Oxford Cambridge and RSA

GCE

Economics

H060/02: Macroeconomics

AS Level

Mark Scheme for June 2025

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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.

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 available in RM Assessor

3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **required number** of standardisation responses.

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. There is a NR (**No Response**) option. Award NR (No Response): - if there is nothing written at all in the answer space
   - OR if there is a comment which does not in any way relate to the question (e.g., 'can't do', 'don't know')
   - OR if there is a mark (e.g., a dash, a question mark) which is not an attempt at the question.

   Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).

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:
   a. **To determine the level** – start at the highest level and work down until you reach the level that matches the answer
   b. **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	
✓	Correct – mark awarded	BP	Must be used on all blank pages of QP and additional objects
✗	Incorrect	SEEN	Noted but no credit given
BOD	Benefit of doubt	Off Page comments	Should only be used by Team Leaders for training purposes
KU	AO1 – Knowledge and understanding	Highlight	To highlight text within candidate responses
APP	AO2 – Applying knowledge and understanding		
AN	AO3 – Analyse		
EVAL	AO4 – Evaluation		
NAQ	Not answering question		
TV	Too vague		
OFR	Own figure rule		
CON	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 ensure also 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
Please 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 we have looked at a wide range of scripts.
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.
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. Please mark these answers according to the marking criteria.
Please read carefully 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.

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 accurate with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides, considering extent and alternatives and reaches a supported judgement.
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. 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.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
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 have errors that affect the validity of the analysis or are not integrated into the response.	Counter arguments are considered but not fully developed. Some attempt to conclude, which shows some recognition of the influencing factors, but without considering extent and alternatives.
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. Absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.	Counter arguments are simply stated. Unsupported statements or assertions, or no evaluation.

SECTION A

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

Question		Answer	AO	Quantitative skills
1	**A**	Rationale: A **Correct:** encourages people to take a job (higher opportunity cost of being unemployed) B Discourages working C More people looking for work affects the supply of labour (potentially increases numbers unemployed) D Discourages working as fall in opportunity cost of being unemployed	1	
1	**B**	Rationale: A Floating exchange rate system – no target B **Correct:** Bank of England has an inflation target C BOE use interest rates to meet inflation target D National debt is government borrowings – no target	1	
3	**D**	Rationale: A Using natural resources B Production and manufacturing C Information technology D **Correct:** Service industry	2	
4	**A**	Rationale: A **Correct** Definition of government budget B This is the role of fiscal policy C Government budget deficit D Government budget surplus	1	
5	**B**	Rationale: A Deficit on both accounts is the same – not sustainable B **Correct**: Deficit on current account equals the surplus on the financial and capital accounts C Deficit on current account is greater than the surplus on the financial and capital accounts D Although figure for financial and capital accounts is greater than the current account, they are both in deficit	2	

Question		Answer	AO	Quantitative skills
6	**C**	Rationale: A Eurozone is 4.9% higher than Japan B UK was fastest C **Correct:** UK 10.6%; France 4.8% D Japan was slowest	2	Yes
7	**C**	Rationale: A Shifts LRAS to the left as less workers mean less output B Shifts LRAS leftwards C **Correct**: Increase in investment increases productivity potential and shifts LRAS to the right D Increase in wages shifts SRAS right	3	
8	**B**	Rationale: A Some of working age may have retired, be students or choose not to work (e.g., caring commitments) B **Correct:** Definition of full employment C Definition of voluntarily unemployment D Definition of unemployment	1	
9	**C**	Rationale: A 1980-2005 B 1983-2003 C **Correct**: c.12% to c. 34% D 1983-2020	2	Yes
10	**A**	Rationale: A **Correct:** definition of crowding out B Crowding out is not about exchange rates or trade C This describes the Laffer curve D Crowding out is not about interest rates	1	

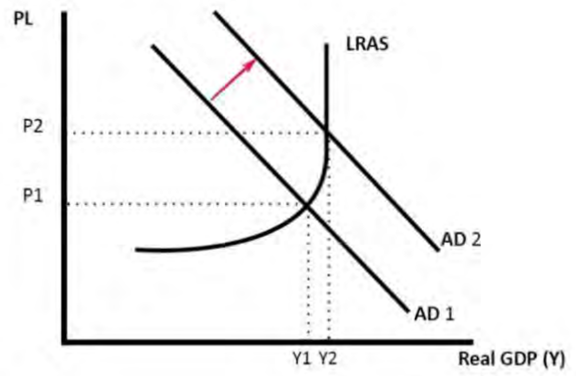
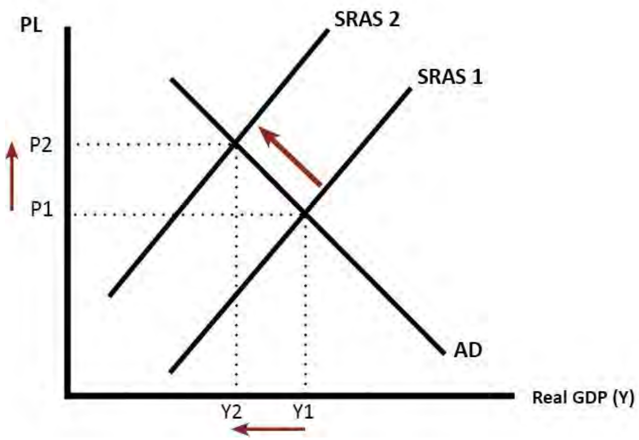
Question		Answer	AO	Quantitative skills
11	**D**	Rationale: A Economic growth was negative in 2020 and lowest over the period B Economic growth was lowest in 2020 (Confusion between GDP and change in GDP) C Although stable, economic growth was still positive over the period D **Correct:** Although falling, economic growth was still positive	2	Yes
12	**D**	Rationale: A Would be a decrease in government spending or increased taxation B Decrease in money supply C Would be an increase in government spending or reduction in taxation D **Correct:** Increase in money supply is expansionary	1	
13	**C**	Rationale: A There was a surplus in early 2020 B The surplus is only for the first 2 quarters C **Correct:** The surplus in Q1 & Q2 exceeds the deficit in Q3 & Q4 D There was a deficit for the whole year	2	Yes
14	**C**	Rationale: A Exchange rates determine the price paid overseas (and how many are sold) B Exchange rates determine the price paid for imports (and how many are purchased) C **Correct**: Exchange rates affect purchasing power not income D Exchange rates have an impact on purchasing power	1	
15	**B**	Rationale: A The proportion of indirect tax falls which is regressive B **Correct:** The lowest earners pay about 38% compared to 30%, 33%, 35%, and 35%, respectively C Although they pay the highest proportion of their income in indirect taxes, given their low level of income they will not be paying as much, in total, as higher earning households D This would require the total amount to be identical (as a percentage) for each group (see Answer B).	3	Yes

SECTION B

Question		Answer	Mark	Guidance
16	(a)	**Using Fig. 1, describe the difference in the inflation rate between the UK and USA in January 2023?** Inflation in the UK is higher than USA (1) by about 4% (1)	2	Annotate with ✔ One mark for UK being higher One mark for the calculation of 4% Allow reasonable range: for UK 10% - 10.2% for UK **Quantitative skills rewarded in this question**

Question		Answer	Mark	Guidance
16	(b) (i)	**Using Fig. 2, explain how real wages changed for workers in the UK private sector in January 2023?** Private sector wages increased by 7% (1) but as inflation was 10% (1) their real wages fell by 3% (1) They decreased (1) as prices increased by 3% (1) more than wages (1)	3	Annotate with ✔ No marks for stating CPI figure. No reward for considering public sector wages **Quantitative skills rewarded in this question**

Question		Answer	Mark	Guidance
16	(b) (ii)	**Using the case study, explain one disadvantage for the UK of relying on importing vegetables and salad crops?** Empty shelves/ reduced supply of vegetables (1) due to bad weather abroad (1) **OR** Higher prices (1) due to reduced supply abroad (1) **OR** Being pushed to the back of the queue for European produce/ foreign farmers selling their limited produce to other countries (1) due to BREXIT(1) **OR** Reduced supplies into the UK (1) due to delays at border crossing (1)	2	Annotate with ✔ One mark for identification of a disadvantage of international trade One mark to explain the disadvantage

Question		Answer	Mark	Guidance
16	(c)	**The UK government is concerned that "…large pay rises could push inflation higher". (lines 25-26) Using a diagram, explain how pay rises could push inflation higher.** **Up to 2 marks for a diagram:** • Accurate labelling of axes (1) • Accurate labelling of curves with correct right shift in AD (1) **OR** a leftward shift in AS (1). Up to 2 marks for explanation: **AD:** Workers would have more money to spend so consumption increases (1) which is a component of aggregate demand (1). **OR** **AS:** As wages increase this increases costs for firms (1) so firms reduce the amount they are able to supply (1)	4	Annotate with ✔ Ensure the axes are labelled correctly  

Question		Answer	Mark	Guidance
16	(d)	**Using information from the case study, explain two supply side policies the UK government could use to help farmers with rising costs.** Subsidies (1) which will help farmers with paying higher wages or higher energy costs (1) Increased immigration of workers (1) as worker shortages has led to having to pay workers higher wages (1) Reducing benefits/reducing taxes (1) may encourage more people into the workforce as many have opted to study or retire (1) Limiting the power of trade unions (1) as they tend to increase wage costs (1) Deregulation/remove regulations (or an example of a regulation) (1) which would reduce time and money needed to meet those regulations. (1) Answers may also come from any aspect of supply side policy, including privatisation, competition policy, investment in infrastructure and improved labour market flexibility.	**4**	Annotate with ✔ A mark for a relevant supply side policy and further mark for explanation (x2)

16(e)* Evaluate whether increases in UK inflation harm UK farmers?

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 whether increases in UK inflation harm UK farmers?

Guidance
The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation. **Application** • inflation is 10% in the UK with food inflation at 18.2% • food is a necessity • UK inflation higher than Italy, France, US and Germany • shortages increase costs leading to cost push inflation • worker shortages increased wages **Analysis** • The rising cost of energy creates cost push inflation and reduced profit. Some farmers may decide to reduce supply or not supply at all, as it is too expensive to heat greenhouses and purchase fertilisers • Workers may also ask for wage increases to cope with the higher cost of living further increasing costs for farmers • Increased foreign competition may mean the higher inflation in the UK makes UK farmers less internationally competitive reducing exports and domestic customers therefore farmers revenue and UK exports fall. • Farmers will also have to bear menu costs if they have to keep changing prices. **Evaluation** • Some farmers may be able to pass on all or some of these costs to customers by raising prices as most products produced by farmers are food products and are necessities with low demand elasticity • Foreigners may continue to purchase UK exports if the quality is seen as higher creating inelastic demand • The value of loan repayments for farmers will be lower in real terms • Demand pull inflation may be beneficial as higher prices and quantity purchased may lead to expansion of farming • Foreign inflation may result in farm prices abroad rising greater than UK prices leading to UK farmers becoming internationally more competitive **Possible judgements** **It depends on:** • how high the inflation rate is, if it is quite low it is likely to have less impact than a high rate • as food is generally inelastic in demand a rise in demand pull inflation could result in farmers' incomes rising • how long the high rate of inflation remains if its only for a short period the impact will be far less severe. If it persists, farmers are likely to lose business confidence and the uncertainty will mean they cut back on investment which will affect economic growth.

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 the opening of new coal mines will affect a policy of sustainable development.**

Guidance

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

Knowledge and understanding

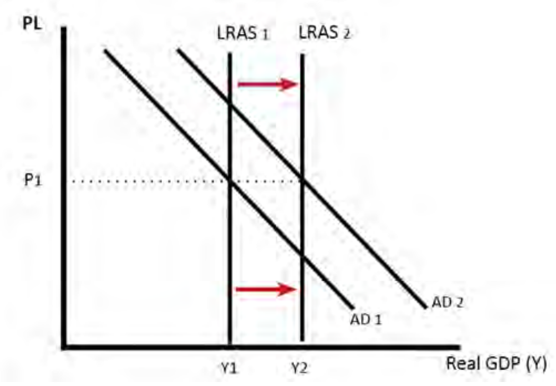
- Sustainable development when the needs of the present generation are met without impacting on future generations
- Opening a new industry will increase productive capacity

Application

- The UK government has a commitment to net zero targets
- The impact of increased land on output
- AD and AS

Analysis

- A new resource discovery/ utilisation such as coal will increase the capacity of the economy shifting LRAS rightwards
- Opening a coal mine this will help provide for the energy needs of the current generation and there may be sufficient coal to meet the needs of future generations.
- The mine will create new jobs locally and encourage other firms to set up. As production increases this will cause the LRAS to shift to the right and benefit the current generation as economic growth occurs. This will create a local multiplier impact improving economic growth in the area.



- Raised profit levels locally may lead to increased investment in other areas generating further sustainable growth
- Increased government tax revenue combined with falling benefit payments due to the automatic stabilising effect may allow further government investment to create sustainable growth
- This will reduce reliance on coal imports from abroad which may be beneficial in times of disputes with countries that produce coal. UK coal could also be exported helping increase exports and improving the balance of payments.

Evaluation

- Coal is a finite resource and is unlikely to be sustainable the supply will decline or even be used up completely therefore it is difficult to know how long the jobs /firms will exist
- Coal creates negative impacts on the local environment which will affect sustainability
- Increased job vacancies may create cost push inflation if there is a lack of unemployed workers or those with the required skills

Possible judgements

- it may be better for the UK government to devote resources to renewable and more cleaner energy sources and development of other clean energy sources which will create less environmental damage and not negatively effect the quality of life of future generations.

18. Evaluate, using an appropriate diagram(s), whether a loss of confidence in an economy will affect the exchange rate.

Guidance

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

Knowledge and understanding

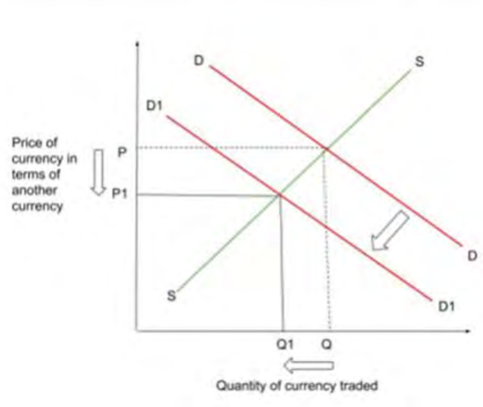
A loss of confidence in an economy means consumers and firms are feeling less certain about the UK economy and concerned about its future economic growth prospects.

Application

- Confidence impacts domestic and international consumption and investment decisions
- Floating exchange rate system
- Impact of the UK mini budget on expectations

Analysis

- Foreign investors are less likely to invest in the UK and invest elsewhere so reducing capital inflows and the demand for the pound falls causing the exchange rate for the pound to fall.
- High domestic inflation may cause UK citizens to purchase more imports because they have a high marginal propensity to import and the price of imports is now cheaper relative to home produced goods. There could be an increase in the supply of the pound as more foreign currency is demanded.
- Speculative traders will sell the currency as they expect demand for the currency to fall.



In the diagram quantity demanded has fallen from Q to Q1 and this has caused the demand curve to shift from D to D1 and the price of the currency in terms of another currency to fall from P to P1.

Evaluation

- Even if there is a loss of confidence in the economy if interest rates are relatively higher the country may still attract significant hot money flows, causing demand to remain high for the currency**.**
- Low confidence is likely to increase saving and reduce consumption and investment spending resulting in lower AD and imports of consumer goods reducing the supply of the currency and perhaps increasing the exchange rate.
- If the country is known for producing high quality/innovative products or products that cannot be purchased from elsewhere demand will be relatively price inelastic and the exchange rate will not fall as much.
- The exchange rate under a floating system is likely to self-correct, the fall in the exchange rate due to low confidence is likely to make the country's exports cheaper and therefore more attractive to foreign buyers and therefore as they purchase these, the demand for the currency increases causing an appreciation of the currency

Possible judgements

- Exchange rates are more likely to fall if confidence is low in the long-term rather than the short term
- Confidence is likely to impact domestic spending (consumption and Investment) which may impact future prospects but not short term exchange rates.

ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1-15	7	6	2		**15**	**5**
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**	**20**

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