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AS
Economics A

EXEMPLAR BOOKLET

AS exemplar material Issue 1

ALWAYS LEARNING PEARSON

AS Economics A exemplar material

Contents

1. Introduction

1.1 About this booklet

This booklet has been produced to support teachers delivering the new AS Economics A specifications. The booklet looks at questions from the Sample Assessment Materials. It shows real student responses to these questions and how examiners have applied the mark schemes to demonstrate how student responses would be marked.

The responses are part of a small sample only and have not gone through the standardisation process. Therefore, all comments and marks are provided for guidance only.

1.2 How to use this booklet

Our examiners have selected student responses to a range of questions from the trialling of the Sample Assessment Materials. Following each question you will find:

- Student responses to the question (one or two responses for each question)
- Examiner commentary on how the mark scheme has been applied and marks given
- Extracts from the mark scheme for levels based questions
- Comments relating to common errors for this style of question.

1.3 Further support

A range of materials are available to download from the Economics page of the Pearson website to support you in planning and delivering the new specifications. Our subject advisor team, led by Colin Leith, are also here to help. You can contact Colin with any questions in the following ways:

E-mail: TeachingEconomics@pearson.com
Phone: 0844 372 2187
Twitter: twitter.com/PearsonEconBus
Subject page: Economics subject page

2. Paper 1: Introduction to markets and market failure

This section includes student responses, marks and commentary for AS Paper 1 8EC0/01, *Introduction to markets and market failure*. A summary of the questions and marks for each response is provided in the table below. A second response has not been included for the multiple choice questions.

Question	Response 1	Response 2
Section A		
1a (1)	1	-
1b (3)	1	3
2a (2)	2	2
2b (1)	1	-
2c (1)	1	1
3a (1)	1	1
3b (3)	2	3
4a (3)	2	3
4b (1)	1	-
5a (1)	1	-
5b (3)	2	3
Section B		
6a (5)	5	5
6b (10)	4	8
6c (6)	5	6
6d (4)	4	4
6e (15)	12	13
*6f (20)	14	16
*6g (20)	9	-

* Students choose one essay question (20 marks) from a choice of two, meaning students respond to either 6f or 6g. There is only one response exemplified for question 6g which is reflective of the sample answers received.

Section A

Question 1a

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?

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

Answer B

Examiner's comments

B is the correct answer. Statement 1 is value free – only stating facts that can be verified – and is therefore **positive**. Statement 2 has a value judgement, stating that the government should spend more on education, and is therefore **normative**.

The response therefore gained 1 mark.

Question 1b

Response 1

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

External Benefits are benefits in excess to Private benefits which effect third Parties whom are not part of the transaction, for example, "the UK government increased education spending", this is an example of an external benefits to teachers, because increasing education spending will benefit Students, however, it will also benefit teachers' as they get Paid more.

(Total for Question 1 = 4 marks)

Examiner's comments

The student defines external benefits accurately (1). However, the example given is not an external benefit and there is no analysis in the response.

The response therefore gained 1 mark. (1/3)

External benefits accrue to those outside the transaction. Teachers and students are clearly part of the transaction so benefits to them are to the first and second party.

Response 2

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

External Benefit is any benefit that affects third parties that are not a part of the transaction. An increase in the spending on education would benefit employers as workers will become more skilled after being educated. This will increase their productivity in the workplace. For example, if engineers got better training, their employers would get more orders as engineers would be doing a better job meaning the company gains more customers.

(Total for Question 1 = 4 marks)

Examiner's comments

The student defines external benefits accurately (1). The context of the question is education so the link to how this leads workers to be more skilled also achieves a mark (1). The development of the response linking to how this increases the workers' productivity achieves the final mark (1).

The response therefore gained 3 marks and maximum marks for the question.

Question 2a

Response 1

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

Production Possibility Frontier- Illustrates the maximum Potential output of an economy When all resources are fully employed.

Examiner's comments

This response clearly makes a link to the maximum potential output (1) and all the resources being fully employed (1).

The response therefore gained 2 marks (2/2).

Response 2

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

Production possibility frontier is the maximum productive potential output when all resources are utilized.

Examiner's comments

This response has a link to maximum productive potential (1) and all resources utilised (1).

The response therefore gained 2 marks (2/2).

Question 2b

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

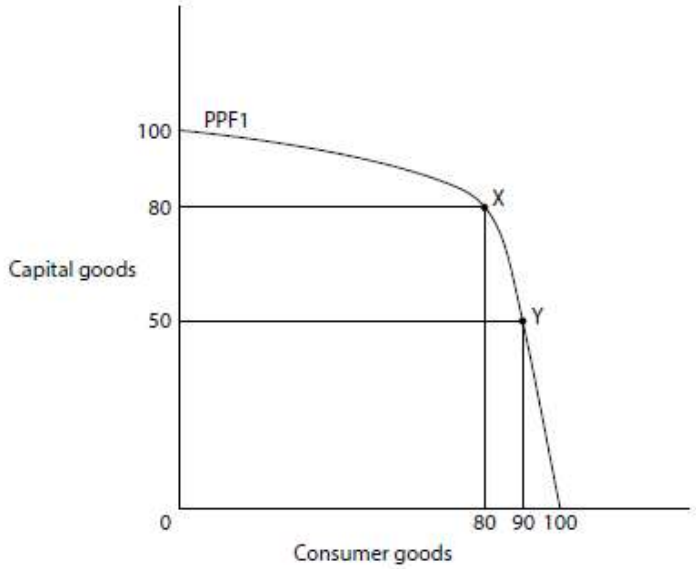


Diagram A

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

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

Examiner's comments

C is the correct answer. In moving from X to Y the production of consumer goods rises 10 units but the cost of the alternative forgone (opportunity cost) is 80-50=30 units; that is they give up 30 units of capital goods to gain 10 units of consumer goods.

The response therefore gained 1 mark.

Question 2c

Response 1

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

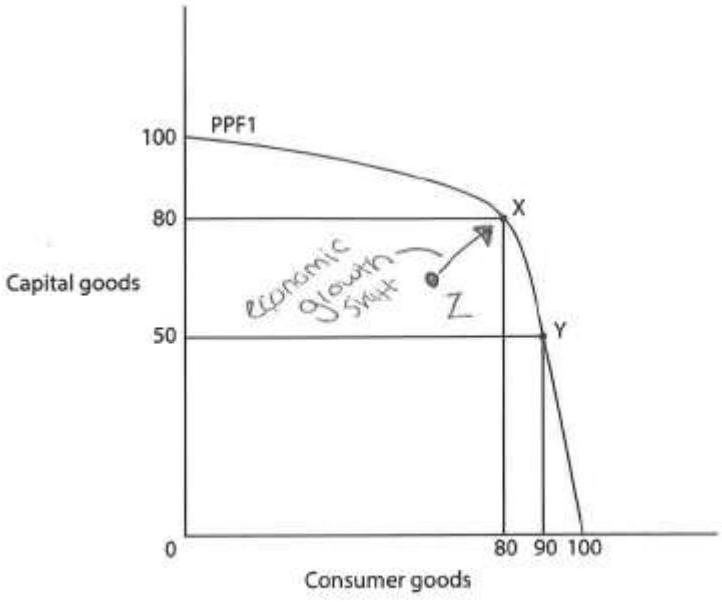


Diagram A

Examiner's comments

The student has shown actual rather than potential GDP growth and a situation in which the economy moves from below the PPF where resources are unemployed to resources being fully employed; however, there is enough evidence that the concept is understood so the mark is awarded.

The response therefore gained 1 mark.

Response 2

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

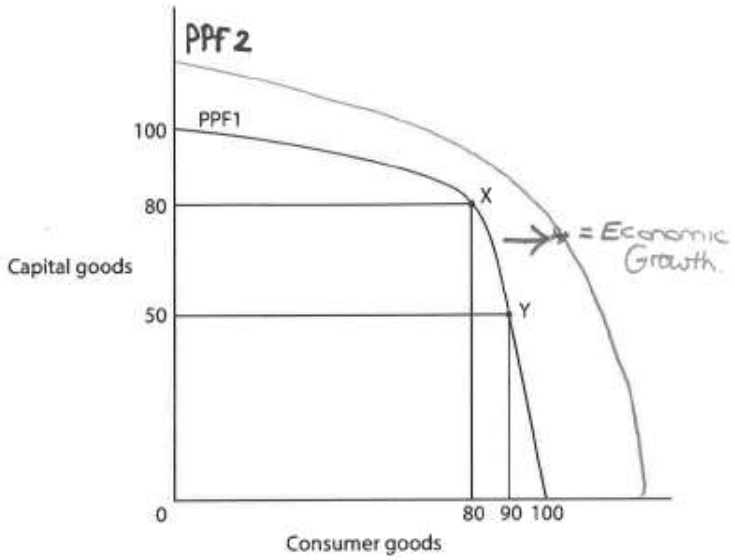


Diagram A

Economic Growth - Increase in the Productive capacity of an economy, which indicates an increase in real incomes. (shown by outward shift of the Production Possibility Frontier).

Examiner's comments

The student has shifted PPF_2 to the right of PPF_1 (1) and it is useful to draw the arrows to show the direction of the growth. The definition of economic growth has been given under the diagram but this is not required; there is 1 mark available for this question and this for shifting the PPF to the right.

The response therefore gained 1 mark.

Students should show economic growth by shifting the PPF to the right. Students might find it helpful to label the new PPF and to draw the directional arrows to show the direction of the shift.

Question 3a

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?

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

Answer C

Examiner's comments

C is the correct answer. Wind turbines generate renewable energy and coal is a non-renewable resource as it does not regenerate as fast as it is used up.

The response therefore gained 1 mark.

Question 3b

Response 1

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

Price Elasticity of Supply - is a measure of the responsiveness of the quantity supplied of a product to a change in its price $\frac{\% \Delta Qs}{\% \Delta P}$

The Price Elasticity of Supply for energy generated by nuclear power plants will be very inelastic due to it taking "10 Years" to renew.

Examiner's comments

The definition and formula for Price Elasticity of Supply are accurate (1). The mark is awarded for **either** the formula **or** definition but both are not required.

An application mark is awarded for the link between inelastic supply and 10 years to renew (1); however, there is some confusion in that the student discusses the time to renew whereas it is the time it takes to build a nuclear generator.

The student identifies that supply is inelastic but does not analyse this point, for example by explaining that it takes time to build nuclear power stations or that it is likely to be elastic in the long run.

The response therefore gained 2 marks. (2/3)

Response 2

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

Price elasticity of Supply = $\frac{\% \Delta \text{in } Qs}{\% \Delta \text{in } P}$

The PES of the energy generated by nuclear powerplants is likely to be relatively inelastic. This is because it will take 10 years to be fully operational, therefore Suppliers cannot respond quickly to a change in price.

(Total for Question 3 = 4 marks)

Examiner's comments

The response includes an accurate formula for Price Elasticity of Supply (1). A mark is also given for the link to 10 years before a nuclear plant is fully operational (1).

The student identifies supply as inelastic and explains that the 10 years means they cannot respond quickly (1).

The response therefore gained the full 3 marks.

When questions require students to explain what the elasticity is, they will normally need to identify the elasticity **and** justify their answer.

Question 4a

Response 1

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

(a) Explain why defence is a public good.

Public Good - These are goods with two key characteristics - i.e. they are non rivalrous (Consumption of one person doesn't effect the amount available for another) and non-excludable (cannot prevent anyone from consuming it). 'Defence' is a Public good because it has both of the characteristics i.e. non-excludable & non-rivalrous.

Examiner's comments

In this response the definition of a public good links to non-excludable and non-rivalrous (1). There is some development in the response showing understanding (1), but this is not linked to the context of defence.

The response therefore gained 2 marks. (2/3)

Response 2

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

(a) Explain why defence is a public good.

A public good is a good that is non-excludable and non-rivalrous. Defence is a public good as one citizen being protected by the military does not mean that another citizen cannot be protected. As well as that, it is impossible to stop any citizens from being protected by the military.

Examiner's comments

The definition of public good links to non-excludable and non-rivalrous (1) and the student goes on to explain *how* defence will be non-excludable (1) and non-rivalrous (1).

The response therefore gained the full 3 marks.

Both examples (Response 1 and Response 2) refer to the non-rivalrous and non-excludable. However, it is equally acceptable to refer to the free rider problem and why defence will experience this.

Question 4b

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

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 B

Examiner's comments

B is the correct answer (1). Due to imperfect information consumers do not appreciate the negative impact of cigarettes. They may not appreciate the full scale of the costs and may therefore over consume them.

The response therefore gained 1 mark.

Question 5a

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:

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 C

Examiner's comments

C is the correct answer (1). Rational decision making suggests that consumers will aim to maximise their utility and producers will aim to maximise their profits.

The response therefore gained 1 mark.

Question 5b

Response 1

(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.

One reason could be because it becomes habitual for consumers to go to the same insurance provider. By this I mean that habit forming may be one of the reasons why consumers would not consider changing their insurance providers. Having gone to the same provider for a number of years, consumers will get used to it and will not consider switching to any other provider.

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

Examiner's comments

The student has identified that it is habitual for consumers to use the same provider (1). This idea is developed by explaining that consumers will get used to their provider and will not consider switching (1).

The response therefore gained 2 marks. (2/3)

To gain a further mark some linked development is required, for example that consumers have low price elasticity of demand, the point of being irrational. It may be that the perceived cost of changing provider is greater than the amount saved.

Response 2

(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.

One possible reason for this is that consumers do not want to spend time researching for a better deal, and spend time transfering as they find it too much effort, which is inertia.

Examiner's comments

The student has identified inertia as the reason (1). The response explains that consumers do not want to spend time researching (1) and gives the reason for this as the effort involved (1).

The response therefore gained the full 3 marks.

This is a new topic for the 2015 AS specification. Students were able to identify examples where rational decision making will break down. These include inertia, habitual behaviour, consumer weakness at computation and the influence of other's behaviour. Students often gave a brief explanation to achieve the second mark but most responses failed to pick up all three marks. It is important that students identify and explain *why* rational decision making will break down and develop the response further by linking to the context.

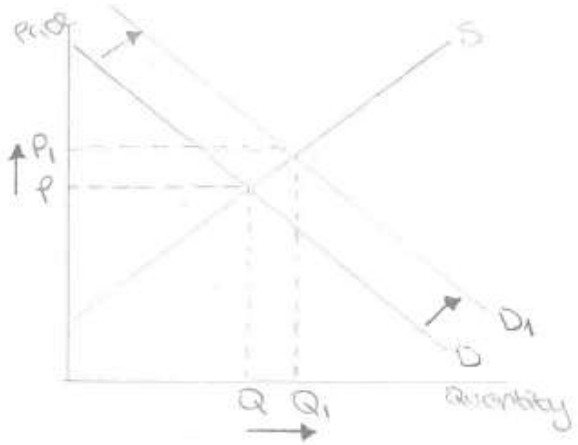
Section B

Question 6a

Response 1

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.

The proportion of domestically-sourced beef rose from 81% to 83% in 2013. This would've been caused by the horsemeat being found in products labelled as beef and manufactured overseas. This is because the scandal would've lead to a decrease in demand for foreign meat and therefore an increase in demand for British beef. The increase in demand for British beef is shown in the diagram below by the shift from D to D_1. People did not trust foreign suppliers of meat and therefore demanded more British beef. As the demand increased from D to D_1, the price for British beef rose from P to P_1 which explains why farmers received more for beef in the UK.



Examiner's comments

There is reference to data, with the student stating that the proportion of domestically sourced meat increased from 81% to 83% (1). The data is linked to the horsemeat scandal (1), how this decreased demand for foreign meat and increased demand for British beef (1). The diagram is drawn accurately, with the original supply and demand drawn with the equilibrium (1), and an increase/ right shift of demand (1) and new equilibrium (1).

The response therefore gained the full 5 marks.

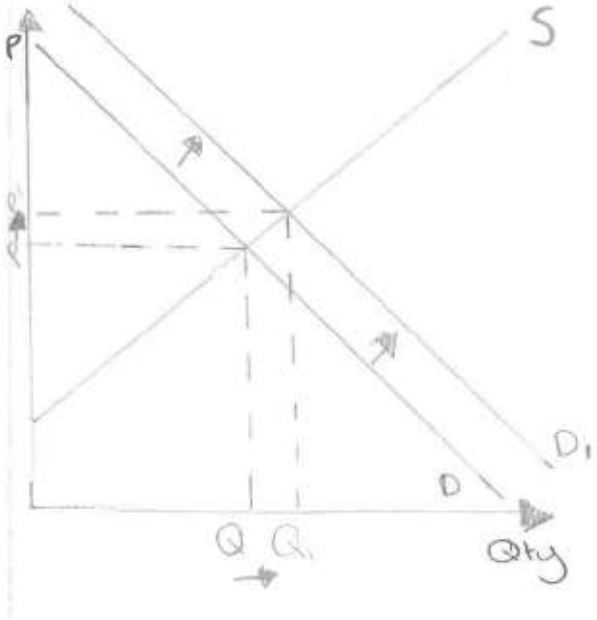
There is an extensive use of data in this response which allows the student to achieve more 'marks' than allocated to the question. Although it is important to be careful not to go over the tariff of marks available it is useful to use the data. Many responses referred to the 3% price increase stated in the question. If it is given directly in the question it will not be in the mark scheme.

It is useful for students to draw direction arrows for the shift in the curve as well as the changes in price and quantity.

Response 2

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.

A reason the prices farmers received for beef rose by 3% is likely due to people demanding less foreign meat due to the horsemeat Scandal - this means people will substitute over to beef from the UK which would cause the demand for domestically sourced British beef to rise from 81% to 83%, leading to the demand for beef from the UK to rise



Examiner's comments

There is a data reference linked to the horsemeat scandal and increased domestic consumption from 81% to 83% (1). This links this to the fact that people substitute to beef from the UK (1).

The diagram is drawn accurately with supply, demand and equilibrium (1), an increase/ right shift of demand (1) and new equilibrium (1).

The response therefore gained the full 5 marks.

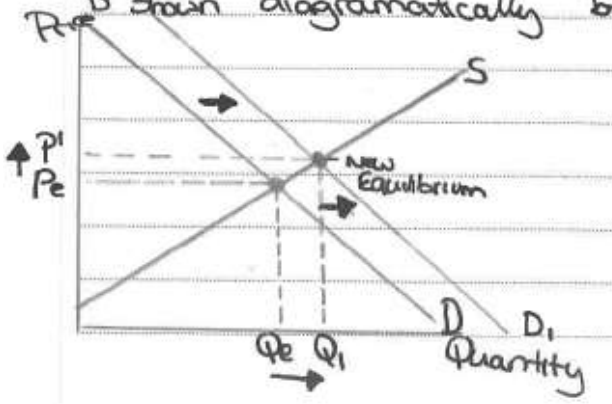
Question 6b

Response 1

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

Cross Elasticity of Demand - Measures the responsiveness of the quantity demanded of one product, to a change in Price of another. $\frac{\%\ \Delta \text{ in QD Product Y}}{\%\ \Delta \text{ in Price Product X}}$

One likely impact of a 3% increase in the Price of UK beef on the market for lamb will be that it may cause an increase in quantity demanded for lamb, because due to there being a "3% increase in the Price of UK beef", Consumers' may Substitute to lamb, and therefore, this will cause a decrease in quantity demanded for beef, whilst an increase in quantity demanded for Lamb. The Impact of the 3% increase of the market for lamb is shown diagramatically below:



Examiner's comments

This response demonstrates *elements of knowledge and understanding* of cross elasticity of demand. This is linked to some context, with the examples of beef and lamb. The student defines and provides the formula for cross price elasticity of demand and identifies lamb and beef as substitutes. There is an accurate diagram to show an increase in price and quantity.

The response therefore gained Level 2 and 4 marks (4/6) for knowledge, application and analysis. The response does not include evaluative comments so gains 0 marks for evaluation. The total for the response is therefore 4 marks (4/10).

To improve the response, the student could have explained further why beef and lamb are substitutes and developed further the effect on the lamb market. Evaluation is required within an **assess** question: a 10-mark question has 4 marks for evaluation.

Response 2

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

Cross price elasticity of demand measures the responsiveness of quantity demanded of lamb to a change in price of beef. Beef and lamb are substitutes. The XED for these products would be positive, because as the price of beef increases, people will substitute to buying lamb instead. The increase in the price of UK beef would lead to more revenue for lamb producers as more people would substitute to purchasing lamb rather than beef. However, it does depend on the magnitude of the increase in price of UK beef. 3% is not a large percentage change so it is unlikely to have much impact. People will not be affected by such a small increase to the point where they will be willing to substitute to lamb products instead. Also, the XED demand would be inelastic in the short run as it would take time for people to realise that it is better to substitute to lamb, which shows that the 3% increase in the price of UK beef would have no or very little impact on the market for lamb in the short run.

Examiner's comments

The student demonstrates *accurate knowledge and understanding* of cross price elasticity of demand, which is linked to the context of beef and lamb. Economic ideas are *applied appropriately* to the question.

The student defines cross elasticity of demand, identifies lamb and beef as substitutes and that XED is positive and explains this. The student makes a link to higher revenue for lamb producers. However, there is no diagram and no specific reference to the price of lamb.

The evaluative comments are supported by *relevant reasoning and appropriate reference to context*. The point about magnitude is well developed in context, with a link to the 3% increase. The student also links to limited impact in the short run but this is less developed.

The response therefore gained Level 3 and 5 marks (5/6) for knowledge, application and analysis and Level 2 and 3 marks (3/4) for evaluation.

The total for the response is therefore 8 marks (8/10).

To gain full marks for knowledge, application and analysis this student could have explicitly linked the effect to price and quantity in the market for lamb.

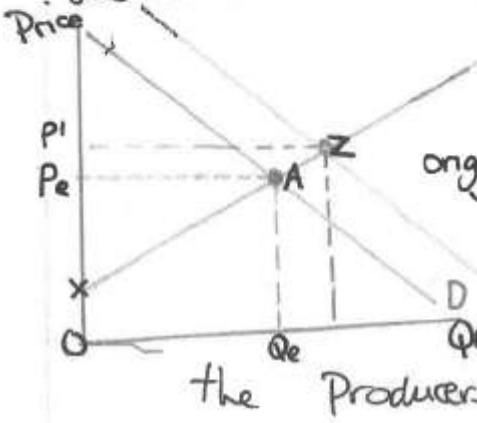
Question 6c

Response 1

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

One likely Impact on dairy farmers in the UK of the growth in the middle classes in emerging markets such as China, is that it will cause an Increase in Profits, because "State-owned Chinese Companies are approaching dairy farmers directly to Secure millions of litres of UK milk", and therefore, this shows a growth in the middle classes impacts UK dairy farmers, because they will demand more, and therefore, this will Impact dairy farmers as it will extend their supply and make them more Profitable.

Furthermore, another impact on dairy farmers will be an increase in Producers' Surplus due to the increase in demand, as shown below:



As you can see from the diagram on the left, that the original Producers' Surplus was 'Pe, A, X', however, due to the growth in middle class, causing an increase in demand it increased the Producers' Surplus to 'P', Z, X'.

Examiner's comments

The diagram accurately shows original supply and demand, a shift in demand and the higher price (1). However, the increase in quantity is not accurate. The student references higher output at the end of the first paragraph (1) and refers to the extract, stating that Chinese companies are trying to secure millions of litres of milk (1) and how this increases demand for milk (1). The student identifies the original and new producer surplus, showing it increases (1).

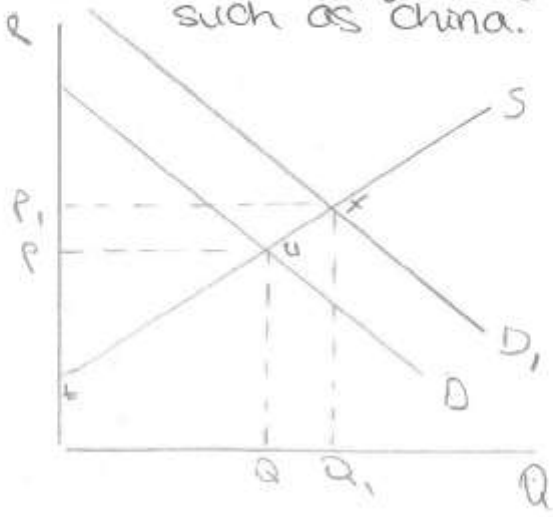
The response therefore gained 5 marks (5/6).

Students should remember to check diagrams for accuracy. In this response, this omission means the student did not gain the final mark.

Response 2

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

There are 30-50 million litres of milk demanded as stated in the extract. Due to an increase in demand for UK dairy products, it means that supply ~~mar~~ will extend from UK producers Farmers will have to supply more as there is additional supply for their dairy products from the Chinese. As there's more demand, producer surplus will increase from area P u t to area P, x T as products will be sold at higher price and there will be more sold due to an increase in demand for UK dairy products UK farmers will also export more products due to an increase in demand from countries such as China.



Examiner's comments

The student has accurately drawn a diagram showing the higher price (1) and higher quantity (1). There is explicit reference to the amount of milk demanded, 30-50 million litres (1) and this is linked to increased demand (1). The student develops their response further by identifying the original and new producer surplus, showing it increases (1), and how dairy farmers will export more (1).

The response therefore gained the full 6 marks.

Question 6d

Response 1 and 2

(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.

2012

Subsidy as % of total Scottish farm income = total subsidy / total income × 100

$\frac{554}{700} \times 100 = 79.14$

$= 79\%$.

2013

$\frac{562}{830} \times 100 = 67.71$

$= 68\%$.

(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.

2012

Subsidy ÷ Total Income x 100

Subsidy = 554 million

Total Income = 700 million

$\frac{554}{700} = 0.79142857$

$0.79142857 \times 100 = 79.142857\%$

2013

Subsidy = 562 m

Total Income = 830 m

$\frac{562}{830} = 0.677108433$

$\times 100 =$

67.7108433734939%

Examiner's comments

Both of these responses have correct calculations (1+1) and correct answers (1+1). The responses therefore gained the full 4 marks.

Students are advised to include the formula and calculation and show their working. They will usually be given credit for correct calculations even if the final answer is wrong.

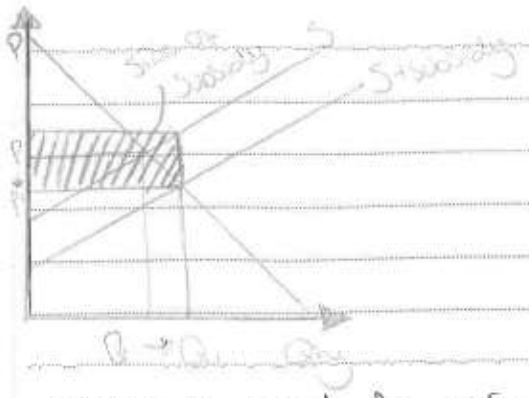
Unless stated otherwise, students should normally present calculations to one or two decimal places. The second response has 13 decimal places which is a little excessive!

Question 6e

Response 1

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

A Subsidy is a grant paid from the gavernment ~~to~~ in orders to increase production of a product. In 2013, the gavernment paid 562 million to Scottish farmers as a Subsidy; One reason this Subsidy is done is because the Subsidy is vital for the rural economy, as it provides income for workers which maintains their employment. Additionally, workers will Spend their income back into the economy, ~~to~~ putting more money into the circular flow.



The Subsidy also lowers the cost of the firm meaning they will supply more as well as ~~cutting~~ making prices fall which is good for consumers.

However, one problem with this Subsidy is that there is an opportunity cost, as the 562 million used on this could be used elsewhere, such as on education where it may have a bigger impact.

Additionally, taking this Subsidy away would have a massive impact on the farmers as in 2013 67.7% of their income was from Subsidies, therefore they may have to Shutdown if taken away, which is bad for the businesses as well as consumers, as this would drive prices up.

Examiner's comments

This student demonstrates *accurate knowledge and understanding* of subsidies and is able to *link knowledge and understanding in context using relevant examples* to farming.

The definition of a subsidy is accurate and the student links to context with reference to the rural economy and income. The diagram is accurate and the student links to lower cost and increased supply.

Evaluative comments are made and developed in context with discussion of opportunity cost and magnitude.

The response therefore gained Level 3 and 7 marks (7/9) for knowledge, application and analysis and Level 3 and 5 marks (5/6) for evaluation.

The total for the response is therefore 12 marks (12/15).

In a 15-mark **discuss** question, 6 marks will be available for evaluation so offering further development to ensure the evaluation is balanced will be helpful in accessing the top level.

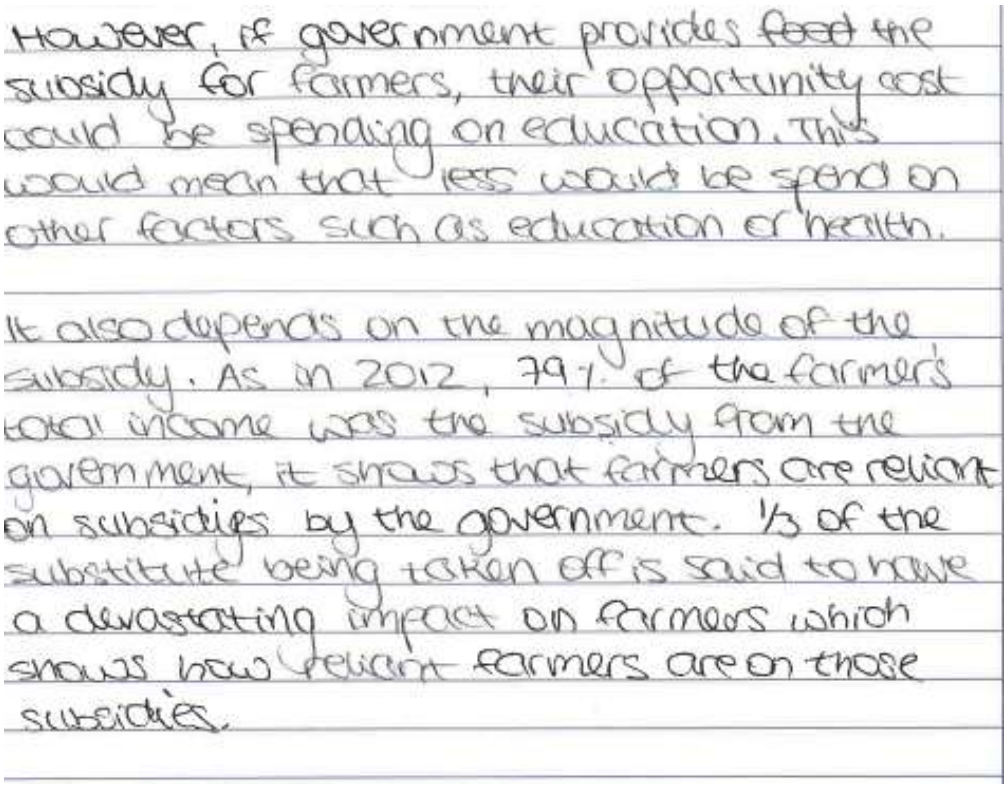
Response 2

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

A subsidy is a grant from the gavernment to increase consumption of a product. In 2012, the subsidy paid to scottish farmers was 79% of their total income and in 2013 it was 68% of their total income. As stated in extract B, 'farming is vital for the rural economy'. Farming provides income in the economy as well as maintaining employment. This is because people earn money and then spend it within the economy which shows the circular flow of money around the rural economy. If the gavernment stopped giving subsidies to farmers, there would ~~Aeb~~ not be that much flow around the economy.

Subsidies reduce the costs of firms and they will therefore increase the supply of meat. This is shown in the diagram below by the shift from S to S+ sub. The quantity of meat supplied increases from Qe to Q1 which will therefore maintain the supply of food and guarantee supply of food. The price also decreases from Pe to P1 which makes the food more accessible to the poor. This benefits the economy by reducing poverty as more poor people have access to food.

Another reason for subsidies could be because it is good to have Scottish food as this will help prevent contaminated food being imported from other countries. If subsidies were not in place, people would become reliant on food from other countries. This increases the risks of diseases and illnesses due to contaminated food entering the country.


However, if government provides ~~food~~ the subsidy for farmers, their opportunity cost could be spending on education. This would mean that less would be spend on other factors such as education or health.

It also depends on the magnitude of the subsidy. As in 2012, 79% of the farmer's total income was the subsidy from the government, it shows that farmers are reliant on subsidies by the government. 1/3 of the substitute being taken off is said to have a devastating impact on farmers which shows how reliant farmers are on those subsidies.

Examiner's comments

The student demonstrates *accurate knowledge and understanding* of subsidies, and use of the context with *relevant examples* to farming. For example, the definition of a subsidy is accurate and the student makes links to context with reference to '79%' and '68%' and 'vital to rural economy'. This last point is also developed with the link to employment.

The student discusses reduced risk of contaminated food and considers how subsidies will lower costs and increase supply, causing lower price and increased quantity.

The student makes *evaluative comments which are developed in context*; these are opportunity costs and magnitude, which are linked to leading to reliance on subsidies.

The response therefore gained Level 3 and the full 9 marks for knowledge, application and analysis and Level 2 and 4 marks (4/6) for evaluation.

The total for the response is therefore 13 marks (13/15).

This student needed additional answer space. It is useful for students to refer to using an additional sheet in their response so the examiner knows to look for this.

Question 6f

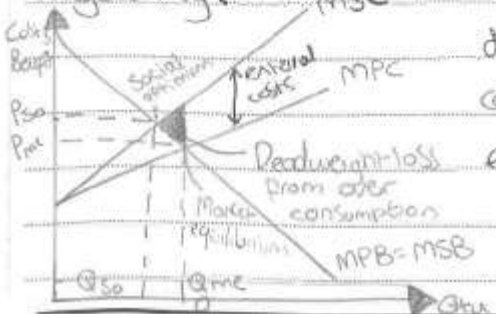
Response 1

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

external costs is the costs that affect 3rd parties who are not apart of the original transaction.

One effect of increasing the production of beef is global warming, as cows currently produce more greenhouse gases than 22 million cars, meaning more greenhouse gases will be produced when beef production is increased, having a larger impact on global warming.

Additionally, a lot of fertilisers and toxic contaminants are used in the production of beef, which will be increased when beef production is increased. This is bad, as these toxins are likely to get into local water sources and in the soil, which people may drink from and grow food from, meaning people will be consuming these toxins which may affect their health negatively.



This diagram shows the deadweight loss from over consumption of beef and the external costs on society.

On the otherhand, it depends how much additional beef they produce as if it is only a small amount extra there will be little impact on global warming and the amount of cows used meaning there will be little negative impact.
Additionally, more beef will be good as it is a good source of protein, which will benefit consumers health having a positive impact on society aswell.

Examiner's comments

The student demonstrates *precise knowledge and understanding* of external costs. The definition and diagram are accurate and the labels include examples in context. Knowledge and understanding is also demonstrated in the context of increased beef production. The analysis is *relevant and focused*.

There are evaluative comments which are developed but the context is brief.

The response therefore gained Level 4 and 10 marks (10/14) for knowledge, application and analysis and Level 2 and 4 marks (4/6) for evaluation.

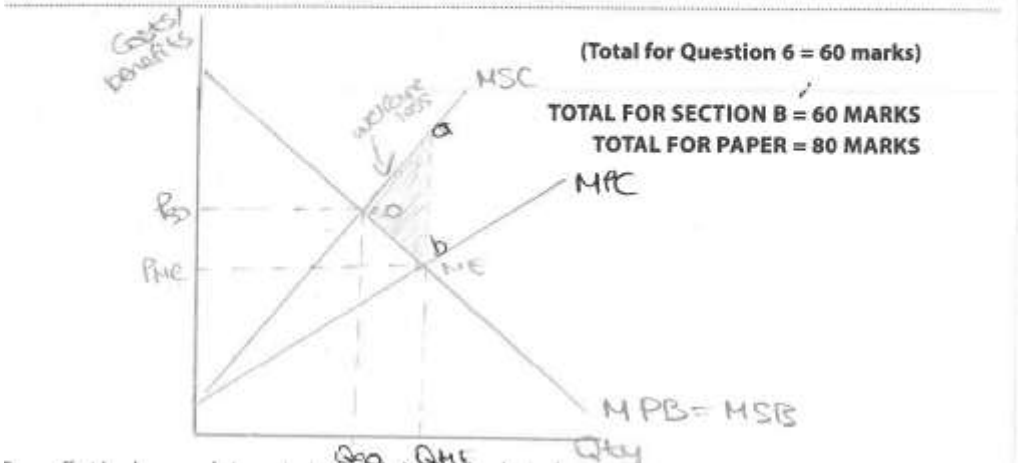
The total for the response is therefore 14 marks (14/20).

Response 2

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

External costs are costs in excess of private costs that affect 3rd parties who are not a part of the transaction. It is said that the greenhouse gases produced by cows are equivalent to 22 million cars. Fertilisers and toxic contaminants are used in the production of beef which are released into soil and the water system. This means that local residents who drink the water or eat food that grows in the soil will be eating contaminated food and will therefore be affected by the production of beef. 1800 gallons of water are required to make beef which means that this water will not be available for others to use. This will also cause problems in the areas where the water is scarce as it would lead people into further poverty as the water is being used in the production of beef. This shows how the production of beef has external costs to individuals who are not part of the process but are affected by the production of beef.

In the diagram shown below, ab is the size of the external cost and the welfare loss triangle is from over consumption of beef.
One of the benefits of increased beef production is that it is a merit good and it's consumption is beneficial as it is a source of protein. Furthermore, it's increased production will increase the tax revenue for the government as firms will be producing more meaning they have to pay more tax to the government.
It is also difficult to measure the size of the external cost which makes it difficult to judge how much external costs are caused by an increase in the production of beef.



(Total for Question 6 = 60 marks)

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

Examiner's comments

The student demonstrates *precise knowledge and understanding* of external costs, linked to the context of increased beef production. The definition is accurate and the diagram is accurately drawn and labelled, with examples given in context. The student is very clear that the costs are external. Analysis is relevant and focused, with strong and secure reasoning.

The response also includes *evaluative comments that are developed* and linked in places to the context, but these comments could be developed further.

The response therefore gained Level 4 and 12 marks (12/14) for knowledge, application and analysis and Level 2 and 4 marks (4/6) for evaluation.

The total for the response is therefore 16 marks (16/20).

It is useful for students to refer to any data provided as many of the arguments on either side will be referred to in the extracts.

Question 6g

Response 1

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

Guaranteed Minimum price - is the lowest price firms can sell for, and therefore, they cannot sell below that price.

One Impact of guaranteed minimum Price on Producers' will be that it will encourage Producers' to Invest more, because they will have more Income security, because the guaranteed minimum Price ensures that Producers' get paid a certain amount for their Products, and therefore, it will secure Producers' Income, which will therefor make producers' more confident on Investing and therefor, this will be beneficial because Investment is a component of aggregate demand, and therefor, Increase in Investment must Increase in aggregate demand which benefits the economy as a whole.

Furthermore another Impact is that Guaranteed minimum wage will have a growth and employment in the sector because due to their being Price and Income

Stability in the sector than ~~arisen~~ th and there mor likely to be investment it means that there will be growth in the sector, and therefore, the sector could provide employment.

However, the Problem with having a guaranteed minimum ~~wage~~ Price is that consumers will have to pay mor the Guaranteed minimum Price will increase the comer. price of goods', and thereby mak it mor costly for consumers' to make a purchase.

~~Furt~~ In addition, another problem may be that the Guaranteed minimum wage may encourage Smuggling because if beef is expensive here in the UK, then People might start to smuggle from other countries where it may be cheaper.

(Total for Question 6 = 60 marks)

Examiner's comments

The student demonstrates elements of knowledge and understanding of the Guaranteed Minimum Price, linked to the context of increased beef production. For example, Guaranteed Minimum Price is defined and linked to how this will see businesses invest more as they are more confident. However, there is no diagram and little context offered. The analysis is also brief.

There is a macroeconomic focus in places which is not appropriate for this question.

There is some evaluation with some link to context and brief development.

The response therefore gained Level 2 and 5 marks (5/14) for knowledge, application and analysis and Level 2 and 4 marks (4/6) for evaluation.

The total for the response is therefore 9 marks (9/20).

If the question asks for a diagram it is important to provide one as this will be rewarded in the mark scheme. The diagram would also have enabled the student to consider the likely impact on quantities and price to support their analysis.

2. Paper 2: The UK economy – performance and policies

This section includes student responses, marks and commentary for AS Paper 2 8EC0/02, *The UK economy – performance and policies*. A summary of the questions and marks for each response is provided in the table below. A second response has not been included for the multiple choice questions.

Question	Response 1	Response 2
Section A		
1a (1)	1	1
1b (2)	2	2
1c (1)	1	-
2a (1)	0	1
2b (2)	0	2
2c (1)	1	-
3a (1)	1	1
3b (1)	1	-
3c (2)	1	2
4a (1)	1	-
4b (3)	2	2
5a (1)	1	-
5b (2)	2	-
5c (1)	1	-
Section B		
6a (4)	2	4
6b (5)	2	4
6c (6)	4	6
6d (10)	5	8
6e (15)	7	10
*6f (20)	17	-
*6g (20)	-	6

* Students choose one essay question (20 marks) from a choice of two, meaning students respond to either 6f or 6g. There is only one response exemplified for question 6f and 6g which is reflective of the sample answers received.

Section A

Question 1a

Response 1

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)

An increase in a Countries real GDP

Examiner's comments

This is a correct definition (1) so the response gained 1 mark.

Response 2

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)

The percentage change in Real GDP of a county.

Examiner's comments

This is a correct definition (1). 'Change' is acceptable instead of 'increase' as economic growth could be negative.

The response therefore gained 1 mark.

Question 1b

Response 1

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

(2)

$\frac{1534-1506}{1506} \times 100 = 1.86\%$

Examiner's comments

The student has shown the correct working (1) and the correct answer (1) so the response gained 2 marks.

Response 2

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

(2)

$\frac{1534}{1506} \times 100 = 101.86$

∴ economic growth = 1.86 %

Examiner's comments

The student has shown the correct working (1) and the correct answer (1).
The calculation is an alternative method to that given in the mark scheme but is equally correct.

The response therefore gained 2 marks.

Question 1c

(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

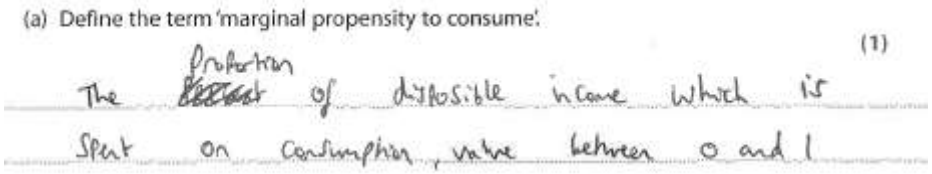
Answer D

Examiner's comments

D is the correct answer so the response gained 1 mark.

Question 2a

Response 1

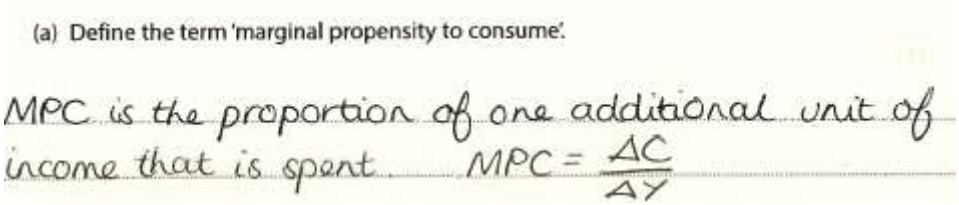


Examiner's comments

This definition is not precise enough as there is no sense of 'marginal' in the student's answer – the definition is closer to the APC than the MPC.

The response therefore gained 0 marks.

Response 2



Examiner's comments

This is a correct definition (1) and therefore gained 1 mark.

The mark could be awarded either for the definition or the formula.

Question 2b

Response 1

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

(2)

1502 X 0.4 = 600.8 Billion Pounds

Examiner's comments

There is no understanding or application of the relationship between the MPC and the multiplier shown. The response therefore gained 0 marks.

Response 2

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

$$\text{Multiplier} = \frac{1}{MPW} = \frac{1}{(1-MPC)}$$

$$= \frac{1}{(1-0.4)} = 1.7$$

Examiner's comments

The student has given the correct statement of the relationship between the MPC and the multiplier (1) and the answer is correct (1).

The response therefore gained 2 marks.

This final mark is given for the answer alone, although students are advised to show their working too.

Question 2c

Response 1

(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 C

Examiner's comments

C is the correct answer so the response gained 1 mark.

Question 3a

Response 1

(a) Define the term 'inflation'.

(1)

A sustained increase in prices over a period of time, measured by RPI or CPI

Examiner's comments

This is a correct definition (1). It would be preferable to refer to 'average' or 'general price level', rather than 'prices', but this is acceptable here.

The response therefore gained 1 mark.

Response 2

(a) Define the term 'inflation'.

(1)

The increase in the average ~~ke~~ price level.

Examiner's comments

This is a correct definition (1) and therefore gained 1 mark.

Question 3b

(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 B

Examiner's comments

B is the correct answer (1) and the response therefore gained 1 mark.

Question 3c

Response 1

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

(2)

Prices of different products rise at dyferent rates and there is no real ~~[illegible]~~ measure of change in quality.

Examiner's comments

The student identifies two limitations (1) but does not provide a linked development of either point.

The response therefore gained 1 mark.

Where more points are provided in the answer than asked for in the question, the highest scoring one would be counted.

Students must read the questions carefully to see if they ask for a set number of points to be made in the answer. If the question asks to 'explain one' students should identify one point with a linked development.

Response 2

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

(2)

CPI uses an 'average' basket of goods however ~~as~~ thus everyone purchases different goods so these items may not be ~~as~~ relevant to lots of the country. **(Total for Question 3 = 4 marks)**

Examiner's comments

The student identifies one limitation '*CPI uses an average basket of goods*' (1) and there is linked development '*these items may not be relevant to lots of the country*' (1).

The response therefore gained 2 marks.

Question 4a

Response 1

(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 D

Examiner's comments

D is the correct answer (1) and the response therefore gained 1 mark.

Question 4b

Response 1

(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)

The budget deficit is the balance between government spending and revenue.

GR = 612 bn

GS = 720 bn 612 - 720 = -108 bn

Budget deficit = 108 bn

Response 2

(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)

Total government spending = £720 bn

Total government revenue = £612 bn

∴ budget deficit = 720 − 612

= £108 bn

Examiner's comments

In both responses, students have demonstrated knowledge of how to calculate budget deficit (1) and the calculations are correct (2).

Both responses therefore gained 3 marks.

Response 1 includes a definition of budget definition but this is not required in a calculate question. The knowledge mark is available for demonstrating knowledge of the formula or calculation required by the question.

Question 5a

5 (a) Define the term 'productivity'.

(1)

The rate of output per unit per hour.

Examiner's comments

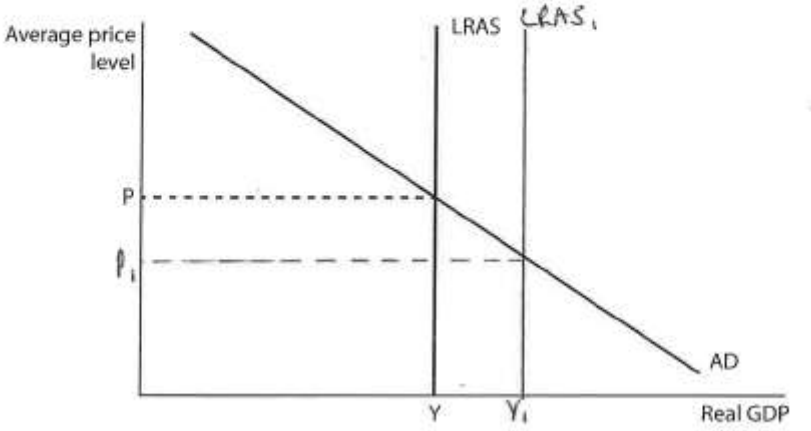
This definition is a little confused, as there is no explicit reference to 'inputs' and the student only half defines labour productivity. However, the use of 'output' and the implicit idea of input are sufficient to award a mark giving the student the benefit of the doubt (1).

The response therefore gained 1 mark.

Question 5b

(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)



Examiner's comments

The diagram shows an outward shift of the LRAS curve and this is correctly labelled (1). The new equilibrium price level and real national output level (1) are correctly labelled.

The response therefore gained 2 marks.

Question 5c

(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 A

Examiner's comments

A is the correct answer (1) and the response therefore gained 1 mark.

Section B

Question 6a

Response 1

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

(4)

Real annual business investment has fallen from its rate of 140000 in 2008 to 120000 due to the recession it has then risen slowly to 125000 in 2012. Investment can be defined as the spending by firms on capital goods in order to produce more Consumer Goods in the future.

Examiner's comments

The student demonstrates their understanding of 'investment' (1) although there is no reference to the meaning of 'real'. The student has correctly identified falling investment (1) but there is an inaccurate data reference as there is no use of millions in the units.

The response therefore gained 2 marks.

Students should pay close attention to the units given for data presented in charts or tables.

Response 2

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

Investment is an increase in the capital stock.
Real means adjusted for inflation.
From 2008 to 2009, real annual business investment fell sharply from around £140 bn to £120bn.
However between 2009 and 2012 it has stayed fairly constant, varying between £120 bn and £125 bn.

Examiner's comments

This response demonstrates understanding of 'investment' (1) and 'real' (1), and the student has correctly identified falling investment (1). The data has been referenced accurately (1).

The response therefore gained the full 4 marks.

Question 6b

Response 1

(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)

The exchange rate is the value of one currency expressed as another. The appreciation of the pound against the US dollar will result in more ~~exports~~ imports from the USA as the goods will be cheap and less exports to the US as the domestic price will be less competitive in the US. This will cause an increase in the deficit of balance of payments on current account. In 2014 the exchange rate has risen from 1.66 to 1.68.

Examiner's comments

There is no explicit understanding of an 'appreciation of the pound' evident in the response. There is an attempt at data reference here but this is insufficient, as there is no indication that these are dollar values or that they are equivalent to £1. In addition, there are no months are given.

The student includes in their analysis that imports into the UK will be cheaper (1) and that exports from the UK will be more expensive (1).

The response therefore gained 2 marks.

Response 2

(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.

From July 2013 to mid-February 2014, the pound appreciated from being equivalent to $1.52 to $1.655 – an appreciation of approximately 9%. This would make UK imports from the USA cheaper, so their volume would increase; UK exports to the USA would become more expensive, so their volume would decrease.

Examiner's comments

There is no explicit understanding of an 'appreciation of the pound' evident in the response. Two accurate exchange rates are given, together with the correct months and years (2). The student includes in their analysis that imports into the UK will be cheaper (1) and that exports from the UK will be more expensive (1).

The response therefore gained 4 marks.

Question 6c

Response 1

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

(6)

Consumer Spending rose due to loans becoming more readily available and with lower interest rates. this would encourage Consumers to borrow money which they will then spend and thus Consumer spending rose. Another reason was there was high consumer confidence due to the growth of the economy, therefore Consumers were happy to run down their savings and therefore spend more.

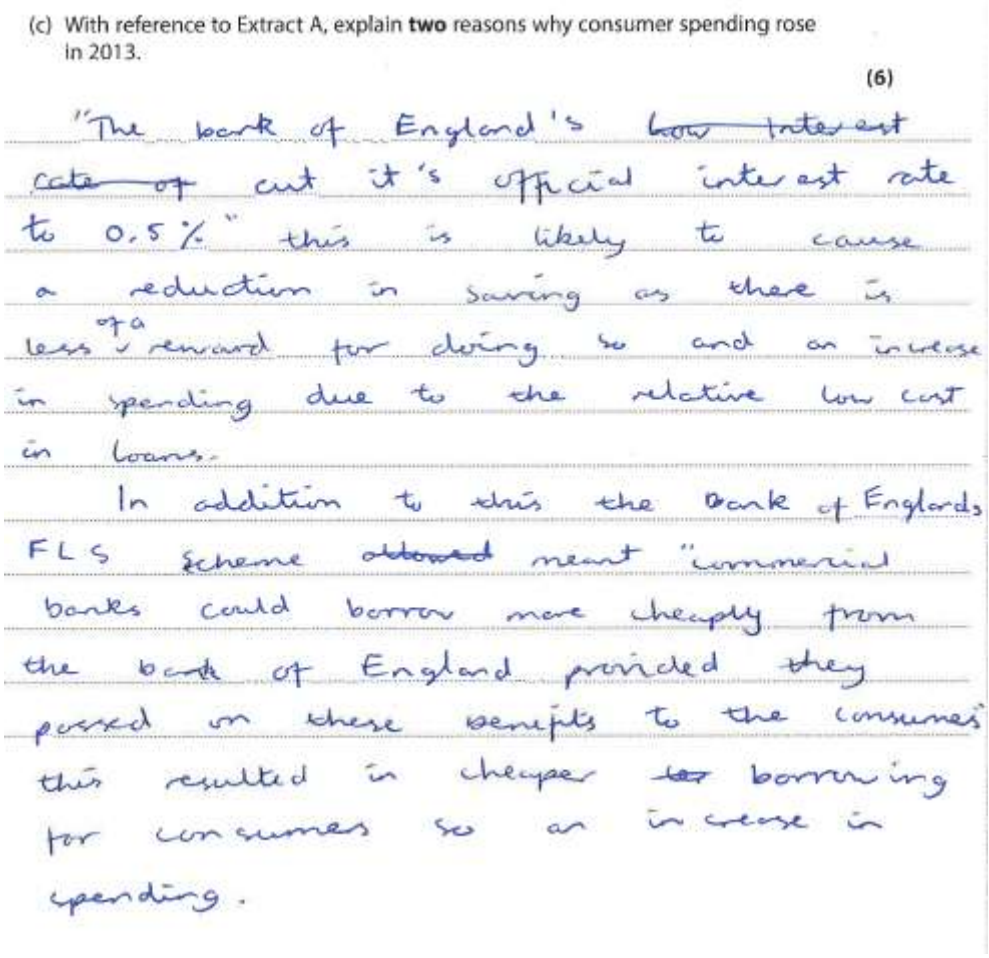
Examiner's comments

In this response two reasons to explain why consumer spending rose are identified. However, there is insufficient reference made to Extract 1 to achieve application marks.

There are two linked developments to form the analysis: lower interest rates encouraged consumers to borrow money to fund their consumption; and greater consumer confidence led to consumers running down their savings to fund their consumption.

The response therefore gained 4 marks.

Response 2



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

(6)

"The bank of England's ~~low interest~~ rate ~~cut~~ cut it's official interest rate to 0.5%" this is likely to cause a reduction in saving as there is less of a ✓ reward for doing so and an increase in spending due to the relative low cost in loans.

In addition to this the Bank of England's FLS scheme ~~allowed~~ meant "commercial banks could borrow more cheaply from the bank of England provided they passed on these benefits to the consumer" this resulted in cheaper ~~for~~ borrowing for consumers so an increase in spending.

Examiner's comments

Two reasons to explain why consumer spending rose are identified in the response. These are supported by two pieces of data evidence from Extract 1.

There are two linked developments to form the analysis: the interest rate cut to 0.5% meant less of a return on saving so saving fell; and greater consumer confidence led to consumers running down their savings to fund their consumption.

The response therefore gained the full 6 marks.

Note that a further linked development is included here in terms of the impact of the rate cut on borrowing also; however, only 2 marks for analysis is awarded in a 6-mark explain question.

Question 6d

Response 1

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

(10)

On one hand interest rates have a Large impact on buisness investment as lower interest rates mean buisnesses would be more inclined to borrow and invest due to the lower cost of borrowing. In addition to this lower interest rates cause an increase in consumer spending, this means companies are more likely to invest if they believe consumer spending will remain high.

However there are other factors which have a greater effect on buisness investment. Such as the levels of cash companies currently have and the profitability of the current market.

Examiner's comments

The student shows some knowledge and understanding of the importance of interest rates in determining business investment, but the response could be broader and more accurate in its use of theory and concepts.

There is a suggestion that other factors may be more important, with two possible factors suggested, but there is no *logical chain of reasoning*.

The response therefore gained Level 3 and 3 marks (3/6) for knowledge, application and analysis and Level 1 and 2 marks (2/4) for evaluation.

The total for the response is therefore 5 marks (5/10).

To improve this response, the student would need to fully integrate *relevant and focused examples* into the response and ensure that the evaluation is more *balanced*.

Response 2

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

The interest rate is the cost of borrowing and the return on saving. Many firms have to borrow money to finance investment. If the interest rate falls, borrowing becomes cheaper, so firms are more willing and able to borrow, and hence to invest. Alternatively firms may spend retained profits to finance investment. If the interest rate falls, there is less incentive to save these profits in the bank, as the return is lower, so firms may be more willing to invest. Finally, lowerinterest rates will boost consumer spending, meaning firms have a need to increase their productive capacity. However, other factors are also important, suchas business confidence, or how long firms think the interest rate will stay low for. If they think it will rise fairly soon, loan repayments may not be affordable and consumer spending may fall, making them less likely to invest.

Examiner's comments

This student shows accurate knowledge and understanding of the importance of interest rates in determining business investment and this is a sufficiently broad and balanced response. However the student could have made more use of *relevant and focused examples*.

The student also suggests that other factors may be more important, with evidence of a *logical chain of reasoning* as to the relevance of expectations of future interest rates. However, the evaluative comments could be more balanced.

The response therefore gained Level 3 and 5 marks (5/6) for knowledge, application and analysis and Level 2 and 3 marks (3/4) for evaluation.

The total for the response is therefore 8 marks (8/10).

Question 6e

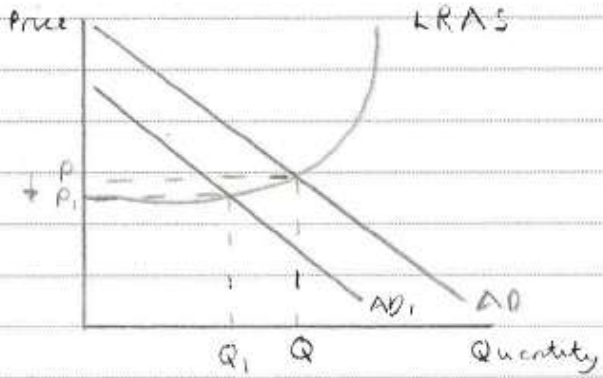
Response 1

(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)

Inflation has two major causes, cost push inflation is due to an decrease in supply and demand pull inflation is due to an increase in demand. A lack of new investment causes a ~~decrease~~ smaller increase in AD as AD = C + I + G + (x - m). This means there is likely to ~~cause~~ be very little inflation, due to a little ~~lack of~~ investment.

Appreciation of the pound causes imports to be relatively cheaper and exports to be relatively dearer. This means the value of goods and services imported is likely to increase and the value of exports is likely to fall. This causes AD to fall as AD = C + I + G + (x - m) and x ↓ and m ↑. This fall in AD is likely to cause deflation



However the level of deflation is dependant on the level of spare capacity in the economy. As the less space capacity in the economy the greater the effect of a change in AD.

Examiner's comments

This student shows some knowledge and understanding, particularly of the likely impact of an appreciation of the pound on inflationary pressures.

However, this is a narrow response that lacks balance in terms of both not considering the impact of a lack of new investment, and only considering the effects of the appreciation on demand-pull inflationary pressures, rather than also on cost-push inflationary pressures.

The student has made one generic evaluative comment. There is some attempt to develop this point, but there is no use of supporting evidence or reference to the context.

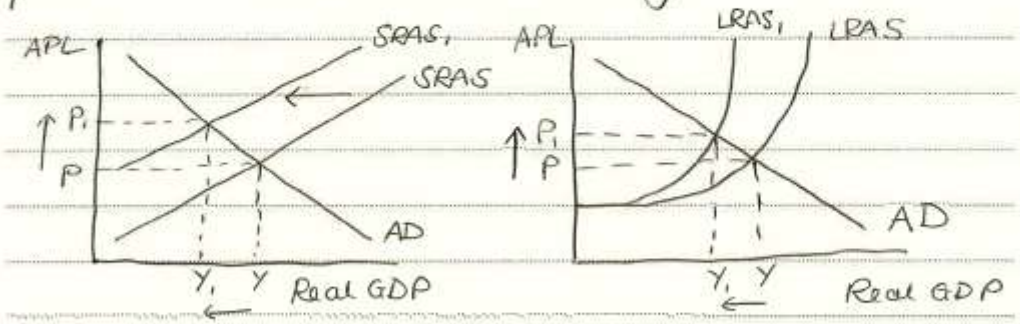
The response therefore gained Level 2 and 5 marks (5/9) for knowledge, application and analysis and Level 1 and 2 marks (2/6) for evaluation.

The total for the response is therefore 7 marks (7/15).

Response 2

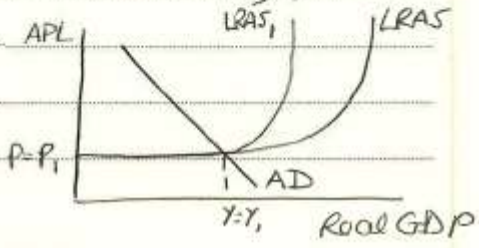
(e) Discuss the likely impact of both a lack of new investment and an appreciation of the British pound (£) on 'inflationary pressures' in the UK (Extract A line 36).

A lack of new investment means that the productive capacity of the economy is likely to fall, as depreciated capital is not replaced. This would mean a decrease in an economy's LRAS. An appreciation of the pound raises the price of firms' imported raw materials and components, increasing production costs and so decreasing the economy's SRAS. Both of these factors will therefore cause cost-push inflationary pressures to build in the economy:



However, as both investment and net exports are components of AD, AD may also fall slightly, easing demand-pull inflationary pressures in the SR, before cost-push inflationary pressures come to dominate in the LR.

Additionally, the extent of the cost-push inflationary pressures felt in the LR will depend on the level of spare capacity that exists. If there is a large amount of spare capacity (as may be likely given recent economic conditions), decreases in LRAS may have little effect on the average price level:



Examiner's comments

The understanding and analysis of the effect on inflationary pressures of the lack of new investment is accurate and well applied, including an AS/AD diagram. However, the analysis of the impact of an appreciation on import costs is incorrect.

There is evidence of chains of reasoning within the evaluation, and the reference to 'recent economic conditions' provides some reference to context, although more could be done in this respect in particular. The evaluation could perhaps have been more balanced.

The response therefore gained Level 2 and 5 marks (5/9) for knowledge, application and analysis and Level 3 and 5 marks (5/6) for evaluation.

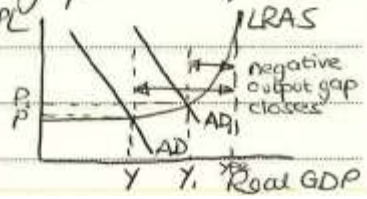
The total for the response is therefore 10 marks (10/15).

Question 6f

EITHER

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

Economic growth is an increase in real GDP. The government's macroeconomic objectives are its goals in order to increase the welfare of the country's population. Having economic growth as the key objective would be a good thing because when real GDP rises, average incomes also tend to increase (as long as the population is not rising more quickly than real GDP). This raises people's standard of living as they are able to consume more goods and services. Economic growth tends to be accompanied by increases in employment: as a higher value of goods and services are produced, more labour is needed by firms, as labour is a derived demand. In this way, the negative output gap closes, and unemployment falls, so also meeting a second of the government's objectives.



However, economic growth may not help to achieve two other important objectives: firstly, increases in AD cause demand-pull inflationary pressures to build in the economy, possibly taking the inflation rate above its 2% CPI target and causing falls in welfare; additionally, demand for imports tends to be income elastic in the UK, so as average incomes rise, demand for imports increases more than proportionally and the trade balance is likely to worsen.

The relationship between economic growth and the environment is less certain. While growth may cause finite natural resources to be used up, and production of some goods and services may have negative externalities for the environment (air and water pollution, climate change due to CO_2 release etc.), economic growth past a certain point may actually help to protect the environment, as more money becomes available to be invested into 'green', sustainable technology, energy intensity falls and economies tend to deindustrialise. Given the long run consequences of harming the environment, I think that this is the most important point, and so I conclude that economic growth should only be the government's key objective if it can be shown that it is compatible with environmental sustainability.

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

Examiner's comments

This student shows precise knowledge and understanding, and relevant economic ideas are selected and applied. The analysis is focused and balanced.

Evaluative comments are supported by *relevant chains of reasoning*, and the evaluation is fairly well balanced.

The response therefore gained Level 4 and 12 marks (12/14) for knowledge, application and analysis and Level 3 and 5 marks (5/6) for evaluation.

The total for the response is therefore 17 marks (17/20).

The focused and balanced nature of the analysis ensures this a Level 4 response but to achieve a higher mark within Level 4, the student could have made more effective use of appropriate examples and evidence. The response could also be improved in terms of balance in order to achieve the top of Level 3 for evaluation.

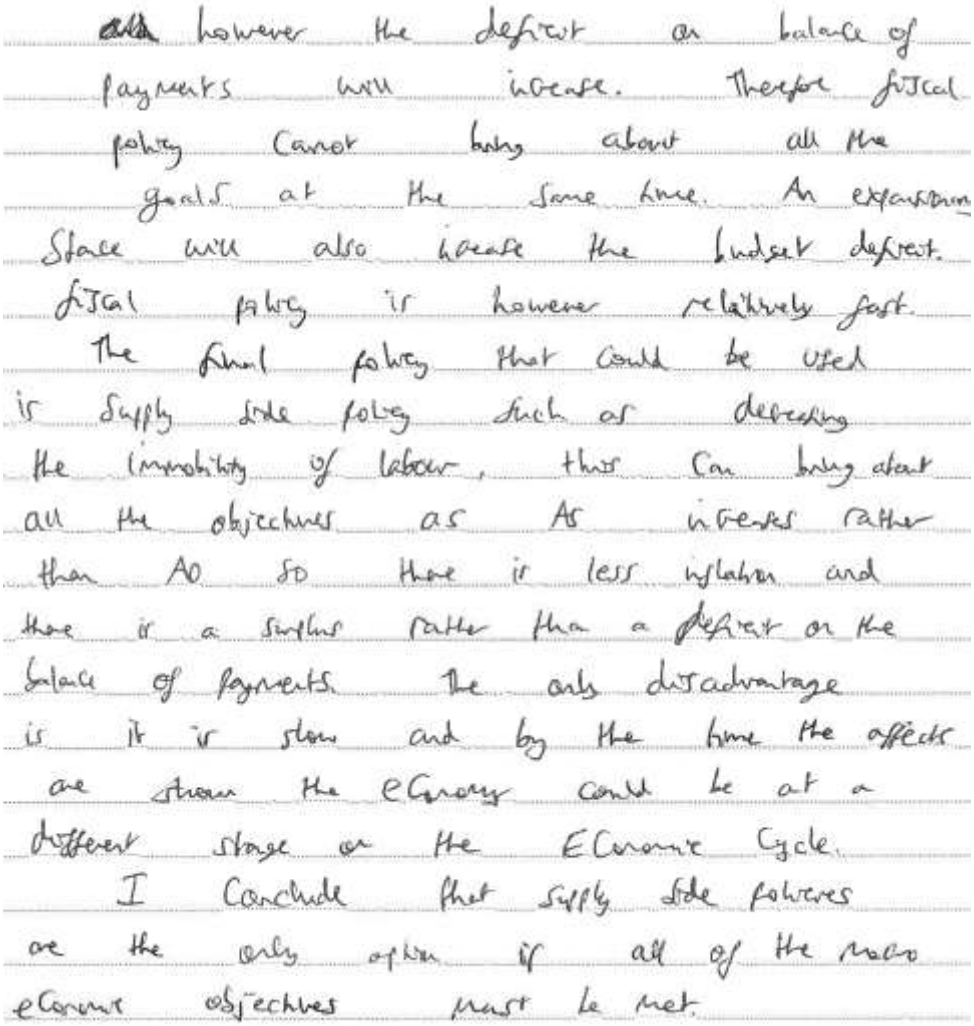
Question 6g

OR

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

(20)

Monetary policy is the manipulation of interest rates and the money supply by the bank of England to influence Consumer Spending. Monetary policy can achieve the macroeconomic goals as it can increase or decrease inflation, growth, employment and can alter the balance of payments however it cannot satisfy all at the same time as with an increase in AD and therefore growth comes inflation. Also monetary policy takes a long time to come into place although it is still quicker than Supply Side policy. Fiscal policy is the manipulation of taxation and government spending to influence AD. An expansionary fiscal policy will increase AD and therefore bring about economic growth but this will come with inflation. Unemployment will be reduced


however the deficit on balance of payments will increase. Therefore fiscal policy cannot bring about all the goals at the same time. An expansion stance will also increase the budget deficit. fiscal policy is however relatively fast.
The final policy that could be used is supply side policy such as decreasing the immobility of labour, this can bring about all the objectives as AS increases rather than AD so there is less inflation and there is a surplus rather than a deficit on the balance of payments. The only disadvantage is it is slow and by the time the effects are shown the economy could be at a different stage on the Economic Cycle.
I conclude that supply side policies are the only option if all of the macro economic objectives must be met.

Examiner's comments

This response begins with promise, demonstrating knowledge of monetary policy and the government's macroeconomic objectives. However, the relevant analysis is very brief, with no real chains of reasoning. The student then moves away from answering the question asked, and instead (and irrelevantly) considers the use of fiscal and supply-side policies.

Given how the response veers away from answering the question asked, only one throwaway evaluative comment is made relating to the possible time lag of monetary policy. This is just sufficient to gain a mark within Level 1 (rather than 0).

The response therefore gained Level 1 and 3 marks (3/14) for knowledge, application and analysis and Level 1 and 1 marks (1/6) for evaluation.

The total for the response is therefore 4 marks (4/20).