



GCE A LEVEL MARKING SCHEME

SUMMER 2025

**A LEVEL
ECONOMICS - COMPONENT 2
A520U20-1**

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.

GCE A LEVEL ECONOMICS – COMPONENT 2

SUMMER 2025 MARK SCHEME

Question 1

1	1	(i) On average, a typical household wheelie bin contains 65kg of waste. Using the April 2024 standard tax rate calculate how much will be paid in Landfill Tax if all this waste goes to landfill. [2]
---	---	--

AO2**2 marks.**

$\text{£}103.70/\text{tonne} \times 0.065 \text{ tonnes} = \text{£}6.74$

1 mark.

Partially correct method of calculation, such as

$\text{£}103.70 \times 65 = \text{£}6740.50$

$3.30 \times 0.065 \text{ tonnes} = \text{£}0.21$

(One element is correct – the tonnes or the rate)

0 marks

Neither element is correct

1	1	(ii) Using the data outline <u>two</u> external costs that result from household waste going to landfill [4]
Band	AO1	AO2
2	2 marks Good knowledge Strong understanding of what an external cost is	2 marks Good application Two examples of external costs are identified from the data
1	1 mark Limited application Weaker understanding of what is meant by an external cost	1 mark Limited application One example of external cost is identified from the data
0	0 marks No valid knowledge	0 marks No valid application

Indicative content

AO1

2 marks

Understanding of external costs is shown –

- Costs imposed on society which are not reflected in the price
- Costs which impact on third parties rather than those involved in the transaction/economic activity concerned.

1 mark

Looser sense of something affecting society with a weaker sense of why it is external in an economic sense.

0 marks

No elaboration/outline as to why there might be third party effects

AO2

Methane emissions are a powerful greenhouse gas.

Run-off from the sites may contaminate water supplies.

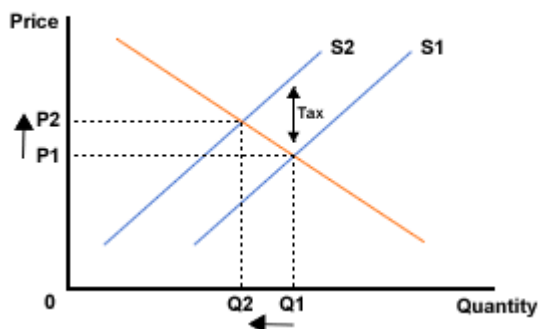
Landfill sites can also affect nearby households through noise and smells.

1	2	Using a demand and supply diagram, explain how a sharp rise in the Landfill Tax will cause prices to rise in industries that send a lot of waste to landfill. [4]
---	---	---

AO1

2 marks.

Accurate demand and supply diagram showing the supply curve shifting to the left causing a rise in price and fall in quantity.



1 mark.

Diagram is broadly correct but has minor errors (e.g. pivot in S) – landfill tax is per unit (figure 1)

0 marks

Diagram is incorrect (e.g. D shifts, AD/AS etc)

AO3

2 marks.

The landfill tax increases the costs of firms/firms taxed on the amount of waste they deposit (1)

This will cut supply (S1 to S2) and increase the price paid by the firms' customers (P1 to P2). Some diagram reference needed (1)

1	3	The Consumer Prices Index (CPI) rose by 8.7% in the 12 months to April 2023. Use the data to calculate the real change in the standard rate of Landfill Tax rate between April 2022 and April 2023. [4]
---	---	--

AO1 (2 marks)

Understanding of the difference between real and nominal terms is shown (1)

Understanding of the formula for conversion between nominal and real is shown (1)

$$\text{Value of 'a' in year 'b'} = \text{Value of 'a' in year a} \times \frac{\text{CPI year b}}{\text{CPI year a}}$$

AO2 (2 marks)

First mark (1)

$$£102.1 - £98.6 = £3.5.$$

$$3.5/98.6 \times 100 = 3.55\%$$

Second mark (1)

$$103.55 \times 100 / 108.7 = 95.26$$

$$95.26 - 100 = -4.74\% \text{ (allow -4.7\%)}$$

Allow:

$$3.55\% - 8.7\% = -5.15\% \text{ (allow -5.2\%)}$$

Deduct one mark for answers which don't have a minus sign/do not mention it is a negative real change.

Other possibilities:

Candidates who attempt to apply the 8.7% rate of inflation to the figures (e.g.) $£98.60 \times 1.087 = £107.18$ (1 mark)

Summary

Award total 4 for -4.74% (2+2)

Award total 3 for -5.15% (1+2)

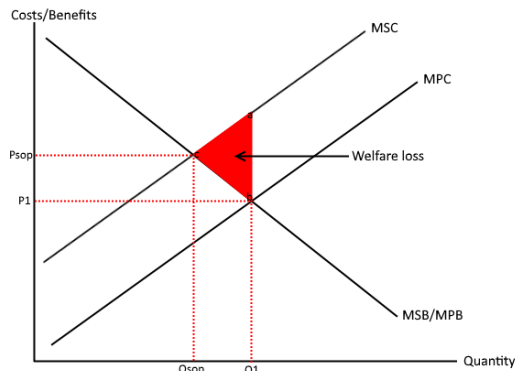
Award total 1 for £107.18

1	4	Using an externalities diagram and the data, evaluate the extent to which the Landfill Tax could correct the market failure caused by waste being sent to landfill. [10]			
Band	AO1		AO2	AO3	AO4
	2 marks		2 marks	3 marks	3 marks
3				3 marks Excellent analysis Well-developed chains of reasoning and the diagram are used to explain how the tax would correct market failure, showing how welfare loss will be reduced.	3 marks Excellent evaluation Developed chains of reasoning which come to a judgement about how effective the landfill tax might be in correcting market failure.
2	2 marks Good knowledge An accurate externalities diagram is drawn showing welfare loss being reduced by the implantation of an indirect tax.		2 marks Good application Candidate uses the data effectively to contextualise their answer for both sides of the argument.	2 marks Good analysis Detailed chains of reasoning and the diagram are used to explain how the tax would correct market failure.	2 marks Good evaluation Developed chain(s) of reasoning arguing that the landfill tax might be ineffective in correcting market failure.
1	1 mark Limited knowledge Externalities diagram is broadly correct but contains one major error or two minor errors.		1 mark Limited application Candidate's use of the data is superficial/limited and/or not effectively integrated to explanations. Or Data is only used to support one side of the argument.	1 mark Limited analysis Chains of reasoning exist but there is a lack of focus on market failure.	1 mark Limited evaluation Counterarguments are present but are under-developed.
0	0 marks Diagram has too many errors to be credited.		0 marks No application.	0 marks No valid analysis.	0 marks No valid evaluation.

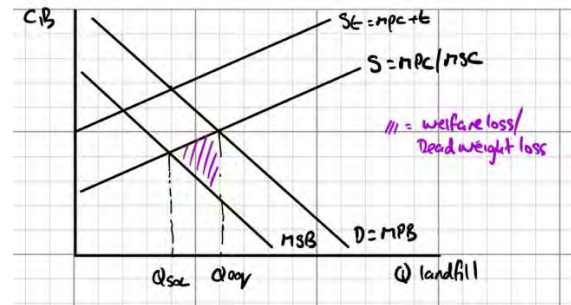
Indicative content.

AO1.

There is an argument that the existence of a landfill site in the first place is a result of consumption causing waste. Hence a negative consumption externality. Likewise, there are negative externalities from the operation of the site itself. Hence a negative production externality.



External cost in production



External cost in consumption

Award **1 mark** for an accurate negative externalities diagram (consumption or production) correctly showing the welfare loss.

Award a **second mark** for a shift in supply that shows a return/approach to the optimal output.

The tax would in theory be equal to the MEC.

No credit to be given just for a demand and supply diagram.

AO2

Tax encourages waste producers to encourage more sustainable waste management options e.g. recycling and incineration.

Use of figure 2 shows large drop in landfill tonnage from 2010 -2017 but this has flattened in recent years.

High landfill tax has encouraged fly tipping and criminal involvement in waste disposal e.g. illegal sites.

The large difference between the standard and lower rate has led to the misclassification of waste.

AO3

The tax internalises the externality (Tax = MEC) and corrects market failure taking the waste going to landfill to the social optimum (MSC =MSB).

Diagram is used effectively to support chains of reasoning.

Those who produce the waste pay for its disposal – the polluter pays principle.

Money raised by the tax could be invested to make alternatives to landfill cheaper and more readily available – ring fencing/hypothecation.

AO4

Difficult to accurately set a level of tax where it equals MEC.

The tax encourages illegal practices such as fly-tipping etc and misclassification of waste – possibly government failure.

Figure 2 suggests that in recent years the tax has not been effective in bringing down further the tonnage of waste being sent to landfill.

The tax will increase costs for firms and council tax bills for householders.

Overall judgement

The landfill tax has made a difference but more so in the past than the present.

Tax has not been increased enough in recent years.

Need for more effective recycling in the UK – low by European standards below the EU average.

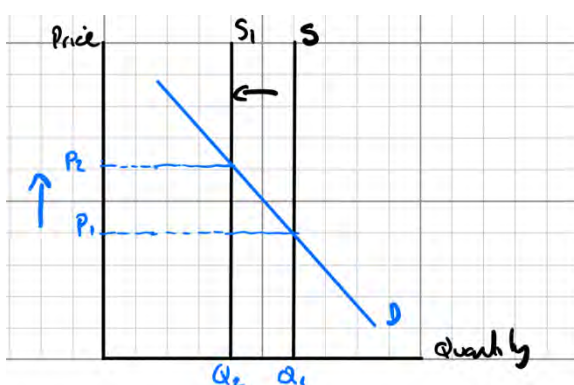
Other policies needed to support the tax.

**Answer is reversible.
Allow other plausible responses.**

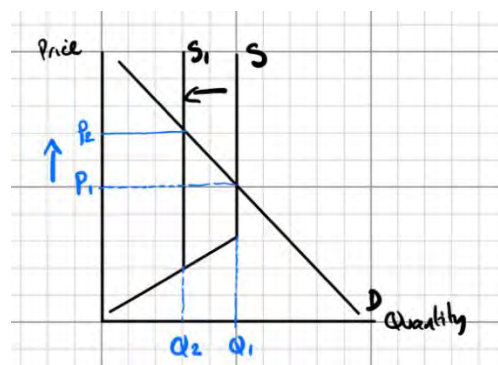
1	5	Using a demand and supply diagram explain why reducing the number of permits in the market for carbon from 1365 million to 936 million allowances/permits will in theory mean that industries “bring their emissions down at the rate needed to reach the UK’s goals for greenhouse gas emissions by 2050” (lines 44-46). [6]
---	---	---

AO1**2 marks.**

Accurate diagram showing a perfectly inelastic supply curve shifting to the left raising the equilibrium price of permits.



Or

**1 mark.**

Supply curve is shown as upward sloping to the right rather than perfectly inelastic.

AO3**4 marks.**

- Reducing the number of permits will shift the supply curve to the left/permits fall 1365-→936 million (1)
- The price of permits will rise as a result (1)
- The higher price/lower supply of permits will incentivise firms to reduce their emissions using cleaner methods of production (1)
- as that will be cheaper than buying permits at the higher price/reference to wanting to avoid having to buy permits (1)

1	6	Using the data, discuss the view that the use of tradeable pollution permits is better than a carbon tax as a means of reducing greenhouse gas emissions.			[10]
Band		AO2 3 marks	AO3 3 marks	AO4 4 marks	
3		3 marks Excellent application The data or own knowledge are used well on both sides of the argument.	3 marks Excellent analysis Well-developed chains of reasoning are in evidence supporting the view that tradeable pollution permits are superior to a carbon tax at reducing carbon emissions.	3-4 marks Excellent evaluation Well-developed arguments are present which challenge the view that carbon trading is better than a carbon tax. At the top of the band an overall judgment weighs up both sides of the argument.	
2		2 marks Good application The data or own knowledge are well used on one side of the argument.	2 marks Good analysis Developed chains of reasoning are in evidence supporting the view that TPPs can be effective in reducing carbon emissions.	2 marks Good evaluation Developed arguments are present which explain the weaknesses of TPPs/the superiority of carbon taxes in attempting to reduce carbon emissions.	
1		1 mark Limited application Some references to the context are present, but these are not well developed or embedded in the answer.	1 mark Limited analysis Chains of reasoning supporting carbon trading exist but lack detail and are not well developed.	1 mark Limited evaluation Counterarguments are present but are under-developed.	
0		0 marks No application.	0 marks No valid analysis.	0 marks No valid evaluation.	

Indicative content.

AO2

Clear signal to industry to invest in decarbonisation.
 Permits made available can be set to meet net zero targets.
 Free carbon allowances for some sectors.
 Permits as generous as they can be to meet net zero – extra allowances available between 2024 and 2027
 Scheme being extended to some new sectors
 Some sectors not in the scheme for some time – maritime 2026 and waste 2028.
 Tougher rules on aviation
 Significant fall in the total number of permits available (1365->936m = 31.4%)
 Scheme is focused on the long term - 2050

AO3

Permit system is a market-based solution to reducing emissions.
 Firms are free to choose the most cost-effective way of meeting permit requirements.
 They have an incentive to develop better technology which limits carbon emissions.
 A major benefit relative to a carbon tax is that pollution should be reduced in the most efficient way – those firms which find it easiest/least damaging to reduce pollution will be the ones that do so, meaning fewer resources have to be used in the pollution reduction process.
 The idea of carbon trading is for governments to gradually reduce the number of available permits from year to year to meet emission targets. Therefore, firms need to increasingly find more ways to reduce carbon emissions.
 Firms have greater certainty around their legal limit.
 Carbon taxes (as opposed to TPPs) need to estimate the level of the external cost.

AO4

A carbon tax may be more simple, transparent and easy to administer.
 Carbon taxes raise revenue directly for the government, whereas TPPs don't necessarily do this.
 There are transaction costs involved in buying and selling permits.
 Too often carbon trading schemes have issued too many permits or given them away making the scheme ineffective. If the price of permits is low, they may decide to buy more.

Overall effectiveness in reducing carbon emissions.
 Carbon taxes are effective if they are complemented by programs that ensure people are not made worse off from increases in fossil fuel costs.
 Carbon trading: Improper reporting and discrepancies in maximum GHG levels between countries limits carbon credit effectiveness on a global scale.
<https://www.lse.ac.uk/granthaminstitute/explainers/which-is-better-carbon-tax-or-cap-and-trade/>

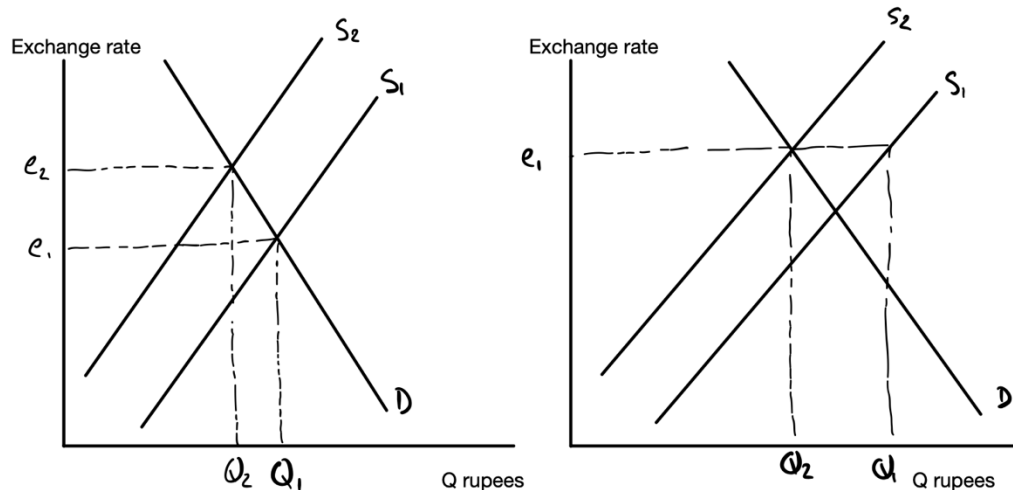
**This answer is reversible.
 Allow other plausible responses**

Question 2

2	1	(i) Use an exchange rate diagram to outline how import restrictions would have stopped the rupee from depreciating. [4]
---	---	---

AO1 Diagram (2 marks)

Well-labelled exchange rate supply and demand diagram showing why the rupee doesn't fall. One of the two below is most likely:



For an accurate well-labelled diagram, embedded as part of the answer: 2

For an accurate diagram that contains significant errors/isn't embedded/referred to: 1

For an incorrect diagram or a diagram that contains significant errors **and** isn't embedded/referred to: 0

AO1 Outline (2 marks)

Understanding that:

- (i) Imports are part of the supply of rupees onto the market (1 mark).
- (ii) Falling imports will reduce supply, stopping the exchange rate from falling. (1 mark).

2	1	(ii) Using the data, discuss the possible macroeconomic benefits to Pakistan of ending the policy of keeping the exchange rate artificially above its free market level. [10]		
Band	AO2		AO3	AO4
	3 marks		3 marks	4 marks
3	3 marks Excellent application The data is used well on both sides of the argument.		3 marks Excellent analysis Well-developed and wider-ranging chains of reasoning explaining how ending the policy of supporting the rupee might be beneficial to the economy of Pakistan.	3-4 marks Excellent evaluation Well-developed chains of reasoning explaining why removing support for the rupee might not be beneficial to the economy of Pakistan. Answers at the top of the band will have a well-reasoned overall judgement as to how beneficial the decision is likely to prove.
2	2 marks Good application The data is well used on one side of the argument or more weakly on both.		2 marks Good analysis Developed chains of reasoning explaining how removing support for the rupee/allowing it to fall might be beneficial to the economy of Pakistan. Range of issues might be narrow.	2 marks Good evaluation Developed chains of reasoning explaining why removing support for the rupee might not be beneficial to the economy of Pakistan. Range of issues might be narrow.
1	1 mark Limited application Use of the data is less effective. Relevant data has been used but not well developed.		1 mark Limited analysis Chains of reasoning exist but are under-developed.	1 mark Limited evaluation Counterarguments are present but are under-developed.
0	0 marks No valid application.		0 marks No valid analysis.	0 marks No valid evaluation.

Indicative content

AO2

Inflation high – 38% in June 2023 – rising import prices will make this worse – already creating protests and damaging living standards. Stampedes at food distribution points and looting of lorries show how serious the problem has become.

The 2022 floods will make Pakistan even more dependent on imports and have reduced export capacity in the textiles sector.

Pakistan has had a significant current account deficit for many years – the currency depreciating is likely to make this worse in the short run.

Pakistan very dependent on imported fuel and wheat.

Consumers already suffering from the removal of fuel subsidies and increase in indirect taxes.

Weak rupee may further exacerbate brain drain.

Weaker growth may damage the precarious fiscal position.

But

Government won't need to support the currency anymore – less drain on currency reserves (can be used to service external debt - \$35bn/year needed for next 5 years) and less need for import restrictions.

Foreign currency reserves have fallen sharply in recent years – supporting the rupee would have contributed to this problem.

Removing intervention was a necessary condition to access the IMF's \$3bn bail-out package.

Short run impact might not be too severe – current account currently in surplus.

AO3

Allowing the rupee to fall/not supporting it any more might be positive:

No need for the government to intervene to support the currency meaning:

- (i) Fewer restrictions on imports which will allow businesses to expand/raise choice for consumers.
- (ii) Reduce the need for forex reserves to be used up; \$ can be used to service the external debt instead.

Removal of intervention was necessary to access the IMF's support package.

Weaker rupee might help to improve Pakistan's current account in the longer term – will depend on import and export elasticities.

In the long run, weaker rupee may help the economy to grow, reducing unemployment and increasing the overall tax yield.

Short run impact might not be too severe – current account currently in surplus.

AO4

Keeping rupee high/preventing it from falling might be positive/allowing it to depreciate might be negative:

Falling rupee likely to exacerbate cost push inflationary pressures as prices of final goods and components are driven up.

Pakistan's import dependency will make PED for imports low – Marshall-Lerner highly unlikely to hold in the short run, so weaker rupee may worsen the current account balance.

Floods may increase the demand for imports meaning that the weaker currency will be doubly bad.

The 2022 floods have damaged Pakistan's ability to export meaning that the ability to benefit from a weaker rupee is diminished – again Marshall-Lerner unlikely to hold in the short run.

Weaker currency likely to damage growth in the short run, making it harder for the government to balance the budget.

Cost push inflation resulting from higher import prices may trigger job losses and rising unemployment.

**Answer is reversible.
Allow other plausible responses.**

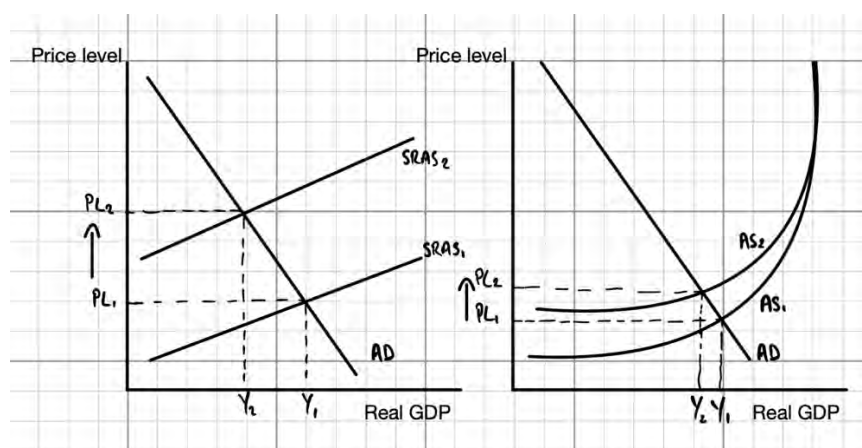
2	2	(i) Using the data and an AD/AS diagram, explain <u>two</u> reasons why inflation rose in Pakistan (Figure 2). [6]		
Band		AO1	AO2	AO3
		2 marks Good knowledge	2 marks Good application	2 marks Good analysis
2		Accurate diagram showing cost push inflation, integrated as part of the answer	Two reasons are identified from the data	Two reasons are developed and linked to how inflation will be caused
		1 mark Limited knowledge	1 mark Limited application	1 mark Limited analysis
1		Diagram showing cost push inflation is present, but is not integrated or isn't appropriate	One reason is identified from the data	One reason is developed and linked to how inflation will be caused
		0 mark	0 mark	0 mark
0		No knowledge or understanding shown	No valid application	No valid analysis

Note – there is nothing in the case to suggest that demand pull inflation is present and this should not be credited.

Indicative content

AO1

Inflation is cost push. Diagrams are likely to be one of the following two.



AO1: 2 Accurate diagram, referred to as part of the answer.

AO1: 1 Diagram not integrated, errors, LRAS only.

AO1: 0 Inappropriate diagram e.g. micro, D pull alone.

AO2

Falling rupee increased import prices, driving up firms' costs.
Supply chain factors driving up prices due to shortages after the floods.
Increased indirect tax rates/removal of fuel subsidies.

AO3

Reasoned explanation as to why prices are higher. Chain of reasoning exists between the AO2 factor and higher inflation.

Weaker rupee – drives up the cost of imported goods and raw materials meaning that firms will have to pass this on to consumers to avoid making a loss.

Supply chain factors create shortages in markets, driving up prices for consumers and increasing firms' costs.

Removal of fuel subsidies will lead to an immediate increase in fuel prices – these have been kept artificially low by state intervention.

Increased indirect taxes drive up firms' costs, meaning that firms will have to pass this on to consumers to avoid making a loss.

2	2	(ii) Using the data, discuss how effective the increase in interest rates is likely to have been in returning Pakistan's inflation to target. [10]		
Band	AO2		AO3	AO4
	3 marks		3 marks	4 marks
3	3 marks Excellent application The data is used well on both sides of the argument.		3 marks Excellent analysis Well-developed and wider-ranging chains of reasoning explaining why increasing interest rates will be effective in reducing inflation to Pakistan's target.	3-4 marks Excellent evaluation Well-developed chains of reasoning explaining why increasing interest rates will be ineffective in reducing inflation to Pakistan's target. Answers at the top of the band will have a well-reasoned overall judgement as to how effective the increase in interest rates is likely to be in returning Pakistan's inflation rate to its target.
2	2 marks Good application The data is well used on one side of the argument or more weakly on both.		2 marks Good analysis Developed chains of reasoning explain why increasing interest rates will be effective in reducing inflation. Range of channels of impact might be narrow.	2 marks Good evaluation Developed chains of reasoning explain why increasing interest rates might not be effective in reducing inflation.
1	1 mark Limited application Use of the data is less effective. Relevant data has been used but not well developed.		1 mark Limited analysis Chains of reasoning exist but are under-developed.	1 mark Limited evaluation Counterarguments are present but are under-developed.
0	0 marks No valid application.		0 marks No valid analysis.	0 marks No valid evaluation.

Indicative content

AO2

Interest rates have increased very significantly (Figure 3: 7%→22%).

Rupee has fallen very sharply and is an important cause of inflation. Higher interest rates might help to counteract this.

Higher interest rates are contracting growth – forecast to be only 0.4% in 2023, suggesting that an impact is being had.

Inflation fell at the end of the period – perhaps suggesting that rate rises are beginning to bite.

But

Inflation is well above target (Figure 2) – 30%+ for most of 2023. Target is 5-7% so big reduction is needed.

Workers pressing for higher wages through protests – suggests inflation may be becoming embedded (inflationary expectations).

Exchange rate has fallen very sharply, and underlying conditions are unstable – will be hard to attract hot money inflows.

Interest rates have been rising steadily for 18 months but inflation has continued to rise.

Inflation seems to be cost push –

- Problems with supply chains after the floods
- The removal of fuel subsidies
- The increase in indirect taxes
- The impact of the collapse in the rupee on import prices – high dependency on imported fuel and food
- Brain drain will reduce labour supply, possibly pushing up wages and driving inflation higher

AO3

In principle higher interest rates should reduce inflation because of the effect on consumption, investment and the exchange rate.

Consumption will be likely to fall as a result of the higher cost of borrowing and incentive to save. Likewise, asset prices may be reduced.

Investment may fall firstly as a result of the higher cost of borrowing and secondly if higher interest rates curb consumption.

In principle higher interest rates will lead to inflows of hot money, pushing up the exchange rate. This should reduce the price of imports (finished goods and raw materials) and reduce export demand.

Falling AD will increase competition between firms, making it harder for prices to increase whilst lower import prices will help to alleviate cost pressures.

AO4

Higher interest rates might not succeed in reducing inflation to target.

Most of the inflation is cost push, meaning that there is a limit to how much a reduction in demand will achieve.

Higher interest rates might not increase the exchange rate if the economy is in turmoil.

Higher interest rates might increase some costs – firms with variable rate loans, workers demanding cost of living increases as a result of higher borrowing costs.

Inflation currently very high – reducing to 5-7% is a significant reduction.

Rate rises generally have time lags inherent within them – takes time for economic actors to respond – but some sense that inflation might be falling at the end of the period covered by Figure 2.

**Answer is reversible.
Allow other plausible responses.**

2	3	Using the data, discuss whether the IMF's fiscal recommendations (lines 16-22) are likely to be beneficial for Pakistan. [10]		
Band	AO2		AO3	AO4
	3 marks		3 marks	4 marks
3	3 marks Excellent application		3 marks Excellent analysis	3-4 marks Excellent evaluation
	The data is used well on both sides of the argument.		Well-developed and wider-ranging chains of reasoning explaining why the IMF's fiscal recommendations were likely to be beneficial in Pakistan.	Well-developed and wider-ranging chains of reasoning explaining why the IMF's fiscal recommendations were not likely to be beneficial in Pakistan. Answers at the top of the band will have a well-reasoned overall judgement as to how beneficial the IMF's intervention was likely to have been for Pakistan's economy.
	2 marks Good application		2 marks Good analysis	2 marks Good evaluation
	The data is well used on one side of the argument or more weakly on both.		Developed chains of reasoning explaining why the IMF's fiscal recommendations might be beneficial to the economy of Pakistan. Range of issues might be narrow.	Developed chains of reasoning explaining why the IMF's fiscal recommendations might not be beneficial to the economy of Pakistan. Range of issues might be narrow.
1	1 mark Limited application		1 mark Limited analysis	1 mark Limited evaluation
	Use of the data is less effective. Relevant data has been used but not well developed.		Chains of reasoning exist but are under-developed.	Counterarguments are present but are under-developed.
0	0 marks		0 marks	0 marks
	No valid application.		No valid analysis.	No valid evaluation.

Indicative content

AO2/AO3

Beneficial

Interest payments forming over 50% of annual budget.

Foreign lenders need to be repaid \$35bn per year over the next 5 years.

Improved public finances may reduce debt interest of 50% of budget.

Necessary to gain access to the \$3bn of support that the IMF was offering.

Reduced agricultural subsidies may drive up efficiency. In the longer run they may lead to a rebalancing of the economy towards higher value-added products.

Bringing the fiscal deficit under control may boost confidence, leading to higher investment (from reduced crowding out) and greater willingness to buy government bonds, reducing bond yields.

Greater macroeconomic stability overall will also contribute to greater confidence and higher investment overall leading to higher growth and living standards in the long run.

Improved public finances will reduce the risk of default, will free funds for use elsewhere and may lead to lower taxes in the long term, contributing to longer term growth.

Agreement with IMF may lead to greater confidence in other lenders, allowing more favourable borrowing conditions.

Reduced energy subsidies may free up funds for investment in the sector.

AO2/AO4

Removal of energy subsidies and increased indirect taxes are regressive and have fuelled inflation possibly creating social unrest and driving up inequality.

Growth already falling – forecast to be only 0.4% in 2023 – fiscal consolidation is likely to damage growth further in the short run.

Cutting subsidies for agriculture problematic given that the economy is still recovering from the 2022 floods. Agriculture was badly damaged and removing agricultural subsidies may make things worse.

Government argues that austerity when recovering from floods isn't workable – only have \$9bn of reconstruction aid, less than half of what is needed.

\$3bn only a relatively small amount relative to the issues that Pakistan is facing. May be more beneficial in the long run than the short run.

**Answer is reversible.
Allow other plausible responses.**

AO grid

			AO1	AO2	AO3	AO4	Total	Num
1	1	(i)		2			2	2
1	1	(ii)	2	2			4	
1	2		2		2		4	2
1	3		2	2			4	3
1	4		2	2	3	3	10	3
1	5		2		4		6	2
1	6			3	3	4	10	
2	1	(i)	4				4	2
2	1	(ii)		3	3	4	10	2
2	2	(i)	2	2	2		6	2
2	2	(ii)		3	3	4	10	
2	3			3	3	4	10	
			16 (11-16)	22 (22-26)	23 (19-24)	19 (19-24)	80	18