



A-level ECONOMICS 7136/2

Paper 2 National and International Economy

Mark scheme

June 2023

Version: 1.0 Final



2 3 6 A 7 1 3 6 / 2 / M S

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Section A

Below is the levels of response marking grid to be used when marking any 25 mark question.

Level of response	Response	Max 25 marks
5	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion. 	21–25 marks
4	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation. 	16–20 marks
3	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. 	11–15 marks
2	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported. 	6–10 marks
1	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported. 	1–5 marks

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A (Figure 1)**, calculate the difference between Ireland’s corporation tax rate and the mean corporation tax rate of the other five European nations.

Give your answer to **one** decimal place.

[2 marks]

Response	Max 2 marks
For the correct answer (13.1 percentage points) to one decimal place. Accept an answer of 13.1%	2 marks
For a correct answer but not to one decimal place. OR For the correct answer (13.1) but without the words ‘percentage points’ or % sign. OR For the correct method but the wrong answer, to one decimal place, and including the words ‘percentage points’ or the % sign. OR For calculating the mean of the other 5 European nations (25.62%) with the % sign.	1 mark

Calculation:

$$\begin{aligned} \text{Mean of other European nations} &= (26.5 + 29.7 + 27.9 + 25.0 + 19.0)/5 \\ &= 128.1/5 \\ &= 25.62\% \end{aligned}$$

$$\begin{aligned} \text{Mean of other European nations} - \text{Ireland} &= 25.62 - 12.50 = 13.12 \\ &= 13.1 \text{ percentage points to 1 decimal place.} \end{aligned}$$

MAXIMUM FOR QUESTION 01: 2 MARKS

0 2 Explain how the data in **Extract A (Figure 2)**, show that Ireland’s economy performed better than the economies of France and Spain in 2021.

[4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none"> includes evidence that show that Ireland’s economy has performed better than the economies of France and Spain in 2021 clearly explains how this data is evidence that Ireland’s economy has performed better than the economies of France and Spain in 2021. 	4 marks
<ul style="list-style-type: none"> includes evidence that show that Ireland’s economy has performed better than the economies of France and Spain in 2021 explanation of how this data is evidence that Ireland’s economy has performed better than the economies of France and Spain in 2021. 	3 marks
<ul style="list-style-type: none"> includes some limited evidence that shows that Ireland’s economy has performed better than the economies of France and Spain in 2021 limited explanation of how this data is evidence that Ireland’s economy has performed better than the economies of France and Spain in 2021. 	2 marks
<ul style="list-style-type: none"> includes evidence that does not clearly show that Ireland’s economy has performed better than the economies of France and Spain in 2021 no explanation of how this data is evidence that Ireland’s economy has performed better than the economies of France and Spain in 2021. 	1 mark

Relevant issues include:

- the meaning of a better macroeconomic performance
- Ireland’s GDP per worker in its labour force (\$199 600), is much higher than that of France (\$94 677) and Spain (\$51 587), indicating Ireland’s output per worker is much higher
- Ireland’s exports as a proportion of GDP (128%) is much higher than that of France (26.4%) and Spain (35.4%), indicating they have a better trade performance
- Ireland’s inflation rate (2.4%) is closer to the ECB’s target of 2% than Spain’s (3.1%) but not better than France’s (1.6%), indicating they are close to achieving price stability
- Ireland has the lowest unemployment rate (5.1%) compared to France (9.9%) and Spain (13.3%), indicating that a smaller proportion of Ireland’s labour force is out of work, seeking work and unable to find a job.

MAXIMUM FOR QUESTION 02: 4 MARKS

0 3 **Extract C** (line 13) states: ‘High economic growth rates allowed Ireland to run a budget surplus in 2018 and 2019.’

With the help of a diagram, explain how high economic growth could help to create a budget surplus.

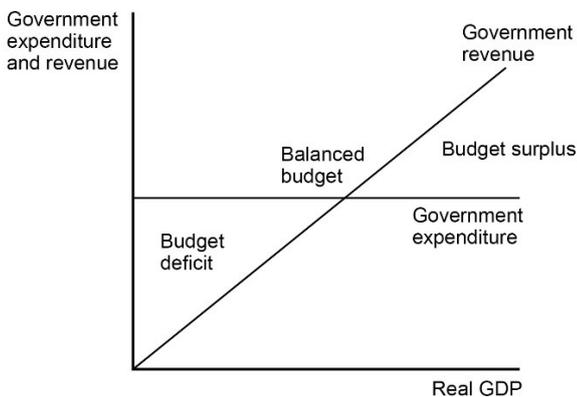
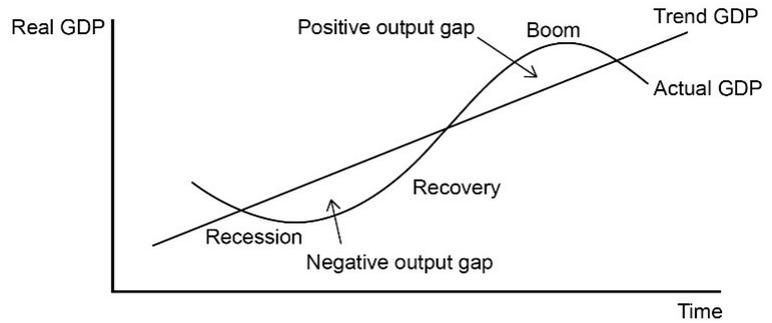
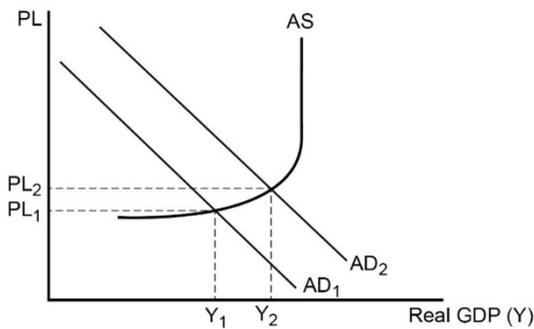
[9 marks]

Level of response	Response:	Max 9 marks
3	<ul style="list-style-type: none"> • is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. 	7–9 marks
2	<ul style="list-style-type: none"> • includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram. 	4–6 marks
1	<ul style="list-style-type: none"> • is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. 	1–3 marks

An AD/AS diagram which shows AD shifting rightward may be used. An economic cycle diagram showing the economy gaining a higher GDP is also acceptable.

Some candidates may include a diagram that has GDP on the horizontal axis and taxation plus government spending on the vertical axis. The diagram will show tax revenue increasing with GDP and may also show government spending falling (or remaining the same) as GDP rises.

Expected diagrams are:



However other appropriate diagrams should be given credit.

Relevant issues include:

- definitions/explanations: economic growth, budget, budget surplus
- explaining the difference between short-run and long-run growth
- explaining reasons for rising AD such as any cause of a rise in $C+I+G+(X-M)$
- linking the rise in AD to increased output, an increased derived demand for labour and falling cyclical unemployment
- explaining why tax revenue is likely to rise if growth occurs such as:
 - from employment taxes (income tax and national insurance) due to falling unemployment
 - corporation tax revenue from increased profits
 - VAT receipts from increased consumer spending
- explaining why government spending may fall if growth occurs such as:
 - reductions in welfare benefits
 - reductions in spending on merit goods/public good provision.

MAXIMUM FOR QUESTION 03: 9 MARKS

0 4

Extract B (lines 1–3) states: ‘Ireland has dropped its low-tax policy of the past 18 years, which had helped to persuade some of the world’s biggest companies, including Google and Facebook, to site their European headquarters in Ireland.’

Using the data in the extracts and your knowledge of economics, assess the view that a rise in Ireland’s corporation tax rate is likely to have a damaging effect on its macroeconomic performance.

[25 marks]

Areas for discussion include:

- definitions/explanations: tax, corporation tax, macroeconomic performance
- explaining how corporation tax is a tax levied on a firm’s profits
- explaining how low corporation tax can attract FDI and MNCs into a nation
- explaining the benefits of attracting FDI and MNCs such as:
 - increased short-run and long-run growth
 - reduced unemployment
 - the possible effects of reduced inflation if productive potential is increased
 - the effects on international trade such as being a base for increased exports
- explaining that a higher rate of corporation tax may drive away FDI and MNCs
- explaining the possible costs of losing FDI and MNCs such as:
 - reduced growth rates (both short-run and long-run)
 - increased unemployment
 - possible effects on inflation (could it lead to deflation?)
 - the effects on international trade such as a loss of exports
- explaining other possible effects such as on living standards, government finances or inequality
- linking MNCs and FDI to wealth creation and the possible ‘trickle-down’ effect
- considering regional disparities that may occur
- the effects on GDP versus the effects on GNP if profits are repatriated
- tax avoidance issues
- whether the change in tax rates will impact at all, if industries are not footloose
- the benefits of possible increased tax revenue on macroeconomic performance if FDI and MNCs remain in Ireland
- the benefits of possible increased tax revenue on other areas of the economy such as welfare provision.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

Context 2

Total for this context: 40 marks

0 5 Using the data in **Extract D (Figure 3)**, calculate the value of bonds that had been purchased by November 2020 for every £1 worth of bonds purchased by November 2009.

Give your answer in £s and to **two** decimal places.

[2 marks]

Response	Max 2 marks
For the correct answer (£4.48) with the £ sign and to 2 decimal places.	2 marks
For a correct answer but without the £ sign and/or not to 2 decimal places. OR For the correct method but the wrong answer, to two decimal places with the £ sign.	1 mark

Calculation:

$$£895\text{bn}/£200\text{bn} = £4.475 = £4.48 \text{ to 2 decimal places.}$$

MAXIMUM FOR QUESTION 05: 2 MARKS

0 6

*Explain how the data in **Extract D (Figure 4)**, show that the growth in quantitative easing (shown in **Figure 3**) may have been successful in helping the UK achieve its macroeconomic objectives since 2009.*

[4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none"> includes evidence that show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 clearly explains how this data is evidence that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009. 	4 marks
<ul style="list-style-type: none"> includes evidence that show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 explanation of how this data is evidence that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009. 	3 marks
<ul style="list-style-type: none"> includes some limited evidence that show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 limited explanation of how this data is evidence that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009. 	2 marks
<ul style="list-style-type: none"> includes evidence that does not clearly show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009 no explanation of how this data is evidence as to show that QE may have been successful in helping the UK achieve its macroeconomic objectives since 2009. 	1 mark

Relevant issues include:

- the meaning of quantitative easing (QE), macroeconomic objectives
- explaining how QE can benefit growth
- explaining how QE can help avoid low inflation/deflation
- explaining how QE can help employment
- before 2009, growth averaged 0.1% (2006–2009) but afterwards the average growth rates were always higher and reached a high average of 2.5% (2014–2017)
- after 2009 the lowest growth average was 0.4% (2018–2021) which is above the rate of 0.1% (2006–2009)
- after 2009, the economy avoided deflation with the lowest average inflation rate of 1.2% (2014–2017) and this was still inside the acceptable target range of 2%+/-1%
- unemployment fell over the period from 6.0% (2006–2009) compared to 4.2% (2018–2021) which indicates an increased demand for labour due to higher real national output.

MAXIMUM FOR QUESTION 06: 4 MARKS

0 7

Extract E (lines 4–5) states: ‘...banks in the UK decreased lending, reducing the availability of credit for households and firms. This damaged the real economy and created high unemployment.’

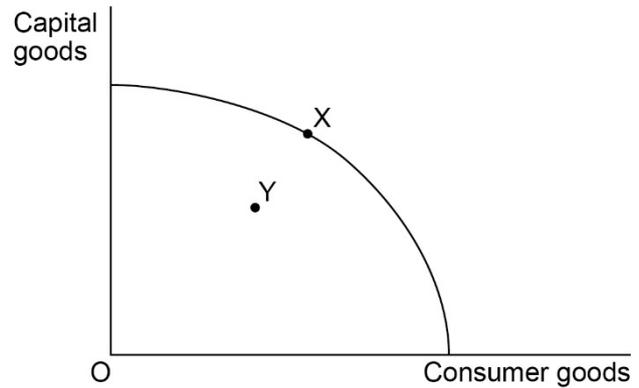
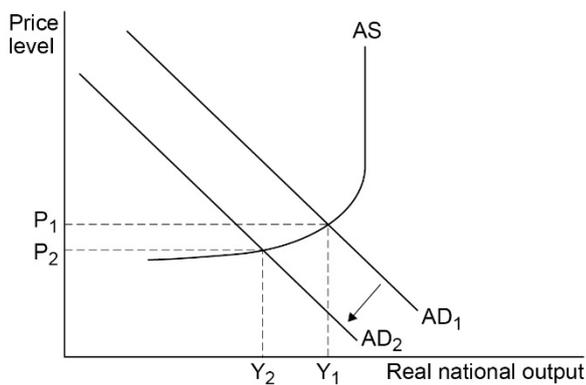
With the help of a diagram, explain how reduced availability of credit from banks may lead to increased unemployment.

[9 marks]

Level of response	Response:	Max 9 marks
3	<ul style="list-style-type: none"> • is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. 	7–9 marks
2	<ul style="list-style-type: none"> • includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram. 	4–6 marks
1	<ul style="list-style-type: none"> • is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. 	1–3 marks

An AD/AS diagram showing a fall in AD would be expected. However, candidates may decide to use a diagram showing a movement from the boundary of a PPF to inside a PPF or an economic cycle diagram to illustrate the effects of falling availability of credit.

Expected diagrams are:



However other appropriate diagrams should be given credit.

Relevant issues include:

- definitions/explanations: credit, availability of credit, unemployment
- explaining reasons why banks may decide/be forced to reduce the availability of credit
- explaining the impacts on consumers and firms
- linking the effects to falling consumption and investment
- explaining that consumption and investment are components of AD ($C+I+G+X-M$)
- explaining falling levels of AD mean that firms are likely to reduce output
- explaining that labour is in derived demand
- linking falling output to demand-deficient/cyclical unemployment
- explaining this unemployment is involuntary
- explaining possible negative multiplier effects of falling investment and further subsequent effects on unemployment.

MAXIMUM FOR QUESTION 07: 9 MARKS

0 8

Extract F (lines 18–19) states: ‘Some say that the use of QE is a dangerous addiction and its overuse can lead to problems in the future.’

Using the data in the extracts and your knowledge of economics, assess the view that the continued use of quantitative easing (QE) is damaging for the UK economy.

[25 marks]

Areas for discussion include:

- definitions/explanations: quantitative easing (QE), money supply, monetary policy
- explaining how the effects of QE could be measured, in terms of the macroeconomic objectives: economic growth, price stability, minimising unemployment and a stable balance of payments on current account
- explaining how the effects of QE on other issues could be measured, such as: living standards, the cost of living, inequality, government finances or on firms
- explaining the role of the Bank of England or Monetary Policy Committee (MPC)
- explaining the difference between government bonds (gilts) and commercial bonds
- explaining the process of QE and its effects in terms of:
 - creating liquidity in financial markets
 - the impact on bank lending
 - the impact on interest rates
 - the impact on the money supply
 - the impact on asset prices
 - the impact on bond prices and yields in the secondary market
 - the impact on the FOREX and exchange rates
- explaining the impact on household and corporate spending, confidence and aggregate demand
- explaining the main drawbacks of QE such as:
 - inflation
 - inequality
 - fuelling speculative bubbles
 - cyclical instability
- considering the limitations of QE such as:
 - when bond yields are low, there is little scope for further reduction
 - the possibility of being in a liquidity trap
 - money hoarding by financial institutions
 - bonds may have been held by foreign investors, therefore they may not directly stimulate the UK economy
- the role of fiscal policy and decisions by the government such as austerity
- consideration of the word ‘continued’ and although QE may/may not have been successful in the past it is not guaranteed to be/not be successful in the future
- considering other ways that the Bank of England can use instruments such as Bank Rate, forward guidance, operational independence and forecasting to influence the macroeconomy.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

Section B

Below is the levels of response marking grid to be used when marking any 15 mark question.

Level of response	Response	Max 15 marks
3	<p>A good response provides an answer that:</p> <ul style="list-style-type: none"> • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning. 	11–15 marks
2	<p>A reasonable response provides an answer that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places. 	6–10 marks
1	<p>A weak response provides an answer that:</p> <ul style="list-style-type: none"> • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused. 	1–5 marks

Section B

Essay 1

Total for this essay: 40 marks

0 9 *Explain the main causes of globalisation.*

[15 marks]

Relevant issues include:

- definitions/explanations: globalisation
- explaining the main features of globalisation in terms of:
 - trade
 - movement of labour
 - movement of capital
 - transfer of technology
- explaining the main causes of globalisation such as:
 - the work of the WTO in removing trade barriers
 - trade liberalisation agreements between nations/the creation of trading blocs
 - the opening up of previously closed economies to trade
 - economic co-operation between nations
 - specialisation/comparative advantage
 - cheaper transportation costs
 - containerisation
 - the freer movement of labour
 - improved communication methods such as the Internet
 - policies to promote migration of labour
 - improvements in infrastructure
 - the growth of MNCs.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

1 0

Assess the view that increased globalisation has been beneficial for the UK economy.

[25 marks]

Areas for discussion include:

- definitions/explanations: globalisation, the UK economy
- explaining the main causes of globalisation
- explaining the impacts of globalisation on the UK in terms of the macroeconomic objectives
- explaining the impacts of globalisation on the UK in terms of its effects on individuals, firms or the environment
- explaining the main benefits of globalisation for the UK such as:
 - comparative advantage arguments and trade
 - job creation in areas such as financial services affecting employment
 - allowing access to goods and services difficult to produce domestically
 - lower priced imports reducing inflation
 - increased choice
 - benefits from transfer of technology and its effects on growth
 - welfare gains in terms of trade
 - economies of scale arguments
 - the benefits of international co-operation
 - increased inward FDI
- explaining the possible costs of globalisation for the UK such as:
 - outsourcing leading to structural unemployment in regions of the UK
 - issues surrounding labour migration
 - MNCs exploiting tax loopholes
 - MNCs influence over political decisions
 - the domestic economy being now open to more global shocks affecting imports, prices and growth
 - the potential for imported inflation
 - overdependence on certain markets/possible strategic markets arguments
 - environmental issues with transport
- considering trade-offs such as the benefits of lower priced imports against possible structural unemployment in certain industries such as steel
- the role of the WTO in further integration
- the different experiences in terms of the UK's membership of the EU/Brexit
- the different experiences in different regions of the UK or inequality
- the difference between labour and capital mobility
- globalisation as a source of competition creating more resilience in UK firms
- loss of manufacturing could lead to long-run overdependence on certain economies
- how MNCs with global brands may be damaged by events abroad
- comparative advantage as a dynamic concept, although benefits may occur now this is not guaranteed in the future.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

Essay 2**Total for this essay: 40 marks****1 1***Explain the possible causes of a shift in the short-run aggregate supply curve to the left.***[15 marks]****Relevant issues include:**

- definitions/explanations: short-run, aggregate supply, short-run aggregate supply (SRAS)
- explaining the SRAS curve shows the relationship between planned national output (GDP) and the general price level
- explaining the assumptions that factor prices, productivity, and technology are held constant in the short-run
- explaining the positive relationship between the price level and GDP linked to profit motives
- explaining that the price level and production costs are the main determinants of SRAS
- explaining causes of a shift to the left of the SRAS curve such as:
 - rising raw material costs
 - a rise in money wage rates
 - a rise in business taxes
 - a fall in productivity
 - a rise in import prices
 - a rise in oil prices
 - supply-side shocks or shortages.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

1 2

Evaluate how, in the long-run, governments could try to reconcile conflicts between the various objectives of economic policy.

[25 marks]**Areas for discussion include:**

- definitions/explanations: long-run, reconciling conflicts, economic objectives, economic policy
- explaining the main objectives of government macroeconomic policy: economic growth, price stability, minimising unemployment and a stable balance of payments on current account
- explaining the main conflicts arising such as:
 - economic growth causing rising inflation
 - economic growth causing rising imports and balance of payments deficit on current account
 - lower unemployment causing inflation.
- explaining how negative and positive output gaps relate to unemployment and inflationary pressures
- explaining trade-offs and conflict resolution in terms of the short-run and long-run Phillips Curve
- considering other objectives of macroeconomic policy, such as balancing the budget, environmental objectives and achieving an equitable distribution of income
- considering that the importance attached to the different objectives may change over time or depend on the stage of development of a nation
- explain that governments may satisfice rather than attempt to achieve all of the objectives at the same time
- explaining how demand-side policies can be used to try to achieve objectives but may cause trade-offs
- the monetarist/supply-side view that the major macroeconomic objectives are compatible in the long run
- the merits of interventionist versus free-market approaches to supply-side policies
- unintended consequences of policies or government failure
- considering the potential financial costs or cost effectiveness of supply-side policies
- the difficulties of measuring the effectiveness of supply-side policies and time lags.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

Essay 3**Total for this essay: 40 marks**

1	3
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*Explain possible causes of economic growth.***[15 marks]****Relevant issues include:**

- definitions/explanations: economic growth, short-run growth, long-run growth
- explaining the causes of increased short-run growth by increasing the components of aggregate demand $C+I+G+(X-M)$
- explaining causes of increased consumption such as:
 - expansionary monetary policy, expansionary fiscal policy, increased confidence, the wealth effect or increased employment/reduced unemployment
- explaining causes of increased investment such as:
 - the accelerator, increased retained profit, advances in technology, increased credit availability or research and development
- explaining causes of increased government spending such as:
 - increased spending on infrastructure, increased spending on public/merit goods, or increased spending on welfare benefits
- explaining causes of increased net trade such as:
 - a depreciation of currency leading to increased exports and reduced imports or growth in a foreign trading partner leading to increased exports
- explaining the main causes of long-run economic growth such as:
 - supply-side policies, investment, research and development, immigration or education

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

1 4

Evaluate the view that economic growth usually leads to an improvement in living standards.

[25 marks]

Areas for discussion include:

- definitions/explanations: living standards, economic growth
- explaining the links between economic growth, real GDP/capita and living standards
- explaining the significance of the rate of growth of the country's population
- explaining why economic growth may lead to improved living standards through:
 - reduced unemployment and increased disposable incomes
 - increased consumption possibilities
 - improved public services and merit good provision due to increased tax revenue
 - a reduction in absolute poverty
- explaining why economic growth may lead to worsening living standards through:
 - inflation and its effects on individuals such as those on fixed incomes or those with low wage-bargaining power
 - the negative externalities of increased output such as pollution or deforestation
 - the using up of scarce resources
 - inequality
 - stress/loss of leisure time
- the limitations of using economic growth figures in order to assess living standards
- considering how the economic growth has been achieved and whether it improves living standards ie spending on the military may add to GDP but not improve living standards
- considering the effects of corruption on living standards
- considering that high growth may reflect recovery from recession rather than improved living standards
- alternative ways of measuring living standards such as the HDI
- it may depend upon the country in question, for example many LEDCs may require economic growth at a faster rate than many developed economies
- the objective of economic growth in comparison to the other objectives
- whether long-run economic growth can be achieved and the subsequent improvement in living standards
- considering economic development rather than growth in terms of improving the quality of life
- the effects and/or trade-offs of economic growth may depend on where the economy is in the economic cycle.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS