



Economics Questions By Topic:

Role of the State in the Macroeconomy (4.5) Mark Scheme

A-Level Edexcel Theme 4

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SECTION A

Question Number	Answer	Mark
1	<p style="text-align: center;">Knowledge 1, Analysis 1</p> <p>Knowledge/understanding (1):</p> <ul style="list-style-type: none"> • Identify increase in national debt • Definition of national debt <p>Analysis: 1 mark for linked development: e.g.</p> <ul style="list-style-type: none"> • Fiscal deficit means spending is greater than taxation • The government will need to borrow more money to fund this spending <p>NB Analysis must be linked to national debt</p>	(2)

Question Number	Answer	Mark
2	<p style="text-align: center;">Knowledge 1, Analysis 1</p> <p>Knowledge/understanding (1): Identification of one reason, e.g.</p> <ul style="list-style-type: none"> • Increase in firms choosing to base themselves in the UK • Increased investment by UK firms leading to increased profits • Reduced tax evasion/avoidance <p>Analysis: 1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> • With more firms locating in the UK there will be more firms paying UK corporation tax • A labelled Laffer curve 	(2)

END OF SECTION A

SECTION B

Question Number	Indicative content	Mark
3	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3</p> <p>Policies the Rwandan government could use include:</p> <ul style="list-style-type: none"> • Subsidising textile manufacturers to purchase new machinery to increase efficiency • Improve infrastructure, e.g. roads & ports, to make it easier/cheaper for Rwandan firms to export their clothing • Increased education spending to improve efficiency of workforce • Investment in cheaper renewable electricity for factories to reduce their costs • Deregulation to increase efficiency • Reduce corporation tax to encourage firms to invest more • Incentives to encourage FDI into Rwandan manufacturing industry <p>NB: Do not award discussion of import tariffs</p>	(9)

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
3 continued	Evaluation 6	
	<ul style="list-style-type: none"> • Opportunity cost of government spending- money could have bigger impact on Rwandan economy if invested in other industries or used to improve public services • Rwanda should focus on industries where it has a comparative advantage, not textiles • Time lag for policies to have any significant impact • Risk of corruption, e.g. funding for construction projects may not be spent where it was intended • Highly educated workforce may emigrate to more developed countries that offer higher wages 	(6)

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
4	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2,</p> <p>Possible policies might include e.g.:</p> <ul style="list-style-type: none"> • Supply-side policies to improve productivity such as improved education or healthcare will make workforce more efficient and thus reduce per unit costs to better compete with cheaper imports (allow more than one supply-side policy) • Deregulation policies (e.g. labour laws) to reduce production costs for firms and therefore they will be able to compete on price with other African countries better • Investment in infrastructure to reduce transport costs for exporters • Subsidies provided by the government to help firms adjust to new competition, e.g. could be used to purchase new, more efficient machinery • Demand-side policies such as reduction in taxes on businesses to reduce their costs and increase competitiveness on price 	(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. Use of generic or irrelevant information or examples. 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. 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
4 continued	Evaluation 4	
	<ul style="list-style-type: none"> • Education investment will take a long time until those students enter the workforce • Opportunity cost for the government of investment • Potential side effects of wage-related policies 	(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 relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content		Mark
5	<p align="center">Knowledge 3, Application 3, Analysis 3</p> <p>Arguments that providing support to banks is the best policy:</p> <ul style="list-style-type: none"> • Economy is dependent on financial system working smoothly • People could have lost their savings if banks had been allowed to fail, leading to massive drop in confidence • Potential for risk of depression had government not intervened • Government has recouped much of the money invested into bailing out the banks anyway- Government 'recovered every penny of its investment in Lloyds' <p>NB Discussion of other policies, e.g. central bank regulation, can also be awarded as KAA</p> <p>NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation</p>		(9)
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
5 continued	<p style="text-align: center;">Evaluation 6</p> <p>Arguments that providing support to banks is not the best policy:</p> <ul style="list-style-type: none"> • Huge expenditure for government that, for example in the case of the UK, already has a significant national debt- £65bn bailout of RBS and LBG. Will have to be repaid by future generations of taxpayers. • Moral hazard: will encourage reckless behaviour from the banks in the future, expecting a bailout again • Government looking unlikely to recoup losses from RBS for some time (in contrast to Lloyds) • Other policies, e.g. expansionary fiscal policy, may have been more effective <p>NB Candidates may argue that providing support to banks is not the best policy as KAA and the opposite as evaluation</p>		(6)
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
6	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <p>Possible policies might include e.g.:</p> <ul style="list-style-type: none"> • Fiscal policy: increase people’s disposable incomes, increase employment and so reduce downsides of low wages and unemployment due to foreign competition. A more redistributive tax/welfare system to reduce inequality/poverty caused by globalisation. • Expansionary monetary policy: cut in interest rates, rise in availability of credit, allows businesses to borrow for investment to help combat increased foreign competition. • Supply side policies, e.g. improved education, healthcare, infrastructure, etc.: Improvements in these will boost productivity and this boost GDP as well as meaning firms would be more likely to be able to pay higher wages. Higher productivity would enable firms to better compete with foreign competition in the form of lower prices. <p>Candidates may discuss in the context of developed or developing countries</p> <p>NB To access Level 3 there must be reference to two valid macroeconomic policies, apart from protectionism</p>	(8)

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. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	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	6–8	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
6 continued	Evaluation 4	
	<ul style="list-style-type: none"> • Impact of expansionary fiscal policy on budget deficit • If business confidence is low, expansionary monetary policy may not lead to increased borrowing for investment • Supply side policies may not be effective in the short run or have public sector cost implications • Effectiveness of policies, e.g. lack of consumer confidence 	(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 relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
7(a)	<p>Knowledge 2, Application 2, Analysis 4,</p> <p>ECB QE programme is effective:</p> <ul style="list-style-type: none"> • Explanation of process of QE • should encourage banks to increase lending and thus hopefully increase consumption/investment • Inflation/GDP may well have been much lower without QE • Confidence of markets would have been much lower without QE • QE programme to be extended for a further 6 months • Lower interest rates encourages consumption/investment, thus increasing AD and therefore inflation • Low government bond yields for Eurozone countries • Depreciation of the Euro affecting X-M <p>NB One side of this argument should count as KAA and the opposing argument as Evaluation</p>	(8)

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. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3-5	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	6-8	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
7(a) continued	<p style="text-align: center;">Evaluation 4</p> <p>ECB QE programme isn't effective:</p> <ul style="list-style-type: none"> • Inflation likely to remain below target into at least 2017 • Low inflation is largely down to factors outside the central bank's control (e.g. oil prices) • Lack of confidence among firms and consumers meaning they are not responding as the ECB would like to the QE programme • Banks are still reluctant to lend money to firms and consumers • Time lags • Extension of QE programme suggests that it hasn't worked • Other policies may be more effective <p>NB One side of this argument should count as KAA and the opposing argument as Evaluation</p>	(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 relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
7(b)	<p align="center">Knowledge 3, Application 3, Analysis 3</p> <p>Potential policies may include:</p> <ul style="list-style-type: none"> • Fiscal policies, e.g. reduced corporation tax to increase investment and therefore increase AD • Supply-side policies, e.g. increased investment in education to create a more highly-skilled and therefore more productive workforce <p>N.B. Candidates may discuss more than one of each type of policy</p> <p>N.B. Candidates must discuss both fiscal and supply-side policies for level 3</p>	(9)

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
7(b) continued	Evaluation 6	
	Evaluation of the policies, e.g. <ul style="list-style-type: none"> • Governments in many Eurozone countries are having to focus on reducing national debt and can't afford policies such as tax cuts • Supply-side policies take a long time to have an impact on the economy 	(6)

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	Answer	Mark
8	<p>For knowledge, application and analysis: 9 marks for up to 3 points (up to 5 marks for any one point) Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)</p> <p>Reduction in interest rates could cause:</p> <ul style="list-style-type: none"> • Depreciation in the yuan – leading to an increase in competitiveness of Chinese goods and services <i>But: could would be ineffective if other currencies of other countries depreciate; also could lead to capital flight</i> • Increase in consumption and investment leading to an increase in economic growth <i>But: consumer debt is already very high; also surplus factory capacity in China and slowdown in global economy may deter investment</i> • Possibility of an increased rate of inflation caused by higher import costs and/or increased consumption and investment <i>But: this may be offset by falling global energy and commodity prices</i> <p>Increase in public expenditure could cause:</p> <ul style="list-style-type: none"> • Increase in economic growth via the multiplier effect <i>But: this could be offset by a decrease in other components of aggregate demand</i> • Deterioration in budget surplus <i>But: if there is an increase in economic growth then tax Revenues may increase</i> • Improvement in China’s infrastructure and increase in aggregate supply <i>But much will depend on how the extra public expenditure is spent</i> <p><i>Must use specific data references relating to the Chinese economy. Otherwise, maximum 7/9 marks for KAA.</i></p>	(15)

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 points; 2 for application
Level 2	5-9	2 marks for identification of 2 points; 2 for application, 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 points; 2 for application 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question Number	Answer	Mark
9(a)	<p>Knowledge and analysis: (6 marks)</p> <p>Possible measures include: (For each point: 1 for identification, 1 for data reference and up to 2 for explanation)</p> <ul style="list-style-type: none"> • Subsidies to domestic farmers to increase production of locally grown foodstuffs. This would reduce demand for imports and so lead to an improvement in the current account • Incentives e.g. tax breaks to process cocoa beans into raw materials for cocoa production. This would increase the value of Ghana's exports and so reduce the current account deficit • Measures to reduce inflationary pressures e.g. by reducing the fiscal deficit which would also release resources for the private sector so helping to increase exports. • Allow tariffs extract refers to 'new taxes to increase revenue' • Removal of taxes on exports <p>Measures must be related to the impact on the current account (explicitly or implicitly) for second analysis mark.</p> <p>Application 2 marks:</p> <p>Specific data references include: Current account deficit in 2014: 12.3% (1) 'investment grants' (1); 'the removal of export taxes' (1) 'subsidies to process more beans within the country'(1)</p>	(8)
Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two points
Level 2	3-4	2 marks for identification; 2 for application
Level 3	5-8	2 marks for identification; 2 for application, and 4 for analysis of the 2 points identified.

Question Number	Answer	Mark
9(b)	<p>For knowledge, application and analysis: 9 marks for up to 3 points (up to 5 marks for any one point) Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)</p> <p>Measures include:</p> <ul style="list-style-type: none"> • Increase in taxes – direct and/or indirect (could count as 2 points for 2 different taxes) <i>But: these measures could reduce AD and cause a slower rate of economic growth and lower tax revenues; Laffer curve analysis</i> • Cuts in public expenditure on capital projects <i>But: if capital expenditure is cut, then this could reduce future growth and tax revenues. Also would cause a fall in AD and a reduction in GDP via the multiplier effect</i> • Cuts in public sector wages ('a 75% increase in public sector salaries over two years') <i>But: could cause industrial unrest</i> • Measures to raise revenues and improve the supply-side of the economy e.g. privatisation <i>But: such measures have a one-off effect only</i> • Measures to increase economic growth e.g. by promoting foreign direct investment; other supply side policies such as improvements in education <i>But: might increase public expenditure and worsen the fiscal deficit at least in the short run</i> <p>Measures must be related to the impact on the fiscal deficit (explicitly or implicitly) for more than 2 KAA marks per point.</p> <p><i>N.B. Specific data references relating to Ghana must be included. Otherwise, maximum 7/9 marks.</i></p>	(15)
Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 benefits; 2 for application
Level 2	5-9	2 marks for identification of 2 benefits; 2 for application; 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 benefits; 2 for application; 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question Number	Answer	Mark
10	<p>For knowledge, application and analysis: 9 marks for up to 3 points (up to 5 marks for any one point) Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)</p> <p>Case for it being a cause for concern:</p> <ul style="list-style-type: none"> • In Italy, debt to GDP ratio may become 'unsustainable' i.e. it may become increasingly difficult for Italy to borrow money <i>But: possibility that, as a member of the eurozone, Italy would be bailed out by other members e.g. Germany</i> • Further downgrading of Italy's credit rating: the cost of borrowing might increase • Crowding out – higher interest rates may crowd out private sector investment • In Italy, it is partly the result of a fall in nominal GDP reflecting lower living standards and rising poverty • Fall in investment if e.g. the high public sector debt leads to a downgrading of the country's credit rating and loss of confidence • In Italy, debt ratio is increasing and deflation would result in increase in real burden of debt <i>But: ECB taking measures to increase the money supply (a form of quantitative easing) which might cause the rate of inflation to increase</i> • No mechanisms by which Italy can manage its debt burden e.g. no central bank <i>But: Italy could undertake significant structural reforms which would help to increase its competitiveness; ECB may take action to increase rate of inflation to reduce the real debt burden</i> • May be in breach of EU fiscal rules <p>Reasons why a high debt to GDP ratio may not be a cause for concern:</p> <ul style="list-style-type: none"> • In Japan, debt to GDP ratio is not a problem because much of it is financed internally and it is not 	

	<p>increasing as rapidly as in Italy. Also, the Government has adopted QE to increase AD and the rate of inflation <i>But in the longer term, it may become more of an issue as the debt burden increases</i></p> <ul style="list-style-type: none"> • Countries have had higher debt to GDP ratios in the past without experiencing serious problems <i>But the interest burden reduces revenue available for expenditure on other goods and services provided by the state</i> • If the higher debt is being used to finance public sector investment in the supply-side of the economy, then future economic growth would reduce the debt burden <i>But higher public sector employment and wages may increase the debt to GDP ratio to increase in the short run</i> • If GDP is rising at a faster rate than public sector debt then the ratio of debt to GDP will fall <p><i>N.B. Specific data references relating to the context must be included e.g. to Italy, Japan and Ireland. Otherwise, maximum 7/9 marks.</i></p> <p><i>Candidates may take the view that it is/is not a cause for concern with the reverse view used for evaluation.</i></p>	(15)
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Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 points; 2 for application
Level 2	5-9	2 marks for identification of 2 points; 2 for application, 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 points; 2 for application 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question No.	Answer	Marks
11	<p>For knowledge, application and analysis: 3 x 3 marks or 4 + 5 marks)</p> <p>A range of policies may be considered including:</p> <ul style="list-style-type: none"> • Education: improving access to education for all; government efforts directed especially to those who need it most <p><i>But: much depends on the quality of education; also considerable time lag</i></p> <ul style="list-style-type: none"> • Removal of subsidies- money saved might be used for job creation programmes • promotion of free trade <p><i>But could cause some domestic industries to close down if they are unable to compete</i></p> <ul style="list-style-type: none"> • Measures to eliminate monopolies <p><i>But could result in loss of economies of scale</i></p> <ul style="list-style-type: none"> • Measures to increase the geographical mobility of labour e.g. housing subsidies; increased provision of affordable houses <p><i>But cost of these scheme to the government; implications for taxes</i></p> <p>N.B. Credit discussion of policies not in the extract e.g.</p> <ul style="list-style-type: none"> • increase in means-tested benefits; • more progressive tax system on incomes • wealth taxes • Increased public expenditure • National Minimum Wage <p><i>Also for evaluation:</i></p> <ul style="list-style-type: none"> • <i>Differences in impact of policies on income and wealth inequality</i> <p><i>Marks for evaluation (points in italics above): (3 + 3; or 4 + 2; or 2 + 2 + 2)</i></p> <p>(Synoptic element: immobility of labour from Unit 1; education as a supply side policy from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(15)

Level	Mark	Descriptor
Level 1	1-4	Identification of one or two arguments with superficial analysis
Level 2	5-9	Identification and analysis of at least two arguments
Level 3	10-15	At least two arguments analysed well with at least one convincing evaluative comment

Question No.		Answer	Marks
12(a)		Budget deficit: government expenditure greater than tax revenues with data reference National Debt: cumulative total of past government borrowing with data reference 3 marks for knowledge (2 + 1 or 1 + 2) for definitions) 2 for application: 2 data references (one for budget deficit and one for national debt from Figures 1 and 2)	(5)
Level	Mark	Descriptor	
Level 1	1-3	Up to 3 marks for knowledge – see above	
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for 2 data references	

Question no.	Answer	Marks
12(b)	Analysis of any 2 issues arising from weak growth and high unemployment: 2x 2 marks. For example: <ul style="list-style-type: none"> • Rising/high unemployment and the implications of this for public expenditure on benefits • Slow rise in tax revenues from income tax and expenditure taxes • More bankruptcies/ lower profits leading to a fall in corporate tax revenues • Implications for servicing debt • Issues relating to credit rating This implies an increase in the budget deficit and, in turn, an increase in the National Debt (2) Application: Reference to Extract 1 e.g. one data reference to national debt to GDP ratio of Greece, Ireland or Spain (2) or to growth rates (2). Do not credit references to unemployment rates.	(8)

Level	Mark	Descriptor
Level 1	1-2	2 marks for identifying 2 problems
Level 2	3-4	2 marks for identifying 2 problems; 2 for application as indicated above
Level 3	5-8	2 marks for identifying 2 problems; 2 for application as indicated above and 4 for analysis

Question No.	Answer	Marks
12(c)	<p><i>N.B. Candidates may take either side of the argument for analysis and then evaluate by discussing the opposing view.</i></p> <p>For knowledge, application and analysis: 3 x 3 marks or 4 + 5 marks):</p> <p>Arguments for reducing budget deficits quickly:</p> <ul style="list-style-type: none"> • To prevent loss of confidence of purchasers of government bonds (which could result in higher bond yields) and so avoid the need for a bailout • High budget deficits lead to increasing national debts. In turn, the debt servicing payments rise so that the government has less money to spend on public services • Could cause crowding out • Possible inflationary consequences of persistent and high deficits • High debt increases the risk premium on government bonds increasing financing costs <p>Arguments against reducing budget deficits quickly:</p> <ul style="list-style-type: none"> • Danger that austerity measures will cause another recession and then higher budget deficits • Higher taxes might cause disincentive effects so that tax revenues do not rise • Austerity measures may result in rapidly increasing unemployment and the emigration of workers e.g. Ireland: 50 000 people leaving each week • Increased inequality if means-tested benefits are cut • Reduction in quality of public services leading to a fall in productivity <p><i>Marks for evaluation 3 + 3; or 4 + 2; or 2 + 2 + 2)</i></p> <p>(Synoptic element: fiscal policy, inflation and unemployment from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(15)

Level	Mark	Descriptor
Level 1	1-4	Identification of one or two arguments with superficial analysis
Level 2	5-9	Identification and analysis of at least two arguments
Level 3	10-15	At least two arguments analysed well with at least one convincing evaluative comment

Question Number	Answer	Mark
13(a)	<ul style="list-style-type: none"> • Recession • leading to increased public spending on benefits and fall in tax revenues • Part nationalisation of banks • Effect of fiscal stimulus measures <p>Reference to data - deficit rose from just over 2.5% (allow some latitude here) to 12.4%. If one data ref then only 1 mark</p>	(5)
Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for 2 factors
Level 2	4-5	Up to 3 marks for 2 factors and 2 marks for application (data reference to increase in fiscal deficit)

Question Number	Answer	Mark
13(b)	<p>Problems could include discussion of impact on:</p> <ul style="list-style-type: none"> • Cost of servicing the National debt • Need to make public expenditure cuts in the future and/or tax increases e.g. VAT • Possible difficulty in selling gilt-edged securities • Danger of inflationary consequences later • Crowding out • Loss of AAA credit rating 	(8)
Level	Mark	Descriptor
Level 1	1	1 mark for brief identification of one issue
Level 2	2-5	3 marks for identification of 2 issues; 2 for application (2 data references to fiscal deficit or National Debt or examples)
Level 3	6-8	3 marks for identification of 2 issues; 2 for application (2 data references to fiscal deficit or National Debt or examples) and 3 for analysis of one or two issues

Question Number	Answer	Mark
13(c)	<p>Reasons include:</p> <ul style="list-style-type: none"> • Financial services form a significant part of UK economy - implications for GDP, employment, tax revenues and balance of payments • Unwillingness of banks to lend • British household debt was very high. Consumers likely to try to repay debt and reduce expenditure • The British house price bubble was bigger than in other countries. Therefore, danger that Britain would face a large fall in house prices - negative wealth effect • UK had been running a fiscal deficit since 2001/02 • Dependence of trade with EU & US <p><i>Evaluative points could include:</i></p> <ul style="list-style-type: none"> • <i>Decline in financial services might enable a rebalancing of economy</i> • <i>Short run and long run effects - it will take a long time for consumers to repay debts</i> • <i>House price falls likely to cause negative equity, reduction in labour mobility;</i> • <i>Prioritisation of factors</i> <p>(Synoptic element: concept of wealth effect and economic growth from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(10)
Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (text references or examples or UK references)
Level 2	4-6	1 mark for identification of 1 reason; 2 for application(text references or examples or UK references) ; 3 for analysis of 2 issues
Level 3	7-10	1 mark for identification of 1 reason; 2 for application (text references or examples or UK references); 3 for analysis of 2 issues; 4 marks for any two evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
13(d)	<ul style="list-style-type: none"> • Understanding of monetary policy • Theoretical impact of cut in interest rates - transmission mechanism • Impossibility of further reductions in interest rates • Or impact of quantitative easing <p><i>Evaluative points include:</i></p> <ul style="list-style-type: none"> • <i>Interest rate cuts unlikely to be successful in stimulating the economy because of sharp decline in business and consumer confidence</i> • <i>Also: unwillingness of banks to lend to each or to consumers and businesses</i> • <i>Quantitative easing: an untried policy in the UK; difficult to assess long term effects; danger of inflation</i> • <i>Disparity between Bank of England base rate and commercial interest rates</i> <p>(Synoptic element: Monetary policy (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question) Quality of written communication (QWC) is assessed on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economics vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)
Level	Mark	Descriptor
Level 1	1-3	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble)
Level 2	4-7	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble); 4 for analysis e.g. transmission mechanism following cut in interest rates or impact of quantitative easing
Level 3	8-12	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble); 4 for analysis e.g. transmission mechanism following cut in interest rates or impact of quantitative easing; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

END OF SECTION B

SECTION C

Question Number	Indicative content	Mark
14	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Arguments that QE has been effective:</p> <ul style="list-style-type: none"> • QE provided financial institutions with additional funding to allow them to increase lending to businesses, thus increasing investment in the economy and therefore economic growth • QE provided financial institutions with additional funding to allow them to increase lending to consumers, thus increasing consumption in the economy and therefore economic growth • Without QE the Eurozone economy may have gone into deflation, thus significantly prolonging the recession due to further reduced consumer demand in anticipation of further falls in price • QE was necessary as an additional monetary policy tool for the central bank after they had already cut interest rates as low as possible and the economy had not responded • Commercial interest rates did not drop as much as the ECB base rate due to confidence concerns from banks, so this acted as another way to reduce interest rates <p>Arguments that QE has not been effective:</p> <ul style="list-style-type: none"> • Many financial institutions used QE funding to improve their own financial stability, increase their liquid assets- rather than increasing lending to businesses/consumers • Lack of consumer/business confidence meant there was a lack of demand for loans • Consumers and firms were increasing savings rather than borrowing due to concerns about stability of the Eurozone economy • Effect was limited by contractionary fiscal policy in many Eurozone countries • Significant spare capacity in European economies during recession which QE is unable to make up for • If recession proves short-lived too much QE could be inflationary • Different European countries experiencing different economic situation so a 'one size fits all' QE approach may be too much for some countries & not enough for others <p>Candidates can use either side of this argument as KAA and the other side as evaluation</p>	(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. Use of generic or irrelevant information or examples. 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. 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	9–12	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	13–16	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.

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. 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. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
15	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Arguments that cutting taxes will positively impact the economy:</p> <ul style="list-style-type: none"> • Firms will have more profit to reinvest into their companies, therefore increasing investment, aggregate demand, and therefore output • Consumers have higher disposable income so consumption will increase • Greater injections into the circular flow of income • Less withdrawals form the circular flow of income • Relevant AD/AS diagram illustrating an increase in AD • Increase in size of multiplier • Less incentive for tax evasion/avoidance <p>Arguments that cutting taxes will negatively impact the economy:</p> <ul style="list-style-type: none"> • Firms may not reinvest money, many other factors affect investment decisions- e.g. confidence • Consumers may save any extra disposable income, thus withdrawing it from the circular flow of income • Likely to result in higher government debt leading to increased crowding out • Government will have less money to spend on infrastructure/education etc. that may negatively affect economic growth <p>One side of the argument should count as KAA and the other as EV.</p>	(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. Use of generic or irrelevant information or examples. 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. 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	9-12	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	13-16	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.

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. 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. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
<p>16</p>	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Impacts might include:</p> <ul style="list-style-type: none"> • Impact on AD and economic growth of fiscal stimulus, with multiplier effects (net injection to circular flow) • Higher purchases of government bonds/debt leading to crowding out, so less funds for investment by firms • Higher contractionary fiscal policy in the future as governments start to pay off these fiscal deficits • Higher interest costs of servicing debt means less money for public services and so lower standard of living • Impact on a country's financial account on the balance of payments of large inflows of finance into government bonds • Impact on a country's exchange rate <p>Possible evaluation points might include:</p> <ul style="list-style-type: none"> • Government debt isn't necessarily a problem as long as there are plenty of people/firms willing to buy it • Higher debts may mean governments are investing more into improving public services, which if it improves investment in the economy will help boost GDP & pay for itself over time • Short-term fiscal deficits can be balanced out by surpluses in the future <p>NB For a level 4 answer candidates must use examples of a country</p> <p>NB For a level 4 answer candidates must refer to both fiscal deficit and national debt</p>	<p style="text-align: center;">(25)</p>

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. Use of generic or irrelevant information or examples. 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. 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	9–12	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	13–16	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.
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. 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. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
17	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Likely effects might include:</p> <ul style="list-style-type: none"> • Government spending is part of aggregate demand and increased spending will increase aggregate demand • Increase in injections into the circular flow of income and subsequent multiplier effects • Improvement in UK productivity- developing new, more efficient ways of working can boost growth/raise living standards • Improved innovation means UK may have more new goods and services that can be exported to other countries, improving current account and aggregate demand • Improved infrastructure will boost productivity- e.g. better transport means less time spent in traffic jams, fewer delayed trains, etc • Diagrammatic analysis may be used (e.g. AD/AS) <p>Evaluation might include e.g.:</p> <ul style="list-style-type: none"> • This is not really a very large amount of money, especially over five years and for the whole of the UK economy • Many significant issues with poor quality infrastructure that will need a lot more money to solve- e.g. average speeds falling on roads in London, ageing rail infrastructure causing lots of delays • UK productivity has lagged behind other countries for some time so will need a significant boost just to catch up with the rest of the world • No guarantee that innovation will boost growth • Depends on effectiveness of government at allocating resources 	(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. Use of generic or irrelevant information or examples. 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. 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	9–12	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	13–16	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.

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. 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. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
18	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Understanding of public sector debt.</p> <p>Possible policies may include:</p> <ul style="list-style-type: none"> • running budget surpluses (austerity measures), through either/both: <ul style="list-style-type: none"> ○ reducing government spending ○ increasing taxation • policies to generate economic growth, leading to a reduction in government spending, and an increase in tax revenue: <ul style="list-style-type: none"> ○ fiscal stimulus ○ exchange rate devaluation • policies to cut down on tax avoidance/evasion • policies to increase efficiency/reduce waste in the public sector • privatisation/outsourcing/public-private partnerships to reduce government spending • changing the legal structure of the debt (e.g. the suggested minting of a \$1 trillion coin by the US Treasury) <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> • austerity measures may reduce economic growth, leading to lower tax revenues and higher government spending, worsening the debt in the future • effectiveness of austerity policies depends on the balance between spending cuts/tax rises/which taxes are raised/where government spending is cut • policies to generate economic growth/cut tax avoidance/evasion are likely to be costly and raise debt in the short run. <p>NB For a Level 4 response, candidates must refer to a developed country in their answer.</p>	(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. Use of generic or irrelevant information or examples. 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. 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	9–12	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	13–16	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.

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. 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. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
19(a)	<p>Factors include:</p> <ul style="list-style-type: none"> • Rising national debts imply a fiscal deficit – caused by recessions in many countries <i>But: less of a concern if the fiscal deficits are cyclical rather than structural</i> • Higher national debt potentially could be inflationary if due to discretionary fiscal policy <i>But: unlikely in this time frame because they were primarily caused by recession following the financial crisis</i> • A higher national debt implies increased interest payments – danger of financial crowding out <i>But: interest rates are currently very low so this may not be a serious issue</i> • Higher interest payments represent a cost to future generations: less money available for spending on social services <i>But: inflation might erode the real value of the debt.</i> • Rising national debts might cause a loss of confidence in the currency (euro, in the case of eurozone countries) causing a depreciation in its value • Possibility of the need to seek assistance from the IMF or the troika (EC, ECB & IMF) in the case of eurozone countries with associated conditions • Limits the scope for further fiscal loosening in the future if there was another recession/banking crisis <i>But: can other policy could take up the slack; it can in the UK (or can it with monetary policy?), but not in a euro economy.</i> • Reduction in credit rating, leading to a loss of confidence in the markets. • Has the debt been used to fund investment in infrastructure/health/education, so that benefits of these may be long term? • If growth in the medium term exceeds the amount of borrowing increase each year, then the level of debt as a % of GDP will fall. <p>Application to context: e.g. to an EU country. (Maximum 14/20 without contextual reference) NB Candidates may take the view that it is/is not a cause for concern with the reverse view used for evaluation.</p>	(20)

Question Number	Answer:	Mark
19(b)	<p>Impact of increases in indirect taxes: KAA: 21; EV: 9 Effects include impact on:</p> <ul style="list-style-type: none"> • The circular flow of income: taxes are a leakage <i>But: may be offset by an increase in an injection</i> • Income distribution: may be argued that VAT is regressive, especially in relation to energy, food <i>But: the overall effect of VAT in the may be progressive if focused on very expensive goods</i> • Impact on price level <i>Short run and long run impact on inflation</i> • Living standards: fall in real incomes <i>But: other things may not be equal e.g. wages may be rising faster than prices</i> • Incentives to work: e.g. a higher VAT rate would cause a fall in real incomes. This could increase incentives to work if people wish to maintain their standard of living. Allow analysis relating to a decrease in incentives to work <i>But: changes impact might be very limited</i> • Tax revenues: these would increase if demand for the goods and services affected are price inelastic <i>But: if the tax rise causes a recession, overall tax revenues will fall.</i> • Rise in indirect taxes will lead to a fall in C, which would reduce growth and tax revenues • Fall in the level of externalities/consumption of demerit goods which would improve health and the environment, so government would need to spend less money on them, improving public finances • Increase in smuggling/black market activity/tax avoidance reducing tax revenue and worsening finances <p>Impact of cuts in welfare benefits:</p> <ul style="list-style-type: none"> • Income distribution: if welfare benefits disproportionately benefit the poor, then cuts in these payments will make income distribution less even <i>But: depends on the size of the cuts and who they affect.</i> • Incentives to work: may increase e.g. because cuts in benefits would act as an incentive for the unemployed to seek work <i>But: depends on wages relative to benefits</i> • Impact on real output and price level: people on low incomes are likely to have a high MPC. Therefore, there will be a significant multiplier effect. <i>But: depends on the size of the cuts and on the size of the multiplier</i> • Might discourage immigration <p>NB Answers must include at least one point relating to VAT and one to welfare payments, otherwise max 21/30</p>	(30)

Question No.	Answer	Mark
20 (a)	<p>KAA 14; EV 6.</p> <p>Causes include:</p> <ul style="list-style-type: none"> Cuts in public expenditure: in capital expenditure; in current expenditure and in welfare benefits (could count as up to 2 points) Tax increases: in direct taxes such as income tax and national insurance contributions; and in indirect taxes such as VAT; also, corporation tax increases possible e.g. Greek corporation tax was increased from 20 to 26%; French corporate tax surcharge for large companies (could count as up to 2 points) Some countries experiencing economic growth so causing a rise in tax revenues and fall in government expenditure e.g. on unemployment benefits <p>Evaluation could include:</p> <ul style="list-style-type: none"> Most countries have put the emphasis on public expenditure cuts Consideration of multiplier effects of cuts in public expenditure compared with tax increases Implications of increases in indirect taxes for real incomes and inflation Some austerity measures might only have a short run effect on the budget deficit Important to consider budget deficit as a proportion of GDP rather than its absolute size. <p>N.B. If there is confusion between concepts of national debt and budget deficit, then the answer can achieve no more than 7 marks (top level 1)</p> <p><i>If there is no example of a specific country, award a maximum of 14/20</i></p>	(20)
Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
20 (b)	<p>KAA: 21; Ev: 9</p> <p>Effects include:</p> <ul style="list-style-type: none"> • Impact on incentives to work: could act as disincentive to take higher paid jobs <i>But: workers might work harder to maintain standard of living</i> • Tax revenues/public finances: these might be expected to increase: reference to Laffer curve analysis <i>But: depends at what rate of tax that tax revenues are maximised; reference to Laffer curve analysis; also depends on overall impact on AD & economic growth</i> • Could cause an increase in tax evasion (illegal) and tax avoidance (legal) <i>But: depends on powers of tax authorities to collect taxes</i> • Might cause an increase in number of tax exiles <i>But income tax is not the only factor which influences a person's decision on where to live</i> • Increased income equality: the tax system is more progressive so if the taxes collected are used to redistribute incomes to the poor then inequality will be reduced <i>But: depends on how tax revenues are used and whether other fiscal changes offset the impact of the higher marginal tax rate.</i> • Impact on AD and growth, unemployment and inflation <i>But: if savings are reduced to pay for the higher rate of tax, then the effects will be minimal</i> • Impact on FDI flows <p><i>Further evaluative points:</i></p> <ul style="list-style-type: none"> • <i>Impact depends on where the higher rate threshold is set.</i> • <i>Number of higher rate tax payers</i> • <i>MPC of higher rate tax payers</i> 	(30)
Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Answer	Mark
21	<p>KAA: 21; Ev: 9</p> <p>Analysis might include:</p> <ul style="list-style-type: none"> • Impact on domestic prices and/or domestic production and imports (could count as two points). Concepts might include consumers' and producers' surpluses. N.B. This analysis should be related to the impact on the global economy • Impact on trade patterns: trade diversion away from low cost producers to high cost producers • Impact of resource allocation in global economy/ • Impact of dumping of surpluses • Impact on economies of developed and developing countries e.g. on <ul style="list-style-type: none"> ~ balance of payments; ~economic growth; ~employment; ~inflation; ~equality and ~the environment (Each of the above may be analysed as a separate issue) • Allow analysis/evaluation based on subsidies as a form of protectionism <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> • <i>Impact on EU and US economies depends on PED and PES</i> • <i>Also impact on these economies and on global economy depends and on the amount of subsidy given</i> • <i>Such subsidies might encourage developing countries to diversify into secondary and tertiary industries</i> • <i>Disadvantages associated with subsidies might be offset by benefits e.g. reduced dependence on imports; increased food security; less subject to food price fluctuations</i> <p><i>Must refer to global economy/more than one country, otherwise maximum of 24/30</i></p>	(30)
Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
22	<p>KAA: 21 marks; Evaluation 9 marks.</p> <p>Analysis of monetary policy in a specific developed country:</p> <p>Interest rate transmission mechanism: i.e.</p> <ul style="list-style-type: none"> • impact on consumption; • investment; • net trade via the effect of exchange rate changes <p>Quantitative Easing and transmission mechanism</p> <ul style="list-style-type: none"> • Bank of England purchase of government bonds; causing increase in their price and fall in yields <p>Role of Credit Easing: in UK four banks will offer loans to SMEs at a 1% interest rate discount</p> <p>Bank of England Loan Guarantee Scheme worth £40bn</p> <p>Monetary policy may not have an impact on the budget deficit</p> <p><i>Evaluation points could include:</i></p> <ul style="list-style-type: none"> • <i>Interest rates already low and little scope to reduce them further</i> • <i>Interest rate policy is ineffective if business and consumer confidence is low</i> • <i>Time frame: monetary policy does not usually have an immediate effect on behaviour e.g. people with fixed mortgage rates; traders who have fixed term contracts</i> • <i>Limited evidence that QE has resulted in increased lending to businesses and growth</i> • <i>It is argued that QE has resulted in increased asset and commodity prices</i> 	

	<ul style="list-style-type: none"> • <i>No guarantee that credit easing will result in an increase in the overall level of lending by banks</i> • <i>Conditions attached to Loan Guarantee Scheme are so tight that it is unlikely to have much effect</i> • <i>Primary role of monetary policy to control inflation</i> • <i>Some countries do not have an independent monetary policy e.g. members of eurozone</i> <p>Consideration, analysis and evaluation of at least one alternative policy i.e. fiscal policy or supply side policies. Analysis of fiscal policy: e.g. Cuts in income taxes:</p> <ul style="list-style-type: none"> • Increase in disposable income • Impact on consumption • Impact on aggregate demand, real output and employment <p><i>But:</i></p> <ul style="list-style-type: none"> • <i>Tax cuts may be used to repay debts or to increase savings or may be used to purchase imports</i> • <i>Difficult to implement for countries with huge budget deficits and national debts</i> • <i>Danger of credit rating downgrade</i> <p>Analysis of supply side policies: e.g. Cuts in state benefits:</p> <ul style="list-style-type: none"> • Increase incentives for the unemployed to seek work or for inactive people to seek employment <p><i>But:</i></p> <ul style="list-style-type: none"> • <i>if aggregate demand is very low, then supply side policies will be ineffective</i> • <i>danger of increased inequality</i> <p><i>N.B. If no reference to a specific country then award a maximum of 24/30</i></p>	(30)
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Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
23(a)	<p>Causes could include:</p> <ul style="list-style-type: none"> • Global recession leading to rising unemployment - falling income tax and VAT receipt; increased expenditure on unemployment benefits • Falling consumer spending; falling profits; business failure and lower revenue from corporate taxes) • Decrease in employment/rising inactivity rates: e.g. more people in higher education; • Fiscal stimulus to prevent recession turning into depressions • Financial crisis resulting in need for bank bailouts • For UK: increased expenditure on public services • Rising cost of state pensions and benefits • Rise in risk premium on some countries' debt <p>If no country reference then maximum top of level 3 (14/20)</p> <p>Evaluation:</p> <ul style="list-style-type: none"> • Some countries had fiscal deficits before the financial crisis • Comment of magnitude of rise in fiscal deficit • Comment on implication for national debt and for servicing national debt • Prioritisation of factors • Significance of each factor <p>(Synoptic element: reference government expenditure and taxation (unit 2) and use of Economist's tool-kit in analysis and evaluation and in approach to question))</p>	(20)
Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
23(b)	<ul style="list-style-type: none"> Candidates could take either side of the argument OR they could analyse and evaluate 2 arguments for cutting public expenditure and 2 for raising taxes <p>Effects of tax increases include:</p> <ul style="list-style-type: none"> Disincentive to work of higher taxes: could be analysed using income and substitution effects Reduce danger of crowding out Reduce possibility of government failure Size of public sector already too large according to some economists - waste and inefficiency Low productivity in the public sector More efficient allocation of resources Raising taxes could reduce tax revenues - use of Laffer curve analysis Less likelihood of tax avoidance and tax evasion Impact of cutting public expenditure may be more certain than raising taxes <p>Evaluation could include:</p> <ul style="list-style-type: none"> Job losses from cutting public expenditure might be more extensive than raising taxes (because rise in taxes might be offset by dissaving by consumers to maintain living standards) Reduction in both quantity and quality of public services Income distribution might become more uneven than if progressive taxes were increased Reduction in productive capacity in the long run if investment is cut Impact depends on the areas in which public expenditure is being cut Danger that public expenditure cuts might cause a double dip recession and cause fiscal deficit to rise (Synoptic elements: reference to concepts introduced in unit 2 e.g. fiscal policy; use of Economist's tool-kit in analysis and evaluation and in approach to question) 	(30)
Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
24	<p>Effects include:</p> <ul style="list-style-type: none"> • Disincentive to work: could be analysed using income and substitution effects • Tax revenues- use of Laffer curve analysis • Tax evasion (illegal) • Tax avoidance (legal) e.g. working fewer hours taking income in form of share option (CGT only 18%) • Tax exiles - move to Switzerland • Distribution of income - more even: analysis of progressive taxation • Impact on AD and associated analysis <p>Evaluation could include:</p> <ul style="list-style-type: none"> • Extent of disincentive effects of 50% tax rate • Ease of avoiding 50% tax rate • Number of people affected by new tax rate • Extent of tax evasion • Significance of impact on different sectors of the economy e.g. on financial services • Impact on income distribution might be offset by other factors e.g. increasing unemployment <p>(Synoptic elements: reference to concepts introduced in unit 2 e.g. fiscal policy; use of Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(30)
Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	2 factors with one evaluative point or 3 factors with no evaluation
Level 3	16-21	3 factors with one evaluative point or 4 factors with no evaluation
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with three evaluative points

END OF SECTION C