GCE AS MARKING SCHEME

SUMMER 2024

AS
ECONOMICS - COMPONENT 2
B520U20-1

About this marking scheme

The purpose of this marking scheme is to provide teachers, learners, and other interested parties, with an understanding of the assessment criteria used to assess this specific assessment.

This marking scheme reflects the criteria by which this assessment was marked in a live series and was finalised following detailed discussion at an examiners' conference. A team of qualified examiners were trained specifically in the application of this marking scheme. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners. It may not be possible, or appropriate, to capture every variation that a candidate may present in their responses within this marking scheme. However, during the training conference, examiners were guided in using their professional judgement to credit alternative valid responses as instructed by the document, and through reviewing exemplar responses.

Without the benefit of participation in the examiners' conference, teachers, learners and other users, may have different views on certain matters of detail or interpretation. Therefore, it is strongly recommended that this marking scheme is used alongside other guidance, such as published exemplar materials or Guidance for Teaching. This marking scheme is final and will not be changed, unless in the event that a clear error is identified, as it reflects the criteria used to assess candidate responses during the live series.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response 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.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level-based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

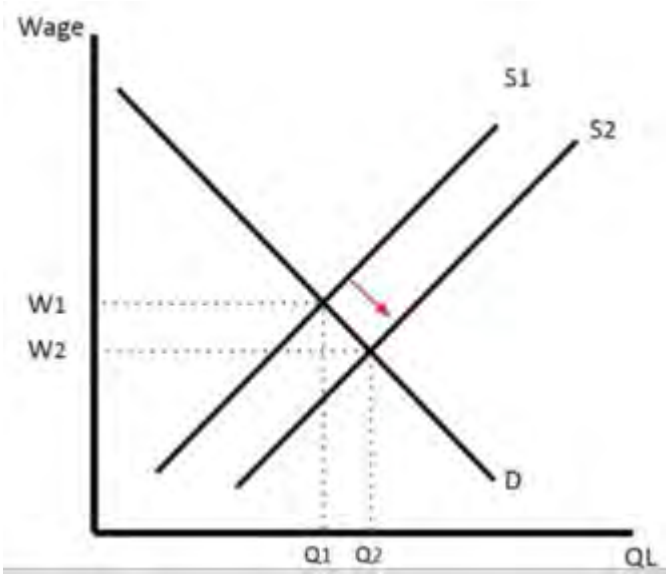
EDUQAS GCE AS ECONOMICS - COMPONENT 2

SUMMER 2024 MARK SCHEME

Q. 1 (a)	Using a diagram, outline the likely impact of new rail lines on the wages of workers in London. [4]	
Band	**AO1**	**AO1**
	2 marks	**2 marks**
	Is the diagram accurate and used?	Is understanding of the reason clear?
2	**2 marks** **Good understanding** Strong use of labour market diagram to show change in wage. There are no meaningful errors	**2 marks** **Good understanding** Clear and detailed understanding Of why demand or supply of labour changes
1	**1 mark** **Limited understanding** Weaker use of diagram to illustrate change in wage The diagram(s) is limited in scope or contains significant labelling errors	**1 mark** **Limited understanding** Of why demand or supply of labour changes
0	**0 marks** Diagram is not valid	**0 marks** No valid understanding

Indicative content:

AO1



Improved/increased transport links between the city and the suburbs should make it easier for workers living outside of the city area to provide their services to firms in the city reducing geographic immobility. As such the supply of labour should increase from S1 to S2 leading to a lower wage, W1 to W2.

Wages fall W1 to W2 due to excess supply, pulling down wages (but not below the min wage if shown on the diagram)

DEMAND FOR CONSTRUCTION WORKERS increasing their wage to be credited also.

Q. 1 (b)	Discuss the likely cross elasticity of demand between the car parks at Crossrail's Elizabeth Line stations and the number of tickets sold for Crossrail. [6]		
Band	**AO1**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**
	Is cross elasticity of demand understood?	Is the reasoning for cross elasticity of demand explained?	Is the answer debated and judged?
2	**2 marks** **Good Understanding** Of cross elasticity of demand in terms of substitutes or compliments	**2 marks** **Good Analysis** Developed lines of analysis explaining why the cross elasticity could be a complements	**2 marks** **Good evaluation** Comes to a reasoned judgement as to the likely cross elasticity and strength Counter argument is present and developed & overall judgement on likely strength
1	**1 mark** **Limited Understanding** Partial understanding of cross elasticity of demand in terms of knows the formulae	**1 mark** **Limited Analysis** There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial	**1 mark** **Limited evaluation** Counterargument is present and developed but lacks an overall judgement the question. Strong two-sided answers without an overall judgement or have a judgement that is unsupported will be in this band. Or one-sided answers with a judgment on the strength of the relationship without qualification
0	**0 marks** No valid understanding	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO1
Cross elasticity of demand (XED) measures the percentage change in quantity demand for a good after a change in the price of another.

Complements will have a negative cross elasticity of demand. Substitutes have a positive cross elasticity of demand.

AO3
As often households, including commuters, that take the train will drive to the station it could be deemed that there will be a weak cross elasticity of demand and so XED could be negative and inelastic. If the price of the car parks rises then the number of people parking would decease leading to decreased cross rail tickets sold might decrease slightly as the demand for trains may decrease slightly as some decide to drive the whole distance to work instead due to the higher cost of parking but it will be a weak complement as often households/commuters will still need to park at the station even though it is more expensive.

Strong compliment (in theory) arguments also allowed.

Analysing the relationship between price of train tickets and demand for parking also allowed.

At the limited range: Some may argue that the increase in price of train tickets may decrease the demand for car parks but again this could be a weak complement.

AO4
However, the strength of the XED depends on the substitutes available to the car park. If alternative options to get to the train station are available/cheaper such as walking/cycling, then the demand for train tickets may not change even if the price of car parks increase.

The strength of the XED depends on the size of the price change of stations. If exceptionally large then it may have a larger impact on the change in demand of train tickets.

The strength of the XED depends on the number of commuters that car share.

The strength of the XED depends on how easy it is for those using the train can substitute the train journey if the price of the journey increases.

Overall, it is likely to be a weak negative relationship as those that require a train to London are most likely to pay for parking even if the price goes up and still take a train as London suffers congestion slowing travel by car but that might depend on how high the price is increased to and availability of other transport methods.

XED could also be 0 as an unrelated good as non train users park in the car park for other reasons or 0 for those commuters who never drove to the car park and only walked or biked to the station.

Q. 1 (c)	Using Table 1, explain how the building of Crossrail's Elizabeth Line can lead to the benefits of the multiplier effect (line 11). [6]		
Band	**AO1**	**AO2**	**AO3**
	2 marks	**2 marks**	**2 marks**
	Is the multiplier effect understood?	Is the answer in context?	Is how the benefits are gained explained?
2	**2 marks** **Good Understanding** Of the multiplier effect in terms of bigger final increase in GDP than the initial injection	**2 marks.** **Good application** Case and data are used effectively to support argument on how the multiplier can be gained Clear reference to the data and case	**2 marks.** **Good analysis** Developed lines of analysis explaining how the benefits are gained
1	**1 mark** **Limited Understanding** Partial understanding of the multiplier effect	**1mark.** **Limited application** Learner makes limited reference to the data or case Case or Data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence	**1 mark.** **Limited analysis** Limited development of how the benefits are gained There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial
0	**0 marks** No valid understanding	**0 marks** No valid application	**0 marks** No valid analysis

Indicative content:

AO1
The multiplier effect occurs when an initial injection into the economy causes a bigger final increase in national income/real GDP.

AO2
£18.6bn initial investment.

Use of the data as below.

	Benefits
Estimated net economic benefit (through jobs created during construction, the operation of the line and time saved by improved accessibility)	**£43bn**
Jobs supported	**55 000**
Construction/supplier work awarded to UK businesses	**96%**
Suppliers that were small or medium sized businesses	**67.5%**
Estimated increased supply of high quality commercial and retail office space	**4.4million square metres**

AO3
This extra spending on Crossrail would cause an increase in output. Therefore, firms would employ more workers and pay higher salaries.

Therefore, these workers will also increase their consumption. This will lead to another injection into the economy for different businesses, causing higher Real GDP.

Award credit for arguments linking the above with the data from Crossrail.

The multiplier effect occurs when an initial injection into the economy causes a bigger final increase in national income/real GDP.

Q. 1 (d)	Evaluate whether increasing infrastructure is better than increased use of road pricing (line 13) to reduce market failure. [10]		
	AO1	**AO3**	**AO4**
	3 marks	**3 marks**	**4marks**
Band	Is there an understanding of government intervention of infrastructure and road pricing	Is there analysis of why and how they could reduce market failure	Is the answer debated and judged?
3	**3 marks** **Excellent understanding** Of infrastructure **and** road pricing	**3 marks** **Excellent analysis** Well-Developed lines of analysis explaining the impact of increased infrastructure **and** road pricing on market failure	**4marks** **Excellent Evaluation** Comes to a reasoned judgement on whether increased infrastructure or road pricing is better to reduce market failure in terms of effectiveness to reduce the market failure Counter argument(s) are present and developed
2	**2 marks** **Good understanding** Of infrastructure **or** road pricing	**2 marks** **Good analysis** Developed lines of analysis explaining either the impact of increased infrastructure and/**or** road pricing on market failure	**2-3 marks** **Good evaluation** Counter argument(s) are present and developed on whether increased infrastructure or road pricing is better to reduce market failure
1	**1 mark** **Limited understanding** Of infrastructure **or** road pricing or market failure	**1 mark** **Limited analysis** There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial Or arguments not focused on market failure	**1 mark** **Limited evaluation** Counterargument(s) are present, but none of them are well-developed or the evaluation is superficial. Or evaluation/judgment not focused on reducing market failure
0	**0 marks** No understanding	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO1
Government intervention on Infrastructure is the collection of systems and facilities that serve as the basis for the economic growth of a country, such as new rail, road or port facilities.

Government intervention on road pricing is a charge paid for using roads on a 'per-use' basis.

Market failure is the inefficient allocation of resources (either over allocation or under allocation) in a free market which causes welfare loss.

AO3
Increasing the quantity of infrastructure such as cross rail increases the supply of public transport. As such, in theory, leading to less demand of roads/congestion to the socially optimum level and thus less harmful negative externalities such as car emissions and external costs to 3rd parties.

Infrastructure can help decrease market failure in the labour market in terms of decreasing geographic immobility.

Increased road pricing in theory increases the price of the use of the road, leading to less demand for roads and use as the higher price decreases consumer surplus (diagram not needed but can be awarded). Thus decreasing demand to a more socially optimum level and decreasing congestion and associated negative impacts such as decreased productivity for 3rd parties.

Markers note: the question is focused around reducing market failure in contrast to the macro-economic benefits and drawbacks

AO4
But whether infrastructure is effective

But this depends on whether prices are attractive and incentivises use of the infrastructure. This could be unlikely as firms or government look to recoup some of the initial investment, though they may subsidise prices compared to the free market equilibrium to encourage use initially.

It also depends where the infrastructure is build. Infrastructure such as cross rail has a greater probability of being used heavily due to the high congestion rates in the area – this could be less true in areas with lower congestion.

It depends on the type if infrastructure being built as building more motorways/roads is unlikely to decrease the production of car emissions, whilst electric charging points could.

Road pricing

However, depending on where the road (s) is located and how necessary it is. This may depend on other options such as public transport.

May depend on how high the price is and the % of disposable income taken

In the short run it may have an effect but in the long run as consumers get used to increase price, demand returns to normal and the same quantity of roads is used as before, unless substitutes are as convenient or price attractive.

May decrease car usage but deliveries using vans and lorries will continue. As would essential journeys.

Which one is best? In the case of the market failure of congestion road pricing works more effectively where there are substitutes to encourage users out of the cars so infrastructure such as railways provides this option, but equally the pricing of roads can act as an incentive to encourage use. As such both are required – though it depends on what infrastructure is being built.

1. (e) (i)	Define the term Government failure and explain why the building of new infrastructure could be considered an example of government failure. [4]	
Band	**AO1**	**AO3**
	2 marks	**2 marks**
	Is government failure understood?	Is the explanation of why it could be government failure explained?
2	**2 marks** **Good understanding** Accurate understanding of government failure in terms intervention that can create net welfare loss	**2 marks.** **Good analysis** Developed lines of analysis explaining how the building of new infrastructure could be considered an example of Government failure in terms of a worse situation than before / net welfare loss / socially optimum worsened compared to before
1	**1 mark** **Limited understanding** Weaker understanding of government failure	**1 mark.** **Limited analysis** Limited development of how the building of new infrastructure could be considered an example of Government failure. There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial.
0	**0 marks** No valid understanding	**0 marks** No valid analysis

Indicative content:

AO1
A government intervenes to attempt to correct market failure, but its policy creates a net welfare loss

AO3
No need to use Cross rail but it may be used to support their argument.

Often new infrastructure is intended to lead to a net welfare benefit due to improved efficiency due to speed of transport but in the short run can cause unintended consequences that worsens efficiency due to the building leading to closed roads and congestion. During operations it could actually make this worse with localised congestion around stations, thus net welfare loss.

Often building new infrastructure is intended to lead to a net welfare benefit due to improved accessibility to areas of historic, cultural or tourist interest but can actually lead to other areas that are historic or cultural being harmed. As in the case of crossrail where the intention was to build this with minimal impact to local communities but concerns about the tunnelling under central London can cause unstable ground for the buildings above.

Often building new infrastructure is intended to lead to a net welfare benefit due to lower pollution but in the short run can cause unintended consequences of increased short-term pollution in the form of noise from building and air pollution from dust created. As in the case with crossrail where campaigners have concerns over noise and air quality during construction, so although the intention was to reduce air pollution from congestion, in the short run noise and air pollution increased by a greater amount, causing net welfare loss.

Q1 (e) (ii)	Using the data, assess the extent to which the building of Crossrail would be positive for the short run and long run macroeconomic performance of London and the South East. [10]		
Band	**AO2**	**AO3**	**AO4**
	3 marks	**3 marks**	**4marks**
	Is the answer in context?	Are the consequences explained?	Is the answer debated and judged?
3	**3 marks** **Excellent application** Case and data are used very effectively to support arguments on the extent to which building of the Crossrail's would be positive in the **Short and long run** for the macroeconomic performance of London and the south east. Answer is thoroughly embedded in the context/data.	**3 marks** **Excellent analysis** Detailed lines of analysis explaining the positive impacts on the **Short and long run performance** of London and south-east macro economy. Will focus on the long run/supply-side	**4 marks** **Excellent evaluation** Comes to a reasoned judgement as to the extent that the Crossrails would be positive in the **Short and long run** for the performance of London and south-east macro economy The evaluation is clearly set in the context Counter argument(s) are present and developed
2	**2 marks.** **Good application** Case and data are used effectively to support arguments on the extent to which building of the Crossrail's would be positive in the in the **Short and/or long run** for the macroeconomic performance of London and the south east. Clear reference to the data or case.	**2 marks.** **Good analysis** Developed lines of analysis explaining the positive impacts on the **Short and/or long run** performance of London and south-east macro economy	**2-3 marks.** **Good evaluation** **Short and long run** Counter argument(s) are present and developed

Band	AO2	AO3	AO4
	3 marks	**3 marks**	**4marks**
	Is the answer in context?	Are the consequences explained?	Is the answer debated and judged?
1	**1mark.** **Limited application** **Short run (AD) only** Learner makes limited reference to the data or case. Case or Data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence.	**1 mark.** **Limited analysis** **Short run (AD) only** Limited development explaining possible harm to at least either the positive impacts on the **short run (AD)** performance of London and south-east macro economy. There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial. Likely to focus on the demand side.	**1 mark.** **Limited evaluation** **Short run (AD) only** Counterpoints are present, but none of them are well-developed or the evaluation is superficial.
0	**0 marks** No valid application.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

Indicative content:

Answer is reversible

AO2
run more quickly through central London cutting travel times by 33% for 1.5 million users increasing productivity

run more quickly through central London cutting travel times by 33% for 1.5 million users making is more attractive to visit/work in London increasing AD

25% time saving to Heathrow, helping to attract more FDI in London by international businesses that rely on international travel.

Potential positive impacts	Value	Impact
Estimated net economic benefit through jobs created during construction, the operation of the line and time saved by improved accessibility the line brings to millions of people	£43bn	Short run: Mainly AD through increased G and Multiplier during construction. Long run: demand side: more jobs higher income LRAS: improved infrastructure, higher efficiency of transport, higher labour productivity increased LRAS Improved accessibility, decreased geographic unemployment, increased available human resources for London.
Jobs supported	55 000	Short run: AD through consumption Long run: AD & LRAS more profits for firms, thus investment
Construction/supplier work awarded to UK businesses	96%	Short run: Mainly AD through increased G and Multiplier during construction. Long run: AD & LRAS: more profits for firms, thus investment
Suppliers that were small or medium sized businesses	67.5%	Short run: Mainly AD through increased G and Multiplier during construction. Long run: AD & LRAS: more profits for firms, thus investment
Estimated increased supply of commercial and retail office space	4.4m at 12 sites	Long run: LRAS: increased quality of resources Could attract increased FDI as international firms are attracted to locate into London

AO3

Real GDP
Both an increase in demand side and supply-side growth leading to an increase in real GDP.
Increase in AD in the long run through an increase in consumption and investment effects.
Increase in LRAS through an increase in productivity, quantity and quality of resources.

Inflation
The increase in AD could cause demand pull inflation in short run but in the Long run this should be lessened by the increase in LRAS.

Unemployment/employment
The number of job vacancies needing filling could decrease as potential employees that were disincentivised to apply due to commuting distance and now willing and able to apply, increasing the supply of labour; willing to take up these opportunities where there were skills gaps beforehand.

Net Exports
Tourism could increase leading to an increase in invisible exports, improving the value of exports compared to the value of imports.
Arguments that start off with short run impacts but long run consequences can be credited if they are effectively explained.

AO4

Real GDP
Both an increase in demand side and supply-side growth leading to an increase in real GDP. This is likely to be beneficial as long as the increase in productivity occurs, as it could be that due to overuse the cross rails do not improve transport times as planned.
This is likely to be beneficial as long as the increase in the quantity and quality of resources are used, for example the increase office space may not be attractive for firm if there is increased home working.

Inflation
If AD grows faster than AS then a net increase of demand lead inflation could occur. This is quite possible as the London economy is affected by a large number of other factors and Crossrail is only one small element of the economy.

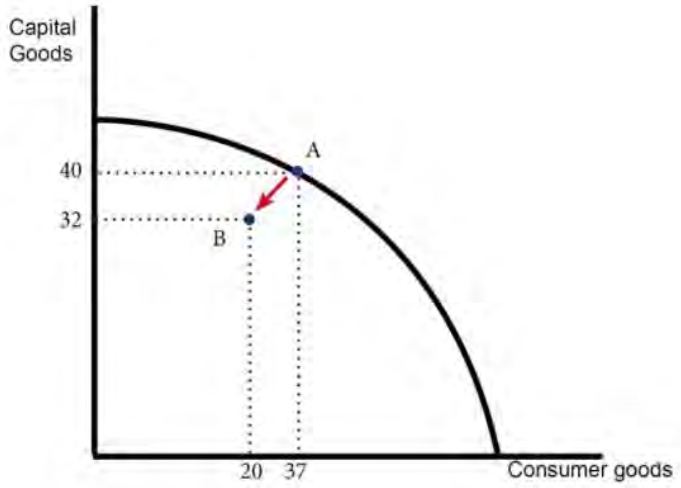
Unemployment/employment
Due to increased supply of labour, unemployment could increase in London as there is more competition to the local labour for new job vacancies in the area from those that live further out of London.

Whether skills gaps are closed depends on the availability of labour outside of London with those skills required and whether they were not already willing to commute into London.

Net exports
Tourism is affected by many factors and improving transport times from Heathrow is not likely to have a major impact. Other factors such as the exchange rate or ability to travel is likely to matter to a greater extent.

Q2 (a) (i)	Using a PPF diagram, illustrate the impact of a recession on an economy that consists of goods and services. [2]
Band	**AO1**
	2 marks For an accurate drawing with both the original curved PPF boundary and then then a movement of output of goods and services within it (identfied with an X or something similar).
	1 mark For a drawing of a PPF
	0 marks For drawing just axis

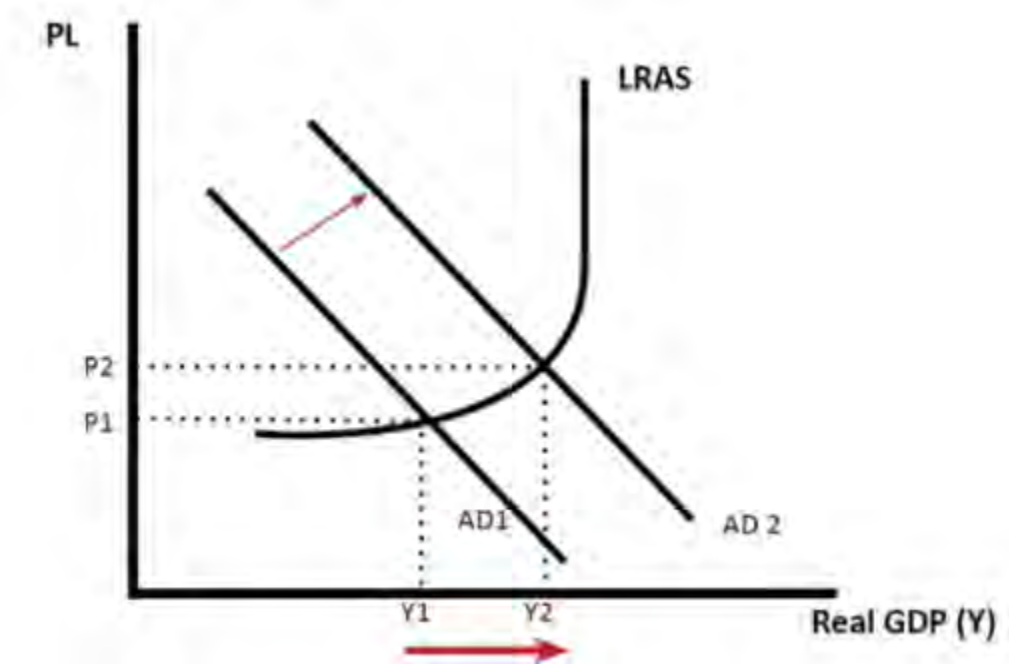
Indicative content:



Q2. (a) (ii)	Using an AD/AS diagram, explain how monetary policy (line 3) can be used to stimulate economic growth. [6]		
Band	**AO1**	**AO1**	**AO3**
	2 marks	**2 marks**	**2 marks**
	Is diagram correct?	Is understanding of monetary policy clear?	Is how monetary policy can stimulate economic growth explained?
2	**2 marks** **Good understanding** Accurate integrated AD/AS diagram showing an increase in AD due to the change in interest rates or confidence factors or asset values. There are no meaningful errors.	**2 marks** **Good understanding** A full understanding of the link between monetary policy and economic growth. Answers will have at least two of the monetary policy mechanism pathways fully understood.	**2 marks** **Good analysis** Developed lines of analysis explaining how monetary policy can stimulate economic growth.
1	**1 mark** **Limited understanding** The diagram is limited in scope or contains significant labelling errors. Or correct diagram but not integrated.	**1 mark** **Limited understanding** A partial understanding of the link between monetary policy and economic growth. Most likely only showing an understanding of cost of borrowing/reward of saving.	**1 mark** **Limited analysis** There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial.
0	**0 marks** No diagram or diagram is incorrect.	**0 marks** No understanding shown.	**0 marks** No valid analysis.

Indicative content:

AO1



AO1
Changing the central bank rate influences high street bank rates for lending and saving

Changing the central bank rate influences high street bank rates for lending and saving so can influence asset prices

Changing the central bank rate influences business and house confidence

Changing the central bank rate influences the exchange rate

AO3

Consumption –
increased through a lower cost of lending leading to higher borrowing on credit cards/personal loans leading to higher consumption as marginal propensity to save decrease/consumers increases.

Increased household confidence or discretionary income to due to lower mortgage costs of those on variable rate mortgages will have lower bills.

Increased asset prices – house demand increased due to lower mortgage costs leading to higher prices and so associated wealth effect or equity withdrawal. Higher profits for firm due to higher consumption. Higher share prices and so wealth effect for households with financial investments.

Investment
Cost of business loans decreases and so potential investments appear more financially viable as the profitability of the investment becomes greater than the cost of capital.

Higher profits lead to more funds available for investment.

Net exports
Exchange rate could depreciate due to decreased demand for the £ due to hot money capital inflows. As the £ depreciates the price of exports drop and the price of imports rise improving net exports. Foreign direct investment also becomes more attractive as it becomes cheaper to buy the £'s necessary to invest in the UK.

Award credit for use of quantitative easing if used but not necessary.

Q2 (b) (i)	Using the data, describe how the proposed new national investment bank and transformation funds could (i) decrease negative externalities. [4]	
Band	**AO1**	**AO2**
	2 marks	**2 marks**
	Are how decrease in negative externalities gained understood?	Is the data used to support how they create negative externalities?
2	**2 marks** **Good understanding** Understanding of what a negative externality is and how it can be decreased.	**2 marks** **Good application** Use of BOTH national investment bank and transformation funds to support the decrease in negative externalities.
1	**1 mark** **Limited understanding** Understanding of what a decreased negative externality is.	**1 mark** **Limited application** Use of national investment bank OR transformation funds to support the decrease in negative externalities.
0	**0 marks** No valid understanding.	**0 marks** No valid application.

Indicative content

AO1
Negative externalities occur when the consumption or production of a good causes a harmful spill-over effect to a third party.

Green transformation funds, energy efficient housing and decarbonisation - leading to less carbon dioxide emissions. Thus, decreasing the negative externality of the damage due to global warming – flooding, extreme weather on UK households.

AO2
A £250bn "green transformation fund" that would be spent over ten years, to put the UK on track for a net-zero carbon energy system within the 2030's.

A national investment bank that could provide another £250bn of low-cost loans to small businesses that support the government's industrial strategy such as energy-efficient housing and decarbonisation.

Q2. (b) (ii)	Using the data, describe how the proposed new national investment bank and transformation funds could (ii) increase positive externalities. [4]	
Band	**AO1**	**AO2**
	2 marks	**2 marks**
	Are positive externalities understood?	Is the data used to support how they create positive externalities?
2	**2 marks** **Good understanding** Understanding of what a positive externality is and how it can be increased.	**2 marks** **Good application** Use of BOTH national investment bank and transformation funds to support the increase in positive externalities.
1	**1 mark** **Limited understanding** Understanding of what a positive externality is.	**1 mark** **Limited application** Use of national investment bank OR transformation funds to support the increase in positive externalities.
0	**0 marks** No valid understanding.	**0 marks** No valid application.

Indicative content:

AO1
A positive externality occurs when producing or consuming a good cause a benefit to a third party. This means that social benefit will be greater than private benefit.

Improved Positive externality could benefit firms, customers, or other members of the family as 3rd parties.

AO2
Upgrades to schools could lead to higher skilled population which creates a positive externality to businesses due to higher productivity/improved service, benefiting firms in terms of higher profits or customers in terms of improved service.

Upgrades to hospitals lead to improved health of the population which creates a positive externality to businesses as they more available due to less ill health, thus benefiting from higher productivity or less output lost due to staff absences.

Improved social care, improves the wellbeing of those using it. Other members of the family might benefit.

Transformation funds:
A £150bn that would pay for upgrades to schools, hospitals, social care facilities would be spent over five years.

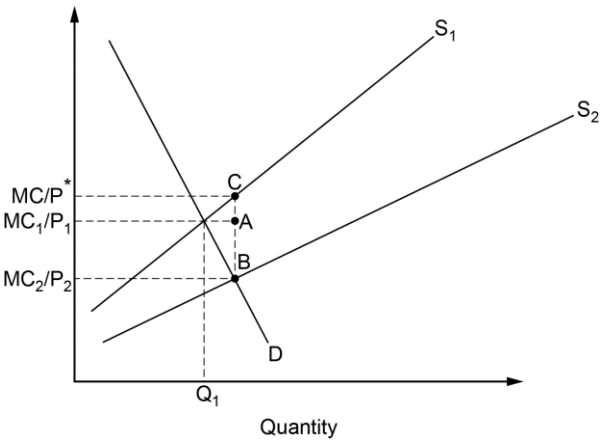
National investment bank:
A national investment bank that could provide another £250bn of low-cost loans to small businesses that support investment. Small businesses may invest and become more efficient, offering lower prices for customers. Or survive and offer greater choice for customers. Or jobs for employees.

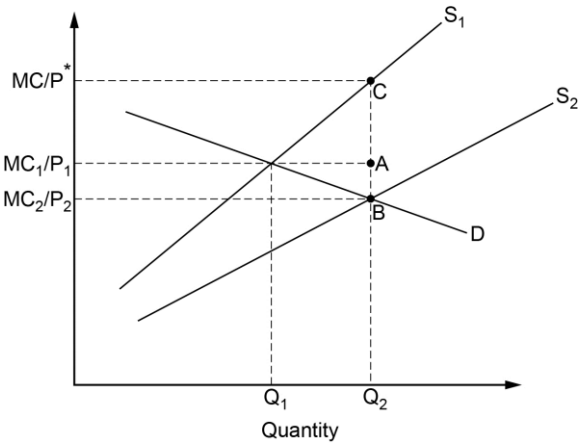
Q2. (c)	Using a demand and supply diagram, consider who benefits the most from a decrease in ad valorem tax (line 2), the consumer or the firms? [7]		
Band	**AO1**	**AO3**	**AO4**
	3 marks	**2 marks**	**2 marks**
	Is a diagram correct?	Is an impact of consumers and the firms explained?	Is the answer debated and judged?
3	**3 marks** **Excellent understanding** Use of demand and supply diagram that the shift in supply is a pivot shift downwards/right. And shows the incidence on consumers and producers OR consumer and producer surplus.		
2	**2 marks** **Good understanding** Demand and supply diagram that shows the incidence on consumers and producers but the right shift in supply is not a pivot shift. Or does a vat/pivot shift downwards/right. and identifies one of the incidences. Or one of consumer or producer surplus. There are no meaningful errors.	**2 marks**. **Good analysis** Developed lines of analysis explaining the impact on the consumer and producer.	**2 marks**. **Good evaluation** Comes to a reasoned judgement on the situation(s) where one party benefits the most from a cut in ad valorem tax. Counter argument(s) are present and developed.

1	**1 mark** **Limited understanding** Use of demand and supply diagram that shows a change in VAT with a pivot shift. Parallel supply shift given BOD.	**1 mark** **Limited analysis** Limited development explaining impact on either the consumer or producer. Or developed lines of analysis explaining one of them. There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial.	**1 mark** **Limited evaluation** Counterargument(s) are present and developed but lacks an overall judgement the question.
0	**0 marks** No diagram or diagram is incorrect.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

Indicative content:

AO1





AO3

Consumer incidence is greatest where PED is inelastic as the firm has to pass on more of the tax decrease to consumer to gain an increase in demand. The difference between P1 and P2 (A-B) is the consumer incidence/benefit and so when PED is inelastic consumers gain the most.

This is in contrast to when PED is elastic where the firm is required to pass less on the tax saving onto consumer to gain demand.

Whilst the difference between the original marginal cost MC/P* and the original price is the gain from the firm from the lower tax, which is maximised where PED is elastic in comparison to inelastic.

AO4

Who benefits the most depends on the PED of the good.
Who benefits the most depends on whether the firm decides to pass on any of the VAT tax saving onto firms at all, some businesses may decide to use the lower tax to lower costs and increase profits.

Whether either benefit depends on the type of good sold and the current level of VAT being charged on it.

Q2. (d)	Using the data from Table 1, discuss whether the proposed changes to UK tax rates are a good way to raise government revenue. [9]		
Band	**AO2**	**AO3**	**AO4**
	3 marks	**2 marks**	**4 marks**
	Is the answer in context?	Is the way they can raise government revenue explained?	Is the answer debated and judged?
3	**3 marks** **Excellent application** Table 1 is used fully to support arguments on whether the proposed changes to UK tax rates are a good way of raising government revenue. Answer is thoroughly embedded in the context/data.		**4 marks** **Excellent Evaluation** Comes to a reasoned judgement as to whether the financing proposals outlined are a good way of raising government revenue. The evaluation is clearly set in the context.
2	**2 marks** **Good application** Table 1 is used effectively to support arguments on whether the proposed changes to UK tax rates are a good way of raising government revenue.	**2 marks** **Good analysis** Developed lines of analysis explaining how proposed changes to UK tax rates are a good way of raising government revenue.	**2-3 marks** **Good evaluation** Comes to a reasoned judgement as to whether the proposed changes to UK tax rates are a good way of raising government revenue. Counter arguments are present and well developed.
1	**1 mark** **Limited application** Table 1 is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence.	**1 mark** **Limited analysis** There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial.	**1 mark** **Limited evaluation** Counterpoints are present, but none of them are well-developed or they are well-developed but lacks an overall judgement the question.
0	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO2
The graph shows that debt as a % of GDP appears to have increased greatly.

Income tax	1 560 000 paying more tax. Increase to 45% from 40% for individuals earning above £80 000 to £125 000, Re-starting 50% tax for above £125 000. Thus, raising more direct tax revenue from high income earners
Inheritance tax	increased to 40% of every £1 over an estate worth £350 000, instead of 40% of every £1 over £500 000. thus, raising more direct tax revenue from those with high net asset worth
Corporation tax	Increased to 26% from 20% thus raising more direct tax revenue from companies' profits
2nd home ownership	Annual tax on second homes that are used as holiday homes equivalent to 200% of the current council tax bill for the property thus raising more indirect tax revenue from those that can afford 2nd homes.

AO3
The increase in national taxation rates (income – as a % of income, inheritance – as a % of wealth, corporation – as a % of firms profits) could lead to higher direct tax revenues, helping to raise the revenue required to finance some of the government spending pledges, important at a time of increasing national debt.

2nd home ownership could raise revenues to help fund the policies indirectly through the tax itself and / or an increase in homes being sold and thus more tax gained from house transactions (stamp duty)

Increased income tax rates, increases progressive taxation.

Increased income tax, inheritance tax and 2nd home ownership tax could improve income inquality,given they are targeting higher earner or high wealth individuals as such could be beneficial.

AO4
Higher income and inheritance tax rates can lead to negative macro effects.

Higher corporation tax rates could lead to lower investment or firms taking more actions to avoid paying corporation tax rates in the UK, leading to little or no net increase in tax revenue.

The income tax rates and inheritance tax proposed could take the tax rates past the optimum point on a Laffer curve for those higher rate tax payers helping to encourage tax avoidance methods, but with methods to tackle this also proposed, then this could help decrease this occurring.

The income tax rates proposed could lead to those in higher incomes leaving the country with the associated “brain drain”, though it is only a small number being affected and only a small relative increase in tax – so unlikely to occur.

2nd home ownership tax revenues may lead to a large number of 2nd homes being sold and a significant drop in house prices, leading to more sales but less tax per sale raised. It might also lead to existing owners having less discretionary income and so less consumption and associated negative impacts such as lower GDP and VAT revenues.

Are they a good way – the direct taxation on the higher incomes and asset wealth appear sensible but the corporation tax less so given the history of large businesses avoiding it.

Q. 2 (e)	Using the data, discuss whether free university tuition or housing policies is the best way to improve income inequality. [8]		
Band	**AO2**	**AO3**	**AO4**
	2 marks	**3 marks**	**3 marks**
	Is the answer in context?	Are benefits fully explained?	Is the answer debated and judged?
		3 marks **Excellent analysis** Detailed lines of analysis explaining how free university tuition and housing policies can improve inequality.	**3 marks** **Excellent Evaluation** Comes to a reasoned judgement as to the extent to which free university tuition or housing policies is the best way to improve income inequality. The evaluation is clearly set in the context. Counter argument(s) are present and developed.
2	**2 marks** **Good application** Case is used effectively to support argument(s).	**2 marks** **Good Analysis** Developed lines of analysis explaining how free university tuition OR housing policies can improve inequality. OR Both addressed but one fully developed, other limited.	**2 marks** **Good evaluation** Counter argument(s) are present and developed judging the extent to which free university tuition or housing policies is the best way to improve income inequality.
1	**1 mark** **Limited application** Case is used, but its use is underdeveloped, taking the form of occasional reference rather than forming strong supporting evidence.	**1 mark** **Limited Analysis** There is a chain of reasoning, but its use of economic theory is underdeveloped for both or either free university tuition and housing policies; explanations are superficial.	**1 mark** **Limited evaluation** Counterpoints are present, but none of them are well-developed or the evaluation is superficial.
0	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO2
Free university tuition for all 3- and 4-year undergraduate degrees, instead of keeping tuition fees at their £9,250 level – allowing access to higher education.

Housing policies, including rent controls (maximum price for rent) in line with inflation – keeping the price of rent below the market equilibrium and so affordable whilst also limiting profits for landlords.

Tax on empty properties – encouraging these to either be rented or sold. Increasingly supply of housing in either market and decreasing prices.

Building 150 000 low income houses per year for those on low income – allowing cheaper housing costs.

AO3
The degree to which income is distributed unequally in an economy or population, a relatively small % of the population receiving a much greater % of the income.

Free university tuition could allow everyone to have access to degree level education without worries about taking on a large amount of debt, allowing all equal access to the degrees required to access the more highly skilled and higher paying jobs, in the long run helping to decrease the income inequality gap.

Rent controls with inflation could be used to decrease rent increases at a faster rate than inflation. This enables renters to not be taken advantage of by landlords that own multiple houses and rent them to create their income. Thus, when combined with the other taxes on 2nd home ownership decreasing income of those that gain income from asset wealth and supporting those on lower incomes.

Tax on empty properties, encourages owners to supply their properties to the rental market, lowering rent prices, helping those on lower incomes with affordability and increase their disposable income.

Building council homes and 150 000 low income houses per year. helping those on lower incomes with affordability and increase their disposable income.

AO4

Free university tuition could help, but depends on the courses studied – not all courses allow access to the same higher incomes as others. The access to specific courses and universities may still be limited to specific income groups.

In 2017, the Institute for Fiscal Studies stated this would add an extra £11bn a year to Government borrowing but figure likely to be higher as 45% of student loans will never be repaid – in the long run this may lead to higher taxes being required. These taxes are often indirect in nature and so regressive.

Depends on the timescale – courses are 3 to 4 years and then after this graduate training is required.

Rent controls could help but may create a problem of substandard/not well-kept accommodation, so may depend on how well monitored the maintenance of properties are. Building of council home and low-income housing, depends on where these are built and whether they are still affordable.

Which one is best? For longer term increased equality, access to higher income jobs is beneficial but in the shorter term rent controls could help, though the building of social housing will take a greater amount of time.