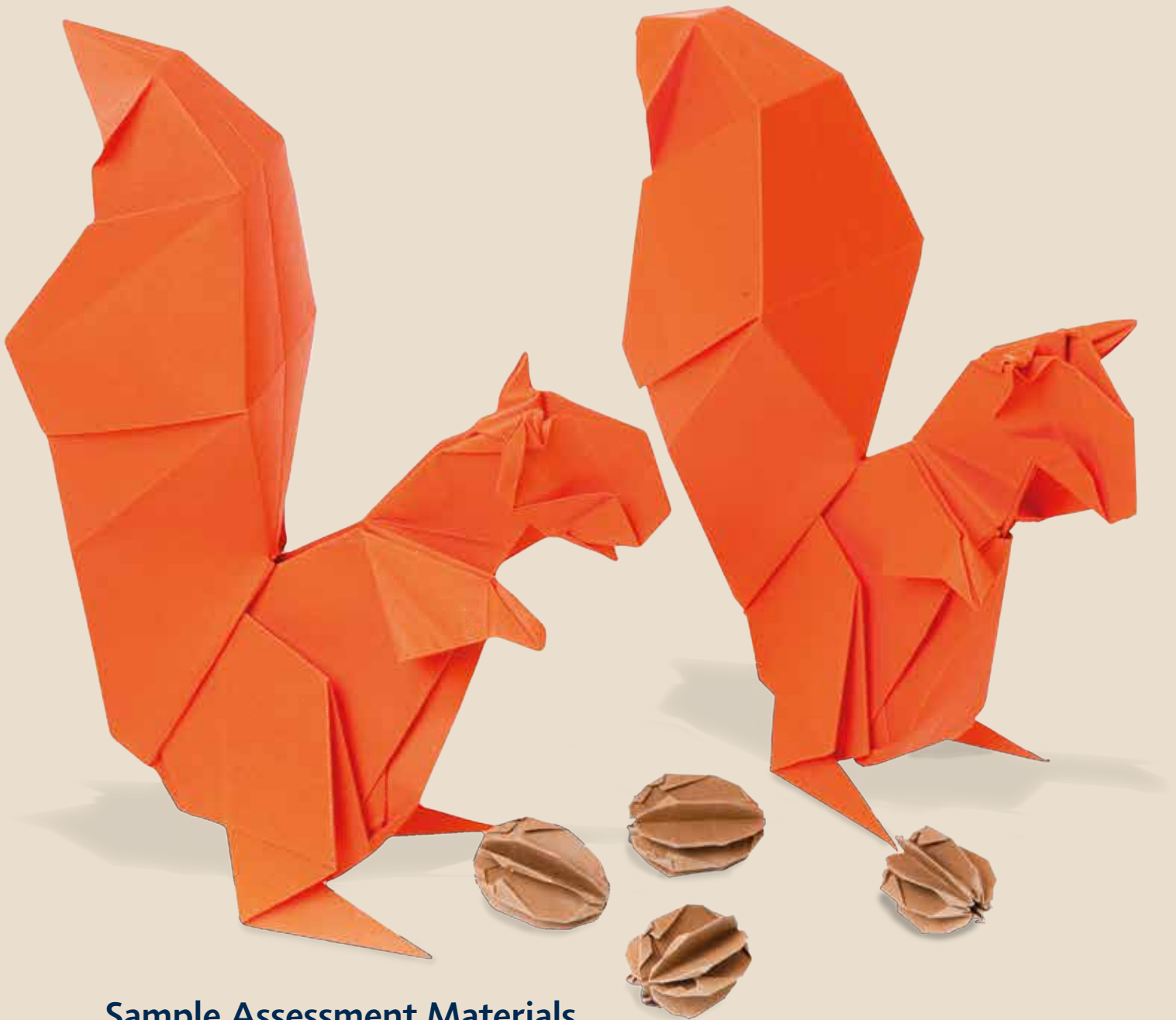# AS
Economics A

Sample Assessment Materials

Pearson Edexcel Level 3 Advanced Subsidiary GCE in Economics A (8EC0)

First teaching from September 2015

First certification from 2016 | Issue 2

edexcel

Edexcel, BTEC and LCCI qualifications

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These sample assessment materials are Issue 2. We will inform centres of any changes to this issue. The latest issue can be found on the Pearson website: qualifications.pearson.com

Summary of Pearson Edexcel Level 3 Advanced Subsidiary GCE in Economics A SAMs Issue 2 changes

Summary of changes made between previous issue and this current issue	Page number
Instruction on calculators added to front cover of 8EC0/01	5
Instruction on calculators added to front cover of 8EC0/02	43

Earlier issues show previous changes.

If you need further information on these changes or what they mean, contact us via our website at: qualifications.pearson.com/en/support/contact-us.html.

Contents

Introduction

The Pearson Edexcel Level 3 Advanced Subsidiary GCE in Economics A is designed for use in schools and colleges. It is part of a suite of GCE qualifications offered by Pearson.

These sample assessment materials have been developed to support this qualification and will be used as the benchmark to develop the assessment students will take.

General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.

- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.

- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.

- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.

- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification/indicative content will not be exhaustive.

- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.

- Crossed-out work should be marked **unless** the candidate has replaced it with an alternative response.

Write your name here

Surname		Other names

Pearson Edexcel
Level 3 GCE

Centre Number

Candidate Number

Economics A
Advanced Subsidiary
Paper 1: Introduction to markets and market failure

Sample assessment material for first teaching
September 2015
Time: 1 hour 30 minutes

Paper Reference
8EC0/01

You must have a calculator.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are two sections in this question paper.
- Answer **all** questions in Section A.
- In Section B, answer **all** of questions 6(a) to 6(e) and one question from 6(f) or 6(g).
- Answer the questions in the spaces provided
  – *there may be more space than you need*.
- Calculators may be used.

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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PEARSON

Pearson Edexcel Level 3 Advanced Subsidiary GCE in Economics A
Sample Assessment Materials – Issue 2 – October 2016 © Pearson Education Limited 2016

5

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SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 **Statement 1:** The UK government increased education spending from £86.9 billion in 2012 to £87.3 billion in 2013.

   Statement 2: The government should allocate an additional £1 billion to schools to improve the quality of education.

   (a) Which **one** of the following best describes the two statements above?

   (1)

	Statement 1	Statement 2
A	Positive	Positive
B	Positive	Normative
C	Normative	Positive
D	Normative	Normative

   Answer ☐

   (b) With reference to the statements above explain what is meant by external benefits.

   (3)

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(Total for Question 1 = 4 marks)

2 The diagram shows a production possibility frontier (PPF) for an economy.

Diagram A

(a) Define the term 'production possibility frontier'.

(2)

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(b) The opportunity cost of a movement from point X to point Y is:

(1)

    A   10 units of consumer goods

    B   20 units of capital goods

    C   30 units of capital goods

    D   90 units of consumer goods

Answer ☐

(c) Illustrate economic growth on **Diagram A** on page 4.

(1)

(Total for Question 2 = 4 marks)

3 In 2013, the UK had more off-shore wind turbines than all other countries in the world combined. The UK government announced plans to close five coal-burning power stations and to build five nuclear power stations to produce electricity. One nuclear power plant at Hinckley Point will take 10 years to be fully operational.

(a) Which **one** of the following is the correct classification for these energy sources?

(1)

	Wind turbines	**Coal**
A	non-renewable	renewable
B	non-renewable	non-renewable
C	renewable	non-renewable
D	renewable	renewable

Answer ☐

(b) Explain the likely price elasticity of supply for energy generated by nuclear power plants.

(3)

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(Total for Question 3 = 4 marks)

4 The UK government allocated £39 billion to defence in 2012/2013.

(a) Explain why defence is a public good.

(3)

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(b) Which **one** of the following is an example of market failure?

(1)

    A The price of a good falling to clear the market when there is excess supply

    B The over consumption of cigarettes owing to consumers' lack of information

    C A rise in unemployment caused by an increase in the minimum wage

    D Consumers experiencing diminishing marginal utility

Answer ☐

(Total for Question 4 = 4 marks)

5 According to research, 57% of UK consumers would consider changing insurance providers in the next 12 months.

(a) The underlying assumptions of rational decision making are that:

(1)

    A   consumers aim to maximise utility and firms aim to minimise profits

    B   consumers aim to minimise utility and firms aim to maximise profits

    C   consumers aim to maximise utility and firms aim to maximise profits

    D   consumers aim to maximise utility and firms aim to maximise costs

Answer ☐

(b) Explain **one** possible reason why 43% of consumers in the UK would not consider changing insurance providers, even though they may be offered lower prices by other insurance providers.

(3)

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(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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QUESTION 6 BEGINS ON THE NEXT PAGE.

Read Figure 1 and the following extracts (A to C) before answering Question 6.

Answer ALL Questions 6(a) to (e), and EITHER Question 6(f) OR Question 6(g).

The market for beef

Extract A

Boost to UK farmers

The horsemeat scandal of 2013 affected the demand for many processed meat products. Traces of horsemeat were discovered in products labelled as beef, manufactured by many overseas suppliers. With many beef products customers had little knowledge about where the beef came from. If the manufacturers knew, they were not always making this clear to customers.

5

As a result of the scandal, the proportion of domestically-sourced beef in British shops rose from 81% to 83% in 2013. Consequently, the prices farmers received for beef in the UK rose by 3%.

Another potential boost for UK farmers is demand from emerging markets. As the middle class grows in countries such as China, so does their demand for protein and dairy products. British meat and dairy products are seen as offering a stable and proven supply chain, unlike in China where baby milk has been found with traces of the plastic melamine. State-owned Chinese companies are approaching dairy farmers directly to secure millions of litres of UK milk.

10

(Source: 'Boom in farming as UK demands quality' by Graham Ruddick, *The Telegraph* 25th Jan 2014. http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/ 10596862/Boom-in-farming-as-UK-demands-quality.html)

Scottish farmers' total income and subsidies
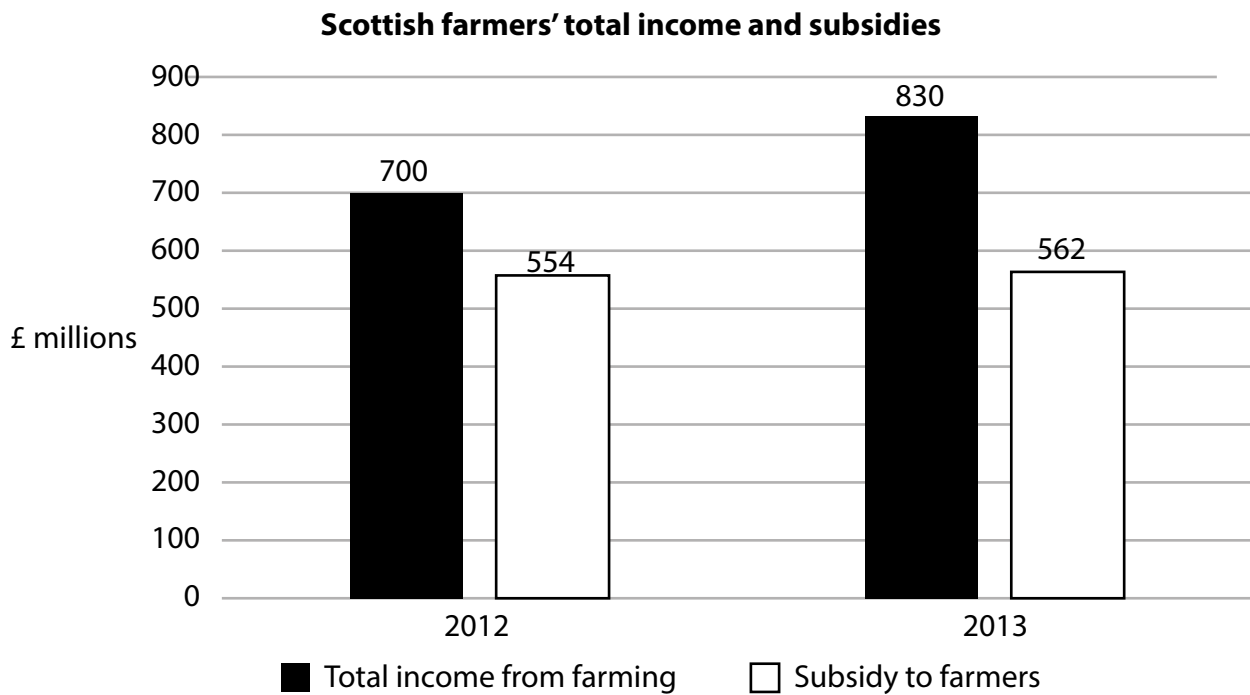
Figure 1

Total income from farming and subsidies for Scottish farms 2012 and 2013

Extract B

Reliance on farm subsidies

There is a reliance on subsidies in Scottish farms. The argument for subsidies is that farming is vital to the rural economy and that support payments to farmers can benefit the local community. The counter argument is that farmers should make a living from the free market for what they produce.

Farm subsidies will continue in the European Union. In many of the member states, agriculture and the vast food industry that depends on it still hold significant political influence. Although farmers in the UK complain that their share of EU subsidies is already too low, changes to the EU farm subsidies due to take effect in 2015 mean they are likely to be slashed by one third to one half.

5

(Source: adapted from 'Even the best farmers would struggle in a free market,' *The Southern Reporter*, 6th Feb 2014, http://www.thesouthernreporter.co.uk/opinion/columnists/even-the-best-farmers-would-struggle-in-a-free-market-1-3296583)

Extract C

Hidden costs of beef

Eating too many beefburgers has a high cost on the planet and people. The statistics are significant: it takes 1 800 gallons of water to make a single pound of grain-fed beef and 30% of the world's land is used to raise livestock. Cows produce more climate-changing greenhouse gases than the emissions from 22 million cars a year. In addition, tons of fertilisers and toxic contaminants are used in the production of beef.   5

If Americans stopped eating meat and cheese for just one day a week, the environmental impact would be the equivalent of taking 7.6 million pollution-producing cars off the road for a year, according to a recent report.

6 (a) Explain why 'the prices farmers received for beef in the UK rose by 3%' in 2013 (Extract A, lines 7 and 8). Include a supply and demand diagram in your answer.

(5)

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(b) Assess the likely impact of a 3% increase in the price of UK beef on the market for lamb.

(10)

(c) Explain **two** likely impacts on dairy farmers in the UK of the growth in the middle classes in emerging markets such as China.

(6)

(d) With reference to Figure 1, calculate the value of subsidies as a percentage of total Scottish farm income for 2012 and 2013. You are advised to show your working.

(4)

2012

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2013

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(e) With reference to Figure 1, Extract 2 and your own knowledge, discuss the reasons for subsidies being paid to Scottish farmers.

(15)

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EITHER

(f) Using the concept of external costs, evaluate the possible economic effects of increased beef production. Use an appropriate diagram in your answer.

(20)

OR

(g) Evaluate the impact of a guaranteed minimum price in the beef market on consumers and producers. Use an appropriate diagram in your answer.

(20)

Indicate which question you are answering by marking a cross in the box ⊠. If you change your mind, put a line through the box ⊠ and then indicate your new question with a cross ⊠.

Chosen question number: **Question 6(f)** ☐   **Question 6(g)** ☐

Write your answer here:

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(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS
TOTAL FOR PAPER = 80 MARKS

Question Number	Answer	Mark
1(a)	B	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for definition of external benefit. **Application** 1 mark for application to education. **Analysis** 1 mark for linked development, e.g. external benefits are where third parties not involved in a transaction benefit from it (1). Education has external benefits (1) as someone getting an education and becoming a doctor will save the lives of third parties (1).	**(3)**

Question Number	Answer	Mark
2(a)	**Knowledge 2** **Knowledge/understanding** 1 mark for partial definition, e.g. • maximum potential output (1), OR • given current resources available (1). 2 marks for full and accurate definition, e.g. • a curve showing the maximum potential output (1) assuming all available resources are used fully (1).	**(2)**

Question Number	Answer	Mark
2(b)	C	**(1)**

Question Number	Answer	Mark
2(c)	**Knowledge 1** New PPF drawn above line (1).	**(1)**

Question Number	Answer	Mark
3(a)	C	**(1)**
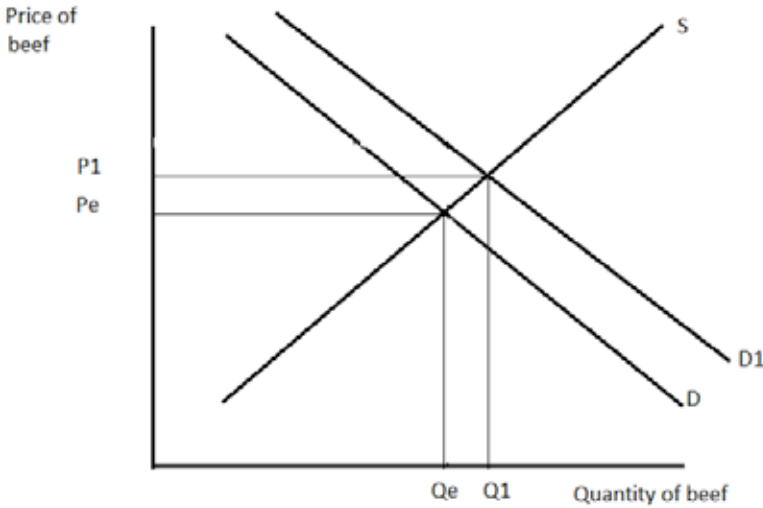
Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for definition of elasticity of supply: • responsiveness of supply to changes in price (1) **Application** 1 mark for reference to context, e.g. • 10 years to be operational (1) **Analysis** 1 mark for linked development, e.g. • PES is likely to be inelastic – takes time to build nuclear power stations (1) • whilst PES is likely to be inelastic in the short run but it is likely to be elastic in the long run (1).	**(3)**

Question Number	Answer	Mark
4(a)	**Knowledge 1, Application 2** **Knowledge/understanding** 1 mark for definition of public good/identification of free rider problem. **Application** 2 marks for linked application (1+1), e.g. • defence is a public good as it is non excludable and non rival (1) as you cannot exclude people from consuming it (1) and one person consuming it will not stop the military from protecting others (1) • defence has the free rider problem (1) as people would benefit from the defence but not pay for it (1) and defence will be under-provided by the private sector (1).	**(3)**

Question Number	Answer	Mark
4(b)	B	**(1)**

Question Number	Answer	Mark
5(a)	C	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 2, Application 1** **Knowledge** 1 mark for identifying a reason. 1 mark for linked development. **Application** 1 mark for application to insurance, e.g.consumers may not act rationally because: • inertia (1) means people do not have the energy or inclination to move (1), so will not spend the time searching for the best deal (1) • the importance of habitual behaviour (1) people are in the habit of using the same provider so continue to do so (1), and will not spend the time searching for the best deal (1) • computation problems (1) where they cannot calculate the benefits they will accrue from switching providers (1), so will not see better deals available in terms of lower premium (1).	**(3)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge** 1 mark for original supply, demand and equilibrium. **Application** 1 mark for using source data (1) and 1 mark for link to change in demand (1), e.g. • increased meat sourced from UK, 81% to 83%/increased sales to emerging markets (1) leading to increased demand (1). **Analysis** • Diagram – showing shift in demand (1) and new equilibrium (1). 	
		(5)

Question Number	Indicative content	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** • Define cross elasticity of demand. • Identify lamb as substitute. • XED – positive – as price of beef rises the demand for lamb will rise. • Diagram to show increased demand for lamb. • Price and quantity both rise for this good. • Likely to lead to increased revenue. • Increased producer surplus. • Increased consumer surplus.	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no links between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relate them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(b) continued	**Evaluation 4** • Magnitude – depends on amount of price adjustment. • Short run little change – people do not adjust to price changes straight away/long run may take time for people to substitute. • Closeness of substitutes – inelastic supply means little impact/elastic larger impact.	**(4)**

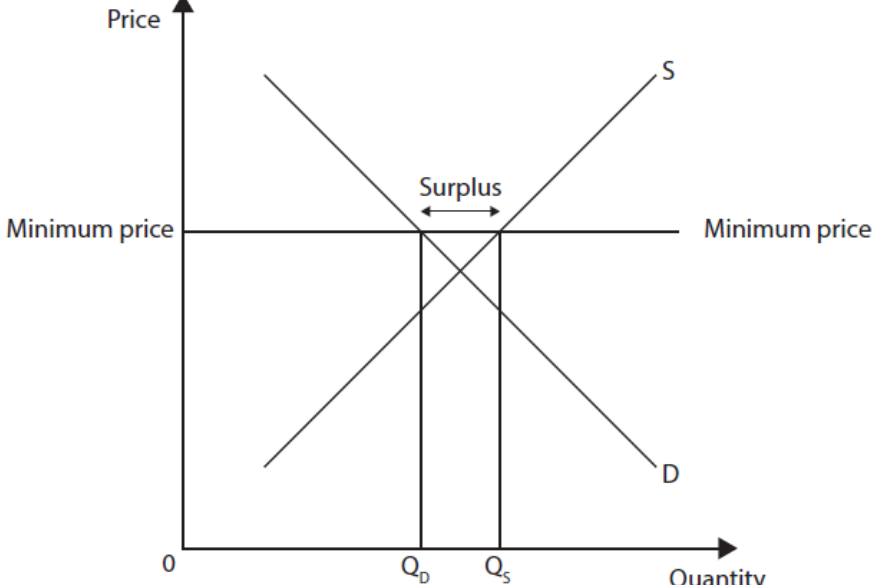| Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
6(c)	**Application 2, Knowledge 2, Analysis 2** **Application** 2 marks for, e.g. • desire for protein/dairy – 30–50m litres (1) • increased demand (1). **Knowledge/understanding** e.g, any two from: • higher prices (1) • higher output (1) • revenue rise (1). **Analysis** e.g, any two from: • increased profits/producer surplus identified/shown in diagram (1) • investment required for machinery and logistics – getting products to China (1) • firms will export more products (1).	**(6)**
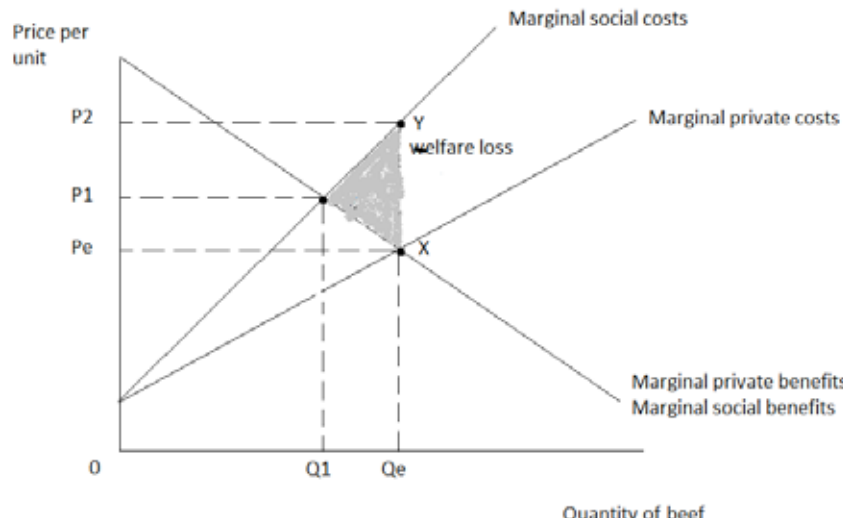
Question Number	Answer	Mark
6(d)	**Knowledge 2, Application 2** 2 marks for correct use of formula (1+1). 2 marks for correct answer (1+1), e.g: • 2012 – 554/700 (1) x 100 = 79% (1) • 2013 – 562/830 (1) x 100 = 68% (1) NB if the answer given is 79% award 2 marks; if the answer given is 68% award 2 marks.	**(4)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** • Define subsidy. • Application – £554m – 79%/69% of income. Reasons for a subsidy include: • lowers production costs • increases supply (on diagram or written) • lowers price (on diagram or written) • increases quantity (on diagram or written) • more accessible to poor (low price) • higher meat and milk consumption • vital rural economy – protects incomes/jobs • maintains/guarantees food supply • trickle-down effect • food industry relies on them.	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** Reasons against a subsidy include: • 79%/ 69% of income is subsidy • reliant on subsidy • X – inefficient • should be allowed to get out of market and make room for someone else • cost to government – opportunity cost.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6**	
	• Define external costs. • Diagram accurately drawn – with MPC, MSB, MPB and MSC, welfare loss triangle.	

Question Number	Indicative content	Mark
	• It takes 1,800 gallons of water to make a single pound of grain-fed beef. • Thirty per cent of the world's land is used to raise livestock. • Cows as major producers of methane gas. • These animals produce more climate-changing greenhouse gases than 22 million cars a year. • Manure, tons of fertilisers and toxic contaminants used in slaughterhouses.	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(f) continued	**Evaluation 6** • Magnitude – depends on how much additional meat. • Measurement difficult – putting a value on external costs. • Increased demand – higher revenues. • Benefits of increased consumption – export income.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6** • Diagram showing minimum price above market equilibrium. Price S Surplus Minimum price ———— Minimum price D 0　　Q_D　Q_S　Quantity • Define minimum price. • Reasons for minimum price – protect incomes of producers. • Raise price of beef/ cause excess supply. • Contraction of demand/ extension supply. • Government may have to buy excess supply • Reduce consumption of meat – reduce obesity. • Link to NHS.	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chains of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
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Question Number	Indicative content	Mark
6(g) continued	**Evaluation 6** • Anti competition. • Magnitude of price changes – increase then may put businesses out of business – job losses. • Delays – time lag before it starts. • Encourage smuggling – if minimum price. • Imports. • Magnitude – depends on size of minimum/maximum price. • Elasticity of demand– if inelastic little change. • Time lag – people will not change behaviour immediately.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Write your name here

Surname		Other names

Pearson
Edexcel Level 3 GCE

Centre Number

Candidate Number

Economics A

Advanced Subsidiary
Paper 2: The UK economy – performance and policies

Sample assessment material for first teaching
September 2015
Time: 1 hour 30 minutes

Paper Reference
8EC0/02

You must have a calculator.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are two sections in this question paper.
- Answer **all** questions in Section A.
- In Section B, answer **all** of questions 6(a) to 6(e) and one question from 6(f) or 6(g).
- Answer the questions in the spaces provided
  – *there may be more space than you need*.
- Calculators may be used.

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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PEARSON

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1   The table below shows UK annual real GDP values for 2011–2013.

	Annual real GDP (£ billion)
2011	1 502
2012	1 506
2013	1 534

(Source: ONS)

(a) Define the term 'economic growth'.

(1)

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(b) Calculate the annual UK economic growth rate for 2013. You are advised to show your working.

(2)

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(c) Which **one** of the following can be inferred from the table?

(1)

☐ **A**   Real GDP was falling between 2012 and 2013

☐ **B**   The annual UK economic growth rate for 2012 was negative

☐ **C**   Nominal GDP was falling between 2012 and 2013

☐ **D**   The annual UK economic growth rate for 2012 was positive

Answer ☐

(Total for Question 1 = 4 marks)

2 In 2011, the Bank of England estimated that the marginal propensity to consume for UK households was on average 0.4.

(a) Define the term 'marginal propensity to consume'.

(1)

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(b) Calculate the value of the multiplier for the UK in 2011. You are advised to show your working.

(2)

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(c) Which **one** of the following is a likely cause of an increase in the value of an economy's multiplier?

(1)

    A   An increase in the marginal propensity to save

    B   An increase in the basic rate of income tax in the economy

    C   A decrease in the marginal propensity to import

    D   A decrease in investment in the economy

Answer ☐

(Total for Question 2 = 4 marks)

3 The chart below shows the annual percentage change in the UK Consumer Prices Index (CPI).

Annual percentage change in UK CPI, January 2008 – October 2013

(Source: http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/november-2013/
consumer-price-inflation-summary--november-2013.html)
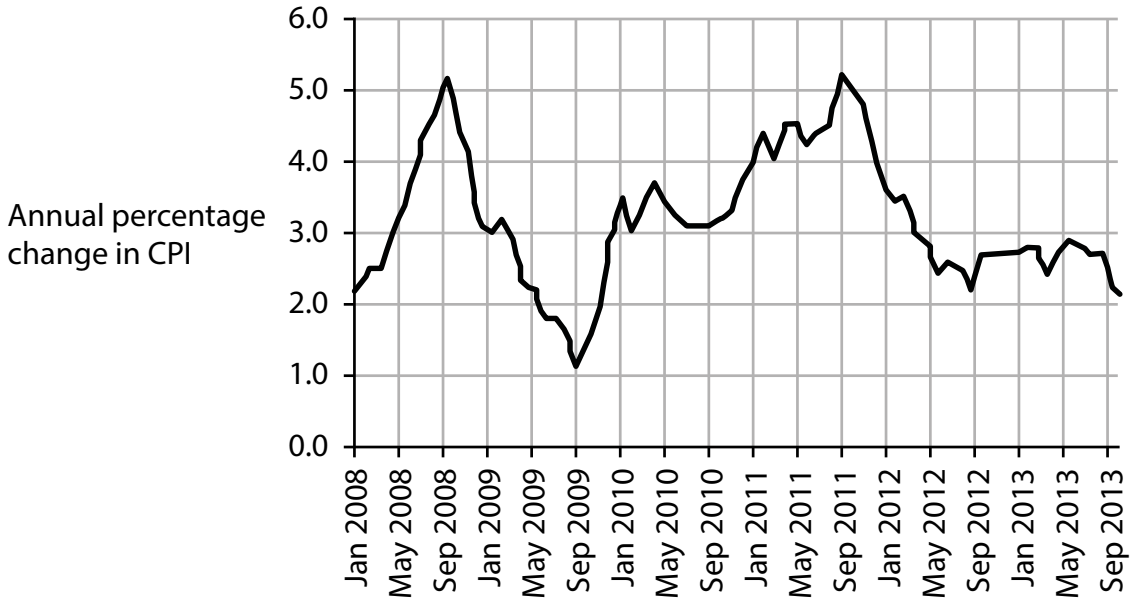
(a) Define the term 'inflation'.

(1)

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(b) Which **one** of the following can be inferred from the chart?

(1)

    A   There was deflation in the UK economy between September 2008 and September 2009

    B   The CPI inflation rate was higher in September 2012 than in September 2009

    C   From January 2011 to January 2012, the average price level in the UK fell

    D   From May 2010 to September 2010, the cost of living in the UK fell

Answer

(c) Explain **one** limitation of using the CPI to measure the rate of inflation.

(2)

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(Total for Question 3 = 4 marks)

4 The charts below show forecast UK government revenue and government spending for the financial year 2013/2014.

Source of government revenue = £612 bn
(forecast 2013/2014)

Income tax
£155 bn

Other sources
of income
£ 208 bn

Corporation tax
£39 bn

VAT
£103 bn

National
Insurance
£107 bn
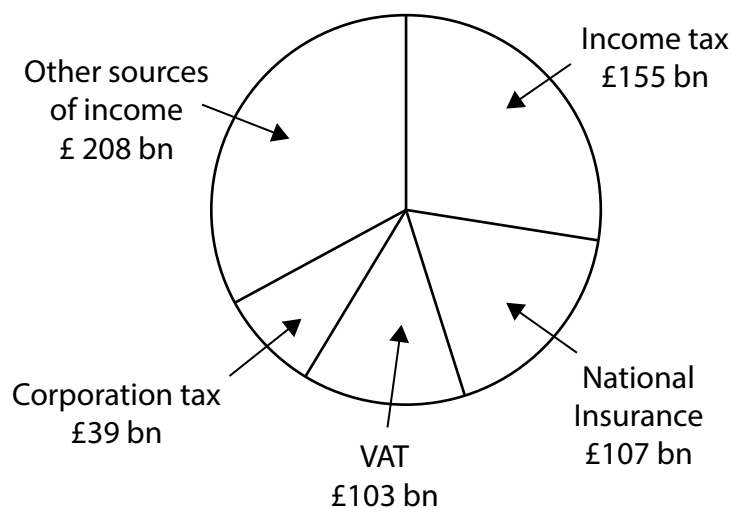
Areas of government spending
(forecast 2013/2014)

Other
£226 bn

Social protection
£220 bn

Defence
£40 bn

Education
£97 bn

Health
£137 bn
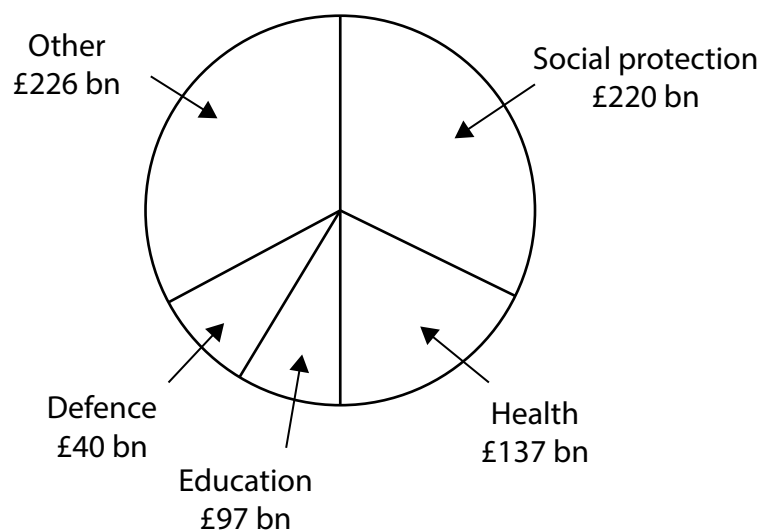
(Source: Budget 2013, HM Treasury, https://www.gov.uk/
government/publications/budget-2013-documents)

(a) Which **one** of the following can be inferred from the charts above?

The UK government forecast that for the financial year 2013/2014:

(1)

A   it would earn five times as much revenue from income tax as from corporation tax

B   it would spend more on health, than on education and defence added together

C   more than one quarter of its revenue would come from VAT

D   spending on social protection would comprise more than 30% of its total spending

Answer

(b) Using the data in the two charts, calculate the size of the UK government's forecast budget deficit for the financial year 2013/2014.

(3)

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(Total for Question 4 = 4 marks)

5 (a) Define the term 'productivity'.

(1)

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(b) Using a classic long-run AS curve, annotate the diagram below to show the effect
of an increase in productivity on the equilibrium level of real national output and
the average price level of the economy.

(2)
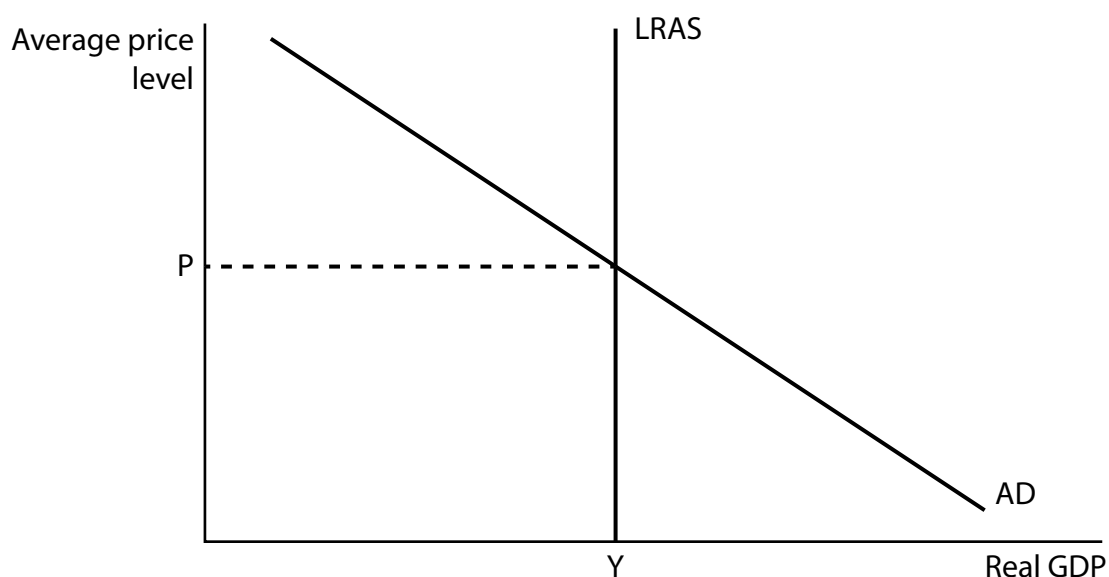
(c) Which **one** of the following statements is correct?

(1)

A The Keynesian long-run AS curve implies that an economy may have a
negative output gap in the long run

B The Keynesian long-run AS curve is perfectly inelastic at all levels of real
national output

C The classic long-run AS curve implies that an economy may have spare
capacity in the long run

D The classical long-run AS curve is perfectly elastic at all levels of real national
output

Answer [   ]

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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QUESTION 6 BEGINS ON THE NEXT PAGE.

Read Figures 1 and 2 and extract (A) before answering Question 6.

Answer ALL Questions 6(a) to (e), and EITHER Question 6(f) OR Question 6(g).

Question 6

UK consumption, investment and trade

(Source: http://www.ons.gov.uk/ons/rel/bus-invest/business-investment/q3-2013-provisional-results/stb-business-investment-q3-2013-provisional.html#tab-Business-Investment-and-other-components-of-GFCF)

Figure 1: UK real annual business investment, 1997–2012 (seasonally adjusted)

(Source: http://www.tradingeconomics.com/united-kingdom/currency)

Figure 2: British pound (£) to US dollar ($) exchange rate, 1 January 2013 to mid-February 2014

Extract A

Why Britain needs a pay rise

UK growth in 2013 has been caused mainly by increases in consumption. Rising consumption tends to encourage companies to invest. The increase in demand for goods and services means firms need more productive capacity, often moving to bigger premises and buying capital equipment. Crucially, though, they only do so if they think the increase in consumption is likely to be permanent.

At the start of 2013, it was hard to see why consumer spending would rise. The economy had recorded little growth for two years and confidence was low. Inflation had been higher than earnings growth during 2012, making it hard for families to manage.

Three factors combined to change the picture: cheap credit, the Bank of England's funding for lending scheme (FLS), and rising consumer confidence. The Bank of England cut its official interest rate to 0.5% in early 2009, but it took a long time for the monetary stimulus to have an impact.

It only really did so when FLS was announced in the summer of 2012. This was a deal under which the commercial (high street) banks could borrow more cheaply from the Bank of England provided they passed on the benefits to their customers.

The idea was that household and business borrowers would benefit: loans would become more readily available and the interest rates charged on them would be lower. Lending to businesses was disappointing, but the impact on the mortgage market was rapid and significant: more mortgages were approved, and at lower rates of interest. This contributed to the improvement in the housing market, which in turn boosted confidence, leading to higher spending, and this led to higher growth.

Consumers ran down their savings to fund this higher spending. Again, this is not unusual. Households become more cautious in troubled times and they save more just to be on the safe side.

However, unless consumers are willing to save less and less and borrow more and more, there is only so long this process can continue. Eventually, consumer spending growth has to be the result of rising real incomes rather than falling savings.

After a year in which the consumer has been the driving force behind the expansion of the economy, 2014 should be the year when investment contributes to growth. Many of the conditions for an increase in business spending are in place: companies are cash rich, profitability is good, interest rates are set to stay low, and ageing capital stock needs replacing.

The one factor not in place is the most important one of all: an increase in real wages. If companies believe that consumers will carry on spending, they are much more likely to go ahead with new investment projects. If they think consumer spending will not increase, then they will be unwilling to invest. This will mean that inflationary pressures build up and the trade deficit will continue to widen.

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(Source: adapted from 'Why Britain needs a pay rise', Larry Elliott, *The Guardian*, 29 December 2013 http://www.theguardian.com/money/2013/dec/29/why-britain-needs-pay-rise)

(a) With reference to Figure 1, explain what has happened to real annual business investment since 2008.

(4)

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(b) With reference to Figure 2, explain the likely effect of an appreciation of the British pound (£) against the US dollar ($) on the volume of UK imports from, and UK exports to, the USA.

(5)

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(c) With reference to Extract A, explain **two** reasons why consumer spending rose in 2013.

(6)

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(d) Assess the importance of interest rates in determining the level of business investment in the UK.

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(e) Discuss the likely impact of both a lack of new investment and an appreciation of the British pound (£) on 'inflationary pressures' in the UK (Extract A line 36).

(15)

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EITHER

(f) Evaluate whether the UK government should focus on achieving economic growth as its key macroeconomic objective.

(20)

OR

(g) Evaluate the use of monetary policy to achieve the UK's macroeconomic objectives.

(20)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 6(f)** ☐   **Question 6(g)** ☐

Write your answer here:

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TOTAL FOR SECTION B = 60 MARKS
TOTAL FOR PAPER = 80 MARKS

Question Number	Answer	Mark

1(a)	**Knowledge 1**
	
	Knowledge/understanding
	1 mark for definition, e.g.
	  • an increase in real GDP (1) OR
	  • an increase in an economy's productive capacity/potential (1).
		(1)

Question Number	Answer	Mark
1(b)	**Application 2** (1534 - 1506) / 1506 x 100 (1) = 1.9% (1) NB if the answer given is between 1.8% and 2% award 2 marks.	**(2)**

Question Number	Answer	Mark
1(c)	D	**(1)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition: • the proportion of one additional unit of income that is spent (1) OR • $\Delta C/\Delta Y$ (1).	**(1)**

Question Number	Answer	Mark
2(b)	**Application 2** Multiplier = 1/(1-MPC) OR Multiplier = 1/MPW (1) Multiplier = 1/0.6 = 1.7 (1) NB if the answer given is between 1.6 and 2 award 2 marks.	**(2)**

Question Number	Answer	Mark
2(c)	C	**(1)**

Question Number	Answer	Mark
3(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • an increase in the average/general price level (1).	**(1)**

Question Number	Answer	Mark
3(b)	B	**(1)**

Question Number	Answer	Mark
3(c)	**Knowledge 2** 1 mark for limitation identified and 1 mark for linked development. Possible answers include: • CPI is not fully representative (1) as it is a figure for the 'average' household (1) • CPI does not include mortgage interest payments/ it also excludes council tax, TV licences etc (1) which may be a considerable expense to some households (1) • may suffer from sampling bias (1) either in Living Costs and Food (LCF) Survey, or price survey (1) • difficult to account for the changing quality of goods and services (1) so inflation may be overestimated (1).	**(2)**

Question Number	Answer	Mark
4(a)	D	**(1)**

Question Number	Answer	Mark
4(b)	**Knowledge 1, Application 2** **Knowledge/understanding** • 1 mark for definition of a budget deficit (1). **Application**: • 1 mark for calculating government spending and 1 mark for calculating budget deficit. Forecast government spending = £720 bn (1). Forecast budget deficit = £612bn - £720bn = (-) £108 bn (1).	**(3)**

Question Number	Answer	Mark
5(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition: • output per unit of input (1).	**(1)**

Question Number	Answer	Mark
5(b)	**Application 2** **Application :** 2 marks for, e.g. • New LRAS curve drawn, showing an outwards/rightwards shift (1). • New equilibria labelled, showing a fall in average price level, and an increase in real GDP (1).	**(2)**

Question Number	Answer	Mark
5(c)	A	**(1)**

Question Number	Answer	Mark

6(a)	**Knowledge 2, Application 2**
	
	Knowledge/understanding
	2 marks for, e.g.
	   • Investment is an increase in the capital stock (1).
	   • Real means adjusted for inflation (1).
	
	Application
	2 marks for, e.g.
	   • Investment has fallen (1).
	   • Data reference from Figure 1, e.g. by approximately £20bn in 2011 and 2012 (1).
		(4)

Question Number	Answer	Mark

6(b)	**Knowledge 1, Application 2, Analysis 2**
	
	Knowledge
	1 mark for, e.g.
	   • An appreciation means that one pound becomes worth more US dollars (1).
	
	Application
	2 marks for two data references from Figure 2, e.g.
	   • the pound has appreciated from £1 = $1.52 on 1 July 2013 (1), to £1 = $1.65 on 1 January 2014 (1).
	
	Analysis
	2 marks for, e.g.
	   • The British pound price of goods and services imported from the US will be lower (1).
	   • The US dollar price of goods and services exported from the UK will be higher (1).
		(5)

Question Number	Answer	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** • Identification of two reasons (1+1). **Application** • Reference to Extract 1 (1+1). **Analysis** Linked development of why each factor led to increased consumption (1+1), e.g. • delayed impact of the cut in the bank rate (1) to 0.5% (1), making borrowing cheaper and providing less incentive to save (1) • the Funding for Lending Scheme (1) meant that high street banks became more willing to lend to consumers/to lend at lower rates of interest (1), reducing the cost of borrowing (1) • rising consumer confidence (1): the FLS led to rising house prices (1), which created a positive wealth effect/raising consumers' confidence and making them more likely to spend (1).	**(6)**

Question Number	Indicative content	Mark

6(d)	**Knowledge 2, Application 2, Analysis 2**
	Interest rates:
	  • current rates will influence the cost of servicing loans (interest payments)
	  • expectations of future interest rates may influence cost projections and project viability
	
	Other factors to consider might include:
	  • willingness of banks to lend to firms (FLS)
	  • company profitability
	  • level of cash held by firms
	  • business confidence
	  • sustained consumer spending (may be linked to rising real incomes)
	  • rate of depreciation of capital
	  • inflation rate (current and future expectations)
	  • cost of raw materials / wage rates.
		(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no links between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(d) continued	**Evaluation 4** • Expectations of future values as important as current values (e.g. interest rates). • Weighing up of different factors – extract implies confidence is the most important. • Different factors may be more important for different firms/different regions of the UK.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3**	
	• Understanding of inflationary pressures/inflation.	
	The effect of a lack of investment:	
	• a lack of new investment may mean that depreciation occurs at a quicker rate than investment, reducing the productive potential of the economy	
	• this could lead to a decrease in the economy's level of aggregate supply/an inward shift of its PPF	
	• candidates may draw an AS/AD diagram to show the effects of a reduction in (LR)AS	
	• cost-push inflationary pressures would build in the economy.	
	The effect of a stronger pound:	
	• a stronger pound makes imports cheaper. The price of imported goods in the CPI basket should fall, reducing inflationary pressures	
	• cheaper imports and more expensive exports may lead to a worsening of the trade balance, reducing UK aggregate demand (this may be illustrated on an AS/AD diagram). This would lead to a fall in demand-pull inflationary pressures	
	• imported raw materials become cheaper (particularly oil, which is priced in US dollars). This could reduce firms' production costs, leading to an increase in (SR)AS, and a reduction in cost-push inflationary pressures.	
	NB Level 3 responses must consider the effect of both the lack of investment and the appreciation of the currency.	
		(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • It depends on the rate of depreciation of capital. • It depends on the level of spare capacity in the economy. • It depends on the elasticity of the AD curve, and/or whether a lack of investment reduces AD too. • Comment on the significance of the appreciation. • The effect on the trade balance and hence AD of the appreciation depends on the PED for imports and exports.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6, Evaluation 6**	

	• Understanding of economic growth.
	 • Understanding of macroeconomics objectives.
	
	 Candidates may address this question in different ways.
	 • Explanation of the likely benefits of economic growth to:
	      o consumers
	      o firms
	      o the government
	      o income distribution
	      o the environment
	      o current and future living standards
	
	 • Explanation of the likely costs of economic growth to:
	      o consumers
	      o firms
	      o the government
	      o income distribution
	      o the environment
	      o current and future living standards
	
	 • Explanation that economic growth may support the achievement of some of the government's other macroeconomic objectives:
	      o low unemployment
	      o balanced government budget
	      o achieving environmental goals
	
	 • Explanation that economic growth may conflict with the achievement of some of the government's other macroeconomic objectives:
	      o balance of payments equilibrium
	      o low, stable inflation
	      o reduced income inequality
	      o achieving environmental goals
		(20)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Answer	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6, Evaluation 6** • Understanding of monetary policies. • Understanding of macroeconomic objectives. Candidates may consider either the impact of two monetary policies on one or more macroeconomic objectives each, or the impact of one monetary policy on all of the macroeconomic objectives. In evaluation, candidates may consider either the macroeconomic objectives that wouldn't be met through the use of monetary policies, or may consider the significance of their arguments more generally. Monetary policies which may be considered: • change in the interest rate • change in the value of asset purchases to affect the money supply. The effect of loose monetary policy on the macroeconomic objectives: • an increase in AD should lead to an increase in real GDP, creating economic growth for the economy but this depends on the level of spare capacity in the economy, as well as consumer and business confidence levels • demand-pull inflationary pressures would be increased, affecting the low, stable inflation objective but inflation rates also depend on the level of cost-push inflationary pressures in the economy • unemployment should fall in the economy • time lag – unemployment tends to be a lagging indicator, particularly if firms already have spare capacity • government budget balance would improve in the long run if the policy was successful in generating economic growth but contractionary fiscal policy might be more effective at achieving this objective, certainly in the short run • the environment might be harmed by the increased levels of economic activity generated • in developed economies such as UK, economic growth tends to reduce the level of environmental degradation • income inequality might worsen as economic growth tends to widen the gap between high and low income earners but lower interest rates tend to redistribute income from savers to borrowers, which would tend to improved income distribution	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

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