



GCE

Economics

H060/02: Macroeconomics

AS Level

Mark Scheme for June 2024

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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MARKING INSTRUCTIONS**PREPARATION FOR MARKING
RM ASSESSOR**

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training*; *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **number of required** standardisation responses.

YOU MUST MARK 6 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the RM Assessor messaging system, or by email.
5. **Crossed Out Responses**
Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

Rubric Error Responses – Optional Questions

Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

Multiple Choice Question Responses

When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add a tick to confirm that the work has been seen.
7. Award No Response (NR) if:
 - there is nothing written in the answer space

Award Zero '0' if:

- anything is written in the answer space and is not worthy of credit (this includes text and symbols).

Team Leaders must confirm the correct use of the NR button with their markers before live marking commences and should check this when reviewing scripts.

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8. The RM Assessor **comments box** is used by your team leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**
If you have any questions or comments for your team leader, use the phone, the RM Assessor messaging system, or e-mail.
9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.
10. For answers marked by levels of response:
- To determine the level** – start at the highest level and work down until you reach the level that matches the answer
 - To determine the mark within the level**, consider the following

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. Annotations

Annotation	Meaning	Standard Annotations for all papers	
	Correct – mark awarded		Must be used on all blank pages of QP and additional objects
	Incorrect		Noted but no credit given
	Benefit of doubt	Off Page comments	Should only be used by Team Leaders for training purposes
	AO1 – Knowledge and understanding		To highlight text within candidate responses
	AO2 – Applying knowledge and understanding		
	AO3 – Analyse		
	AO4 – Evaluation		
	Not answering question		
	Too vague		
	Own figure rule		
	Confused		
	Unclear		

12. Subject Specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should also ensure that you are familiar with the administrative procedures related to the marking process.

These are set out in the OCR booklet **Instructions for Examiners**.

If you are examining for the first time, you must carefully read **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

You must ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

If a candidate has written two answers for Section C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME

Study this Mark Scheme carefully.

The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades.

Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers.

The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after at a wide range of scripts are reviewed.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way.

The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed.

Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

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In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking.

Mark these answers according to the marking criteria.

Carefully read all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:

A: INDIVIDUAL ANSWERS

- 1 The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Using 'best fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
 - Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
 - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
 - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline', but they have only achieved some of the qualities in the band descriptors.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B: TOTAL MARKS

- 1 The maximum mark for the paper is 60.
- 2 The quality of the extended response is assessed on this part of the question paper which is identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response, and it must be considered when determining the mark to be awarded within the appropriate level.

UPDATED

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Strong	Precise knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using relevant and focussed examples fully integrated and good use of data where appropriate.	Correct analysis with consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis. An explanation of causes and consequences, fully developing the links in the chain of argument. Multistage chains of reasoning used throughout when developing links.	A conclusion is drawn weighing up both sides, considering extent and alternatives and reaches a supported judgement. Counter argument(s) are fully developed. A supported judgement is reached.
Good	Mainly accurate knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using some relevant and focussed examples to the given context and scope of the question. Some good use of data where appropriate	An explanation of causes and consequences, developing most of the links in the chain of argument. There will be mainly multi-stage chains of reasoning, but some may be less developed	A conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement. Counter argument(s) are fully developed. A judgement may be reached but will be weak or unsupported.

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Reasonable	Awareness of the meaning of economic ideas, principles, and models	Ability to apply economic ideas to some elements of the given context, although possibly inconsistent examples not always relevant to the given context and scope of the question. Some use of data where appropriate	There is correct analysis in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. An explanation of causes and consequences, which omit some key links in the chain of argument. Chains of reasoning are attempted but not fully developed.	Some attempt to conclude, which shows some recognition of the influencing factors, but without considering extent and alternatives. Counter arguments are considered but not fully developed.
Limited	Limited awareness of the meaning of economic ideas, principles, and models	Very little ability to apply economic ideas to some elements of the given context. Examples may be generic or irrelevant to the given context	There is little evidence of reasoning that addresses the question asked. Simple statement(s) of cause and consequence are used. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.	Unsupported statements or assertions, or no evaluation Counter arguments are simply stated.

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SECTION A

Multiple Choice Questions	Answers
1	C
2	B
3	A
4	B
5	A
6	C
7	B
8	D
9	D
10	C
11	D
12	B
13	A
14	C
15	A

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Question		Answer	AO	Quantitative skills
1	C	Rationale: A This is a trade deficit rather than a budget deficit B Budget surplus occurs when less is spent than received by the government C Correct: Budget deficit is where government expenditure is greater than revenue D If the national debt is falling then there must be a budget surplus	1	
2	B	Rationale: A Supply side as may be intended to raise labour productivity. B Correct: Fiscal as an increase in the rate of income tax is likely to reduce aggregate demand. C Supply side as the aim would be to increase firms' efficiency and lower their costs. D Supply side spending more on R&D may lead to advances in technology increasing productive capacity.	1	
3	A	Rationale: A Correct: As unlikely to move PPF outwards as this will not increase growth/output B Moves PPF outwards as output is likely to increase as people are more productive C Moves PPF outwards as output will increase as will be able to produce more efficiently D Moves PPF outwards as output is likely to increase with more people working	2	
4	B	Rationale: A Exchange rates are due to changes in currency values between two countries B Correct: The impact of inflation is removed when looking at real economic variables C Interest rates are either a cost of a loan or can be the return on savings held with a bank D Taxation is paid to the government and is the difference between gross and net income	1	
5	A	Rationale: A Correct: Boom is where actual GDP is above the trend value B GDP is falling and below trend C GDP is increasing but still remains below trend value D The point where GDP stops falling and begins to grow again but is still below trend value	1	
6	C	Rationale: A $324/674 \times 100$ B $1350/1674 \times 100$ C Correct: $1674/1350 \times 100$ D $674/350 \times 100$	2	Yes

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Question		Answer	AO	Quantitative skills
7	B	Rationale: A Expansionary fiscal policy as this is government spending on the economy B Correct: Contractionary monetary policy as higher interest rates will reduce borrowing C Expansionary monetary policy as QE will inject further money into the economy D Contractionary fiscal policy as it involves raising taxes	2	
8	D	Rationale: A Cheaper labour costs but dearer input costs B Technological advancements may help increase AS and falling AD from less employment C Increase in Government expenditure but Consumption and Investment are likely to fall D Correct: Increase in labour costs and an increase in AD due to higher demand for exports and more expensive imports	3	
9	D	Rationale: A 800/35000 B 1700/35000 C 2500/35000 D Correct: 800/10000	2	Yes
10	C	Rationale: A Those not looking for work are not covered in the definition of unemployment by the LFS B They need to be available to start work in 2 weeks rather than having been looking for work for 2 weeks C Correct: Stated in definition of measure that they are unemployed and available to begin work in two weeks D As they currently have a job, they cannot be included in the definition of unemployment	1	
11	D	Rationale: A Output unchanged as at full employment level B Unemployment unchanged as at full employment level C Output unchanged D Correct: Only prices increase	2	
12	B	Rationale: A Better information about vacancies will help unemployed people find jobs quicker B Correct: This will increase costs for firms, so they may be less willing to take on unskilled workers C As trade unions have less power, they will have less opportunity to limit the flexibility of the labour market D Training will allow workers to enter jobs that they previously did not have skills to do	1	

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Question		Answer	AO	Quantitative skills
13	A	Rationale: A Correct: $5-2-7+(8-6)=$ minus 2 B $5+8-7+6-2=10$ C $8-2-6=0$ D Can be calculated	1	Yes
14	C	Rationale: A Short run changes in the exchange rate can affect prices of imported inputs B Oil prices are an input cost and can change in the short run if there are supply issues C Correct: The state of technology is one of the assumptions that are taken as fixed in the short run D Wages are an input cost for firms and can change in the short run for example if there is an increase in demand	1	
15	A	Rationale: A Correct: $((220,000 \times 100/110) - 160,000)/160,000$ B $(220,000-160,000)/220,000$ C $(220,000-160,000)/160,000$ D $((220,000 \times 110/100) - 160,000)/160,000$	3	Yes

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SECTION B

Question		Answer	Mark	Guidance
16	(a)	Using Fig. 1, describe the UK's balance of trade in goods in January 2021. Deficit (1) £8bn - £16bn = - £8bn (1)	2	Annotate with ✓ One mark for stating it is a deficit One mark for any relevant use of data (e.g., the amount of imports <u>and</u> exports or the balance) For exports allow range of £7.5bn to £9.5bn For imports allow range of £17bn to £16bn Quantitative skills rewarded in this question

Question		Answer	Mark	Guidance
16	(b) (i)	Using Fig. 2, explain what happened to the Sterling to euro exchange rate from May 2020 to October 2020. The pound has depreciated /the euro has appreciated (1) $(1.15-1.10)/1.15$ (1) = 4.3% (2)	3	Annotate with ✓ One mark for stating that Sterling has depreciated (or euro has appreciated) AND Up to two marks for calculating the size of the depreciation Quantitative skills rewarded in this question

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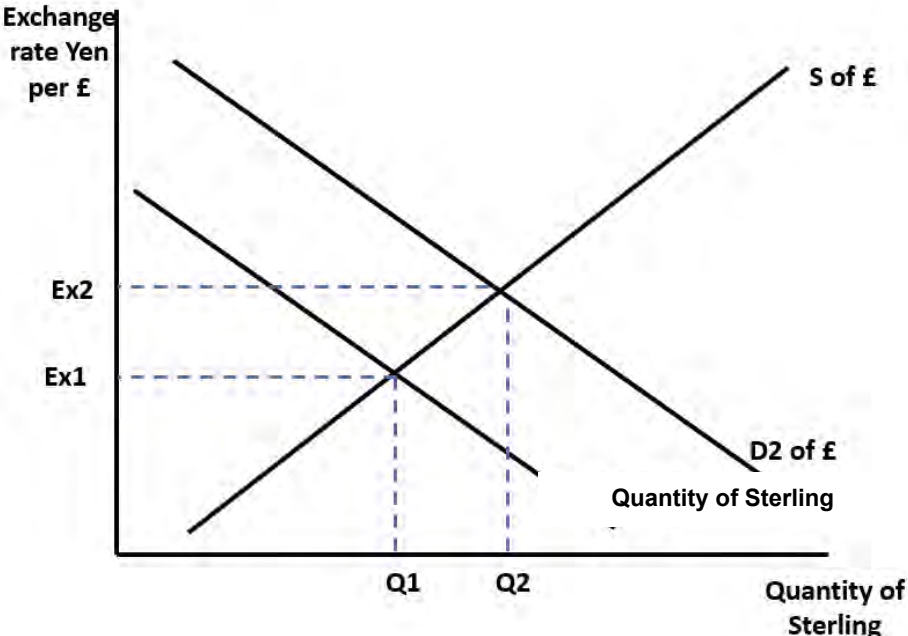
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Question		Answer	Mark	Guidance
16	(b) (ii)	Lines 28-29 refer to an expected increase in international trade with Japan. Explain one advantage of international trade for developed countries. It allows consumers more choice (1) as it gives access to goods that are not produced in their country (1) OR perceived better-quality products (1). It allows producers access to larger markets (1) and so make more profit (1) OR allows them to benefit from economies of scale (1). Allows access to raw materials (1) not available in their country as they are only found in certain locations (1). Allows consumers to buy products at lower prices (1) as specialisation leads to lower unit costs (1). Increased competition (1) improves productive efficiency lowering prices for consumers (1). May attract transnationals which provide capital, investment/skills transfer (1) therefore increasing employment/tax revenue /growth(1)	2	Annotate with  One mark for identification of an advantage of international trade One mark to explain the advantage

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Question		Answer	Mark	Guidance
16	(c)	The trade deal with Japan (lines 26-30) may have an impact on the exchange rate between Sterling and the Japanese Yen. Using a diagram, explain the possible impact on the Sterling to Yen exchange rate of an increase in demand from Japan for UK goods. Up to 3 marks for a diagram: • Accurate labelling of axes and curves (1) • A rightward shift in demand curve (D1 to D2) (1) • A rise in the exchange rate of sterling (1) Maximum 1 mark for a demand and supply diagram showing correct shift of D. Japanese customers will need Sterling to buy British goods (1) so that the exchange rate will appreciate if not shown on diagram (1).	4	Annotate with ✓ Ensure the axes are labelled correctly for exchange rates 

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Question		Answer	Mark	Guidance
16	(d)	Using information from the Extract, explain how the UK's circular flow of income would have been affected during 2020 and 2021. Exports to the EU fell <i>by 40.7%</i> (1). This will lead to a decrease in the circular flow of income (1) because exports are an injection (1). Savings increased <i>to £92bn</i> (1) this will lead to a decrease in the circular flow of income (1) as savings are a withdrawal (1). Imports <i>fell by 28.8%</i> (1). The circular flow of income would have increased (1) as imports are a withdrawal (1). Economic growth/GDP fell <i>by 2.9%/ 9% over the pandemic</i> (1). There will be a decrease in the circular flow of income (1). Consumption of non-essential goods fell (1).	4	Annotate with  Up to two marks for relevant evidence from the case study Up to two marks for explaining the effect on the circular flow Candidates must recognise the impact on circular flow for four marks Award any other relevant data taken from the case study – no need to quote the actual figures and dates. Do NOT reward examples that are not from the case study

16(e)* Evaluate the effect the increase in unemployment in November 2020 to January 2021 from the same period the year before, is likely to have had on the UK economy.

Level / mark	Descriptor
Level 3 (7-10 marks)	Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 2 (4-6 marks)	Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 (1-3 marks)	Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

16(e)* Evaluate the effect the increase in unemployment in November 2020 to January 2021 from the same period the year before, is likely to have had on the UK economy.

Question 16e Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Application

- Unemployment rose by 1.1%
- 1.7 million people unemployed November 2020 to January 2021 / 5% of the workforce

Analysis

- Individuals' disposable income falls reducing consumption and demand for firm's products and reducing their profits. Firms may have to reduce their workforce further
- Reduced confidence in the economy leads to reduced investment and increased saving reducing AD and GDP .
- Lower growth due to the inefficient use of resources.
- People may struggle to find another job, particularly in manufacturing, food services or accommodation sectors which have seen significant falls in output of 28%.
- Unemployment caused by reduced exports may not recover.
- Rise in social welfare spending/falling tax revenue causing opportunity costs/ increased fiscal deficit/national debt.
- Social costs particularly if focussed on certain regions/age groups

Evaluation

- Consumption may not fall as workers may have savings which they are willing to spend
- Cyclical unemployment may fall as the economy recovers
- Excess supply of labour causing downward pressure on wages/prices
- There may be potential for finding work in firms that are able to trade with Japan.

Possible Judgement(s)

- The time period is important. A short-term problem may not have much impact
- Longer term the impact may be more severe.

SECTION C

Level / mark	Descriptor
Level 4 (16-20 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Strong application of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 3 (11-15 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Good evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 2 (6-10 marks)	Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 (1-5 marks)	Limited knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement, or the absence of a judgement.
0 marks	Response is not worthy of credit

17* Evaluate, using an appropriate diagram(s), whether government spending to keep unemployment low will conflict with objectives a government may have for inflation.

Question 17* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

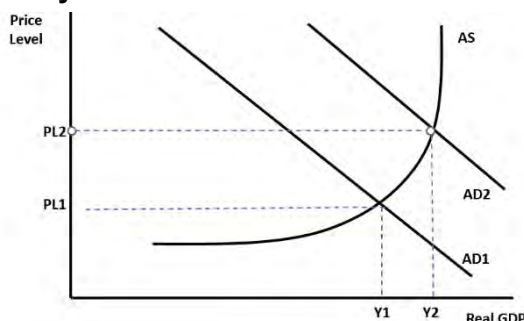
Knowledge and Understanding

- Fiscal policy is the use of government expenditure and taxation to try and achieve one of the government's macro-objectives.
- Expansionary fiscal policy involves a fiscal deficit
- Increased Government spending may conflict with the objective of a stable low inflation rate.

Application

- A huge increase in German government expenditure over the period with a 12.1% increase over the year to €1.700billion.
- Some of the money was given as subsidies to support firms.

Analysis



- Subsidies would have been used by firms to pay wages to worker and perhaps to invest in their business.
- The German government may also have given money to consumers to spend in shops or as unemployment benefits or other welfare payments.
- Increased government spending increases aggregate creating Demand pull inflation. This will shift the AD curve from AD1 to AD2 in the diagram. This will increase the price from P1 to P2 in the economy as shown in the diagram below.
- Increasing government spending negatively affects the budget .

Evaluation

- The level of inflation will depend on how close the economy is to full employment. At full employment wages may rise leading to cost push inflation.
- High unemployment in the economy/ economy is operating far below full capacity or there is deflation, there may not be a conflict with the use of expansionary fiscal policy
- If the marginal rate of withdrawals (Saving and imports) is high, then there may not be a conflict with low stable inflation.
- Low business confidence may encourage firms to use the government subsidies to pay off bank loans or save
- Spending on improved infrastructure, business investment grants or more training may lead to longer term faster economic growth and may lead to lower inflation in future years (LRAS shift outwards).

Judgement(s)

- Whether expansionary fiscal policy conflicts with the government's inflation objectives depends on where Germany is on the economic cycle, what firms spend the money on, the level of taxation, the inflation objective, and the current level of economic indicators.
- Better answers may consider what the government objective is for inflation. A low inflation objective will be more greatly affected than one which aims for a manageable level of inflation

18* Evaluate, using an appropriate diagram(s), the usefulness of GDP as an indicator of development.

Question 18* Guidance

The side of the argument presented first should be credited as **Analysis** with the other side credited as **Evaluation**.

Knowledge and Understanding

- GDP is a measure of total economic output in a country, and this is equal to gross national income in a country.
- GDP/ growth can be shown in Diagram 1 as a movement from Y1 to Y2 or in the LR by a movement from A to B in Diagram 2.

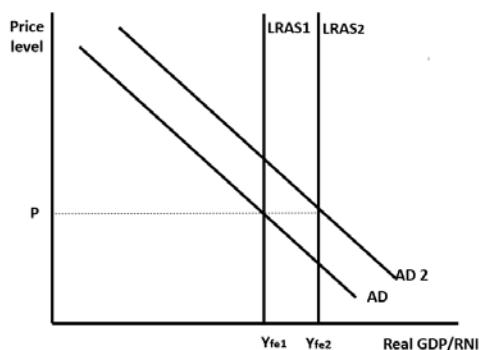


Diagram 1

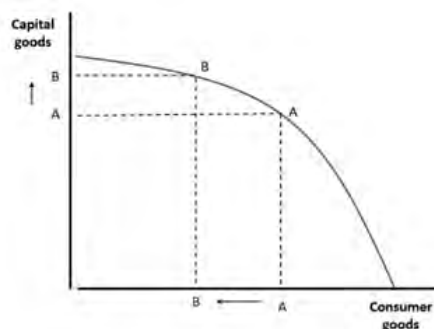


Diagram 2

- Development is a wider economic concept than growth as it considers quality of life indicators.

Application

- Slovenia's GDP is only around a third of that of Qatar
- Slovenia has a slightly higher HDI score of 0.9 versus Qatar's 0.86.

Analysis

- Economic growth leads to an increase in output and an increase in money flowing around the income and more resources available to everyone in the economy and higher incomes/standard of living
- Higher income generates increasing tax revenue allows additional resources to be invested in schools and health care which increases the educational and skills level of people, increases the opportunities available to citizens and increases life expectancy.
- Economic growth may lead to more employment which may facilitate the purchase of education and healthcare by individuals.
- HDI contains three components one of which is growth (GNI per capita not GDP) therefore improved growth will contribute to a rising HDI

Evaluation

- An increase in GDP with high inflation may not improvement the living standards.
- Population increasing by more than the increase in GDP means GDP per capita will fall.
- A highly unequal distribution with a large percentage of people living in absolute poverty may mean that it is harder to increase development.

- Corruption or a reluctance to invest in those in absolute poverty, may limit improvements in development.
- In many less developed countries, there is often a large informal economy which may mean GDP is underestimating the level of economic activity and therefore development.
- Growth maybe accompanied by increases in pollution/ stress increased crime which may lower standards of livings now and in the future.
- Growth maybe generated from increased output of capital goods which may reduce living standards and development in the short run but increase both potentially in the long run.(Diagram 2)
- HDI tends to provide a better long-term picture in that recent improvements in healthcare and schooling may take some time to come through.

Judgement(s)

- GNI maybe a better measure as this recognises the importance of external income which are not illustrated in GDP.
- Slovenia's government spends money on economic development such as improving healthcare and schooling for its people. Whilst Qatar may be spending more money on other things such as weapons or that there is more income inequality in Qatar than Slovenia.
- For developed countries GDP is probably a good indicator of development as government's often invest more in services that increase the wellbeing of its citizens and it is useful to compare over time or between countries.
- It is probably less useful for developing countries or in countries where there are large income inequalities where it may be more useful to use one of the HDI measures
- There are a number of other indicators such as the inequality adjusted HDI which use the three components of HDI adjusting for inequalities. HDI can also be calculated for females and males separately in a country to explore gender inequality. Other measures are also available including, percentage of working in agriculture, access to clean water, electricity, mobile phone ownership and internet access amongst many other indicators.
- None of these measures take account of other factors that some would argue are just as important such as gender inequality, quality of the environment such a clean air and happiness.

ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1-15	7	6	2		15	(4)
16(a)	1	1(1)			2	(1)
16(b)(i)	1	2(2)			3	(2)
16(b)(ii)	2				2	
16(c)	2	2(2)			4	(2)
16(d)	2	2			4	
16(e)*		1	4	5	10	
17*/18*	3	4(2)	6(3)	7(3)	20	(8)
TOTAL	18	18	12	12	60	(17)

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