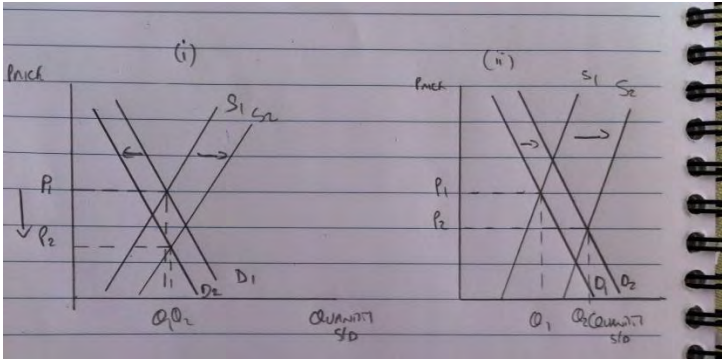


**EC2****GENERAL MARKING GUIDANCE****Positive Marking**

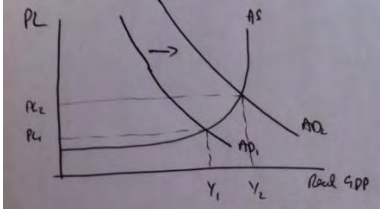
It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

## GCE Economics EC2

<b>Section A</b>			
Question	Answer	Mark	Assessment objective
1 1	<p><b>Explain how the Brazilian government's policies contributed to increased consumption.</b></p> <p>Wage increases allow consumers to spend more (1) because more discretionary income/more available for non-necessities/mpc/greater confidence etc. (1) <b>Point plus development.</b></p> <p>Easy credit makes it easier (and possibly cheaper) for consumers to borrow (1) Therefore they are not constrained by their incomes/easier to buy big ticket items/easier to use credit cards/opportunity cost is lower etc. (1)</p> <p>Allow wealth effects.</p> <p>Savings might fall if easy credit leads to lower interest rates.</p> <p><b>Point plus development.</b></p>	4	AO1 2 AO2 2

Question	Answer	Mark	Assessment objective
1 2	<p><b>Using a supply and demand diagram, explain why commodity prices are expected to fall further in the future (Lines 11-12)</b></p> <p><b>Diagram (2)</b></p> <p>(i) S shifting right and demand shifting left (2) or (ii) D shifts right more slowly (growth is slowing not negative) and supply shifts right by more (2). One shift = (1)</p>  <p><b>Explanation (4)</b> <b>Of supply and demand (up to 2)</b></p> <p>Candidate explains clearly why supply will increase, using the data (1)</p> <p>Candidate explains clearly why demand will be affected, using the data (1)</p> <p><b>Of the change in price (up to 2)</b></p> <p>Candidate explains why prices will fall</p> <ul style="list-style-type: none"> <li>• Excess supply (or falling production costs), explains in words why prices fall (1-2)</li> <li>• Clear reference back to the diagram (P1 to P2 etc) (1)</li> </ul> <p><b>Max 2 from this sub-section</b></p>	6	AO1 3 AO2 3

Question	Answer			Mark	Assessment objective
1 3	<b>Explain how rising growth might “reduce the government’s budget deficit.” (Line 7)</b>			6	AO1 2 AO2 2 AO3 2
	Level 1	1-2 Marks	Candidate understands what a budget deficit means and explains very briefly that T rises and/or G falls.		
	Level 2	3-4 Marks	<p><b>3:</b> Candidate understands that because the economy is growing, T will rise and G should fall. One is explained and the other is asserted.</p> <p><b>4:</b> Candidate clearly explains one reason that either tax will rise <b>or</b> government spending will rise (with a specific example):</p> <p>Tax: Rising growth will mean greater consumer spending (VAT), Jobs (Income tax) and profit (corporation tax) - only one of these needed</p> <p>Government spending: rising growth will probably mean lower unemployment and fewer people needed to claim from benefits system.</p> <p><b>Or</b></p> <p>There is a reasonable explanation of both (EG: Rising AD means that more people are employed so the government gets more tax and pays out less).</p>		
	Level 3	5-6 Marks	<p><b>5:</b> Answers in this level will have clearly applied their answer to the context of rising in growth</p> <p>Candidate clearly explains with specifics one reason that either tax will rise <b>or</b> government spending will fall and asserts the other one briefly.</p> <p><b>6:</b> Good explanation using specifics (direct <b>or</b> indirect tax, benefits payments etc.) why T rises and G falls.</p>		
<p><b>Summary:</b> Up to 4 for one of G or T done well. Up to 5 for one done well, one done to some extent. 6 for both done well.</p>					

Question	Answer	Mark	Assessment objective
1 4	<p><b>Using an AS/AD diagram, explain how rising consumption might have led to “...high inflation and a loss of competitiveness on world markets”</b></p> <p><b>Diagram (Up to 2)</b></p> <p>Accurate diagram (no more than one labelling error) with some commentary about rising C and AD (2)</p> <p><b>Accurate diagram only (1)</b></p>  <p><b>Explanation (up to 4) comprising:</b></p> <p><b>Inflation (up to 2)</b></p> <p><b>Either:</b>  <b>Use of diagram</b> (AD rising from AD1 to AD2 causes PL to rise from PL1 to PL2) (1)  <b>Plus some reference to the factors mentioned below</b> (reduced competition, factor shortages etc) (1)</p> <p><b>Or:</b></p> <p><b>A full explanation of why inflation rises without reference to the diagram</b> (Rising consumption causes shortages of key raw materials as firms expand forcing firms to increase the prices of final products. <b>Or</b> rising consumption reduces competition between firms, making it easier to increase prices and increase profitability) (Up to 2 for either).</p> <p><b>Competitiveness (also up to 2)</b></p> <p>Understanding of competitiveness (1) (e.g. rising prices will damage the ability of Brazilian firms to compete on world markets.  Therefore damaging export performance (or some similar development) (1)</p>	6	AO1 2 AO2 2 AO3 2

Question	Answer			Mark	Assessment objective
1 5	<b>To what extent will the increase in interest rates be likely to help the Brazilian economy?</b>			8	AO1 1 AO2 1 AO3 2 AO4 4
<b>AO1,2 and 3</b>					
Level 1		1-2 Marks	<p>Limited analysis</p> <p>Candidate explains briefly that an increase in interest rates will reduce AD and therefore also reduce inflation. They may draw a diagram to illustrate this but the understanding of the transmission mechanism is limited.</p>		
Level 2		3-4 Marks	<p>Reasonable analysis of interest rate transmission mechanism (Diagram not necessarily required)</p> <p>Candidate explains how an increase in interest rates actually has an effect – i.e. they understand the theoretical processes: C falls because of increased opportunity cost of saving and increased cost of borrowing (allow mortgage rate/asset price effects effects) I falls because of increased cost of borrowing and reduced growth prospects. Ex rate may rise (Increased capital inflows/reduced capital outflows)</p> <p>Hence AD falls</p> <p>Good one sided answer relating to an economic objective.</p> <p>A 4 mark answer in this band will cover at least 2 of these.</p> <p>Bands are reversible</p>		

Question	Answer			Mark	Assessment objective
	<b>A04</b>				
	Level 1	1-2 Marks	<p>Limited evaluation –</p> <p>Candidate explains that there are some good and bad factors and that therefore the effect is mixed (allow a simple two sided answer here – if they just analyse the good and bad effects of the rise in interest rates, this could be level 1 evaluation. Their total mark could then be 6: 4 analysis + 2 evaluation)</p> <p>EG: Inflation may be controlled, but there will be negative impacts on growth and jobs, explained.</p> <p>Candidate makes ‘it depends’ points without really explaining them (max 1 if no context). EG, only a 0.5% increase, depends on the state of the global economy and so on. If the points are out of context, it doesn’t matter how many there are, it’s still at most 1 mark)</p>		
	Level 2	3-4 Marks	<p>Reasonable evaluation: This will already have done what is required in level 1 but will now <b>add context</b>. Therefore a theoretical discussion of interest rates can get up to 6, but for 7 or 8 it needs to make good use of the data.</p> <p>This requires some sort of <b>in context</b> judgment about what the data has told them about Brazil:</p> <ul style="list-style-type: none"> <li>• Inflation is a major threat, so bringing it down is the key in the short run, regardless of what happens to growth.</li> <li>• Brazil already has low levels of investment, so pushing up interest rates will be a disaster.</li> <li>• If the <i>Real</i> appreciates (it didn’t, but that’s not the point) then this will further exacerbate Brazil’s competitiveness issues.</li> <li>• Damaging investment/increasing exchange rate will make it harder to move away from commodities</li> </ul> <p>Etc. – only one well explained point needed as long as it balances the candidate’s answer.</p>		

Question	Answer		Mark	Assessment objective
1 6	<b>With reference to the data, evaluate policies that the Brazilian government could use if it wishes to improve the supply side of the Brazilian economy.</b>		10	AO1 2 AO2 2 AO3 2 AO4 4
<b>AO1,2 and 3</b>				
Level 1	1-2 Marks	Limited analysis: Candidate shows an understanding of what SSPs are. Might mean: <ul style="list-style-type: none"> <li>• Definition</li> <li>• Diagram</li> <li>• Examples</li> </ul> Or all of the above if undeveloped.		
Level 2	3-4 Marks	Reasonable analysis (Diagram not necessarily required)  Candidate identifies and explains policies that might be used to improve the supply side of an economy:  Labour market policies: Deregulating labour market, reducing worker power, creating incentives to work, creating training opportunities (examples of how these would work needed) etc.  Capital market policies: Policies to boost investment such as cuts in corporation tax, tax breaks, government infrastructure spending etc.  Product market policies: Policies to increase competition between firms and hence improve efficiency: Deregulation of product markets, privatisation, tougher competition laws, reduced protectionism.		
Level 3	5-6 marks	Good analysis (= analysis <b>in context</b> )  Candidate links to the actual weaknesses identified in the Brazilian economy:  Capacity constraints Labour shortages Complex tax rules/regulations Investment rate the lowest in Latin America  Level 3 is for policies that look to address some of these weaknesses (or other plausible weaknesses for an economy like Brazil that the candidate suggests). <b>If the answer contains only 1 policy, 4 max</b>		

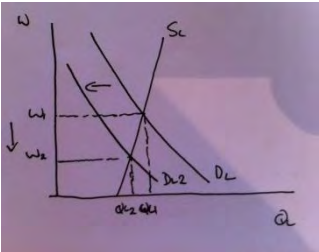
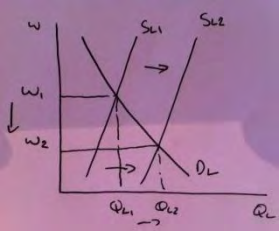
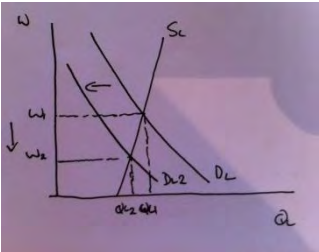
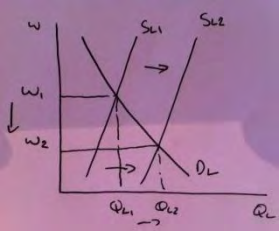
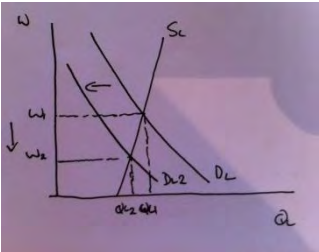
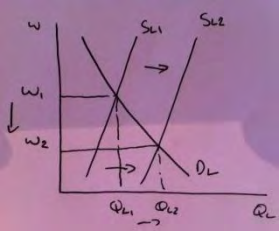


Question	Answer		Mark	Assessment objective	
	<b>A04</b>				
	Level 1	1-2 Marks	<p>Limited evaluation – candidate makes the usual general criticisms of the supply side policies that they raise (but to get 2 marks at least one needs to be developed – point plus development):</p> <ul style="list-style-type: none"> <li>• Costly</li> <li>• Take a long time</li> <li>• Might not be effective</li> <li>• Might be counter-productive</li> <li>• Might increase inequality</li> <li>• Etc.</li> </ul>		
	Level 2	3-4 Marks	<p>Reasonable evaluation: This will be <b>in context</b></p> <p>Might be positive evaluation: Candidate attempts to identify which policies are likely to be best for Brazil given the problems – these may well be answers that are getting good analysis by linking to the identified weaknesses of the Brazilian economy:</p> <p>“These policies will be particularly appropriate because of the low levels of investment/labour market issues etc.”</p> <p><b>Or</b></p> <p>Candidate might explain the criticisms from level 1 and apply them to Brazil:</p> <ul style="list-style-type: none"> <li>• Costly: Problematic given expenditure on world cup/Olympics/growth already slowing</li> <li>• Long time: Inflation high <b>now</b></li> <li>• Increased inequality: Brazil is a relatively poor country</li> <li>• Might be counter-productive – might cause job losses – bad in the context of higher interest rates</li> <li>• Etc.</li> </ul>		

Question	Answer	Mark	Assessment objective						
<b>Section B</b>									
2 1	<p data-bbox="231 264 1225 302"><b>Price Elasticity of Demand for primary school meals estimated to be -0.9</b></p> <p data-bbox="231 324 1225 392"><b>Explain the factors that might cause the price elasticity of demand for primary school meals to be at this level.</b></p> <table border="1" data-bbox="239 414 1217 2011"> <tr> <td data-bbox="239 414 383 869"> <p data-bbox="263 414 359 481"><b>Level 1 1 - 3</b></p> </td> <td data-bbox="383 414 1217 869"> <p data-bbox="399 414 1201 481"><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p data-bbox="399 504 1201 571">Answer may contain a definition, a description of PED and perhaps a list of factors without development.</p> <p data-bbox="399 593 1201 627">Relevant factors include:</p> <ul data-bbox="446 649 1201 772" style="list-style-type: none"> <li>• School dinners a necessity</li> <li>• No close substitutes (packed lunch, but not hot food)</li> <li>• Small percentage of income for many families</li> </ul> <p data-bbox="399 772 1201 817">Definition only = 1</p> <p data-bbox="399 828 1201 869">Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="239 869 383 1276"> <p data-bbox="263 869 359 936"><b>Level 2 4 - 6</b></p> </td> <td data-bbox="383 869 1217 1276"> <p data-bbox="399 869 1201 974"><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p data-bbox="399 996 1201 1097">Points are well developed in the context of inelasticity. 4 marks for one well explained point relevant to the Q showing an understanding of elasticity.</p> <p data-bbox="399 1120 1201 1187">6 marks for two good relevant points that explain why demand will tend to be inelastic</p> <p data-bbox="399 1209 1201 1276">Once an answer is in level 2, additional <b>unexplained</b> factors do not add to the mark.</p> </td> </tr> <tr> <td data-bbox="239 1276 383 2011"> <p data-bbox="263 1276 359 1344"><b>Level 3 7 - 8</b></p> </td> <td data-bbox="383 1276 1217 2011"> <p data-bbox="399 1276 1201 1422"><b>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</b></p> <p data-bbox="399 1444 1201 1545">The answer makes a couple of good points about inelasticity, but refers to the idea that PED is -0.9 – hence not <i>very</i> inelastic and explains why this might be:</p> <p data-bbox="399 1568 1201 1601">Some substitutes – packed dinner, going home for lunch</p> <p data-bbox="399 1624 1201 1691">Costly for low income families – high percentage of their income</p> <p data-bbox="399 1713 1201 1747"><b>Or</b></p> <p data-bbox="399 1758 1201 1915">An exceptionally well applied answer to the context i.e. the candidate bases the whole nature of his/her answer around the product of school meals and that the factors are developed in such a way that that you get a sense that they really understand the issues around school meals</p> <p data-bbox="399 1937 1201 1982">Credit any other relevant points</p> </td> </tr> </table>	<p data-bbox="263 414 359 481"><b>Level 1 1 - 3</b></p>	<p data-bbox="399 414 1201 481"><b>Limited knowledge of relevant economic theory. 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<b>Level 2</b>  <b>5 - 8</b>	<p><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p>Candidate explains and develops points, using economic theory in context.</p> <p><b>Yes:</b>  Demand is inelastic, therefore increase in price causes revenue to rise, because demand falls less than proportionally</p> <ul style="list-style-type: none"> <li>▪ Diagram illustrating this</li> <li>▪ If school meals are contracted out, private operators will make more profits</li> <li>▪ Schools/councils need to cover costs/reduce subsidies</li> <li>▪ Schools/councils need funds for new equipment etc.</li> </ul> <p><b>No:</b></p> <ul style="list-style-type: none"> <li>▪ <i>Could be inflationary</i></li> <li>▪ <i>Social impact</i></li> <li>▪ <i>Impact may be regressive</i></li> <li>▪ <i>May be damaging to health – external benefits of school meals?</i></li> </ul> <p>Credit any other relevant points</p> <p>Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are <b>not</b> fully understood, applied and analysed).  Answers with no evaluation cannot reach level 3.</p>						

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	<p><b>Level 3</b> <b>9 - 12</b> <b>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</b></p> <p>Strong two-sided answer with developed arguments on each side.</p> <p>9-10 Answer contains developed evaluation but is not fully convincing. Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument.</p> <p><b>11-12 In context answer</b> <b>Answers scoring 11-12 will have answered the question in a convincing fashion.</b> Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not it would be sensible to increase the price of school meals.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Large price increase might mean that D becomes elastic. (ii) Low income groups receive free school meals anyway, so regressive effects will be limited. (iii) Food prices rising rapidly therefore essential to increase. (iv) School meals not always particularly healthy anyway, so external benefits would be limited (v) School meals are contracted out in some areas, so the extra money will simply go to private firms.</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		

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3 1	<p><b>Average hourly wage in the UK falls to £11.21 in 2013, lower than the level in 2003.</b></p> <p><b>Using supply and demand diagrams, explain why average wages may have fallen in the UK in recent years</b></p> <table border="1" data-bbox="240 405 1219 2002"> <tr> <td data-bbox="240 405 371 1323"> <p><b>Level 1</b> 1 - 3</p> </td> <td data-bbox="371 405 1219 1323"> <p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Relevant factors include:</p> <p>Demand (shifts to the left):</p> <ul style="list-style-type: none"> <li>• Impact of recession</li> <li>• Improved technology</li> <li>• Global competition/outsourcing</li> </ul>  <p>Supply (shifts to the right)</p> <ul style="list-style-type: none"> <li>• Immigration from EU and outside</li> <li>• Increased retirement age</li> <li>• University fees leading to more part-time workers</li> </ul>  <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="240 1323 371 2002"> <p><b>Level 2</b> 4 - 6</p> </td> <td data-bbox="371 1323 1219 2002"> <p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Level 1 points are explained and related back to falling wages. Points may lack some depth of explanation.</p> <p>Some candidates might think about the idea that wages have risen by less than inflation.</p> <p>Top of level 2 for two moderately developed points and an integrated diagram, covering both demand and supply. If only D or S covered, points will need to be well developed.</p> <p>No diagrams: Max top L2</p> <p>D or S only: Max top L2</p> <p>Abstract theory: Max top L2</p> </td> </tr> </table>	<p><b>Level 1</b> 1 - 3</p>	<p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Relevant factors include:</p> <p>Demand (shifts to the left):</p> <ul style="list-style-type: none"> <li>• Impact of recession</li> <li>• Improved technology</li> <li>• Global competition/outsourcing</li> </ul>  <p>Supply (shifts to the right)</p> <ul style="list-style-type: none"> <li>• Immigration from EU and outside</li> <li>• Increased retirement age</li> <li>• University fees leading to more part-time workers</li> </ul>  <p>Credit any other relevant points</p>	<p><b>Level 2</b> 4 - 6</p>	<p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Level 1 points are explained and related back to falling wages. Points may lack some depth of explanation.</p> <p>Some candidates might think about the idea that wages have risen by less than inflation.</p> <p>Top of level 2 for two moderately developed points and an integrated diagram, covering both demand and supply. If only D or S covered, points will need to be well developed.</p> <p>No diagrams: Max top L2</p> <p>D or S only: Max top L2</p> <p>Abstract theory: Max top L2</p>	8	AO1 3 AO2 3 AO3 2
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3 2	<p data-bbox="231 219 1236 291"><b>Discuss whether a reduction in the national minimum wage would reduce unemployment in the UK.</b></p> <table border="1" data-bbox="231 324 1236 1948"> <tr> <td data-bbox="231 324 359 604"> <p data-bbox="247 324 343 414"><b>Level 1</b> 1 - 4</p> </td> <td data-bbox="359 324 1236 604"> <p data-bbox="375 324 1220 425"><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p data-bbox="375 459 1165 526"><b>Will:</b> Simple diagram, not explained. Costs fall – cheaper to employ</p> <p data-bbox="375 560 1125 604"><b>Won't:</b> <i>AD is still very low. 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4 1	<p><b>UK drivers spend 29 hours per year stuck in traffic. UK has 5<sup>th</sup> worst congestion in Europe.</b></p> <p><b>Explain why road congestion causes economic problems.</b></p> <table border="1" data-bbox="229 367 1251 1682"> <tr> <td data-bbox="229 367 368 831"> <p><b>Level 1</b></p> <p><b>1 - 3</b></p> </td> <td data-bbox="368 367 1251 831"> <p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology.</p> <p>Relevant factors include:</p> <ul style="list-style-type: none"> <li>• Congestion wastes firms' time</li> <li>• Congestion wastes people's time</li> <li>• Congestion causes pollution</li> </ul> <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="229 831 368 1682"> <p><b>Level 2</b></p> <p><b>4 - 6</b></p> </td> <td data-bbox="368 831 1251 1682"> <p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and relate to the idea of <i>economic</i> problems. Points may lack some depth of explanation.</p> <p>Possible points:</p> <ul style="list-style-type: none"> <li>• Congestion creates external costs in the sense that it slows down other road users. Therefore it causes market failure because resources will be misallocated and there will be a welfare loss. <b>Up to 4 if done well</b></li> <li>• Congestion similarly contributes to pollution – cars spend more time in standing traffic, therefore meaning that more fuel is burned. This leads to (i) localised pollution which damages health and reduces life expectancy and (ii) Increased CO<sub>2</sub> emissions. <b>Up to 4 if done well</b></li> <li>• Congestion drives up firms' costs therefore making UK firms less competitive on world markets. <b>Up to 4 if done well</b></li> <li>• May make UK less attractive for FDI as a consequence. <b>Up to 2</b></li> <li>• Congestion drives up firms' costs and therefore feeds into higher prices for consumers. <b>Up to 2</b></li> </ul> <p>Credit any other relevant points</p> </td> </tr> </table>	<p><b>Level 1</b></p> <p><b>1 - 3</b></p>	<p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology.</p> <p>Relevant factors include:</p> <ul style="list-style-type: none"> <li>• Congestion wastes firms' time</li> <li>• Congestion wastes people's time</li> <li>• Congestion causes pollution</li> </ul> <p>Credit any other relevant points</p>	<p><b>Level 2</b></p> <p><b>4 - 6</b></p>	<p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and relate to the idea of <i>economic</i> problems. Points may lack some depth of explanation.</p> <p>Possible points:</p> <ul style="list-style-type: none"> <li>• Congestion creates external costs in the sense that it slows down other road users. Therefore it causes market failure because resources will be misallocated and there will be a welfare loss. <b>Up to 4 if done well</b></li> <li>• Congestion similarly contributes to pollution – cars spend more time in standing traffic, therefore meaning that more fuel is burned. This leads to (i) localised pollution which damages health and reduces life expectancy and (ii) Increased CO<sub>2</sub> emissions. <b>Up to 4 if done well</b></li> <li>• Congestion drives up firms' costs therefore making UK firms less competitive on world markets. <b>Up to 4 if done well</b></li> <li>• May make UK less attractive for FDI as a consequence. <b>Up to 2</b></li> <li>• Congestion drives up firms' costs and therefore feeds into higher prices for consumers. <b>Up to 2</b></li> </ul> <p>Credit any other relevant points</p>	8	<p>AO1 3</p> <p>AO2 3</p> <p>AO3 2</p>
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	<p><b>Level 3</b> <b>7 - 8</b></p> <p><b>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</b></p> <p>Some reference to external costs/market failure/resource misallocation etc. is needed for level 3.</p> <p>Candidate applies well to the context of congestion rather than just the idea of lots of cars driving about. Level 3 answers will be likely to have covered both market failure and business implications in reasonable detail.</p> <p>A strong market failure answer covering both the first two level points is also likely to be a level 3 answer.</p>		

Question	Answer	Mark	Assessment objective				
4 2	<p><b>Discuss whether road pricing is a better policy for reducing congestion than subsidies for public transport.</b></p> <table border="1" data-bbox="236 331 1230 1794"> <tr> <td data-bbox="236 331 373 633"> <b>Level 1</b>   <b>1 - 4</b> </td> <td data-bbox="373 331 1230 633"> <p><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p><b>Road pricing:</b> Simple diagram, not explained. More expensive, D falls.  <b>Subsidies:</b> Simple diagram, not explained. Less expensive, D rises.</p> </td> </tr> <tr> <td data-bbox="236 633 373 1794"> <b>Level 2</b>   <b>5 - 8</b> </td> <td data-bbox="373 633 1230 1794"> <p><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (<b>Up to 3 for a well-developed point</b>):</p> <p><b>Road pricing:</b></p> <ul style="list-style-type: none"> <li>• Can be targeted at particular times of day, focusing directly on the problem</li> <li>• Polluter pays – some candidates may discuss internalising the externality, correcting market failure</li> <li>• May raise revenue for the government in some way, shape or form.</li> </ul> <p><b>Subsidies:</b></p> <ul style="list-style-type: none"> <li>• Encourage car drivers to switch (XED)</li> <li>• Don't increase costs for businesses</li> <li>• Beneficial to low income groups</li> <li>• If targeted in right way, might encourage green transport</li> </ul> <p><b>Max 8 for one policy fully evaluated</b></p> <p>Credit any other relevant points</p> <p><b>Answers using throw-away evaluation</b> (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, <b>as will answers which evaluate but have weak underlying analysis</b> (i.e. Relevant economic theory and principles are <b>not</b> fully understood, applied and analysed).  <b>Answers with no evaluation cannot reach level 3.</b></p> </td> </tr> </table>	<b>Level 1</b>  <b>1 - 4</b>	<p><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p><b>Road pricing:</b> Simple diagram, not explained. More expensive, D falls.  <b>Subsidies:</b> Simple diagram, not explained. Less expensive, D rises.</p>	<b>Level 2</b>  <b>5 - 8</b>	<p><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (<b>Up to 3 for a well-developed point</b>):</p> <p><b>Road pricing:</b></p> <ul style="list-style-type: none"> <li>• Can be targeted at particular times of day, focusing directly on the problem</li> <li>• Polluter pays – some candidates may discuss internalising the externality, correcting market failure</li> <li>• May raise revenue for the government in some way, shape or form.</li> </ul> <p><b>Subsidies:</b></p> <ul style="list-style-type: none"> <li>• Encourage car drivers to switch (XED)</li> <li>• Don't increase costs for businesses</li> <li>• Beneficial to low income groups</li> <li>• If targeted in right way, might encourage green transport</li> </ul> <p><b>Max 8 for one policy fully evaluated</b></p> <p>Credit any other relevant points</p> <p><b>Answers using throw-away evaluation</b> (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, <b>as will answers which evaluate but have weak underlying analysis</b> (i.e. Relevant economic theory and principles are <b>not</b> fully understood, applied and analysed).  <b>Answers with no evaluation cannot reach level 3.</b></p>	12	AO1 3 AO2 3 AO3 2 AO4 4
<b>Level 1</b>  <b>1 - 4</b>	<p><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p><b>Road pricing:</b> Simple diagram, not explained. More expensive, D falls.  <b>Subsidies:</b> Simple diagram, not explained. Less expensive, D rises.</p>						
<b>Level 2</b>  <b>5 - 8</b>	<p><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p>Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (<b>Up to 3 for a well-developed point</b>):</p> <p><b>Road pricing:</b></p> <ul style="list-style-type: none"> <li>• Can be targeted at particular times of day, focusing directly on the problem</li> <li>• Polluter pays – some candidates may discuss internalising the externality, correcting market failure</li> <li>• May raise revenue for the government in some way, shape or form.</li> </ul> <p><b>Subsidies:</b></p> <ul style="list-style-type: none"> <li>• Encourage car drivers to switch (XED)</li> <li>• Don't increase costs for businesses</li> <li>• Beneficial to low income groups</li> <li>• If targeted in right way, might encourage green transport</li> </ul> <p><b>Max 8 for one policy fully evaluated</b></p> <p>Credit any other relevant points</p> <p><b>Answers using throw-away evaluation</b> (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, <b>as will answers which evaluate but have weak underlying analysis</b> (i.e. Relevant economic theory and principles are <b>not</b> fully understood, applied and analysed).  <b>Answers with no evaluation cannot reach level 3.</b></p>						

Question	Answer	Mark	Assessment objective
	<p><b>Level 3</b> <b>9 - 12</b> <b>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</b></p> <p>Strong two-sided approach with developed arguments on each side.</p> <p>9-10 Answer contains developed evaluation but is not fully convincing.</p> <p>Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument, but at least one of the policies will need to be qualified – answers just explaining the advantages of each will be level 2 only.</p> <p><b>11-12 In context answer.</b></p> <p>Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment which is best.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include <b>Road pricing:</b> : (i) Regressive (ii) Inflationary/costs/competitiveness (iii) Elasticity (iv) Hard to get tax right. <b>Subsidies:</b> (i) Expensive (ii) Depends on quality/reliability</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		

## Section C

Question	Answer	Mark	Assessment objective				
5 1	<p><b>Budget 2013: Fiscal policy to be responsible. Monetary policy stimulus to support demand</b></p> <p><b>Explain how monetary policy and fiscal policy can be used to increase Aggregate Demand.</b></p> <table border="1" data-bbox="231 470 1204 1937"> <tr> <td data-bbox="231 470 367 884"> <p><b>Level 1</b> <b>1 - 3</b></p> </td> <td data-bbox="367 470 1204 884"> <p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Candidate shows some understanding of fiscal and monetary policy, but lacks depth. A level 1 response will tend to make points like:</p> <ul style="list-style-type: none"> <li>• Monetary policy is to do with the control of interest rates</li> <li>• Fiscal Policy is to do with taxes and government spending</li> </ul> <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="231 884 367 1937"> <p><b>Level 2</b> <b>4 - 6</b></p> </td> <td data-bbox="367 884 1204 1937"> <p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and show how monetary and fiscal policy work in terms of their impact on AD</p> <p><b>Monetary Policy (up to 4):</b> Changes in interest rates affect (up to 3 through any channel):</p> <ul style="list-style-type: none"> <li>- C through mortgage payments, incentives to save and borrow, asset prices and impact on income of retired.</li> <li>- I through cost of borrowing and impact on confidence/expectations</li> <li>- X,M through impact on ex rate.</li> </ul> <p>QE expands the money supply (Allow any limited understanding here)</p> <p><b>Fiscal Policy (up to 4):</b> Affects AD through:</p> <ul style="list-style-type: none"> <li>- Direct and Indirect tax (tax up to 2, don't have to do both DT and IT)</li> <li>- Current and Capital spending (G up to do, don't need to name specific categories such as capital/current).</li> </ul> <p><b>4 Max if only FP or MP covered.</b></p> <p>Credit any other relevant points</p> </td> </tr> </table>	<p><b>Level 1</b> <b>1 - 3</b></p>	<p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Candidate shows some understanding of fiscal and monetary policy, but lacks depth. A level 1 response will tend to make points like:</p> <ul style="list-style-type: none"> <li>• Monetary policy is to do with the control of interest rates</li> <li>• Fiscal Policy is to do with taxes and government spending</li> </ul> <p>Credit any other relevant points</p>	<p><b>Level 2</b> <b>4 - 6</b></p>	<p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and show how monetary and fiscal policy work in terms of their impact on AD</p> <p><b>Monetary Policy (up to 4):</b> Changes in interest rates affect (up to 3 through any channel):</p> <ul style="list-style-type: none"> <li>- C through mortgage payments, incentives to save and borrow, asset prices and impact on income of retired.</li> <li>- I through cost of borrowing and impact on confidence/expectations</li> <li>- X,M through impact on ex rate.</li> </ul> <p>QE expands the money supply (Allow any limited understanding here)</p> <p><b>Fiscal Policy (up to 4):</b> Affects AD through:</p> <ul style="list-style-type: none"> <li>- Direct and Indirect tax (tax up to 2, don't have to do both DT and IT)</li> <li>- Current and Capital spending (G up to do, don't need to name specific categories such as capital/current).</li> </ul> <p><b>4 Max if only FP or MP covered.</b></p> <p>Credit any other relevant points</p>	8	AO1 3 AO2 3 AO3 2
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Question	Answer	Mark	Assessment objective		
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; padding: 5px;"><b>Level 3</b></td> <td style="padding: 5px;"> <p><b>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</b></p> <p>All relevant aspects of monetary and fiscal policy are covered:</p> <ul style="list-style-type: none"> <li>• Monetary: Interest rates cover at least two of the three channels of the transmission mechanism.</li> <li>• Fiscal: both taxation and government spending are covered with examples.</li> </ul> </td> </tr> </table>	<b>Level 3</b>	<p><b>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</b></p> <p>All relevant aspects of monetary and fiscal policy are covered:</p> <ul style="list-style-type: none"> <li>• Monetary: Interest rates cover at least two of the three channels of the transmission mechanism.</li> <li>• Fiscal: both taxation and government spending are covered with examples.</li> </ul>		
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5 2	<p data-bbox="229 241 1241 309"><b>Is it more important for a government to achieve low inflation or low unemployment?</b></p> <table border="1" data-bbox="229 340 1241 1796"> <tr> <td data-bbox="229 340 360 609"> <p data-bbox="242 349 347 443"><b>Level 1</b> 1 - 4</p> </td> <td data-bbox="360 340 1241 609"> <p data-bbox="373 349 1228 443"><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p data-bbox="373 479 1197 577">Candidate may bullet point some of the reasons for or against achieving one or the other, but there is little or no development – essentially a bullet-point list.</p> </td> </tr> <tr> <td data-bbox="229 609 360 1796"> <p data-bbox="242 618 347 712"><b>Level 2</b> 5 - 8</p> </td> <td data-bbox="360 609 1241 1796"> <p data-bbox="373 618 1187 779"><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p data-bbox="373 815 1187 913">Candidate explains and develops some of the reasons for and against achieving some of the objectives. Points likely to be drawn from:</p> <ul data-bbox="421 922 1219 1182" style="list-style-type: none"> <li>• Unemployment: Pareto inefficient, impact on budget, risk of deskilling, social consequences, inequality, reduced living standards, reduced profits for firms cutting investment. Etc.</li> <li>• Inflation: Competitiveness issues, impact on fixed income groups, fiscal drag, menu costs, policy response, disguised inefficiency, damage to business confidence. Etc.</li> </ul> <p data-bbox="373 1191 1203 1326">Top level 2 answers will show a good understanding of why each might matter (two to three points on each, with a small amount of development – <b>remember that this is an AS exam, not A2</b>).</p> <p data-bbox="373 1357 788 1393">Credit any other relevant points</p> <p data-bbox="373 1424 1219 1626"><b>Answers using throw-away evaluation</b> (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, <b>as will answers which evaluate but have weak underlying analysis</b> (i.e. Relevant economic theory and principles are <b>not</b> fully understood, applied and analysed). <b>Answers with no evaluation cannot reach level 3.</b></p> <p data-bbox="373 1657 1197 1760">Max 8 for answers that purely explain why low u/e and inflation are desirable. Max 8 for one objective fully evaluated.</p> </td> </tr> </table>	<p data-bbox="242 349 347 443"><b>Level 1</b> 1 - 4</p>	<p data-bbox="373 349 1228 443"><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p data-bbox="373 479 1197 577">Candidate may bullet point some of the reasons for or against achieving one or the other, but there is little or no development – essentially a bullet-point list.</p>	<p data-bbox="242 618 347 712"><b>Level 2</b> 5 - 8</p>	<p data-bbox="373 618 1187 779"><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p data-bbox="373 815 1187 913">Candidate explains and develops some of the reasons for and against achieving some of the objectives. Points likely to be drawn from:</p> <ul data-bbox="421 922 1219 1182" style="list-style-type: none"> <li>• Unemployment: Pareto inefficient, impact on budget, risk of deskilling, social consequences, inequality, reduced living standards, reduced profits for firms cutting investment. Etc.</li> <li>• Inflation: Competitiveness issues, impact on fixed income groups, fiscal drag, menu costs, policy response, disguised inefficiency, damage to business confidence. Etc.</li> </ul> <p data-bbox="373 1191 1203 1326">Top level 2 answers will show a good understanding of why each might matter (two to three points on each, with a small amount of development – <b>remember that this is an AS exam, not A2</b>).</p> <p data-bbox="373 1357 788 1393">Credit any other relevant points</p> <p data-bbox="373 1424 1219 1626"><b>Answers using throw-away evaluation</b> (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, <b>as will answers which evaluate but have weak underlying analysis</b> (i.e. Relevant economic theory and principles are <b>not</b> fully understood, applied and analysed). <b>Answers with no evaluation cannot reach level 3.</b></p> <p data-bbox="373 1657 1197 1760">Max 8 for answers that purely explain why low u/e and inflation are desirable. Max 8 for one objective fully evaluated.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
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	<p><b>Level 3 9 - 12</b> <b>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</b></p> <p>Strong two-sided answer with developed arguments on each side</p> <p>9-10 Answer contains developed evaluation but is not fully convincing Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument.</p> <p><b>11-12 In context answer</b> Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not it would be sensible to increase the price of school meals.</p> <p>Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Large price increase might mean that D becomes elastic. (ii) Low income groups receive free school meals anyway, so regressive effects will be limited. (iii) Food prices rising rapidly therefore essential to increase. (iv) School meals not always particularly healthy anyway, so external benefits would be limited (v) School meals are contracted out in some areas, so the extra money will simply go to private firms.</p> <p>But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation.</p> <p>Credit any other relevant points</p>		



6 1	<p><b>Corporation tax falls to 20%. May fall further as the Chancellor sticks to his 'open for business model'</b></p> <p><b>Explain why increasing investment by businesses is considered to be important for the UK economy.</b></p> <table border="1" data-bbox="233 389 1230 1688"> <tr> <td data-bbox="233 389 371 813"> <b>Level 1 1 - 3</b> </td> <td data-bbox="371 389 1230 813"> <p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Candidate shows some understanding of Investment, perhaps using a definition. Points are not developed.</p> <ul style="list-style-type: none"> <li>• I will increase AD because <math>AD=C+I+G+X-M</math> or J/W approach or Keynesian cross diagrams</li> <li>• I will increase AS/PPFs</li> </ul> <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="233 813 371 1688"> <b>Level 2 4 - 6</b> </td> <td data-bbox="371 813 1230 1688"> <p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and show how Investment can benefit an economy (<b>up to 4 for each</b>)</p> <p>(1) I increases AD because it often involves construction of fixed capital/factories etc. Therefore there will be multiplier effects as jobs are created in construction and engineering. GDP will rise.</p> <p>(2) I can increase AS because it contributes to potential growth by increasing the quantity and quality of factors of production – better capital allows workers to be more effective and higher capital stock adds directly to capacity. Hence contributes directly to non-inflationary growth.</p> <p>(3) I can help to boost the competitiveness of UK firms by increasing productivity and consequently reducing unit costs.</p> <p>Top level 2 answers will probably cover 2 of these three areas in detail.</p> <p>Credit any other relevant points</p> </td> </tr> </table>	<b>Level 1 1 - 3</b>	<p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Candidate shows some understanding of Investment, perhaps using a definition. Points are not developed.</p> <ul style="list-style-type: none"> <li>• I will increase AD because <math>AD=C+I+G+X-M</math> or J/W approach or Keynesian cross diagrams</li> <li>• I will increase AS/PPFs</li> </ul> <p>Credit any other relevant points</p>	<b>Level 2 4 - 6</b>	<p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and show how Investment can benefit an economy (<b>up to 4 for each</b>)</p> <p>(1) I increases AD because it often involves construction of fixed capital/factories etc. Therefore there will be multiplier effects as jobs are created in construction and engineering. GDP will rise.</p> <p>(2) I can increase AS because it contributes to potential growth by increasing the quantity and quality of factors of production – better capital allows workers to be more effective and higher capital stock adds directly to capacity. Hence contributes directly to non-inflationary growth.</p> <p>(3) I can help to boost the competitiveness of UK firms by increasing productivity and consequently reducing unit costs.</p> <p>Top level 2 answers will probably cover 2 of these three areas in detail.</p> <p>Credit any other relevant points</p>	8	AO1 3 AO2 3 AO3 2
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	<p><b>Level 3 7 - 8</b></p> <p><b>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</b></p> <p>Candidate:</p> <p style="text-align: center;"><b>either:</b></p> <p>Covers all three areas with at least one done in a good level of detail (hence a theoretically strong answer)</p> <p style="text-align: center;"><b>or</b></p> <p>Talks about the UK economy – jobs important right now because of slow recovery from Great Recession, UK relatively poor productivity performance, poor record on investment. UK's trend growth rate relatively slow etc. (Hence a well applied answer)</p> <p>Credit any other relevant points</p>		
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Question	Answer	Mark	Assessment objective				
6 2	<p><b>Should the government increase VAT to 25% to allow for a significant reduction in income tax and corporation tax?</b></p> <table border="1" data-bbox="233 344 1230 1839"> <tr> <td data-bbox="233 344 360 658"> <b>Level 1 1 - 4</b> </td> <td data-bbox="360 344 1230 658"> <p><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p>Candidate understands what the different taxes are. Makes an undeveloped list of possible consequences: Higher VAT might be inflationary Lower Corporation tax might increase investment Lower Income tax might increase AD</p> </td> </tr> <tr> <td data-bbox="233 658 360 1839"> <b>Level 2 5 - 8</b> </td> <td data-bbox="360 658 1230 1839"> <p><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p>Candidate explains and develops some of the reasons for and against the policy changes suggested (<b>Up to 3</b> per well developed idea).</p> <p>Higher VAT good: Hard to avoid, big tax, doesn't affect incentives. VAT increases can be targeted. But: Regressive, directly increases inflation (risk of wage-price spiral, worsening industrial disputes)</p> <p>Lower Corp tax good: Encourages I and FDI, might reduce off-shoring, doesn't generate that much revenue anyway. But: Many MNCs avoid it anyway, so no effect. Other factors more important in investment/location decisions.</p> <p>Lower Y tax good: Creates incentives to work (reduced chance of poverty/unemployment traps), offsets the fall in AD from higher VAT. But increases inequality (only those with jobs benefit), no guarantee of increase in AD (confidence). May or may not reduce tax revenue (Laffer curve)</p> <p>Top level 2 answer will deal with all three taxes mentioned in the question.</p> <p>Credit any other relevant points</p> </td> </tr> </table>	<b>Level 1 1 - 4</b>	<p><b>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed.</b></p> <p>Candidate understands what the different taxes are. Makes an undeveloped list of possible consequences: Higher VAT might be inflationary Lower Corporation tax might increase investment Lower Income tax might increase AD</p>	<b>Level 2 5 - 8</b>	<p><b>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</b></p> <p>Candidate explains and develops some of the reasons for and against the policy changes suggested (<b>Up to 3</b> per well developed idea).</p> <p>Higher VAT good: Hard to avoid, big tax, doesn't affect incentives. VAT increases can be targeted. But: Regressive, directly increases inflation (risk of wage-price spiral, worsening industrial disputes)</p> <p>Lower Corp tax good: Encourages I and FDI, might reduce off-shoring, doesn't generate that much revenue anyway. But: Many MNCs avoid it anyway, so no effect. Other factors more important in investment/location decisions.</p> <p>Lower Y tax good: Creates incentives to work (reduced chance of poverty/unemployment traps), offsets the fall in AD from higher VAT. But increases inequality (only those with jobs benefit), no guarantee of increase in AD (confidence). May or may not reduce tax revenue (Laffer curve)</p> <p>Top level 2 answer will deal with all three taxes mentioned in the question.</p> <p>Credit any other relevant points</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
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	<p><b>Level 3 9 - 12</b> <b>Answers using throw-away evaluation</b> (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, <b>as will answers which do evaluate but have weak underlying analysis</b> (i.e. Relevant economic theory and principles are <b>not</b> fully understood, applied and analysed). <b>Answers with no evaluation cannot reach level 3.</b></p> <p><b>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</b></p> <p>Strong two-sided approach with developed arguments on each side</p> <p>9-10 Answer contains developed evaluation but is not fully convincing.</p> <p>Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. Or evaluation is present but lacks explanation.</p> <p>Evaluation is present but may simply outline the advantages and disadvantages of going ahead or not going ahead – likely to treat the taxes separately, not coming to a conclusion about the policy as a whole.</p> <p><b>11-12 In context answer</b>, comes to a conclusion about whether or not the policy taken as a whole is desirable. Answers here will have produced a convincing response to the question.</p> <p>Attempts to judge whether increases in VAT combined with direct taxes will work. Or candidate is effective at qualifying the arguments made on each side.</p> <p><b>Points might include:</b></p> <p>AD overall may well remain unchanged (cancelling effects) Likely to create strong incentives to enter the workforce (higher price level, higher reward from work) Likely to sharply increase income inequality <b>Or</b> simply comes to a reasoned conclusion based on their earlier analysis</p> <p>Credit any other relevant points</p>		

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7 1	<p><b>WTO warns that continued slow growth and high unemployment may lead to rising protectionism and currency wars</b></p> <p><b>Explain how a government could use its exchange rate to increase growth and reduce unemployment.</b></p> <table border="1" data-bbox="233 416 1230 2002"> <tr> <td data-bbox="233 416 363 719"> <b>Level 1</b>  <b>1 - 3</b> </td> <td data-bbox="363 416 1230 719"> <p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Candidates understand that a decrease in the exchange rate should help to raise actual growth and create jobs. Points not developed and not really explained, probably limited to a fall in the £ causes <math>P_x</math> to fall and <math>P_m</math> to rise meaning more jobs.</p> <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="233 719 363 1328"> <b>Level 2</b>  <b>4 - 6</b> </td> <td data-bbox="363 719 1230 1328"> <p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and show how a fall in the ex rate will bring about both desired outcomes.</p> <p>Weaker £ causes a fall in <math>P_x</math> because UK goods appear cheaper in forex terms. Therefore the demand for exports should rise.</p> <p>Weaker £ causes imported products to cost more in sterling terms, reducing the demand for imports and raising the demand for domestic substitutes.</p> <p>Together these should raise AD which should create higher GDP and more jobs. May draw an AD/AS diagram that isn't really used.</p> <p>Credit any other relevant points</p> </td> </tr> <tr> <td data-bbox="233 1328 363 2002"> <b>Level 3</b>  <b>7 - 8</b> </td> <td data-bbox="363 1328 1230 2002"> <p><b>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</b></p> <p>Candidate  Develops the impact of AD using relevant descriptive theory such as the multiplier, and explains clearly <b>why</b> GDP rises and <b>why</b> jobs are created.</p> <p style="text-align: center;"><b>Or</b></p> <p>Use a well-integrated AD/AS diagram to illustrate explaining why GDP rises, and using the diagram to explain why jobs will be created (e.g. reduction in negative output gap, or higher GDP requires more workers to make it etc.)</p> <p><b>Or</b>  Has explained <i>how</i> the government can bring about a reduction in the exchange rate in the first place as part of their answer (max 4 for just explaining <i>how</i>)</p> <p>Credit any other relevant points</p> </td> </tr> </table>	<b>Level 1</b> <b>1 - 3</b>	<p><b>Limited knowledge of relevant economic theory. One or two basic points made.</b></p> <p>Candidates understand that a decrease in the exchange rate should help to raise actual growth and create jobs. Points not developed and not really explained, probably limited to a fall in the £ causes <math>P_x</math> to fall and <math>P_m</math> to rise meaning more jobs.</p> <p>Credit any other relevant points</p>	<b>Level 2</b> <b>4 - 6</b>	<p><b>Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.</b></p> <p>Points are developed and show how a fall in the ex rate will bring about both desired outcomes.</p> <p>Weaker £ causes a fall in <math>P_x</math> because UK goods appear cheaper in forex terms. Therefore the demand for exports should rise.</p> <p>Weaker £ causes imported products to cost more in sterling terms, reducing the demand for imports and raising the demand for domestic substitutes.</p> <p>Together these should raise AD which should create higher GDP and more jobs. May draw an AD/AS diagram that isn't really used.</p> <p>Credit any other relevant points</p>	<b>Level 3</b> <b>7 - 8</b>	<p><b>The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.</b></p> <p>Candidate  Develops the impact of AD using relevant descriptive theory such as the multiplier, and explains clearly <b>why</b> GDP rises and <b>why</b> jobs are created.</p> <p style="text-align: center;"><b>Or</b></p> <p>Use a well-integrated AD/AS diagram to illustrate explaining why GDP rises, and using the diagram to explain why jobs will be created (e.g. reduction in negative output gap, or higher GDP requires more workers to make it etc.)</p> <p><b>Or</b>  Has explained <i>how</i> the government can bring about a reduction in the exchange rate in the first place as part of their answer (max 4 for just explaining <i>how</i>)</p> <p>Credit any other relevant points</p>	8	AO1 3 AO2 3 AO3 2
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