarily mean prices are falling, so students may talk about reasons for disinflation and/or deflation</p>	<b>(6)</b>

Question Number	Indicative content	Mark
<b>8 (b)</b>	<p><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>The MPC <b>should</b> be concerned because:</p> <ul style="list-style-type: none"> <li>• Risk of deflationary spiral; hard to 'escape' from such a situation</li> <li>• Example of Japan</li> <li>• Consumer expectations of very low/falling prices become embedded</li> <li>• Limited ability of the MPC to get the economy out of deflation (interest rates already only 0.5%)</li> <li>• Harder for MPC to react to/influence supply-side factors such as falling oil prices</li> </ul> <p>Diagrammatic analysis may also be used as part of an answer.</p> <p>NB Candidates may, alternatively, argue that the MPC should <b>not</b> be concerned about deflation for KAA and that they <b>should</b> for evaluation</p>	<b>(9)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. 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; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	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 carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>8 (b)</b> continued	<p style="text-align: center;"><b>Evaluation 6</b></p> <p>MPC <b>should not</b> be concerned because:</p> <ul style="list-style-type: none"> <li>• Likely to be only short-term/caused by one-off factors that will disappear from the statistics after one year</li> <li>• Caused by supply-side factors rather than demand-side, so less of a problem for the UK economy</li> <li>• Caused by falls in just a few significant items (e.g. oil), fall in prices not widespread across the whole economy</li> <li>• Economic growth and incomes are still rising in the UK economy, suggesting inflation is not affecting consumer demand</li> <li>• May benefit economy as it leads to increasing AS due to falling commodity prices, rather than being caused by falling AD</li> </ul> <p>NB Candidates may, alternatively, argue that the MPC should <b>not</b> be concerned about deflation for KAA and that they <b>should</b> for evaluation</p>	<b>(6)</b>

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	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Question Number	Indicative content	Mark
8 (c)	<p><b>Knowledge 4, Application 4, Analysis 6,</b></p> <ul style="list-style-type: none"> <li>• Changing interest rates and quantitative easing/asset purchases to influence money supply as monetary policies</li> <li>• AD/AS diagram could be used to aid effective analysis</li> </ul> <p>MPC has been successful at controlling inflation:</p> <ul style="list-style-type: none"> <li>• According to Figure 2 highest inflation rate was only just over 5%, good by historical standards</li> <li>• Independent of government</li> <li>• Regular monthly MPC meetings implies flexibility</li> <li>• Willingness to use other unorthodox tools such as QE and forward guidance to additionally control inflation</li> <li>• QE helped to avoid risk of deflation during global economic crisis</li> <li>• Powerful transmission mechanisms</li> <li>• Contrast with Japan.</li> </ul> <p>MPC has <b>not</b> been successful at controlling inflation:</p> <ul style="list-style-type: none"> <li>• Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target</li> <li>• MPC struggles to respond to supply-side factors, e.g. rising food/commodity prices in 2008/9 and now falling prices in 2014</li> <li>• Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation</li> <li>• Banking failure</li> <li>• In the period shown, interest rates have been 0.5% but inflation has continued to fall</li> </ul> <p>NB Candidates may, alternatively, argue that the MPC <b>has not</b> been successful for KAA and that they <b>have</b> been successful for evaluation</p>	<b>(14)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. 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 superficial, two-stage chains of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>8 (c)</b> continued	<b>Evaluation 6</b>	
	<p>MPC has <b>not</b> been successful at controlling inflation:</p> <ul style="list-style-type: none"> <li>• Figure 1 shows inflation has often been outside of range of +/- 1% from the 2% target</li> <li>• MPC struggles to respond to supply-side factors, e.g. falling food and commodity prices in 2014</li> <li>• Interest rates have stayed at 0.5% for a long time so there is limited scope to reduce further in response to falling inflation/risk of deflation</li> <li>• Banking failure</li> <li>• In the period shown, interest rates have been 0.5% but inflation has continued to fall</li> </ul>	<b>(6)</b>

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	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative Content	Mark
<b>9 (a) (i)</b>	<p>KAA 4 marks,</p> <p>1 mark for reference to weights, e.g. reflecting importance of goods in the basket</p> <p>Up to 3 marks for the following (1 mark for each):</p> <ul style="list-style-type: none"> <li>• Living Costs and Food Survey/Family expenditure survey</li> <li>• Price survey</li> <li>• Basket of goods</li> <li>• Approx. 650 goods</li> <li>• Calculated on an annual basis</li> <li>• Presented as an index value</li> </ul>	<b>(4)</b>

Question Number	Indicative Content	Mark
<b>9 (a) (ii)</b>	<p>KAA 8 marks:</p> <p>2 marks for reference to data, e.g. UK inflation fell from peak of approx.. 5% in 2012 to around 0% in 2015.</p> <p>1 mark for solely identifying a relevant point 1 mark for limited development of this up to 2 further marks for clear analysis of this point</p> <p>Maximum 6/8 if no data reference.</p> <p>Award 2 reasons only. Do not double award.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>- Falling oil price</li> <li>- Falling food prices</li> <li>- Falling commodity prices</li> </ul>	<b>(8)</b>

Question Number	Indicative Content	Mark
<b>9 (b)</b>	<p>KAA 8</p> <p>2 marks for reference to data</p> <p>1 mark for solely identifying a relevant point 1 mark for limited development of this up to 2 further marks for clear analysis of this point</p> <p>Maximum 6/8 if no data reference.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>- falling consumption as consumers hold off purchases in expectation of further falls in price</li> <li>- falling prices becomes a cycle that it is hard for the economy to get out of</li> <li>- falling revenues for firms leading to falling profits</li> <li>- improved competitiveness &amp; reduced current account deficit</li> <li>- increase in consumers' real income &amp; therefore AD</li> </ul> <p>Evaluation 4 marks (2+2 or 4):</p> <ul style="list-style-type: none"> <li>- consumption is still high</li> <li>- magnitude of change in price level</li> <li>- only temporary situation</li> <li>- largely a supply-side rather than demand-side problem</li> </ul>	<b>(12)</b>

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

Question Number	Answer	Mark
<b>10(a)</b>	<p>2 marks:</p> <ul style="list-style-type: none"> <li>Weights are attached to reflect relative importance of items (1) in terms of consumer spending/income (1)</li> <li><b>OR</b> weights defined as a proportion of consumer spending/income spent on particular goods and services (2)</li> </ul> <p>KAA 4 - 1 mark per point</p> <ul style="list-style-type: none"> <li>Price survey</li> <li>Expenditure and Food Survey</li> <li>Basket of goods / 650 goods and services</li> <li>Contents of the basket revised annually</li> <li>Use of an index</li> <li>Base year</li> <li>Price changes multiplied by weightings</li> </ul>	<b>(6)</b>

Question Number	Indicative Content	Mark
<b>10(b)</b>	<p>KAA 8 marks:</p> <p>1 mark for solely identifying a relevant point  1 mark for limited development of this  up to 2 further marks for clear analysis of this point  Award 2 reasons only.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>Inflation above target</li> <li>Rapid wage growth</li> <li>Other cost-push factors</li> <li>Other demand-pull factors e.g. house prices</li> <li>Consumer / business expectations of future price rises</li> <li>Lack of spare capacity in the economy</li> <li>Economy growing at 'unsustainable' level</li> <li>Make imports cheaper by strengthening the value of the sterling pound (attract hot money flows)</li> </ul>	<b>(8)</b>

Question Number	Indicative content	Mark
<b>10(c)</b>	<p>KAA 8 marks</p> <p>Up to 4 marks for identification and explanation of each point. Award 2 points only. 1 mark for only identification of a point, 2 marks for identification and brief explanation, further 2 marks for analysis/development of the point. For example, it is desirable:</p> <ul style="list-style-type: none"> <li>• Exports may increase and imports may decrease, improving UK trade balance and competitiveness</li> <li>• May lead to higher real wages or less erosion of fixed incomes, hence more spending</li> <li>• Could lower nominal interest rates which may encourage borrowing</li> <li>• Benefits of falling oil and commodity prices for the economy</li> </ul> <p>Evaluation 4 marks (2+2 or 4) For example, it is not desirable:</p> <ul style="list-style-type: none"> <li>• Expectation of falling prices in the future discourages purchases today; consumption and therefore AD falls</li> <li>• This is a cycle that it can be very hard for a country to get out of</li> <li>• May lead to increased unemployment</li> <li>• Increases real debt burden (could relate to consumers, business, or the government)</li> </ul> <p><b>NB: Candidates may take reasons why a low rate of inflation is desirable as KAA, and why it's not as evaluation or vice versa.</b></p> <p>Other evaluation points include:</p> <ul style="list-style-type: none"> <li>• Magnitude: Only 0.1% deflation</li> <li>• Deflation mainly caused by cost-push factors</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	<b>(12)</b>

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



Question Number	Indicative content	Mark
<b>11</b>	<p>KAA 8</p> <p>Up to 4 marks for identification and explanation of each benefit. Award 2 benefits only. 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</p> <ul style="list-style-type: none"> <li>• Improved confidence among consumers and so supporting spending</li> <li>• Improved confidence among firms and so improving investment</li> <li>• Possibility of lower interest rates</li> <li>• Benefit to people on fixed incomes</li> <li>• Less enforced redistribution of income from creditors to borrowers</li> <li>• Lower shoe leather costs</li> <li>• Lower menu costs</li> <li>• Improved international competitiveness</li> <li>• Provides a more attractive environment for FDI</li> <li>• Stable inflation to avoid the risks of deflation</li> <li>• Problems associated with higher inflation that can be avoided</li> </ul> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> <li>• Potential offsetting macro consequences e.g. higher unemployment</li> <li>• Long run and short run impacts such as reducing expectations</li> <li>• Relative importance of each impact</li> <li>• Lack of demand-pull inflation implies economy is doing badly</li> <li>• Targeting low inflation runs the risk of deflation</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(12)

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

Question Number	Indicative content	Mark
<b>12(a)</b>	<p>KAA 8 marks</p> <p>Award two reasons (2 x 4 marks)  2 marks for identifying each reason and up to 2 marks explaining each reason.</p> <ul style="list-style-type: none"> <li>• Help reduce inequality as inflation damages those on fixed incomes</li> <li>• Other widening of income gaps</li> <li>• To slow the erosion of real incomes</li> <li>• Maintain international competitiveness</li> <li>• Helps price signalling and the efficient functioning of a market</li> <li>• Increased confidence in government control of economy</li> <li>• Avoids the dangers of hyperinflation and/or deflation at the target is set at +2.0%</li> <li>• To maintain value of savings</li> <li>• To encourage long-term planning/investment by firms</li> <li>• Avoid inefficiencies in the economy such as shoe leather costs and/or menu costs</li> </ul>	<b>(8)</b>

Question Number	Indicative content	Mark
<b>12(b)</b>	<p>KAA 8 marks 2 factors up to 4 marks each 2 marks for the identification and 2 marks for the explanation of each factor.</p> <p>Cost push inflation or increasing the cost of factors of production</p> <ul style="list-style-type: none"> <li>• Weakening exchange rates leading to the increased cost of imported components</li> <li>• Rising price of oil which is used by most businesses either directly or indirectly and the UK is a net importer</li> <li>• Rising price of food as the UK is a net importer of food</li> <li>• Tax increases such as VAT which will generate an increase in prices of most goods</li> </ul> <p>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include</p> <ul style="list-style-type: none"> <li>• Fixed contracts limit impact of exchange rate depreciation</li> <li>• PED for imports</li> <li>• Magnitude of each factor</li> <li>• Likely persistence of each factor</li> <li>• Importance of each factor</li> <li>• Impact on different groups</li> </ul>	<b>(12)</b>

Level	Mark	Descriptor
Level 3	9-12	1 convincing cause fully explained with at least one evaluative point
Level 2	5-8	1 convincing cause fully explained with no data, or 1 convincing cause with some good analysis but no evaluative point; 1 or 2 causes with some evaluation
Level 1	1-4	Identification of relevant cause with or without brief evaluative keywords

Question Number	Indicative content	Mark
13	<p>Data reference: 2005 as \$45 (1) and 2012 as \$125 (1)</p> <p>Identification: base year (January 2005) of index = 100 OR \$45 = 100 (1)            Calculation of percentage increase in price as 177.7% (accept 177 or 178) (1)            Calculation: <math>(125/45) \times 100</math> (2) OR 177% increase + 100% (2)</p> <p>Answer = 277.77 accept 277 or 278 and anything in between these two numbers (6)</p> <p>If only <math>(125/45) \times 100</math> and the answer is wrong award 4 marks            For incorrect data reference, but correct calculation using incorrect data, award up to 3 marks</p>	(6)

Question Number	Indicative content	Mark
14(a)	<p>KAA 6</p> <p>6 x 1 mark</p> <ul style="list-style-type: none"> <li>• Definition of CPI: a measure of the average price level of goods and services in the UK</li> <li>• Price survey</li> <li>• Expenditure and Food Survey</li> <li>• of approximately 7,000 households</li> <li>• Basket of goods</li> <li>• containing approximately 650 goods and services</li> <li>• Contents of the basket revised annually</li> <li>• Weighted average</li> <li>• Weights are attached to reflect relative importance / further explanation of calculation (1+1)</li> <li>• Use of an index</li> <li>• Base year</li> <li>• Data is published monthly</li> <li>• Exclusion of most housing costs</li> </ul>	(6)

Question Number	Indicative content	Mark
14(b)	<p>KAA 8</p> <p>Up to 4 marks each:</p> <ul style="list-style-type: none"> <li>• Rising import prices (2) such as oil/commodity prices (2)</li> <li>• Rising import prices (2) such as food (2)</li> <li>• Rising raw material/energy prices (2) increase production costs for firms (2)</li> <li>• Weakening pound (2) making imports more expensive (2)</li> <li>• VAT rises (2) increasing the price of products sold (2)</li> <li>• Monetary tools tend to be more focussed on AD (2) so unable to combat cost-push inflation effectively (2)</li> <li>• Low interest rate (2) stimulating consumption/investment and AD growth (2)</li> <li>• Quantitative easing (2) / stimulating consumption/investment and AD growth (2)</li> <li>• Increase in nominal wages (2) leading to higher production costs for firms (2)</li> </ul> <p>Reward use of AS/AD diagrams (maximum of 2 marks each if develop analysis)</p>	(8)

Question Number	Indicative content	Mark
14(c)	<p data-bbox="304 165 384 197">KAA 8</p> <p data-bbox="304 232 1286 300"><b>2 x 4 marks for each consequence - 2 marks for identifying consequence and 2 marks for linking to falling inflation</b></p> <ul data-bbox="352 304 1326 786" style="list-style-type: none"> <li data-bbox="352 304 1326 405">• If nominal wages rise faster/gap between wage increase and inflation less large (2) then real incomes rise / real incomes not falling as fast (2) which may raise consumption (2)</li> <li data-bbox="352 409 1110 441">• Greater UK competitiveness (2) and rising exports (2)</li> <li data-bbox="352 445 1294 512">• Danger of falling into deflation if inflation rate goes below zero (2) and hence consumption delayed (2)</li> <li data-bbox="352 517 1326 584">• Further monetary policy stimulus (2) such as interest rate cuts OR QE (2)</li> <li data-bbox="352 589 1318 656">• Improved confidence that the UK can manage the economy at a low inflation level (2) leading to increased investment / consumption (2)</li> <li data-bbox="352 660 1310 728">• Effect on unemployment (2) supported by Phillip's curve analysis (2) OR increased (derived) demand for labour if consumption rises (2)</li> <li data-bbox="352 732 1206 799">• Effect on income distribution (2) as real value of savings and borrowings eroded at a slower rate (2)</li> </ul>	(8)

Question Number	Answer	Mark
<b>15(a)</b>	<p>The general price level rose less quickly / at a decreasing rate (2)</p> <p>Use of data (2) e.g. 'inflation rate fell (1) from approx. 5% in late 2008 to approx. 2% in mid-2009 (1)'</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>15(b)</b>	<p>Award <b>two</b> consequences only</p> <p>Two consequences identified (2 marks each) and explained (2 marks each)</p> <p>Consequences may include:</p> <ul style="list-style-type: none"> <li>• Greater economic confidence among consumers (2) and thus more spending (2)</li> <li>• Unexpectedly higher real wages or unexpectedly less erosion of fixed incomes (2) and thus more spending (2)</li> <li>• Greater economic confidence among firms (2) and thus more investment (2)</li> <li>• Lower nominal interest rates (2) which will encourage borrowing (2)</li> <li>• Conversely, higher real interest rates (2) may encourage saving (2)</li> <li>• Phillips curve (2) would suggest that unemployment would rise (2)</li> <li>• Downward pressure on firms' costs, e.g. lower wage demands, lower input costs (2) increasing price competitiveness (2)</li> <li>• Exports may increase and imports may decrease (2), improving the trade balance (2)</li> </ul> <p><b>OR</b> leading to an appreciation in the value of the pound (2)</p> <ul style="list-style-type: none"> <li>• Longer-term risk of deflation (2) if inflation falls below zero should the UK head into a recession (2)</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
<b>16(a)</b>	<p>KAA 8 marks</p> <p>Reward identification of up to 2 Factors in Extract 2 with 2 marks each (2 x 2 mark)</p> <ul style="list-style-type: none"> <li>• VAT 15% to 17.5% in January 2010 and/or 17.5% to 20% in January 2011</li> <li>• Rises in oil prices</li> <li>• Effects of higher import prices resulting from the big 25% fall in sterling from mid-2007.</li> <li>• World food prices have been rising sharply, by 8% in just the past month and 31.5% in the past year</li> <li>• Inflationary expectations are higher</li> </ul> <p>Explanation of transmission mechanism for each factor - up to 2 marks for each factor's explanation (2 x 2 marks) e.g.:</p> <ul style="list-style-type: none"> <li>• How increase in VAT affects CPI inflation (2)</li> <li>• Oil as a cost of production relevant to most goods and services (2)</li> <li>• cost push inflation shifting AS curve to left (2) increasing price level (2)</li> <li>• diagram without explanation (AS curve and increased price level, but must be correctly labelled) (2)</li> </ul> <p>Also reward comment such as VAT 17.5% to 20% the increase is expected to be passed through to prices fully whereas only about half of the earlier cut and ensuing rise went through to prices (2)</p>	(8)

Question Number	Answer	Mark
<b>16(b)</b>	<p>KAA 8 marks</p> <p>2 reasons (2 x 4 marks)</p> <ul style="list-style-type: none"> <li>• Inflation is above the MPC's target and tolerance</li> <li>• Important to stop inflationary expectations taking hold and further fuelling inflation</li> <li>• Lowering relative inflation should increase international competitiveness</li> <li>• Stronger pound would reduce impact of cost push inflation</li> </ul> <p>2 marks could be awarded for a diagram which develops the analysis</p> <p>Evaluation 4 marks (2 x 2 marks or 1 x 4 marks)</p> <ul style="list-style-type: none"> <li>• Greater concern about potential deflationary spiral if consumption collapses</li> <li>• Most factors are temporary</li> <li>• Unions not powerful enough to create wage price spiral</li> <li>• Raising interest would strengthen sterling and reduce exports' competitiveness and further weaken AD</li> <li>• Significance of gradient of curves</li> </ul> <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(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
<b>16(c)</b>	<p>KAA 18 marks</p> <p>Identification of 3 macroeconomic objectives 6 marks (3 x 2 marks)</p> <ul style="list-style-type: none"> <li>• Economic Growth</li> <li>• Reduction in unemployment</li> <li>• Making the distribution of income more equal</li> <li>• Accept reduction of the national debt or balancing the budget</li> <li>• Restoration of equilibrium in the balance of payments</li> <li>• Protection of the environment</li> <li>• Control of inflation</li> </ul> <p>Explanation of how the macroeconomic objective might be affected 12 marks (3 x 4 marks);</p> <ul style="list-style-type: none"> <li>• May reduce growth owing to costs of inflation</li> <li>• Unemployment may rise through increased inefficiency and stagflation</li> <li>• Reduction in purchasing power and real incomes</li> <li>• A higher rate of inflation associated with increasing AD may have a detrimental impact on the environment</li> <li>• Effect on those who have fixed incomes (not protected by inflation) who are often the poorest</li> <li>• May make the national debt smaller in real terms</li> <li>• Reduction in competitiveness of British goods worsens balance of payments deficit</li> <li>• Possible beneficial effect on the environment as growth slows</li> <li>• Self reinforcing effect on inflation through expectations- higher inflation as consumers get used to higher levels of inflation they will demand higher wages to protect buying power of their incomes</li> <li>• Loss of business and consumer confidence</li> </ul> <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks); Comments might include reference to</p> <ul style="list-style-type: none"> <li>• Inflation currently not that high so impact on objectives not very large</li> <li>• Growth already low so slightly higher inflation is worth the risk to avoid deflation or depression</li> <li>• Possible beneficial effect on the environment as growth slows</li> <li>• Inflation may not translate through to higher wages and unemployment as workforce have little union power</li> <li>• Impact deepens on relative inflation rates</li> <li>• National debt being made smaller may be limited by the depreciation of the exchange rate brought on by sustained inflation</li> <li>• Other factors may have a larger effect the exchange rates or other macro objectives (<i>ceteris paribus</i>)</li> <li>• Explanation of it being more costly to bring inflation down -interest rates may have to be higher for longer (or QE reversed more rapidly) in order to convince the workforce that the government's policy to reduce inflation is credible</li> </ul>	

	<p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economic vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	<b>(30)</b>
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Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing effects with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing effects with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing effects with no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-6	Identification of relevant effects with or without brief evaluative keywords

Question Number	Answer	Mark
17	<p>Definition of inflation (2 marks): an increase in the cost of living or average/general price level, or a fall in the purchasing power of £1</p> <p>Definition of deflation (2 marks): a decrease in the cost of living or average price level, or a rise in the purchasing power of £1.</p> <p>Outlining the difference between CPI and RPI methods of measuring inflation, such as the RPI including mortgage payments (2 marks)</p> <p>Explain trend with reference to data (2 marks)</p> <ul style="list-style-type: none"> <li>• Inflation peaked Q3 2008 (2 marks)</li> <li>• CPI prices rose faster before Q3 2008 and then rose at a slower rate thereafter (2 marks)</li> <li>• RPI prices rose slowly up to Q3 2008 an then rose less quickly after that, eventually falling reference to deflation (2 marks).</li> </ul> <p>Accept comments on the differences between the CPI and RPI rates in Figure 1 in terms of</p> <ul style="list-style-type: none"> <li>• the overall level (2 marks)</li> <li>• volatility (2 marks)</li> </ul> <p>Maximum 4 marks with no reference to the data</p>	(6)

Question Number	Answer	Mark
18(a)	<p>1 marks for explaining weights: weights are attached to reflect relative importance (1 mark)</p> <p>Other elements, up to 3 marks</p> <p>Exclusion of housing costs (1 mark)  Price survey (1 mark)  Index use (1 mark)  Base year (1 mark)  Reference to data 3.2% (1 mark)  From the expenditure and food survey (1 mark)  Basket of goods (1 mark).</p>	(4)

Question Number	Answer	Mark
18(b)	<p>Award two reasons (2 x 4 marks)</p> <ul style="list-style-type: none"> <li>• Inflation damages those on fixed incomes</li> <li>• Other widening of income gaps</li> <li>• Maintain international competitiveness</li> <li>• Helps price signalling</li> <li>• Increased confidence in government control of economy</li> <li>• Avoids the dangers of hyperinflation</li> <li>• Avoiding deflation</li> <li>• To maintain value of savings</li> <li>• To encourage investment</li> <li>• Avoid wage/price spiral</li> <li>• Avoid shoe leather costs and/or menu costs</li> </ul> <p>1 mark identifying each reason, 1 mark defining each reason, up to 2 marks explaining each reason.</p>	(8)

Question Number	Answer	Mark
19	Up to four marks available. Award reference to: Basket of goods (1 mark) price survey (1 mark) food and expenditure survey (or equivalent) (1 mark) index (process of how an index is compiled) (1 mark) base year. (1 mark)  650 items (allow in range 600 to 700). (1 mark) Further development. (1 mark)	(4)

Question Number	Answer	Mark
20(a)	A permitted range for the increase in the price levels, measured by changes in the CPI (2 marks);  of 2% (1 mark)(+ or - 1%) (1 mark) OR as a government-determined goal set for the MPC. (2 marks)  Reference to data (2.1%) (1 mark)	(4)

Question Number	Answer	Mark
20(b)	For each point (allow two points only for up to 5 marks each):  Identification of evidence (1 mark); with explanation of point (2 marks); and link to price level. (2 marks)  Evidence might include: <ul style="list-style-type: none"> <li>• prospects for output growth have worsened</li> <li>• disruption to global financial markets</li> <li>• tight credit</li> <li>• consumer spending growth has eased</li> <li>• output growth has moderated.</li> </ul>	(10)

**END OF SECTION B**