

**GCE**

**Economics**

**H460/02: Macroeconomics**

Advanced GCE

**Mark Scheme for Autumn 2021**

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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
<b>BP</b>	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
<b>CON</b>	Confused
<b>BOD</b>	Benefit of doubt
<b>KU</b>	AO1 – Knowledge and understanding
<b>APP</b>	AO2 – Apply knowledge and understanding
<b>AN</b>	AO3 - Analyse
<b>EVAL</b>	AO4 - Evaluation
	Omission
<b>NAQ</b>	Not answered question
<b>SEEN</b>	Noted but no credit given
<b>TV</b>	Too vague
<b>OFR</b>	Own figure rule
<b>REP</b>	Repetition

Question		Answer	Marks	Guidance
1	(a)	<p><b>Using information from the stimulus material, identify two stages of the economic cycle.</b></p> <p>Economic boom (1). Recession (1).</p>	<p><b>2</b> (AO1 x 2)</p>	<p>Annotate with </p> <p>Accept Boom (1)</p>
1	(b)	<p><b>Using Fig.1, explain the relationship between changes in consumer expenditure and changes in income.</b></p> <p>Direct/positive relationship between consumer expenditure and income/rise in income results in a rise in consumer expenditure (1). The proportion of income spent falls as income rises/average propensity to consume falls as income rises (1). At low levels of income, people spend more than their income/ there is dissaving/people spend savings/benefits (1) Gradient decreases as it becomes more attractive to save (1)</p>	<p><b>2</b> (AO2 x 2)</p>	<p>Annotate with </p>
1	(c)	<p><b>Calculate Switzerland's marginal propensity to withdraw.</b></p> <p>0.67 (2). Formula for the multiplier/correct working. (1)</p>	<p><b>2</b> (AO2 x 2)</p>	<p>Annotate with </p> <p>Accept 2/3 with workings (2)</p> <p>Formula: <math>\Delta Y/\Delta J</math> or <math>1/mpw</math>. Correct working: <math>\\$300m/200m = 1.5</math>. <math>1.5 = 1/mpw</math>.</p>
1	(d)	<p><b>Using Fig. 3, explain what is likely to have happened to UK share prices at the start and the end of the period shown.</b></p> <p>Share prices are likely to have been low initially/and then increased at the start (1) and fallen at the end (1) The interest rate is high at 5% at the beginning so the return for savings is higher (1)</p>	<p><b>4</b> (AO1 x 2 AO2 x 2)</p>	<p>Annotate with </p>

		When the rate of interest falls, there may be a higher return from buying shares than holding money in a bank (1) a lower rate of interest is likely to raise AD and increase profits (1) when the rate of interest rises, dividend payments may be lower (1).		
1	(e)	<p><b>Using information from the stimulus material, evaluate whether a recession will increase the number of people unemployed.</b></p> <p><b>Level 2 (5–8 marks)</b>  <b>Good knowledge and understanding</b> of a recession and unemployment.</p> <p><b>Good – strong analysis</b> of how a recession may affect unemployment. 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. <b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Reasonable – strong evaluation</b> of whether a recession will increase the number of people unemployed, underpinned by appropriate theoretical analysis. <b>Good evaluation</b> will weigh up the reasons why it might not but without reaching a supported judgement. <b>Strong</b> evaluation should include a supported judgement.</p> <p><b>Level 1 (1–4 marks)</b>  <b>Limited – reasonable knowledge and understanding</b> of</p>	8  (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)	<p><b>For a mark at the top of each level evidence must be provided from the stimulus material and / or the candidate’s own knowledge.</b></p> <p>A recession occurs when a country’s GDP falls over two successive quarters.</p> <p>Analysis of why a recession may lead to unemployment might include:</p> <ul style="list-style-type: none"> <li>• Consumer expenditure falls during a recession, so there is less demand/consumption leading to a fall in AD</li> <li>• A lower output may result in lower profits for firms. Producing less and earning less is likely to result in firms reducing the number of workers they employ. With lower aggregate demand, cyclical unemployment is likely to occur.</li> <li>• The unemployment generated may itself cause unemployment. When people are out of work for some time, they may lose skills and confidence, making it more difficult for them to get jobs when the economy picks up. They will also spend less, reducing aggregate demand even further.</li> <li>• The effect on unemployment may be greater if firms had high stock levels before the start of the recession. In this case, firms are likely to cut back significantly on their production.</li> </ul> <p>Evaluation of why a recession may not lead to a rise in the number of unemployed workers might include:</p> <ul style="list-style-type: none"> <li>• One is that some people who lose their jobs may leave</li> </ul>

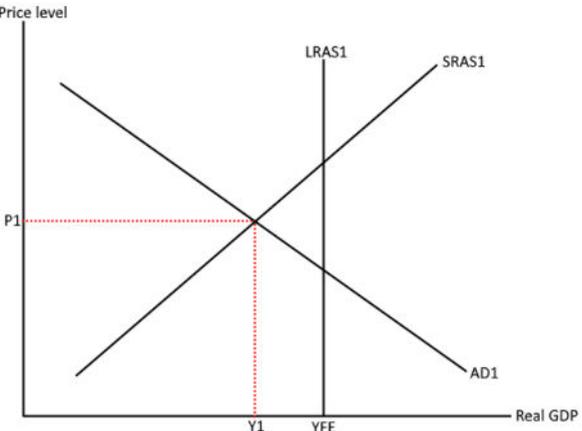
		<p>a recession and unemployment.</p> <p><b>Limited – reasonable</b> analysis of how a recession may affect unemployment. <b>Limited</b> analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. <b>Reasonable</b> analysis will have correct analysis largely in the form of single links. These address the question <b>but</b> 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><b>Limited</b> evaluation of whether a recession will increase the number of people unemployed in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		<p>the labour force and so will not be counted as unemployed. They may enter higher education, retire early. Become homemakers or emigrate.</p> <ul style="list-style-type: none"> <li>• Firms may also decide to keep the number of workers they employ the same in the belief that the recession will not last. Long term contracts may make it difficult to sack some workers although recent years have seen an increase in more flexible employment.</li> <li>• It is also possible that before the recession firms were operating with workers working long hours of overtime. In this case, firms could reduce the number of hours worked without reducing the number of people they employ.</li> <li>• Lower output is most likely to increase the number of people unemployed but if the recession does not last much beyond six months and confidence levels are not too low, any rise in unemployment may be relatively low.</li> <li>• The effect on unemployment may be greater if firms had high stock levels before the start of the recession. In this case, firms are likely to cut back significantly on their production.</li> </ul> <p>Judgement might include:</p> <p>Depends upon stock levels of firms or the extent to which firms wish to retain workers. How consumers react to a fall in income and how they alter their expenditure.</p>
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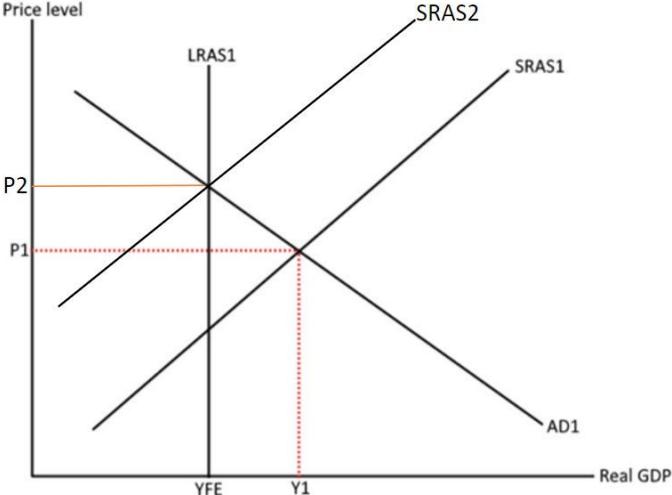
	<b>Descriptor</b>	<b>Award mark</b>
	Consistently meets the criteria for this level	At top of level
	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
	Just enough achievement on balance for 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

Question			Answer	Marks	Guidance
1	(f)	*	<p><b>Using information from the stimulus material, evaluate whether a negative interest rate would help the government to achieve its macroeconomic objectives.</b></p> <p><b>Level 3 (9–12 marks)</b>  <b>Good knowledge and understanding</b> of a negative interest rate and macroeconomic objectives.</p> <p><b>Good – strong analysis</b> of how a negative interest rate may help the government achieve its macroeconomic objectives. <b>Good analysis</b> will be in the form of developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. <b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Good – strong</b> evaluation of whether a negative interest rate will help the government achieve its macroeconomic objectives, weighing both why it might and why it might not. <b>Strong evaluation</b> 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><b>Level 2 (5–8 marks)</b>  <b>Good knowledge and understanding</b> of a negative interest rate and macroeconomic objectives.</p> <p><b>Reasonable analysis</b> of how a negative interest rate will</p>	<p><b>12</b></p> <p>(AO1 x 1  AO2 x 1  AO3 x 5  AO4 x 5)</p>	<p><b>For a mark at the top of each level evidence must be provided from the stimulus material and / or the candidate's own knowledge.</b></p> <p>A negative interest rate is one that is set below zero</p> <p>Analysis of how a negative interest rate can help a government achieve its macroeconomic objectives might include:</p> <ul style="list-style-type: none"> <li>• A negative interest rate may encourage commercial banks to lend more. This is because the banks will try to reduce the deposits, they hold at the central bank to the minimum required. If the banks lend more to households and firms, consumer expenditure and investment will increase.</li> <li>• Households and firms may also be more willing to spend because the commercial banks may pass on the negative interest rates to their customers. This will mean that borrowers will gain. In addition, households and firms may spend more because they will lose by saving.</li> <li>• The government may also spend more due to the reduction in the cost of servicing past debt and the reduction in the cost of current borrowing. The government may spend on measures, such as investment subsidies, to increase economic growth.</li> <li>• If consumer expenditure, investment and government spending do increase, aggregate demand will rise. This will increase output and employment if the economy had some spare capacity.</li> <li>• Another way that a negative interest rate may stimulate economic growth and reduce unemployment is by lowering the exchange rate. This is because it may lead</li> </ul>

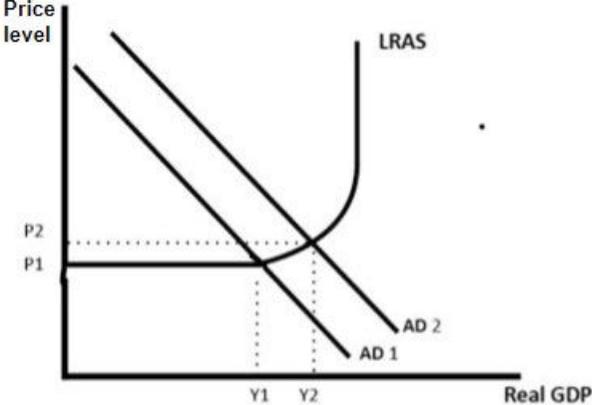
		<p>help the government achieve its macroeconomic objectives. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of whether a negative interest rate will help the government achieve its macroeconomic objectives, considering both why it might and why it might not.</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><b>Level 1 (1–4 marks)</b>  <b>Limited – reasonable knowledge and understanding</b> of a negative interest rate and macroeconomic objectives.</p> <p><b>Limited analysis</b> of how a negative interest rate may help the government’s macroeconomic objectives. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p><b>Limited evaluation</b> of whether a negative interest rate will help the government achieve its macroeconomic objectives in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>	<p>to less financial investment coming into the country and more going out of the country. The return on saving in the country’s financial institutions would fall. So foreigners are likely to demand less of the currency and people in the country are likely to sell more of the currency. A lower exchange rate will reduce export prices and raise import prices which may increase net exports and improve the balance of payments.</p> <p>Evaluation of whether negative interest rates will not help a government achieve its macroeconomics objectives might include:</p> <ul style="list-style-type: none"> <li>• A negative interest rate may not stimulate economic growth and reduce unemployment. The commercial banks may not pass on the cut to their customers. The functions of commercial banks may be adversely affected. While households and firms may want to borrow more, the banks may experience difficulty attracting the funds to lend.</li> <li>• More significantly perhaps, even if households and firms are faced with a negative interest rate, they will not increase their spending and investment if they lack confidence. Indeed, a negative interest rate may suggest to households and firms that the central bank and the government are concerned about the country’s economic prospects. Households and firms may also not change their saving and spending intentions if they think a negative interest rate will only last for a short time.</li> <li>• A negative interest rate may not lower the exchange rate if other central banks also operate negative interest rates. Even if they do not, a lower exchange rate may not increase net exports. For instance, it may not be possible to sell more exports if incomes are falling in</li> </ul>
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		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

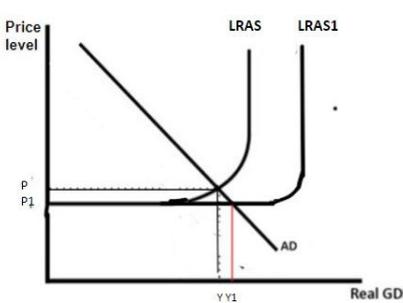
Question	Answer	Marks	Guidance
<p>2 *</p>	<p><b>In 2017 Bosnia had a significant output gap while it was estimated that Slovenia did not have an output gap.</b></p> <p><b>Evaluate, with the use of an appropriate diagram(s), whether a government should always seek to reduce an output gap.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good - Strong knowledge and understanding</b> of output gaps.</p> <p><b>Strong analysis</b> of why a government should seek to reduce an output gap. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Strong evaluation</b> of whether a government should always seek to reduce an output gap, weighing up both why they might and why they might not and reaching a supported judgement.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b>  <b>Good</b> knowledge and understanding of output gaps.</p> <p><b>Strong analysis</b> of why a government should seek to reduce an output gap. <b>Strong analysis</b> will have</p>	<p><b>25</b></p> <p>(AO1 x 6                      AO2 x 6                      AO3 x 6                      AO4 x 7)</p>	<p><b>For a mark at the top of each level the response should be in context.</b></p> <p>An output gap is the difference between actual and potential output. A negative output gap involves an economy operating at less than its potential output.</p> <p>Possible analysis as to why a government should seek to reduce an output gap might include:</p> <ul style="list-style-type: none"> <li>When an economy has a negative output gap. Output is at Y1, below the country’s potential output of YFE. The existence of unemployed resources can impose considerable costs. These include loss of tax revenue, higher spending on welfare benefits, reduced living standards and a decline in workers’ skills</li> </ul> 

	<p><b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Good evaluation</b> of whether a government should always seek to reduce an output gap and will weigh up both sides but without 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 in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b>  <b>Good knowledge and understanding</b> of output gaps.</p> <p><b>Good analysis</b> of it will be beneficial to reduce an output gap. 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><b>Reasonable evaluation</b> of whether a government should always seek to reduce an output gap, considering both why it might and why it might not.</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><b>Level 2 (6–10 marks)</b>  <b>Good knowledge and understanding</b> of output gaps.</p>	<ul style="list-style-type: none"> <li>A positive output gap occurs when the economy produces more than the long run potential. The diagram shows macroeconomic disequilibrium, this time arising from output being above the long run potential output.</li> </ul>  <ul style="list-style-type: none"> <li>This type of output gap will create inflationary pressure. The factors of production would be over-utilised, which could not be sustained, so the cost of production would increase (workers may be paid overtime) this would shift SRAS1 to SRAS2 which would increase the price level from P1 to P2 which would be inflationary.</li> </ul> <p>Evaluation of whether a government should not always seek to correct an output gap might include:</p> <ul style="list-style-type: none"> <li>There is some debate as to whether inflation creates more harm to an economy than unemployment.</li> </ul>
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		<p><b>Reasonable analysis</b> of the effects of output gaps. There is correct analysis largely in the form of single links. There address the question <b>but</b> 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><b>Reasonable evaluation</b> of whether it will be beneficial to reduce an output gap, considering both why it might and why it might not.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b>  <b>Reasonable knowledge and understanding</b> of output gaps.</p> <p><b>Limited or no analysis</b> of the effects of output gaps. 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 are incorrectly labelled.</p> <p><b>Limited evaluation</b> of whether it will be beneficial to reduce an output gap, in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		<ul style="list-style-type: none"> <li>• Some Neo-classical economists argue that in the case of both types of output gap, the government does not have to take action. This is because they think that the economy will move to the long run macroeconomic equilibrium by adjustments in wages and raw material prices.</li> <li>• In the case of a negative output gap, the higher unemployment may make workers be prepared to accept lower wages. Suppliers of raw materials may lower their prices to raise demand for their products. If wages and raw materials prices do fall, the SRAS curve will shift to the right and long run macroeconomic equilibrium will be achieved at the productive potential</li> <li>• In the case of a positive output gap, the SRAS curve will shift to the left. This is because workers and suppliers will demand higher wages and prices once they realise that inflation has eroded the real value of the payments they are receiving.</li> <li>• Keynesian economists, however, argue that output gaps are not self-correcting and can continue in the long run. In the case of a negative output gap, wages may be ‘sticky’ downwards. There are a number of reasons for this. One is that, despite high unemployment, some workers may resist wage costs. Employers may also be reluctant to cut wages as it may have a negative effect on workers’ motivation. Their ability to cut wages will also be influenced by the length of workers’ contracts.</li> <li>• The diagram shows that to reduce a long run negative output gap, the government would have to increase aggregate demand from AD to AD1. In this case, the government would have to trade off lower unemployment with higher inflation.</li> </ul>
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			 <p>Possible supported judgements might include:</p> <ul style="list-style-type: none"> <li>• A positive output gap may be more likely to be self-correcting as it is difficult to sustain an output beyond the maximum potential for long. The higher costs that will be generated are likely to reduce output.</li> <li>• A government may consider taking action to reduce an output gap if it is a negative output gap which will not be self-correcting and if it is prepared to accept a higher inflation rate.</li> <li>• Whether a government should seek to reduce an output gap depends on the type of the output gap, whether the output gap will be self correcting and whether the measures it may take may harm its macroeconomic objectives</li> </ul>
		<b>Descriptor</b>	<b>Award mark</b>
		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

Question	Answer	Marks	Guidance
<p>3 *</p>	<p><b>In March 2018 the French government announced that children would have to start school at age 3 rather than age 6 from September 2019. Evaluate, with the use of an appropriate diagram(s), whether a fall in the compulsory school starting age will benefit an economy.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good -Strong knowledge and understanding of aggregate demand and aggregate supply.</b></p> <p><b>Strong analysis</b> of how a fall in the school starting age will affect an economy. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Strong evaluation</b> of whether a fall in the school starting age will benefit an economy, weighing up both why it might and why it might not and reaching a supported judgement.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b>  <b>Good</b> knowledge and understanding of aggregate demand and aggregate supply.</p>	<p><b>25</b></p> <p>(AO1 x 6  AO2 x 6  AO3 x 6  AO4 x 7)</p>	<p><b>For a mark at the top of each level the response should be in context.</b></p> <p>A fall in the compulsory school starting age will mean that children will start school at a younger age and therefore will have more years of schooling, should the leaving age remain the same.</p> <p>Analysis of how a fall in the school starting age will affect an economy might include:</p> <ul style="list-style-type: none"> <li>• A lowering of the age at which children have to start school may raise the size of the labour force due to parents being able to seek work when their children are younger, at least in the short run.</li> <li>• If children’s skills and qualifications increase as a result of them starting their education earlier, they may go on to further education and improve the quality/skills of the labour force which could lead to a rise in the productivity of labour. If workers are more productive, the long run aggregate supply curve will shift to the right as shown in the diagram.</li> </ul> 

		<p><b>Strong analysis</b> of how a fall in the school starting age will affect an economy. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Good evaluation</b> of whether a fall in the school starting age will benefit an economy, weighing up both why it might and why it might not without 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 in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b>  <b>Good knowledge and understanding</b> of aggregate demand and aggregate supply.</p> <p><b>Good analysis</b> of how a fall in the school starting age will affect an economy. 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><b>Reasonable evaluation</b> of whether a fall in the school starting age will benefit an economy, considering both sides.</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>		<ul style="list-style-type: none"> <li>• The country's output would rise. A more skilled and qualified labour force is likely to experience lower structural unemployment and higher incomes. A better-quality labour force may increase net exports as a result of greater price and quality competitiveness. It may also attract multinational companies to set up in the country. As well as providing employment, MNCs may bring in new production methods and management techniques.</li> </ul> <p>Evaluation of whether a fall in the school starting age will benefit an economy might include:</p> <ul style="list-style-type: none"> <li>• If the government provides state education, a lowering of the school leaving age will increase government spending. This will involve an opportunity cost. This may take three main forms. The government may have to sacrifice spending on, for instance healthcare. There is the possibility that tax payers may have to bear the opportunity cost. This is because the government may raise tax rates or widen the tax base to finance the extra spending. Higher tax rates may have a disincentive effect.</li> <li>• It is also possible that the government may borrow to raise the finance. In this case, funds used by the government will not be available to other borrowers. Higher government borrowing could also raise the rate of interest.</li> <li>• Higher government spending may increase aggregate demand which may create inflationary pressure, at least in the short run.</li> <li>• There is no guarantee that requiring all children to start school earlier will increase their skills and qualifications.</li> </ul>
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		<p><b>Level 2 (6–10 marks)</b>  <b>Good</b> knowledge and understanding of aggregate demand and aggregate supply.</p> <p><b>Reasonable analysis</b> of how a fall in the school starting age will affect an economy. There is correct analysis largely in the form of single links. These address the question <b>but</b> 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><b>Reasonable evaluation</b> of whether a fall in the school starting age will benefit an economy, considering both sides.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding</b> of aggregate demand and aggregate supply.</p> <p><b>Limited or no analysis</b> of how a fall in the school starting age will affect an economy. 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 are incorrectly labelled.</p>	<p>A supported judgement might include:</p> <ul style="list-style-type: none"> <li>• Until recently, the trend has been to increase the school leaving age. More countries may now consider lowering the starting age as they may consider that the benefits will exceed the costs. A lower compulsory age may improve macroeconomic performance and the quality of people's lives.</li> <li>• It will depend on the quality of education provided. In turn, this will be influenced by the quality of the extra resources used.</li> <li>• It will depend on how productive parents joining the workforce are, when their children start school early/if they join the workforce.</li> </ul>
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		<p><b>Limited evaluation</b> of whether a fall in the school starting age will benefit an economy, in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		
		<b>Descriptor</b>	<b>Award mark</b>	
		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	

Question	Answer	Marks	Guidance
4	<p><b>* The UK's deficit on the current account of its balance of payments in the first quarter of 2018 was £17.7bn (3.4% of GDP). This was a reduction on the deficit of £19.5bn (38% of GDP) in the last quarter of 2017. Evaluate whether the UK would benefit from a reduction in the deficit on the current account of the balance of payments.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good -Strong knowledge and understanding</b> of a deficit on the current account of the balance of payments.</p> <p><b>Strong analysis</b> of the effects of a reduction in the deficit on the current account of the UK balance of payments. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Strong evaluation</b> of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, weighing up both why it might and why it might not and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b>  <b>Good knowledge and understanding</b> of a deficit on the current account of the balance of payments.</p>	<p><b>25</b></p> <p>(AO1 x 6  AO2 x 6  AO3 x 6  AO4 x 7)</p>	<p><b>For a mark at the top of each level the response should be in context.</b></p> <p>A deficit on the current account means that a country (the UK) is importing more goods and services than they are exporting.</p> <p>Analysis of the benefit to the UK of a reduction in the deficit on the current account of the balance of payments might include:</p> <ul style="list-style-type: none"> <li>• A reduction in the deficit caused by an increase in the competitiveness of the country's products is highly likely to be beneficial. If the cost of producing the country's products falls and/or the quality rises, the country is likely to export more and import less. Output will rise probably rise which can, in turn, reduce unemployment. If costs of production have fallen, inflationary pressure may be reduced.</li> <li>• A reduction in the deficit resulting from the removal of trade restrictions on the country's exports by foreign governments is also likely to be beneficial. Such a change would allow the country to compete on more equal terms.</li> <li>• A reduction in a deficit caused by an increase in net primary income may arise from the country's firms with branches abroad earning more profits or banks earning a higher interest rate on its loans to residents abroad.</li> <li>• Worker's remittances appear as secondary income. An increase in UK workers' remittances may improve the living standards of their family members and will reduce the country's current account deficit.</li> </ul> <p>Evaluation of whether a reduction in the deficit on the current account of its balance of payments will benefit the</p>

		<p><b>Strong analysis</b> of the effects of a reduction in the deficit on the current account of the UK balance of payments. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Good evaluation</b> of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, weighing up both why it might and why it might not, weighing up both sides but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b>  <b>Good knowledge and understanding</b> of a deficit on the current account of the balance of payments.</p> <p><b>Good analysis</b> of the effects of a reduction in the deficit on the current account of the UK balance of payments. 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><b>Reasonable evaluation</b> of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, considering both why it might and why it might not.</p>	<p>UK economy might include:</p> <ul style="list-style-type: none"> <li>• A reduction in the deficit caused by a fall in incomes at home is more likely to be harmful. Exports may rise because the products cannot be sold at home. This may mean that while exports may rise, output may still decline. Imports are also likely to decline not only because households would not be able to spend as much but also because firms' demand for imported raw materials and capital goods will decline. This again can be an indicator of falling output.</li> <li>• A deficit reduction resulting from the country's government imposing trade restrictions or its central bank encouraging a reduction in the country's exchange rate may only last a short time. This is because the measures may not tackle the real causes of the deficit such as a low level of productivity.</li> <li>• It is, however, also possible that income from abroad may have arisen because more UK firms have relocated abroad. It may also be the case that some foreign firms with branches based in the UK may have closed these branches and so reduced the outflow of profits. Fewer production units in the UK would reduce output and employment</li> <li>• If, however, the country is losing some of its skilled workers, its productive capacity will fall. In practice. Workers' remittances are not a major contributor to the UK current account balance</li> </ul> <p>Possible supported judgement might include:</p> <ul style="list-style-type: none"> <li>• It is possible that an initial increase in a current account deficit may later result in reduction in the deficit. If the economy is expanding, more may be</li> </ul>
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		<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><b>Level 2 (6–10 marks)</b>  <b>Good knowledge and understanding</b> of a deficit on the current account of the balance of payments.</p> <p><b>Reasonable analysis</b> of the effects of a reduction in the deficit on the current account of the UK balance of payments. 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><b>Reasonable evaluation</b> of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy, considering both why it might and why it might not.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b>  <b>Reasonable knowledge and understanding</b> of a deficit on the current account of the balance of payments.</p> <p><b>Limited or no analysis</b> of the effects of a reduction in the deficit on the current account of the UK balance of payments. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear</p>		<p>spent on raw materials and capital goods. These may be used to produce products, some of which may be exported and some of which may be bought to replace imported products.</p> <ul style="list-style-type: none"> <li>• A reduction in the UK's current account deficit will be more beneficial if it is the result of a rise in the UK's international price and quality competitiveness.</li> <li>• Whether the UK will benefit from a reduction in the deficit on the current account of its balance of payments will depend principally on the cause of the reduction</li> </ul>
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		<p>structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of whether a reduction in the deficit on the current account of its balance of payments will benefit the UK economy in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.  <b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
		<b>Descriptor</b>	<b>Award mark</b>	
		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	

Question		Answer	Marks	Guidance
5	*	<p><b>In 2018 both Australia and Ireland had a high Human Development Index (HDI), 0.939 and 0.938. They did, however, have different rates of poverty. Evaluate whether a country with a high HDI is likely to have a low rate of poverty.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good -Strong knowledge and understanding</b> of HDI and poverty.</p> <p><b>Strong analysis</b> of the relationship between a country's HDI and its level of poverty. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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><b>Strong evaluation</b> of whether a country with a high HDI is likely to have a low rate of poverty, weighing up whether a country with s high HDI is likely to have a low rate of poverty and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b>  <b>Good knowledge and understanding</b> of HDI and poverty.</p> <p><b>Strong analysis</b> of the relationship between a country's HDI and its level of poverty. It will have <b>consistently</b></p>	<p><b>25</b></p> <p>(AO1 x 6  AO2 x 6  AO3 x 6  AO4 x 7)</p>	<p><b>For a mark at the top of each level the response should be in context.</b></p> <p>There are three components of a country's HDI, each having an equal weighting. One is average income, measured by GNI per head. Another is education, measured in terms of mean and expected years of schooling. The third component is healthcare, measured by life expectancy at birth.</p> <p>Analysis of why a high HDI is likely to have a low rate of poverty might include:</p> <ul style="list-style-type: none"> <li>• If a country has a high GNI per head, it is possible that people in the country are able to afford not just luxuries but also the goods and services needed for them to participate fully in the normal activities of their society. This may mean that absolute and relative poverty are low.</li> <li>• High GNI per head may also mean that tax revenue is high which may enable a government to redistribute income to ensure greater equality of income and so reduce relative poverty.</li> <li>• A high number of years of education would contribute to a high HDI. If most of the population have access to both a high number of years of education and good quality reduction, they may be able to gain well-paid employment and enjoy a good standard of living.</li> <li>• People are likely to live a long life if there is good healthcare. Good quality healthcare, as well as good quality education. Should result in high labour productivity. Workers are likely to be mentally and physically fit. They are less likely to experience long periods of sickness which can be a cause of poverty.</li> </ul>

		<p>well-developed links through a <b>coherent</b> 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><b>Good evaluation</b> of whether a country with a high HDI is likely to have a low rate of poverty, weighing up whether a country with a high HDI is likely to have a low rate of poverty and reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b>  <b>Good</b> knowledge and understanding of HDI and poverty.</p> <p><b>Good analysis</b> of the relationship between a country's HDI and its level of poverty. 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><b>Reasonable evaluation</b> of whether a country with a high HDI is likely to have a low rate of poverty weighing up whether a country with a high HDI is likely to have a low rate of poverty and reaching a supported judgment.</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>Evaluation of whether a country with a high HDI is likely to have a low rate of poverty might include:</p> <ul style="list-style-type: none"> <li>• It is possible that some people in countries with a high HDI may experience poverty. GNI per head is an average and income may be very unevenly distributed. Some people may experience absolute poverty, struggling to afford basic necessities. There may also be relative poverty with some having income that is lower than others in society and which restricts the activities they can participate in.</li> <li>• The average years of schooling people receive may be high but it is possible that some people may have received significantly fewer years of education. The quality of education that children receive may also vary. In some countries there is a variation in the quality of private and state education. Those who receive less and/or low quality education stand a greater risk of being poor. It is also possible that HDI may be high while the mean and expected years of education are relatively low. This may be the case if, for instance, the country's average income is high because the country is exporting a rare commodity and income is in the hands of the few.</li> <li>• There may be a wide spread of life expectancy with the poor having much shorter lives than the rich. If people do not have access to good quality healthcare, in some cases because only private healthcare is available, their earning potential will be lower.</li> <li>• A high level of life expectancy may also mean that there is a relatively high proportion of elderly people. One cause of poverty in a number of countries is old age. This is because some countries state pensions</li> </ul>
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		<p><b>Level 2 (6–10 marks)</b>  <b>Good knowledge and understanding</b> of HDI and poverty.</p> <p><b>Reasonable analysis</b> of the relationship between a country's HDI and its level of poverty. 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><b>Reasonable evaluation</b> of whether a country with a high HDI is likely to have a low rate of poverty, weighing up whether a country with a high HDI is likely to have a low rate of poverty and reaching a supported judgment.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b>  <b>Reasonable knowledge and understanding</b> of HDI and poverty.</p> <p><b>Limited or no analysis</b> of the relationship between a country's HDI and its level of poverty. 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 are incorrectly labelled.</p> <p><b>Limited evaluation</b> of whether a country with a high HDI is likely to have a low rate of poverty in the form of an</p>		<p>are low or non-existent.</p> <p>A supported judgement might include:</p> <ul style="list-style-type: none"> <li>• HDI may not be the only indicator of poverty, such as environmental issues/access to clean water</li> <li>• Most countries that have a high HDI do have a relatively low rate of absolute poverty. A number, however, have relatively high rates of relative poverty because of income inequality and unequal access to education and healthcare.</li> </ul>
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		<p>unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
		<b>Descriptor</b>		<b>Award mark</b>
		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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