

GCE

Economics

Unit **H060/02**: Themes in Macroeconomics

Advanced Subsidiary GCE

Mark Scheme for June 2018

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



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

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

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

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Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Confused (replaces the question mark)
	Benefit of doubt
	AO1 – Knowledge and understanding
	AO2 – Apply knowledge and understanding
	AO3 - Analyse
	AO4 - Evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule
	Repetition

Subject-specific Marking Instructions**INTRODUCTION**

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

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

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

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

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

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

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

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

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

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

Multiple Choice Questions	Answer	AO
1	A	AO2
2	D	AO1
3	B	AO2
4	C	AO1
5	B	AO2
6	C	AO1
7	C	AO1
8	C	AO2
9	A	AO2
10	A	AO3
11	A	AO2
12	B	AO3
13	A	AO1
14	A	AO1
15	D	AO1

Q	Key	Rationale	AO	Quantitative skills
1	A	<p>A Correct: there is a budget deficit of \$20bn as government spending exceeds tax revenue</p> <p>B A budget surplus occurs when tax revenue exceeds government spending</p> <p>C The current account measures international trade in goods and services</p> <p>D The current account measures international trade in goods and services</p>	AO2	✓
2	D	<p>A If supply side improvements caused the economic growth and reduced the price of exports this is likely to improve the balance of payments</p> <p>B This explains the trade-off that might occur between growth and income and wealth inequality</p> <p>C An increase in exports would most likely improve the balance of payments</p> <p>D Correct: imports have a positive income elasticity of demand, so when economic growth occurs the demand for imports will rise, ceteris paribus worsening the balance of payments position</p>	AO2	
3	B	<p>A The woman is seeking employment, so she would be classified as unemployed on the Labour Force Survey (ILO) measure.</p> <p>B Correct: the woman would not be classified as unemployed on the claimant count measure as she is not claiming any state benefits. The woman is seeking employment, so she would be classified as unemployed on the Labour Force Survey (ILO) measure.</p> <p>C The woman would not be classified as unemployed on the claimant count measure as she is not claiming any state benefits.</p> <p>D The woman would not be classified as unemployed on the claimant count measure as she is not claiming any state benefits.</p>	AO1	
4	C	<p>A A fall in the price level makes money more valuable</p> <p>B A fall in the rate of inflation increases the function of money as a medium of exchange</p> <p>C Correct: When the rate of inflation spirals out of control money becomes worthless, meaning individuals revert to a barter economy</p> <p>D A normal rate of inflation will reduce the value of money but will not prevent it acting as a medium of exchange</p>	AO1	
5	B	<p>A This is a reallocation of resources when an economy is already operating at the productively efficient level of output</p> <p>B Correct: There is an increase in real GDP here as total output increases</p> <p>C This is negative growth in the short run as total output is falling</p> <p>D This would only be possible in the long run when the productive capacity of the economy increases</p>	AO2	✓

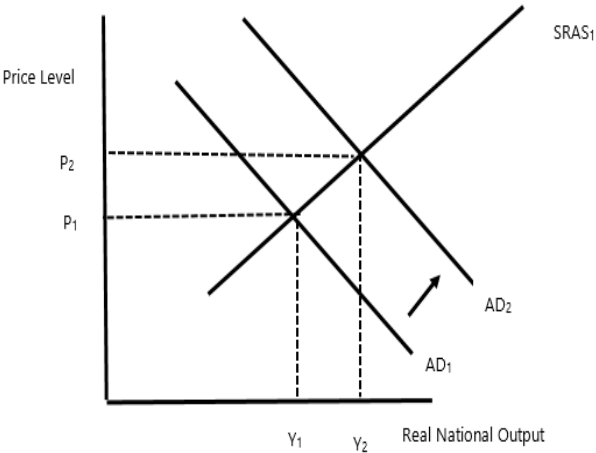
Q	Key	Rationale	AO	Quantitative skills
6	C	A This is a method for measuring national income B This is a method for measuring national income C Correct: Because some inputs may not be utilised fully or efficiently the amount of inputs is not a method of measuring national income D This is a method for measuring national income	AO1	
7	C	A An increase in labour productivity abroad will lower costs of production of foreign firms, increasing the international competitiveness of foreign producers B An appreciation of the exchange rate will make domestic goods relatively more expensive abroad C Correct: An exchange rate depreciation will mean foreign consumers find domestic goods relatively cheaper whilst a decrease in domestic wage rates will lower domestic costs of production D An increase in domestic wage rates is likely to counteract any increases in domestic labour productivity	AO1	
8	C	A The fact that the exchange rate adjusts in response to changes in supply and demand suggests it is not a fixed exchange rate system B The potential for government intervention suggests it is not a fully floating exchange rate system C Correct: the value of the currency is determined by supply and demand with government intervention, suggesting a combination of fixed and floating elements. D This is not a type of exchange rate system	AO2	
9	A	A Correct: $(106.4 - 103.1) / 103.1 \times 100$ B Calculates the inflation rate as $106.4 - 103.1$ C Calculates the inflation rate as $106.4 - 100$ D Calculates the percentage change in the price level from 2014 to 2017: $(106.4 - 99.1) / 99.1 \times 100$	AO2	✓
10	A	A Correct: a reduction in the quantity of labour in the economy would reduce the productive capacity, shifting long run aggregate supply to the left. B This would make exports more price competitive, shifting aggregate demand to the right. C This would increase costs of production for domestic firms, shifting the short run aggregate supply curve to the left. D This would improve the balance of payments, potentially impacting upon aggregate demand	AO3	

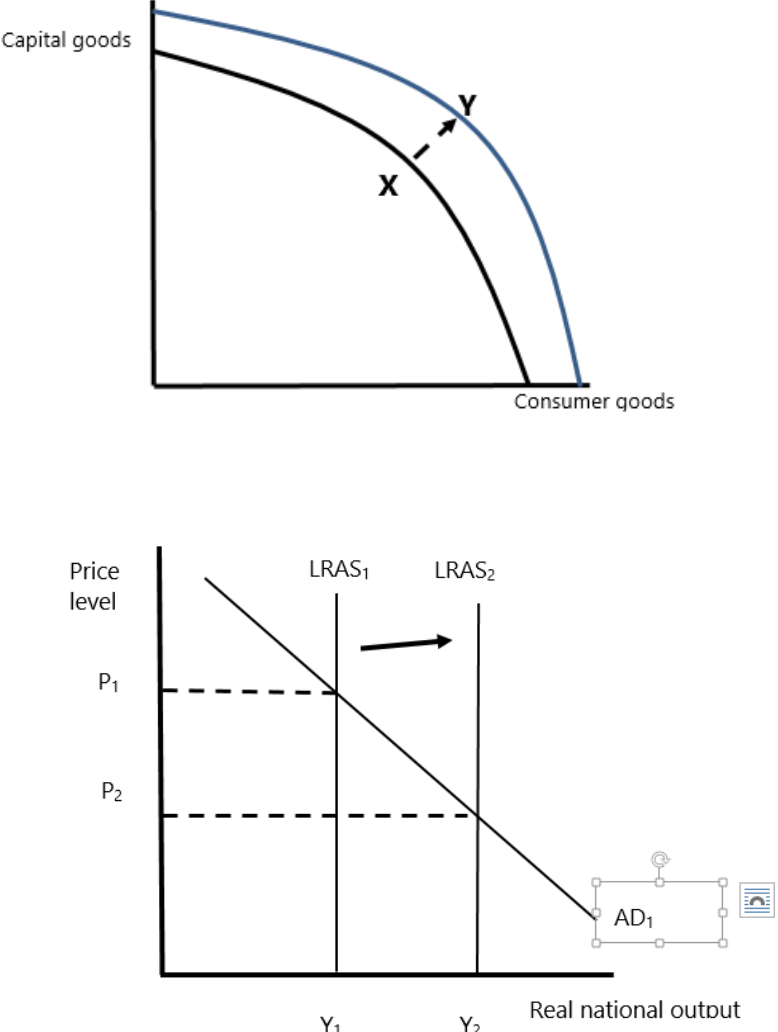
Q	Key	Rationale	AO	Quantitative skills
11	A	<p>A Correct: Sum of price elasticities of demand for imports and exports = -0.7; Marshall-Lerner condition does not hold and so an appreciation of the currency will improve the current account.</p> <p>B Sum of price elasticities of demand for imports and exports = -1.1; Marshall-Lerner condition holds and so an appreciation of the currency would worsen the current account.</p> <p>C Sum of price elasticities of demand for imports and exports = -1.0; Marshall-Lerner condition holds as there would be no change in the current account position.</p> <p>D Sum of price elasticities of demand for imports and exports = -1.4; Marshall-Lerner condition holds and so an appreciation of the currency would worsen the current account.</p>	AO2	✓
12	B	<p>A Raising the interest rate would cause the aggregate demand curve to shift to the left, creating even more spare capacity</p> <p>B Correct: This should boost aggregate demand, creating economic growth.</p> <p>C Reducing interest rates is likely to be ineffective as they are already close to zero</p> <p>D There is already substantial spare capacity in the economy; aggregate demand needs to be boosted.</p>	AO3	✓
13	A	<p>A Correct: exchange rate adjustments are a monetary policy measure</p> <p>B This is fiscal policy</p> <p>C This is fiscal policy</p> <p>D This is supply side policy</p>	AO1	
14	A	<p>A Correct: the downturn in the economic cycle reduced aggregate demand and therefore reduced the demand for labour</p> <p>B This is short term unemployment associated with people moving between jobs</p> <p>C This occurs when demand for certain types of workers is low at particular times of the year</p> <p>D This occurs as a result of changes in the pattern of economic activity within an economy</p>	AO1	
15	D	<p>A The poll tax was a direct tax as it was not placed on spending</p> <p>B Progressive taxes take a higher proportion of income from those on high income than those on low income; a poll tax did the reverse</p> <p>C Proportional taxes take the same proportion of income from those on high income as those on low income; a poll tax took a higher proportion of income from those on low income</p> <p>D Correct: because the same charge was levied on all income earners this took a higher proportion of income from those on low incomes than those on high incomes</p>	AO1	

Question		Answer	Marks	Guidance
16	(a)	<p>Define the term ‘current account balance’.</p> <p>The difference between (the value of) total exports (visible and invisible) and total imports (2)</p> <p>It is the income & expenditure total of a country’s trade in goods, services (income & transfers) which may be a deficit or surplus (2)</p> <p>X-M (1) Net Exports (1)</p> <p style="text-align: right;">ARA</p>	<p>2 (AO1x2)</p>	<p>2 marks for clear reference in definition to exports and imports and the sum of/difference/gap/ between them</p> <p>1 mark if no reference to the difference/gap, e.g. “It measures total exports and total imports”</p> <p>Answers do NOT need to mention ‘value’</p> <p>Definitions do NOT have to include any mention of net investment income and net transfers</p>
16	(b)	<p>Using Fig.1, what is the projected state of Venezuela’s current account balance in 2017.</p> <p>A deficit of 2.5% (of GDP) (1)</p>	<p>1 (AO2x1)</p>	<p>1 mark for identifying the correct units from Fig.1, e.g. 2.5% of GDP and there is a deficit (a negative sign is acceptable).</p> <p>The percentage sign must be included</p>
16	(c)	<p>Using Fig.1, compare the projected real GDP growth rates for Venezuela and Nigeria over 2016 and 2017.</p> <p>Venezuela is projected to have a rate of real GDP growth of -8% increasing to -4.5%.</p> <p>Nigeria’s is projected to have an increase in real GDP growth from 2.3% to 3.5%.</p>	<p>2 (AO2x2)</p>	<p>2 marks for an answer which compares (explicitly or implicitly) what happens in Venezuela to Nigeria. For example, “Both countries have seen an increase in their growth rates (1), although Venezuela is still experiencing negative growth (1).”</p> <p>1 mark for an answer which only states what has happened in Venezuela and/or Nigeria, backed up with evidence from Fig.1.</p> <p>Do NOT reward answers which suggest the change in the growth rates between 2016 & 2017 is the growth rate.</p>
16	(d) (i)	<p>Describe the relationship between Venezuela’s inflation rate and its unemployment rate from the period October to December 2015.</p> <p>There is an inverse relationship (1) as inflation increased from 156% to 181% and unemployment fell from 6.7% to 6% (1).</p>	<p>2 (AO1x1 AO2x1)</p>	<p>2 marks for an answer which <u>uses the data</u> to show that inflation increased <u>and</u> unemployment decreased and there is an inverse relationship (one increases as the other decreases is implicit in the answer).</p> <p>A statement of two sets of figures is insufficient. An answer needs to specify what the relationship is.</p> <p>Allow approximated figures to be used</p>

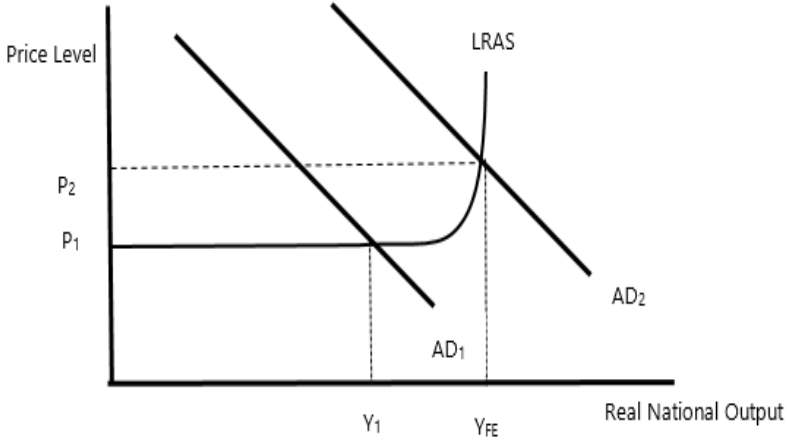
Question	Answer	Marks	Guidance
16 (d) (ii)	<p>Explain how the change in Venezuela's inflation rate over the period may have affected consumers.</p> <p>Consumers may be affected as follows:</p> <ul style="list-style-type: none"> • Increased uncertainty/Inflationary noise • Fiscal drag • Shoe leather costs • Reduced purchasing power • Unequal distribution of income • Decreased savings • Reduced consumer confidence • Increased consumption (of imported products) <p><u>Exemplar responses</u></p> <p>With such high levels of inflation in Venezuela (1), consumers may experience increased uncertainty (1) as they would find it difficult to decide which prices offer value for money (1), as price signals have been distorted (1).</p> <p>Inflation rates of over 100% (1) may mean that consumers suffer from fiscal drag (1) if they have been dragged into higher tax brackets (1) and tax brackets are not adjusted in line with inflation (1).</p> <p>With an inflation rate of 1,643% in 2017 (1) consumers will see their purchasing power fall (1) as their real disposable income will decrease (1) unless wages rise at the same rate (1).</p> <p style="text-align: right;">ARA</p>	<p>4</p> <p>(AO1 x 3 AO2 x 1)</p>	<p>Up to 3 marks for identifying and explaining way(s) in which consumers may be affected by inflation</p> <p>1 mark for applying the explanation to Venezuela, either with specific use of the data in Figs. 2/3 or at least implied reference to high levels of inflation (hyperinflation/massively)</p> <p><u>Do not</u> reward references to increased saving or reduced consumer spending</p>

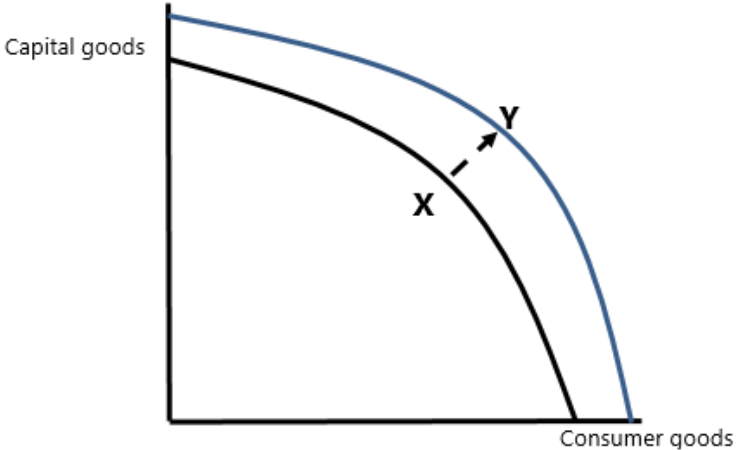
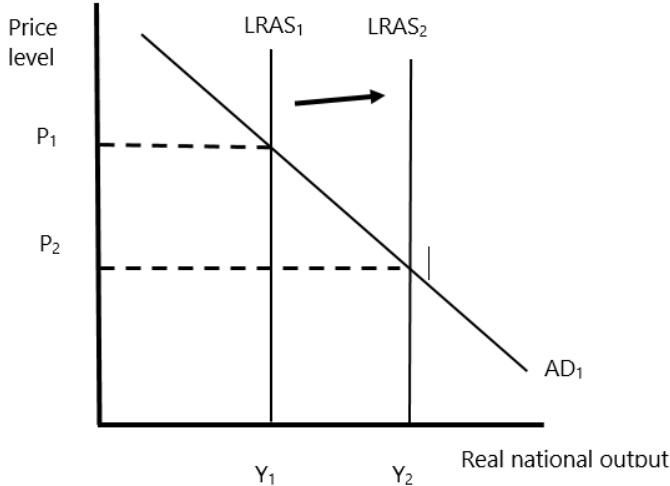
Question	Answer	Marks	Guidance
16 (e)	<p>Using an appropriate diagram, explain the impact of falling oil prices on economic growth in Venezuela.</p> <p>Possible answers may include:</p> <ul style="list-style-type: none"> • would decrease the value of export revenue (1) from oil (X) which is a component of AD (1) <ul style="list-style-type: none"> ○ likely to be an AD/AS diagram (2) • may reduce business/consumer confidence (1) so leading to a fall in investment (1) <ul style="list-style-type: none"> ○ likely to be an AD/AS diagram (2) • may reduce firm's production costs which leads to an increase in (SR)AS <ul style="list-style-type: none"> ○ likely to be an AD/SRAS diagram (2) • falling profits of oil producers may lead to lower investment (1) which will affect the country's long-run productive potential (1) <ul style="list-style-type: none"> ○ PPF diagram showing a contracting PPF (2) • decline in economic activity/SR economic growth (1) as a result of weak business confidence (1) <ul style="list-style-type: none"> ○ diagram showing movement further inside the current PPF (2) <p>NB: Allow references to consumer-based issues ("lengthy queues", "food shortages", "two shopping days per week") <u>as long as</u> there is a clear link to the falling oil prices being the cause.</p> <p style="text-align: right;">ARA</p>	<p>4</p> <p>(AO1 x 2 AO2 x 2)</p>	<p>2 marks for an explanation 2 marks for an appropriate diagram</p> <p>Award a maximum of 2 marks if there is no appropriate/correct diagram</p> <p>Accept an AD/AS diagram, falling AD or increasing (SR)AS, or a PPF diagram for the impact on economic growth. Award 2 marks for a correct diagram with an incorrect explanation.</p> <div data-bbox="1256 576 1727 999" data-label="Figure"> </div> <p>The diagram needs to come from a rewardable explanation to gain marks (e.g. PPF must come from a reference to investment or long-run productive potential)</p> <p>AD moving to the right can only be rewarded for 2 marks if there is explicit reference to price elasticity, otherwise a maximum of 1 mark.</p> <p>Award 1 mark for a diagram which is incorrectly or incompletely labelled (including axes)</p>

Question	Answer	Marks	Guidance
<p>16 (f)</p>	<p>Evaluate the consequences of the proposed Chinese investment of \$20bn (£13.2bn) on the performance of the Venezuelan economy.</p> <p>Level 3 (7-10 marks)</p> <p>Good – strong analysis of the consequences of an increase in investment. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Good - strong evaluation of the consequences of an increase in investment, including the potentially negative effects, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (4-6 marks)</p> <p>Reasonable analysis of the consequences of an increase in investment. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p>	<p>10 (A02 x1 A03 x 4 A04 x 5)</p>	<p>An increase in Chinese foreign direct investment (FDI) may lead to an increase in the capital stock and flows into Venezuela.</p> <p>Chinese companies or the Chinese government may set up productive processes in Venezuela or purchase, merge or set up joint ventures with local firms. There may be increased investment in capital such as new factories or plant.</p> <p>This increased investment is an injection into the circular flow of income for Venezuela which may lead to multiplier effects such as job creation in immediate and supporting industries. The increased consumption and corresponding domestic investment could lead to an increase in aggregate demand. This could create accelerator effects.</p>  <p>If the Chinese investment takes the form of the development of infrastructure such as roads, communication links or technology transfer this could also increase Venezuela's potential output level. Improvements in the quality and quality</p>

Question	Answer	Marks	Guidance
	<p>Reasonable evaluation of the consequences of an increase in investment, considering both sides/comparing alternatives.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p>Level 1 (1-3 marks)</p> <p>Limited analysis based on application of knowledge and understanding of the consequences of an increase in investment. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p> <p>Limited evaluation of the consequences of an increase in investment in the form of an unsupported statement or no evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p>0 marks no response worthy of credit</p>		<p>of the factors of production, efficiency and productivity gains could lead to an increase in the productive potential of the economy and long run aggregate supply.</p> 

Question	Answer	Marks	Guidance
			<p>However, the nature of investment is not clear from the case study. If this arises from Multinational Corporations (MNCs) investing in Venezuela, any employment and subsequent multiplier effects created may be short term if they decide to move production elsewhere.</p> <p>Consumer and firms' expectations about the future may limit the impact of this increased injection. If the very high inflation rates have created uncertainty, firms may be more pessimistic about the real rate of return on investment projects and consumers may have reduced disposable incomes.</p> <p>If the Chinese investment takes the form of the development of infrastructure in roads and communication networks, it may take time for the impact to be seen.</p>
	<p>Descriptor</p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>		<p>Award mark</p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>

Question	Answer	Marks	Guidance
17	<p>According to the International Monetary Fund in 2016 Myanmar in South East Asia was the world's fastest-growing economy. The country's GDP was expected to grow by 8.6%</p> <p>Evaluate, using an appropriate diagram(s), the costs and benefits of economic growth.</p> <p>Level 4 (16-20 marks)</p> <p>Good knowledge and understanding of economic growth and/or how it is measured or shown.</p> <p>Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Strong evaluation of the effectiveness of costs and benefits of economic growth weighing up both sides and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 3 (11-15 marks)</p> <p>Good knowledge and understanding of economic growth and/or how it is measured or shown.</p> <p>Good analysis of the effect of the effectiveness of the costs and benefits of economic growth.</p>	<p>20 (AO1 x3) AO2 x4 AO3 x6 AO4 x7)</p>	<p>Economic growth refers to an increase in the amount of goods and services produced in an economy over a period of time. Economic growth is measured using the indicator gross domestic product (GDP) which specifically looks at the value of output produced within the economy.</p> <p>Short run (or actual) economic growth is caused by the use of previously underutilised resources, it can be represented on a production possibility curve (PPC) as moving from a point of an inefficient allocation of resources to a more efficient point on the PPC and as a result of an increase in aggregate demand from AD₁ to AD₂ in the diagram below. In this example there is an increase in output from Y₁ to Y_{FE}.</p>  <p>In the long run an economy can grow at a rate determined by its productive capacity. An increase in the quantity and quality of factors of production will lead to a shift outwards of the PPC from X to Y in the diagram below.</p>

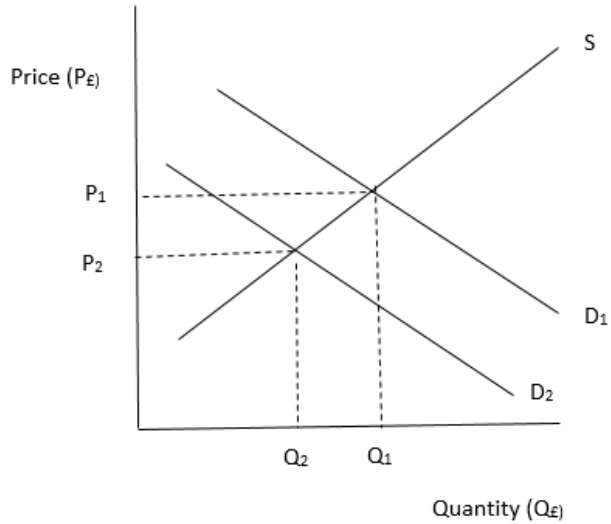
Question	Answer	Marks	Guidance
	<p>There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p>Good evaluation will weigh up both sides but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p>Level 2 (6-10 marks)</p> <p>Reasonable knowledge and understanding of economic growth and/or how it is measured or shown.</p> <p>Reasonable analysis of the costs and/or benefits of economic growth. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of the costs or benefits of economic growth.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p>		 <p>It can also be seen through an increase in LRAS from LRAS 1 to LRAS 2 in the diagram below. This corresponds to an increase in output from Y₁ to Y₂.</p> 

Question	Answer	Marks	Guidance
	<p>Level 1 (1-5 marks)</p> <p>Limited knowledge and understanding of economic growth and/or how it is measured or shown.</p> <p>Limited or no analysis of the costs and/or benefits of economic growth. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p> <p>Limited evaluation of the costs and benefits of economic growth in the form of an unsupported statement or no evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p>0 marks No response worthy of credit</p>		<p>Economic growth is a key macroeconomic objective for policy makers due to the following benefits:</p> <p>Higher Living standards – economic growth is associated with increased incomes for firms and workers, and increased expenditure by consumers and firms. It is argued that this leads to an increase in general living standards, such as increased access to basic needs such as housing. Economic growth is measured by changes in Gross Domestic Product (GDP). An increase or decrease in GDP per head of population (known as GDP per capita) is seen as an indicator of living standards.</p> <p>Increased Employment – increased demand for goods and services by consumers due to economic growth leads to firms increasing their output to meet this need. As a result, they will need to hire more workers (labour is a derived demand) to help them to provide these goods and services. Therefore, the level of employment increases. This might include workers working more overtime, or previously unemployed workers being employed.</p> <p>Investment Accelerator – the increased demand for goods and services, and the corresponding increased output of firms should help to increase the level of revenue and potential profit for firms. An increase in profits will mean that they have increased profits to plough into investment. This increased investment in capital goods or technology will help firms to improve productivity and output. The value of the initial increase in national income produces a greater proportional increase in planned investment. This is known as the investment accelerator process, as over the time the level of planned investment increases, and this allows firms to accelerate the increase in output.</p>

Question	Answer	Marks	Guidance
			<p>Fiscal Dividend – During a period of economic growth the increased consumption means that consumers are providing the government with increased revenue from their purchases through the payment of value-added tax (VAT). The increase in employment levels means that more workers are paying national insurance and income tax, again providing an increase in tax receipts for the government. The increased profits from businesses will lead to increased tax revenues from firms paying Corporation tax. These combined tax receipts or increased fiscal dividend mean that the government has increased funds to spend on areas such as education and health, or to use to pay off debts and reduce the budget deficit. Furthermore, the fall in unemployment will mean that the government will have to spend less on transfer payments such as Jobseekers Allowance which currently comprise a large proportion of government spending.</p> <p>Confidence – an increase in economic growth has a positive impact on how producers and consumers perceive their prospects for the future. Economic growth makes workers feel confident that their skills will be needed in the future, and their jobs are more secure. This makes them feel more confident about consumption, especially of durable goods such as cars or housing, which often require credit which is repaid over a period of time. This increased consumption makes firms feel confident that they will be increasingly profitable through increased sales. This makes firms feel more confident about investment, as they feel they will continue to get good returns on their investment. Increased potential profits will have a positive impact on the share prices of companies listed on the stock exchange and have a positive impact on the stock market as a whole.</p> <p>However, there are some costs of economic growth.</p>

Question	Answer	Marks	Guidance
			<p>Inflation – if the rate of economic growth is rapid, firms may have an increased demand for workers to provide goods and services. If this increased demand is not matched by the supply of workers, skills shortages may arise. Firms may respond to this by asking existing workers to work overtime (that is at a higher hourly wage rate) to meet orders or offer higher salaries and wages to attract workers from other companies to work for them. This has the impact of increasing firms’ costs of production. If these increased costs are passed on to consumers via higher prices of goods. This can lead to cost-push inflation. In the overall economy, if aggregate demand is increasing faster than the overall productive capacity (aggregate supply), this may lead to a positive output gap, and is associated with demand-pull inflation. Inflation can cause a decrease in international competitiveness, as our exports become more expensive to buy, and an increase in the cost of living for consumers, which reduces their welfare.</p> <p>Environmental impact – increasing economic growth involves an increased use of renewable and non-renewable resources. Non-renewable resources, such as oil will become increasingly scarce, which will have an impact on the resources available for future generations. Increased production may increase the negative externalities from production, which affect those not involved in the production process directly. Examples includes increased air and water pollution, increased waste products to be disposed of which might increase landfill and pollute local land. These negative externalities reduce the welfare of society.</p> <p>Greater income and wealth inequality – an increase in overall income in an economy is unlikely to be shared equally among all members of the population. The income differential between the richest 10 per cent and the poorest 10 per cent is likely to increase. Whilst it is argued that the benefits of economic growth ‘trickle down’ to those on lower incomes through increased job creation and greater potential for government</p>

Question	Answer	Marks	Guidance										
			<p>funding to spend on public amenities such as education and healthcare provision, it is not necessarily likely that they will increase at the rate of those on higher incomes and with greater amounts of wealth.</p> <p>The extent to which the benefits of economic growth outweigh the benefits depends on whether the economic growth is steady and coupled with an increase in the productive capacity through investments in technology, education and training or research and development.</p> <p>Similarly, if economic growth is achieved through using sustainable, renewable resources coupled with government policies to minimise the impact of negative externalities on third parties, for example through a carbon emissions trading or reduction scheme, the pitfalls of the damage to the environment through increased economic growth can be minimised.</p>										
			<table border="1"> <thead> <tr> <th data-bbox="360 786 517 815">Descriptor</th> <th data-bbox="1211 786 1384 815">Award mark</th> </tr> </thead> <tbody> <tr> <td data-bbox="360 815 1070 850">Consistently meets the criteria for this level</td> <td data-bbox="1211 815 2047 850">At top of level</td> </tr> <tr> <td data-bbox="360 850 1070 919">Meets the criteria but with some slight inconsistency</td> <td data-bbox="1211 850 2047 919">Above middle and either below top of level or at middle of level (depending on number of marks available)</td> </tr> <tr> <td data-bbox="360 919 1070 987">Just enough achievement on balance for this level</td> <td data-bbox="1211 919 2047 987">Above bottom and either below middle or at middle of level (depending on number of marks available)</td> </tr> <tr> <td data-bbox="360 987 1070 1019">On the borderline of this level and the one below</td> <td data-bbox="1211 987 2047 1019">At bottom of level</td> </tr> </tbody> </table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level
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Question	Answer	Marks	Guidance
18	<p>In June 2016, on the day following the UK's vote to leave the European Union, the UK currency (Pound Sterling) fell by more than 10 per cent to a rate of £1:\$1.326.</p> <p>Evaluate, using an appropriate diagram(s), the likely consequences of a fall in pound Sterling on international competitiveness.</p> <p>Level 4 (16-20 marks)</p> <p>Good knowledge and understanding of a fall in pound sterling and international competitiveness.</p> <p>Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Strong evaluation of the extent of the consequences of a fall in pound sterling on international competitiveness, weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 3 (11-15 marks)</p> <p>Good knowledge and understanding of a fall in pound sterling and international competitiveness.</p>	<p>20 (AO1 x3) AO2 x4 AO3 x6 AO4 x7)</p>	<p>An exchange rate is the value of one currency in terms of another. A fall in pound sterling means that it has fallen in value relative to another currency, known as a depreciation. International competitiveness measures a country's ability to provide better-value goods and services than their international competitors.</p> <p>The decrease in the demand for pound sterling following the Brexit voting referendum result, led to a shift in the demand for pounds from D1 to D2. This led to a fall in the value of the pound from P1 to P2.</p>  <p>The depreciation of the currency meant that pound sterling is now worth less in terms of foreign currency. As a result of the depreciation, UK exported goods and services became cheaper (a fall in relative export prices). If the UK is able to produce goods and services at a lower price, this is an</p>

Question	Answer	Marks	Guidance
	<p>Good analysis of the consequences of a fall in pound sterling on international competitiveness. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p>Good evaluation will weigh up both sides/compare alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p>Level 2 (6-10 marks)</p> <p>Reasonable knowledge and understanding a fall in pound sterling for the UK economy.</p> <p>Reasonable analysis of the consequences of a fall in pound sterling on international competitiveness. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of the extent of the consequences of a fall in pound sterling on international competitiveness, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p>		<p>important factor in improving international price competitiveness.</p> <p>[This could be shown as an increase in net exports on an AD/AS diagram]</p> <p>However, producers who import raw materials would have to pay higher prices for their factor inputs. This increase in costs could decrease the ability to provide better-value goods at an internationally competitive price, thus having a negative impact on international competitiveness.</p> <p>Factors such as relative unit labour costs (perhaps influenced by minimum or living wages) and productivity will also have an impact on relative export prices and international competitiveness.</p> <p>For relatively price inelastic exports, a depreciation of the currency may have less significant effects on the volume of exports demanded. For example, in recent years pound sterling had been relatively strong compared to currencies such as the Euro and the Renminbi. However, the UK had been able to maintain the volume of exports, particularly of services.</p> <p>The exchange rate does have a significant impact on international competitiveness, which explain why countries like China maintain a devalued currency.</p> <p>However, whilst the price of the goods due to the exchange rate is one consideration, there also other non-price factors which affect international competitiveness. Factors such as investment in capital equipment and research and development contribute towards providing goods and services which provide better value than overseas competitors.</p>

Question	Answer	Marks	Guidance
	<p>Level 1 (1-5 marks)</p> <p>Limited knowledge and understanding of a fall in pound sterling.</p> <p>Limited or no analysis of the consequences of a fall in pound sterling on international competitiveness. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p> <p>Limited evaluation of the consequences of a fall in pound sterling on international competitiveness in the form of an unsupported statement or no evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p>0 marks No response worthy of credit</p>		<p>The impact of inflation can also eradicate any gains from being internationally competitive. Whilst the exchange rate does have an impact, devaluation in itself may not guarantee international competitiveness.</p> <p>Supply-side policies which help to improve efficiency and encourage competition may have more of a long-term impact on achieving international competitiveness.</p>
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