



GCE AS MARKING SCHEME

SUMMER 2023

**AS
ECONOMICS - UNIT 2
2520U20-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2023 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

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 learner to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited

GCE AS ECONOMICS – UNIT 2

SUMMER 2023 MARK SCHEME

1. (a)	Using the data in Figure 1, calculate the estimated price elasticity of demand (PED) for the following goods and state whether they are price elastic or price inelastic demand.
(i)	<p>Foreign travel [2]</p> <p>AO2: 1 mark Correct calculation is -4. No range</p> <p>AO1: 1 mark Correct identification. Price elastic</p>
(ii)	<p>Sugary soft drinks [2]</p> <p>AO2: 1 mark Correct calculation is -0.8. No range</p> <p>AO1: 1 mark Correct identification. Price inelastic</p>

1. (b) (i)	<p>Using the data, calculate Philadelphia's GDP per capita. Give your answer to the nearest whole number. [1]</p>
	<p>AO2: 1 mark</p> <p>Correct calculation is \$69 677. No range</p> <p>Allow no \$ and allow no rounding (\$69,677.419)</p>
(ii)	<p>With reference to the data, outline why entertainment could be considered an inferior good. [3]</p>
	<p>AO1: 2 marks</p> <ul style="list-style-type: none"> • Understanding of an inferior good. • 1 mark for negative YED2 marks for negative YED and explanation of relationship <p>AO2: 1 mark</p> <p>Good use of data. The average American spends more entertainment than the average Philadelphian</p>

1. (c)	To what extent does the consumption of alcohol <u>and</u> sugary soft drinks result in negative externalities? [10]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
	<i>Does the student demonstrate a good understanding of negative externalities?</i>	<i>Is the answer applied well to the context of alcohol and soft drinks?</i>	<i>Has economic theory been used to analyse the question effectively?</i>	<i>Has economic theory been used to evaluate the question effectively?</i>
3				<p>4 marks Excellent Evaluation</p> <p>An excellent range and depth of evaluation which considers both goods.</p>
2	<p>2 marks Good understanding</p> <p>Reference to <i>third party</i> and difference between <i>external costs/benefits</i> and <i>private costs/benefits</i></p>	<p>2 marks Good application</p> <p>Candidates uses examples from the data or own knowledge to consider the concept (AO1) in terms of both alcohol and sugary soft drinks.</p>	<p>2 marks Good analysis</p> <p>Candidate offers a developed chain of logic to suggest how the costs are borne by the third party for both goods</p>	<p>2-3 marks Good evaluation</p> <p>More than one evaluative point is NOT absolutely necessary for Band 2 but a range of evaluative points should certainly be credited where appropriate.</p>
1	<p>1 mark Limited understanding</p>	<p>1 mark Limited application or consideration of only 1 good</p>	<p>1 mark Limited analysis or analysis of only 1 good</p>	<p>1 mark Limited evaluation</p>
0	<p>0 marks No understanding or incorrect understanding</p>	<p>0 marks No analysis or incorrect analysis</p>	<p>0 marks No analysis or incorrect analysis</p>	<p>0 marks No evaluation or incorrect evaluation</p>

Indicative content:**AO1**

Negative externalities are the costs incurred by the third party. The third party is someone who is not involved in the private transaction (neither the consumer nor the producer). If someone buys/consume a good and this leads to a cost to someone else, this is an external cost/ negative externality

AO2

The answer must be linked to alcohol AND sweetened soft drinks so that it is not generic. There must be realistic examples of both goods.

AO3

Alcohol can lead to negative externalities because it will often lead to absenteeism at work and illness. These costs are borne by third party taxpayers who see their tax money spent on combatting the health problems associated with alcohol. They may even see tax rates go up as a result.

Alcohol can lead to more direct costs to a third party. Alcohol is often associated with violent crime, domestic abuse and vandalism. This all has a direct cost to the individual – either with private medical bills, lost earnings or fixing damaged property.

Sugary drinks can lead to negative externalities because it will often lead to obesity. Like alcohol these costs are borne by third party taxpayers who see their tax money spent on combatting the health problems associated with sugary drinks. They may even see tax rates go up as a result.

AO4

Possible lines of evaluation include:

Most of the damage is done to the individual themselves and does not actually inflict a cost onto the third party.

Taxes that have been imposed internalise the externality since the tax revenue gained will help pay for the reduction of the externality. The demerit therefore does not lead to welfare loss.

Not everyone who consumes alcohol and sugary drinks will get all the extreme illnesses listed in AO3. Moderate consumers can gain utility from the products and not affect the third party at all.

The costs are often over-stated. There is a cost to the third party but it is not large and most people wouldn't notice unless they were directly affected.

People pay taxes anyway and do not realise where it goes. That is goes to the NHS to pay for alcohol and obesity issues is immaterial to them.

This is a reversible answer.

1. (d) (i)

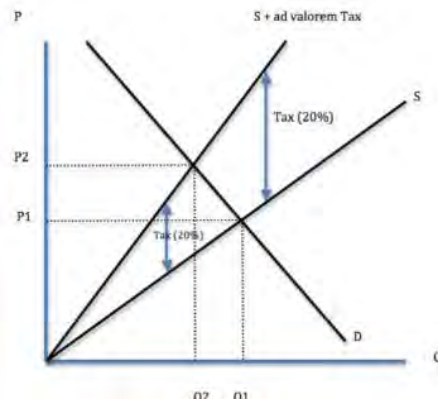
Identify one ad valorem tax from the data and draw a diagram to illustrate its effect on the market supply curve. [2]

AO1: 2 marks

1 mark for correct identification of an ad valorem tax. Alcohol tax

1 mark for drawing a good diagram (2 minor errors only e.g. labelling)

Ad Valorem Tax: Alcohol tax (10% of sales price)



Note: Demand curves not required in diagram.

(ii)	Using a mathematical example, discuss whether indirect taxes are always regressive. [10]		
Band	AO1	AO3	AO4
	2 marks	4 marks	4 marks
		<i>Answer fully explains why indirect tax are regressive in nature</i>	<i>Has economic theory been used to evaluate the arguments made in AO3?</i>
3		4 marks <i>Excellent analysis. Candidate makes an excellent link between indirect taxes and the concept of regressive. The mathematic example isolates the tax paid in the calculation.</i>	4 marks <i>Excellent evaluation. An excellent range and depth of evaluation.</i>
2	2 marks Candidate understands the meaning of both indirect taxes and the concept of regressive	2-3 marks Good analysis Candidate makes a good link between indirect taxes and the concept of regressive and uses a mathematical example to justify it. The mathematical example may consider total spending, rather than isolating the tax paid.	2-3 marks Good evaluation More than one evaluative point is NOT absolutely necessary for top band AO4 but a range of evaluative points should certainly be credited where appropriate.
1	1 mark Candidate understands the meaning of both only one concept (indirect taxes or the concept of regressive).	1 mark Limited analysis	1 mark Limited evaluation. Throwaway evaluation
0	0 marks	0 marks No or incorrect analysis	0 marks No valid evaluation

Indicative content:**AO1**

An indirect tax is a tax on goods/services. It is a tax on sales

A regressive tax is in which as income increases, a smaller proportion of income is paid on the tax.

AO3

Assuming that people buy a similar amount of a product (regardless of income) then the total expenditure on a product will affect a low-income household more than a high-income household.

An example could be VAT. An example could be equally credited. The table below shows the income and spending habits of two individuals: Rachel and Rebecca. Assuming they only buy things that have VAT (at 20%), their yearly expenditure on VAT is shown on the right-hand column.

	Annual income	Annual expenditure	Money spent on VAT	% of income spent on VAT
Rachel	£60,000	£30,000	£6,000	10%
Rebecca	£20,000	£16,000	£3,200	16%

AO4

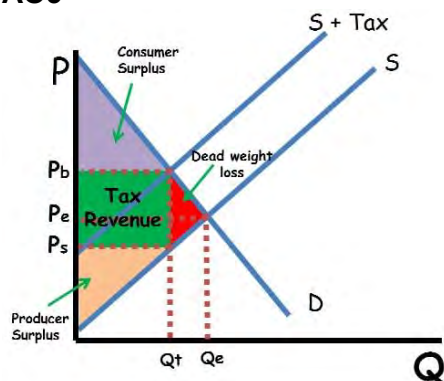
If the tax is only on a good which high-income households consume (a so-called 'luxury tax') then it will not behave regressively because poor people are not buying it.

Indirect taxes do not have to be regressive. For example, certain products (like necessities) are exempt from VAT which ensures that poor people do not pay more in tax.

Indirect taxes may be regressive but if the redistribution of income in the economy is working effectively then the low-income households will be able to continue to buy products.

In theory, indirect taxes could be applied at different rates to people with different income levels.

1. (e)	Consider whether the imposition of an indirect tax on sugary soft drinks raises revenue for the government <u>and</u> reduces the amount of sugar that people consume in Philadelphia. Use an appropriate diagram in your answer. [10]		
Band	AO2	AO3	AO4
	2 marks	4 marks	4 marks
	<i>Is the answer set in context?</i>	<i>Has economic theory been used effectively?</i>	<i>Has economic theory been used to evaluate the arguments made in AO3?</i>
3		<p>4 marks Excellent analysis</p> <p>Answer fully explains how the use of tax can raise revenue and reduce the quantity consumed. Answer includes a complete and accurate diagram.</p>	<p>4 marks Excellent evaluation</p> <p>An excellent range and depth of evaluation which considers both objectives.</p>
2	<p>2 marks Good application</p> <p>Clear reference to the data. Relevant content from the data is used to develop and support their argument.</p>	<p>2-3 marks Good analysis</p> <p>For Band 2, it is a requirement for students to consider BOTH objectives but a range of analysis should be credited. One objective may be analysed more effectively than the other. Answer includes a good diagram, with up to 2 minor errors.</p>	<p>2-3 marks Good evaluation</p> <p>More than one evaluative point is NOT absolutely necessary for Band 2 but a range of evaluative points should be credited where appropriate.</p>
1	<p>1 mark Limited application</p>	<p>1 mark Limited analysis or only one objective considered. A diagram is not included or contains major errors.</p>	<p>1 mark Limited evaluation</p>
0	<p>0 marks Answer not in context</p>	<p>0 marks No or incorrect analysis</p>	<p>0 marks No valid evaluation.</p>

Indicative content:**AO3**

A diagram illustrates the two objectives. The soft drinks tax is a unit tax so there is a parallel upwards shift of the supply curve. As a result, the equilibrium quantity decreases (Q_e to Q_1) – less people will consume the drinks – and the Government receives the tax revenue shown in the shaded area which is $Q_1 \times$ unit tax ($\$0.015$ per ounce)

AO4

Evaluative points made include:

PED is inelastic (as shown in Q1(a), so the quantity demanded may not fall by very much.

Philadelphia is rich city and therefore the people may not really notice a small price increase. Soft drinks are a very small proportion of income and so people will buy them anyway.

The tax rate is so small that it will barely make a difference to anyone.

The government will receive some revenue but, given that the tax rate is so small, the tax revenue will be very small too.

Laffer curve idea that the government may receive more tax revenue if the unit tax rate is lower

The tax revenue raised is less important if the imposition of the unit tax has led to a net welfare loss (government failure)

The tax may create a black market and the government may not collect any revenue.

Producers may respond by lowering the level of sugar in the drinks so that they do not have to pay tax.

AO2

The answer must be linked to some knowledge of Philadelphia or the USA (either by using the data at hand or through own knowledge).

2. (a) (i)	Define the term <u>Gross Domestic Product (GDP) growth.</u> [2]
	<p>AO1: 2 marks</p> <p>Award 1 mark for each valid point</p> <p>Indicative content:</p> <p>1 mark for some knowledge of GDP 2 marks for an increase/rise in the value of goods and services produced in an economy in a period of time</p>

2. (a) (ii)	<p>The data states that the construction sector is likely to ‘achieve an average annual growth rate of 4.6% in Wales during the years 2019 to 2024’ (lines 5-6). Evaluate the factors that could have caused high growth in this industry. [6]</p>		
Band	AO1	AO3	AO4
	2 marks	2 marks	2 marks
	<i>Does the candidate show a good knowledge of why the construction industry may grow?</i>	<i>Does the candidate use economic theory to explain the predicted sector growth?</i>	<i>Does the candidate use economic theory to evaluate the question effectively?</i>
2	<p>2 marks Good understanding Clear, full identification of at least one reason for growth</p>	<p>2 marks Good explanation Candidate links changes in market conditions to sector growth</p>	<p>2 marks Good evaluation</p>
1	<p>1 mark Limited understanding Incomplete identification of relevant reason(s) for growth</p>	<p>1 mark Limited explanation</p>	<p>1 mark Limited evaluation</p>
0	<p>0 marks No understanding</p>	<p>0 marks No analysis or incorrect analysis</p>	<p>0 marks No evaluation</p>

Indicative content:**AO1/AO3**

Possible lines of argument include:

Low rates of interest on mortgages make borrowing to finance a house purchase more affordable, meaning that more people are able to buy their own home or trade up to a more expensive property, creating demand for new homes to be built.

Banks are willing to lend to consumers meaning that they are able to take out mortgages. This is likely to particularly create demand for homes from first time buyers, driving the construction sector.

Population growth, more people living by themselves, people living independently until they are older, more split families etc. has increased the need/demand for housing, generating growth in the construction sector.

More public sector housing is being built as the government pledges to end austerity, further generating sales for the construction industry.

AO4

Possible lines of argument include:

The growth of the construction sector may be constrained by a shortage of land on which to build.

Regulations, planning permission etc. may slow the speed at which new houses can be built, slowing the growth of the sector.

The growth may be affected by economic conditions over the next five years or other future unknowns, e.g. the possible impacts of the UK leaving the EU etc.

The impact is unlikely to be felt equally across the whole of Wales, but rather demand for new houses will be concentrated in cities and perhaps more urban or prosperous areas.

The impact of COVID-19 and lockdowns reduced economic activity across all industries including construction.

2. (a) (iii)	Discuss the likely causes of wage differentials between construction sector jobs in Wales as shown in <u>Table 1</u>. [8]		
Band	AO1	AO3	AO4
	2 marks	2 marks	4 marks
	<i>Does the candidate show a good knowledge of the likely causes of wage differentials?</i>	<i>Does the candidate use economic theory to explain the existence of wage differentials?</i>	<i>Does the candidate use economic theory to evaluate the question effectively?</i>
3			4 marks Excellent evaluation.
2	2 marks Good knowledge	2 marks Good explanation	2-3 marks Good evaluation
	Candidate identifies two likely causes of wage differentials in the construction industry	Candidate links a factor affecting demand and/or supply for labour in the construction industry to the presence of a wage differential	More than one evaluative point is NOT needed for top band AO4 but a range of evaluative points should certainly be credited where appropriate
1	1 mark Limited knowledge	1 mark Limited explanation	1 mark Limited evaluation
	Candidate shows an incomplete understanding of 'wage differentials' or identifies one likely cause of wage differentials in the construction industry		
0	0 marks No knowledge	0 marks No analysis or incorrect analysis	0 marks No evaluation

Indicative content:**AO1/AO3**

Wage differentials are the difference in wages between workers with different skills in the same industry, or between workers with comparable skills in different industries.

Wage differentials within the construction industry may be caused by:

- Different levels of qualifications/skills/training required to do each job
- No/very few qualifications are needed to be a construction labourer, whereas architects need an architecture degree and experience, meaning that the supply of labourers is likely to be much higher than the supply of architects, leading to lower wages for labourers.
- Different net migration patterns of skilled workers between jobs, e.g. immigration of skilled electricians/plumbers from EU countries
- Net inward migration of labourers, carpenters and plumbers will have increased the supply of these workers, putting downward pressure on wage rates, whereas fewer architects and civil engineers may have migrated into Wales, meaning that those wage rates are not affected.
- Different levels of productivity between jobs
- Skilled architects and civil engineers are more productive than unskilled labourers, meaning that there will be a greater demand for them from construction firms, leading to higher wages.
- Different extents to which workers can be replaced by capital across jobs
- It is easier to replace low skilled labourers with machinery, e.g. diggers etc. meaning that construction firms' demand for labourers falls. Skilled workers such as building surveyors cannot be replaced by capital, meaning that firms' demand for them stays high, keeping wages high.
- Different non-monetary characteristics of jobs, e.g. non-pecuniary benefits, working conditions, working hours, opportunities for promotion, job security etc.
- Different strengths of trade unions representing different occupations

AO4

Possible lines of argument include:

There is significant variation within the salary range for each job, meaning that a highly paid labourer may earn more than a lowly paid civil engineer. This implies that within occupation differences are perhaps more important than between occupation differences.

Different reasons may be more important in explaining the wage differentials between different occupations.

The NMW has reduced wage differentials across the construction sector.

Working as a construction labourer is likely to be hard physical, dirty work, and may offer low job security (seasonal work/zero-hour contracts) and/or opportunities for promotion, whereas working as an architect may have non-pecuniary benefits (e.g. company car), involve working in a clean, nice office, and offer good job security and opportunities for promotion. This may reduce the relative supply of labourers, narrowing the wage differential.

2. (b) (i)	<p>With reference to Figure 1, calculate the percentage of total exports from Wales which went to the European Union over the period shown. Give your answer to two decimal places. [2]</p>
	<p>AO2: 2 marks</p> <p>Award 1 mark total for correct working but wrong answer Award 1 mark total for accurate answer not given to two decimal places, i.e. 60%, 59.8%, 59.782%, 59.7815% etc. Award 1 mark for 59.76% as incorrect rounding Award 2 marks for correct answer given to two decimal places</p> <p>(Using pie chart data for numerator and denominator) $\frac{\pounds 9\,085\text{m}}{\pounds 15\,197\text{m}} \times 100$</p> <p>Correct answer = 59.78%</p> <p>Alternative: (Using pie chart data for numerator and value given in line 14 (total Welsh exports £15.2 bn) denominator)</p> $\frac{\pounds 9\,085\text{m}}{\pounds 15\,200\text{m}} \times 100$ <p>Correct answer = 59.77%</p>

2. (b) (ii)	Evaluate the likely effects of the ‘the pound having lost around 10% of its value against the euro and US dollar since the UK voted to leave the EU in 2016’ (lines 17-18) on Welsh households <u>and</u> firms. [10]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
	<i>Does the candidate demonstrate good understanding of the effects of a depreciation?</i>	<i>Is the answer applied well to the context of Welsh households and firms?</i>	<i>Has economic theory been used to analyse the question effectively?</i>	<i>Has economic theory been used to evaluate the question effectively?</i>
3				<p>4 marks Excellent evaluation</p> <p>An excellent range and depth of evaluation which considers the significance of the effects identified on <u>both</u> households and firms</p>
2	<p>2 marks Good understanding</p> <p>At least one effect on <u>both</u> Welsh households and firms is identified</p>	<p>2 marks Good application</p> <p>Use of data and context of Welsh households and firms is integrated into the analysis</p>	<p>2 marks Good analysis</p> <p>Candidate builds on the understanding shown in AO1 to fully explain an effect on <u>both</u> Welsh households and firms</p>	<p>2-3 marks Good evaluation</p> <p>Candidate evaluates in depth only one of the two effects identified, or evaluates both effects in less detail</p>
1	<p>1 mark Limited understanding</p> <p>An effect on only Welsh households or firms is identified</p>	<p>1 mark Limited application</p> <p>It is likely that quotes have been identified but that they are not tied in (integrated) to the explanation</p>	<p>1 mark Limited analysis</p> <p>An effect is fully explained on only households or firms, or an effect on both is explained in less detail</p>	<p>1 mark Limited evaluation</p>
0	<p>0 marks No understanding</p>	<p>0 marks No application</p>	<p>0 marks No analysis</p>	<p>0 marks No evaluation</p>

Indicative content:**AO1/AO3**

Possible lines of argument include:

Effects on households

Increased cost of imports from the eurozone and the USA may contribute to cost-push and/or imported inflation, lowering real incomes and households' purchasing power/standard of living. Households will find it more expensive to go to the eurozone countries (e.g. Spain, Greece, France) or the USA on holiday, so may switch to holidaying in the UK, or have to make savings elsewhere.

Individuals working for firms whose products compete against those imported from the eurozone or USA, or who export their products to the eurozone or USA, may enjoy greater job security etc.

Effects on firms

Firms which import raw materials/components from the eurozone or USA will see their costs of production increase. Depending on the extent to which they can pass these increased costs onto their customers, this may result in lower profit margins, or lower sales. Either way it is likely to reduce firms' total profits.

Firms whose products compete against those imported from the eurozone or USA will see their goods/services become relatively more price competitive, leading to higher sales, higher total revenue, and higher profits.

Firms who export their products into the eurozone or USA will either be able to keep their price in euros constant and increase their profit margins, or reduce their price in euros and increase their sales. Either way it is likely to increase firms' total profits.

AO2

References might include:

- 'Germany continued to be Wales' top export destination'
- 'exports to the USA were up 22.3% compared to the previous year'
- 'exports to Ireland – worth £1.7bn – had risen by 45.3%'

Wales is a net importer with a trade deficit of £0.9bn. The Value of exports for Wales in 2021 was £15.2 billion, up 12.4% compared with the previous year. Unemployment is falling, and therefore the impact of the depreciation is unlikely to be too bad.

AO4

Possible lines of argument include:

Ceteris paribus assumption: other items in the CPI basket may have fallen in price, reducing inflationary pressures from Welsh households. The overall CPI inflation rate was relatively low over during 2019.

Significance of the depreciation (15-20%) and for how long the pound stays weak Effects on firms' depend on the PED of their final product and their pricing strategies.

Not all EU countries use the euro, so the eurozone accounts for less than 60% of Welsh exports (although Germany, Wales' biggest export destination, is within the eurozone).

Firms who use domestically produced raw materials/components and only sell within the UK will not be affected by the depreciation of the pound. This is perhaps more likely to be small businesses.

2. (b) (iii) To what extent might an improvement in Wales' trade balance contribute to the attainment of other government economic policy objectives? [12]				
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	4 marks	4 marks
	<i>Does the candidate identify at least two other policy objectives?</i>	<i>Does the candidate use the data effectively?</i>	<i>Does the candidate use economic theory to analyse why other policy objectives might be supported?</i>	<i>Has economic theory been used to evaluate the question effectively?</i>
3			<p>4 marks Excellent analysis</p> <p>Candidate uses an excellent range and depth of economic theory to analyse how the attainment of two other policy objectives are supported.</p>	<p>4 marks Excellent evaluation</p> <p>An excellent range and depth of evaluation which considers how other policy objectives may not be supported and reaches an overall reasoned judgement</p>
2	<p>2 marks Good understanding</p> <p>Candidate identifies at least two other policy objectives</p>	<p>2 marks Good application</p> <p>Use of data is integral to the explanation</p>	<p>2-3 marks Good analysis</p> <p>Candidate uses economic theory well to analyse how the attainment of one other policy objective is supported, or analyses two objectives in less detail</p>	<p>2-3 marks Good evaluation</p> <p>The attainment of other policy objectives is evaluated in less depth and/or the candidate does not reach an overall reasoned judgement</p>
1	<p>1 mark Limited understanding</p> <p>Likely, only one other policy objective is identified</p>	<p>1 mark Limited application</p> <p>It is likely that quotes have been identified but that they are not tied in (integrated) to the explanation</p>	<p>1 mark Limited analysis</p>	<p>1 mark Limited evaluation</p>
0	<p>0 marks No understanding</p>	<p>0 marks No application</p>	<p>0 marks No analysis</p>	<p>0 marks No evaluation</p>

THIS ANSWER IS REVERSIBLE

Indicative content:

AO1/AO3

Possible lines of argument include:

- **Sustainable economic growth**
An improvement in Wales' net exports will increase aggregate demand, leading to an increase in real GDP and a higher rate of economic growth.
- **Low levels of unemployment**
As aggregate demand increases, the Welsh economy will move closer to full employment, reducing unemployment. A higher demand for goods and services produced in Wales will lead to a higher derived demand for labour, reducing unemployment.
- **Low inflation**
An improvement in Wales' trade balance is likely to increase demand-pull inflationary pressures in the economy, which may help to raise the inflation rate back up to the 2% target.
- **Balanced government budget position**
As exporting firms and Welsh firms who compete against imported goods and services increase their sales revenue, the government should earn higher levels of corporation tax. Increased employment should lead to higher income tax receipts, and higher average incomes should lead to increased consumer spending and hence higher indirect tax revenue. At the same time, the government will need to spend less on transfer payments such as JSA, improving the budget balance.

AO2

References / examples from own knowledge might include:

- 'the value of exports for Wales for the year ending in 2021 was £15.2bn, up 12.4% compared with the previous year'
- Welsh GDP increased by 0.4% in the second quarter of 2019.
- Inflation has gone from being below target (0.6% in December 2020) to above target (5.4% in December 2021).
- Unemployment has been low throughout the period, and fell further to 3.1% in Q4 2021.

AO4

Possible lines of argument include:

The impact of an increase in aggregate demand on the equilibrium level of real GDP and the unemployment rate depends on:

- the elasticity of the Keynesian LRAS curve. Given the low unemployment rate, there is probably a relatively low level of spare capacity, meaning that increases in AD may result in a proportionally smaller increase in real GDP/employment; and
- the size of the multiplier effect in the Welsh economy.

The size of the improvement in the trade balance is unclear, as we are told that Welsh exports have risen, but not what has happened to the value of imports into Wales. This may mean that the net trade balance has only improved slightly, reducing the significance of the effects on the other policy objectives.

Businesses which do not export their goods and services are likely to create newer employment opportunities than exporting firms. These companies may be concentrated in certain regions or areas of Wales, so the effects are unequally felt across the country. Inflationary pressures created by the increase in aggregate demand may cause the inflation rate to overshoot the 2% target, particularly given that the improvement in the current account balance has been partly caused by the depreciation of the pound, which will have also raised the cost of imported goods, adding to inflationary pressures.

AS UNIT 2: Economics in Action						
	AO1	AO2	AO3	AO4	Total	QS
1. (a) (i) and (ii)	2	2	-	-	4	2
(b) (i)	-	1	-	-	1	-
(ii)	2	1	0	0	3	1
(c)	2	2	2	4	10	-
(d) (i)	2	-	-	-	2	1
(ii)	2	-	4	4	10	2
(e)	-	2	4	4	10	6
2. (a) (i)	2	-	-	-	2	-
(ii)	2	-	2	2	6	-
(iii)	2	-	2	4	8	-
(b) (i)	-	2	-	-	2	-
(ii)	2	2	2	4	10	2
(iii)	2	2	4	4	12	2
Total	20	14	20	26	80	16