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June 2023

GCE Economics A 9EC0 02

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Introduction

The focus of this exam is on macroeconomics, and themes 2 and 4 of the specification.

Candidates' answers to the questions on this paper have been of an expected standard. All questions were accessible to the candidates, although inevitably candidates were scoring more highly on some questions than on others. There were a few very high-quality answers from candidates demonstrating an excellent grasp of the key macroeconomic issues as well as an ability to synthesise their knowledge with the real world of economics. On the other hand, some answers demonstrated a more superficial understanding. Overall, there was a wide range in the quality of answers from candidates.

In Section A, candidates demonstrated their understanding of a range of key economic concepts, including AD/AS, unemployment, the multiplier, and other key macroeconomic concepts. Where candidates often lost marks in this section was in not ensuring their answers were completely correct, e.g. in question 2(a) not realising that the data was in percentages, and in question 3(a) not reading the table headings properly to realise that the data was in £ millions. Having said that, there were a lot of good answers to the questions in this section from many candidates.

In Section B, the focus was on trade and development on the African continent, and students generally found all of the questions here to be accessible. Some candidates over-complicated question 6(a) and discussed the benefits of a regional trade agreement rather than simply focusing on what one is. In question 6(e), some candidates did fail to read the question properly and so didn't focus on market-orientated strategies. Reading the question carefully and ensuring that is what you are writing about is always an incredibly important thing that candidates must remember. In particular on question 6(d), but also as a general point when discussing developing countries, candidates should avoid taking a generic view that because a country is developing or because it is on the African continent that therefore there must be corruption in that country's government. This outdated western/colonial viewpoint is something that economics has moved on from as a subject. Candidates can of course write about corruption being an issue in different countries, but this should be specific and based on real evidence, not generalising about a whole continent.

In Section C, question 7 was slightly more popular with candidates, but only by a few percent. Candidates offered a range of answers when discussing different policies for both questions, and it was pleasing to see with question 8, nearly all the candidates had read this question properly and didn't write about monetary policy. High quality answers here met the criteria we are looking for on our levels mark schemes for the top levels, in particular relating answers to the real world and not simply being theoretical and having strong, well-developed chains of argument. Good answers also demonstrated quality evaluation focused on the effectiveness of the policies in achieving their aim.

Candidates need to remember to familiarise themselves with the structure of the exam and how they will be assessed on their answers in advance of any exam. As has consistently been the case for this exam series, for questions up to and including 8 marks, marks are awarded on a points-based system, and for the rest of the questions, it is levels-based. For the points-based marking students need to be concise and accurate in their answers. There were some very long answers to 4-mark questions that achieved the full 4 marks about halfway through the answer, but the candidates kept writing. This is using up important time that could be better spent writing longer, more detailed chains of argument in the longer questions. Candidates should also remember that in the 8-mark question there are 2 marks for evaluation: many candidates are still not offering an evaluation of their points in this question, and thus missing out on these marks.

Question 1 (a)

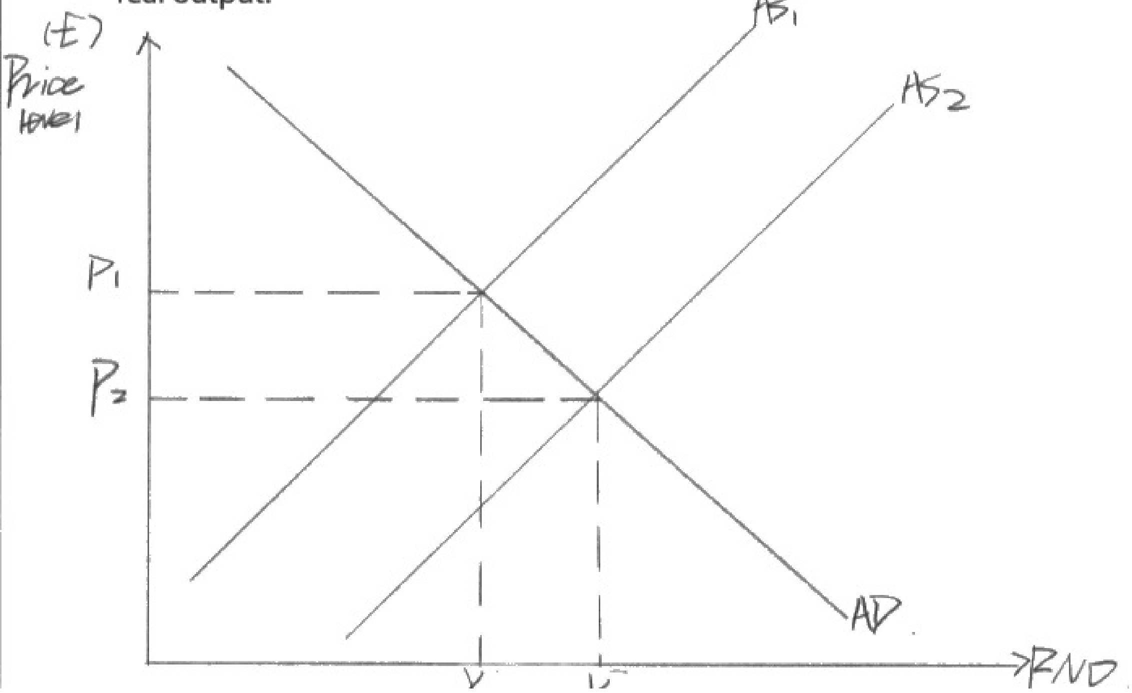
This question asked candidates to 'draw' an AD/AS diagram. As such that is all they need to do. There is no need for words to explain the diagram. This question was generally well answered by most candidates who drew a diagram shifting either AS or AD (or in some cases both) to the left, showing a decrease.

1 In September 2022 the Bank of England increased the base interest rate from 1.75% to 2.25%.

(Source: adapted from https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp)

(a) Draw an aggregate demand and aggregate supply diagram to illustrate the likely impact of an increase in the UK base interest rate on the average price level and real output.

(4)



ResultsPlus Examiner Comments

This answer only gets 1/4 for correct labels on axes/lines. The candidate has shown an increase in AS rather than a decrease.

ResultsPlus Examiner Tip

Practice drawing AD/AS diagrams to illustrate a range of economic scenarios, so you can correctly answer questions such as this.

1 In September 2022 the Bank of England increased the base interest rate from 1.75% to 2.25%.

(Source: adapted from https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp)

(a) Draw an aggregate demand and aggregate supply diagram to illustrate the likely impact of an increase in the UK base interest rate on the average price level and real output.

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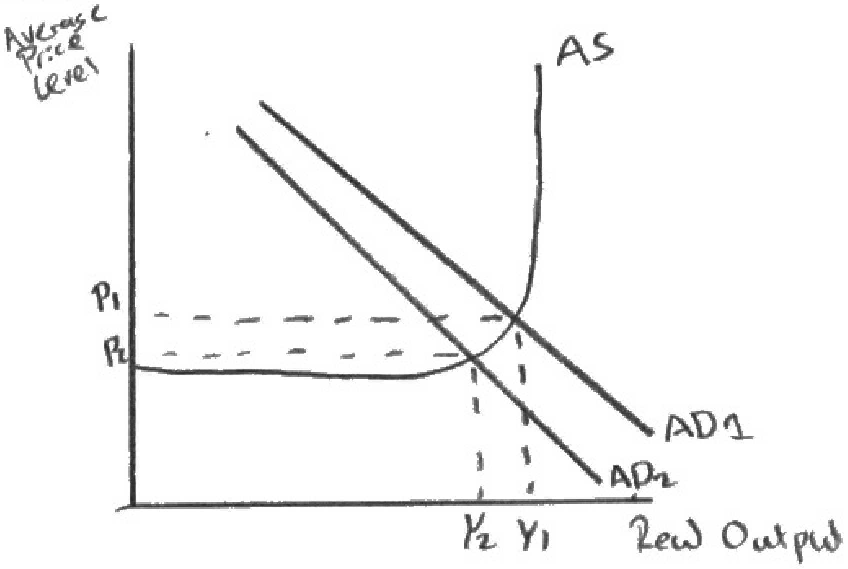

ResultsPlus
Examiner Comments

This answer correctly shows a decrease in AD to the left and what would happen to price level and real output in that situation, and as such gains full marks.

Question 2 (b)

The majority of candidates could explain **one** likely reason, some explanations were clearer than others which affected the overall mark. Several different reasons were provided by candidates, and as long as they were logical, they were credited. The majority focused on an increase in consumption leading to an increase in AD causing a rise in demand for labour. It is important to remember that the question only asks for **one** reason, candidates will not get more marks for discussing multiple reasons. The question is also asking for a reason why unemployment fell, so candidates will not get any marks for simply defining unemployment.

(b) With reference to the chart on the previous page, explain **one** likely reason for the change in the UK's rate of unemployment.

(4)

The UK's unemployment rate has decreased from december 2020 to June 2022 as many people lost their jobs in 2020 due to a global pandemic however ~~as we~~ in 2022 we were no longer in a global pandemic therefore people slowly become employed again as more jobs became available.

ResultsPlus
Examiner Comments

This answer gains 2/4 marks. The candidate has correctly identified that unemployment has decreased and suggests that this may be due to the UK being 'no longer in a global pandemic', but they fail to explain how/why that causes a fall in unemployment.

ResultsPlus
Examiner Tip

Ensure you don't just state points, you need to justify them as well. Think about links in the chain. How do you get from 'no longer in a global pandemic' to less unemployment? What are the steps along the way?

(b) With reference to the chart on the previous page, explain **one** likely reason for the change in the UK's rate of unemployment.

(4)

One likely reason for the decrease in the rate of unemployment is increase agregate demand. The UK's unemployment rate fell from 5.2% in December 2020 to 3.8% in June 2022. This was due to increased demand for goods and services in the UK which led to production increasing. This increase in production ~~was~~ created jobs, decreasing unemployment

ResultsPlus
Examiner Comments

This answer receives the full 4 marks. The candidate has stated a valid reason applied to the data, and explained how that reason would lead to a reduction in unemployment clearly.

ResultsPlus
Examiner Tip

Note that this answer is fairly concise. Less than half of the lines are used. Do not feel you have to fill the space. It is simply there if you need it. There were a lot of answers much longer than this that still didn't get full marks.

Question 3 (a)

This question asks students to calculate and make use of the data provided in the table. The majority of candidates understood what calculation was required of them, but a significant number didn't appreciate that the data in the table was in £ millions. Properly reading headings in tables/on graphs is absolutely vital, and in this case something that cost a lot of candidates a mark.

3 UK real GDP, 2020–2022

	Annual percentage change on previous year	Total (£ millions)
2020	–9.9%	2 045 091
2021	7.5%	2 198 473
2022*	3.5%	

*2022 figures are forecast

(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp)

(a) Calculate the value of the total forecast GDP in 2022.

(2)

$2198473 \times \frac{103.5}{100} = £2275419.6$ million

ResultsPlus
Examiner Comments

This answer has correctly calculated the right answer and so gains full marks.

ResultsPlus
Examiner Tip

Remember to always show your working out. If this candidate had written out the right calculation but somehow got the wrong answer, they would still have gained 1 mark.

3 UK real GDP, 2020–2022

	Annual percentage change on previous year	Total (£ millions)
2020	–9.9%	2 045 091
2021	7.5%	2 198 473
2022*	3.5%	

*2022 figures are forecast

(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp)

(a) Calculate the value of the total forecast GDP in 2022.

(2)

2,198, 473 × 1.035 = 2275419.56

≈ £2,275,420

ResultsPlus
Examiner Comments

This answer only gets 1/2 as it is not the correct answer. The candidate has not noticed that the data in the table is in £ millions.

Question 3 (b)

This is a 2-mark question, and so examiners are just looking for a relevant cost identified and a short explanation of why that is a cost of GDP falling. Several candidates decided to answer the question 'explain one likely cause of real GDP falling'. As a reminder: make sure you read the question carefully and answer the specific question set. A significant number of candidates also set themselves a bit of a circular argument by saying that a cost of GDP falling was a reduction in economic growth.

(b) Explain **one** likely cost of UK real GDP falling by 9.9% in 2020.

(2)

One likely cost of UK real GDP falling by 9.9% in 2020 is a decrease in the standard of living. This is due to the fact that there is an underlying trend of the standard of living increasing as the GDP increases in a country.

ResultsPlus
Examiner Comments

This answer scored 1/2 as it correctly identifies that one likely cost could be a fall in standard of living, but it doesn't offer the linked development of how/why this may result from a fall in real GDP, so doesn't get the analysis mark.

(b) Explain **one** likely cost of UK real GDP falling by 9.9% in 2020.

(2)

Falling UK GDP means lower level of growth rate decreasing consumption and investment within an economy. Thus, reducing the level of aggregate demand, and further reducing ~~econmic~~ economic growth and people's living standard as they are poorer in real terms

ResultsPlus
Examiner Comments

This answer achieves full marks. It identifies the reason, falling living standards, but also explains why this may come about from the fall in real GDP.

Question 4 (b)

In this question, we are asking candidates to make use of the chart to explain how a fall in marginal propensity to consume will affect real GDP. Because the question specifically asks about the effect on real GDP, candidates needed to ensure that this was part of their answer. Candidates also needed to explain how the multiplier related to this question. Good answers referred to the multiplier formula and/or there being less injections/more withdrawals from the circular flow of income.

(b) With reference to the chart on the previous page, explain the likely effect of a fall in the marginal propensity to consume on the level of real GDP. Refer to the multiplier in your answer.

(4)

If ~~consumption~~ MPC falls so will the level of real GDP as there is less money circulation in the economy due to people not spending and choosing to save instead for example. This subsequently reduces the the multiplier effect slowing economic growth.

ResultsPlus
Examiner Comments

This answer correctly states that real GDP will fall and discusses the circular flow/multiplier, as such it achieves 2/4 marks.

ResultsPlus
Examiner Tip

When a question such as this says 'with reference to...' remember to make sure you include an explicit reference to the chart. Make use of both axes to do that: in this case, consumption as a percentage of GDP on the vertical axis and the years on the horizontal axis.

(b) With reference to the chart on the previous page, explain the likely effect of a fall in the marginal propensity to consume on the level of real GDP. Refer to the multiplier in your answer.

(4)

The multiplier measures how much larger a final increase in GDP will be. Since the multiplier = $\frac{1}{1-MPC}$ as MPC fell since consumption fell to 83% in 2017 then the multiplier will reduce hence the level of GDP will reduce as people are more likely to save their money. Hence the final increase in GDP is likely to fall hence real GDP will ~~i~~ increase at a lower rate

ResultsPlus
Examiner Comments

This answer scores full marks. The candidate has the multiplier formula, they have referred to the chart, they have explained how the multiplier will reduce, and they have stated that real GDP 'is likely to fall'.

ResultsPlus
Examiner Tip

Be concise and accurate and you can get full marks on a question such as this.

Question 5 (a)

This calculate question asks candidates to calculate US national debt as a percentage of GDP. Most candidates got the correct answer. The incorrect ones had often got the numbers round the wrong way, dividing 23 by 28.4.

5 In 2021, the US total GDP was $23 trillion and national debt was $28.4 trillion.

(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US and https://fiscaldata.treasury.gov/national-debt/)

(a) Calculate the US national debt in 2021 as a percentage of GDP.

(2)

100(28.4/23) = 123.5%

ResultsPlus
Examiner Comments

This is the correct answer and, as such, achieves full marks.

5 In 2021, the US total GDP was \$23 trillion and national debt was \$28.4 trillion.

(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US and https://fiscaldata.treasury.gov/national-debt/)

(a) Calculate the US national debt in 2021 as a percentage of GDP.

(2)

US National Debt = \$28.4 trillion.

Total GDP = \$23 trillion.

28·4 /23 = 1·23478 x100 = 12·3478%

= 12·35%

ResultsPlus
Examiner Comments

This answer has the correct formula but the candidate has made a mistake in their calculation so they get 1/2.

ResultsPlus
Examiner Tip

This shows why always writing out your working out is important. If this candidate had simply written their answer (12.35%) they would have got 0/2.

Question 5 (b)

The key word in this question is 'relationship'. What is the relationship between these two key macroeconomic indicators. Candidates needed to be clear that, for example, an increase in a country's fiscal deficit will lead to an increase in the national debt. Many candidates simply defined the two key terms and didn't explore the link between them, hence they only got 1 mark.

(b) Explain the relationship between a fiscal deficit and the national debt.

(2)

The national debt is the total economy's debt built over time, where a consistant fiscal deficit (when the government spending exceeded tax revenue) cumulates after a sustained deficit of over 3% annually

ResultsPlus
Examiner Comments

This answer scores 1/2. The candidate has correctly defined the fiscal deficit which they receive a mark for, but there is no explanation of the relationship between the two key terms.

ResultsPlus
Examiner Tip

Remember examiners are always looking for you to ANSWER THE QUESTION, not define the words in the question.

(b) Explain the relationship between a fiscal deficit and the national debt.

(2)

The National debt is the accumulation of past fiscal deficits. So if fiscal deficit increases then national debt must also increase

ResultsPlus
Examiner Comments

This answer achieves full marks. The candidate has explained what the national debt is and the relationship between it and the fiscal deficit.

ResultsPlus
Examiner Tip

This is a very short answer, but it answers the question. There is no need to write lots in short questions such as this.

Question 6 (a)

Whilst in some ways the key words in this question are 'regional trade agreement', many candidates should have focused more on 'explain what is meant by'. In this 5-mark question, examiners were looking for students to explain what a regional trade agreement actually is. Some candidates did this very effectively referring to things such as trade liberalisation, free trade, or reducing tariffs. Many candidates wasted their valuable time discussing how it could help increase employment and reduce poverty. Candidates do need to remember to make sure they answer the question set.

6 (a) With reference to Extract A, explain what is meant by a 'regional trade agreement' (Extract A, line 7).

(5)

A regional trade agreement is a partnership of countries who remove trade barriers ~~when countries partner~~ together to boost trade between the ~~co~~ member countries. In the case of extract A the agreement ~~in between~~ the African Continental Free Trade Area the countries within this agreement trade with eachother with no trade barriers between eachother. This means that the members will not charge tariffs, quotas or any other trade barriers on the goods being traded. This helps to boost trade in the countries and help growth.

ResultsPlus
Examiner Comments

This answer achieves 4/5. The candidate has explained well what a regional trade agreement is, but the only application here is the reference to the African Continental Free Trade Area. Hence the candidate can only receive one of the two available application marks.

6 (a) With reference to Extract A, explain what is meant by a 'regional trade agreement' (Extract A, line 7).

(5)

The AfCFTA regional trade agreement is an agreement between countries in this case 41 of Africa's 55 countries, agree on decreasing ~~free~~ trade ~~[illegible]~~ barriers ~~[illegible]~~ that are imposed on member countries meanwhile group barriers ~~to~~ to trade such as tariffs ~~etc~~ are imposed on nonmember countries.

This can therefore improve trading within members "making it easier to trade within themselves", suggesting this "could boost intra African trade by 15% to 25%" by reducing tariffs within these member countries, in addition reducing non tariff barriers which "could cause a 50% rise in intra-African trade"

ResultsPlus
Examiner Comments

This answer scores full marks. The candidate gains the two application marks straight away by referring to the African Continental Free Trade Area (AfCFTA) and the 41 out of 55 countries who have signed up for it. They achieve the rest of the marks from referring to reductions in tariffs and non-tariff barriers as well as generally 'decreasing trade barriers'.

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Examiner Tip

This question was 'with reference to Extract A', so make sure you do that.

Question 6 (b)

Nearly all candidates could correctly identify causes of the high cost of transporting goods between African countries such as poor quality roads or railways, lack of information, or tariffs. The abundance of examples in the data meant that most candidates had more than enough to achieve the application marks. Where candidates struggled at times was with the analysis and evaluation marks. It is important to make sure you explain how/why poor quality roads would increase the cost of transporting goods, even if it might seem obvious. Some answers tended to give more application rather than developing the point to get the analysis marks. In terms of evaluation, good answers made reference to things like the railways built by Chinese firms which could solve the problem. Some answers tried to evaluate by saying however maybe the high cost was due to a different factor. This is another knowledge point, not evaluation.

(b) With reference to Extract A, examine **two** causes of the high cost of transporting goods between African countries.

(8)

There are high transportation costs because of a lack of infrastructure. Lorries that are carrying cobalt from Congo have to queue up for long periods of time to cross a river, meaning more fuel spent by the driver so higher price to cover the increased costs. This is caused by ports being small and slow, holding up lorries in queues for miles and waiting for 2 weeks.

Some drivers bribe in order to skip the line, so a part or all of the 1000 rand may be imbursed by the buyer, ~~few~~ resulting in high cost of transportation to cover.

This may not matter since over 80% of Africa's export is traded outside, therefore the infrastructure may be better than between african countries.

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Examiner Comments

This answer gains both knowledge marks, for lorries queuing for long periods and for some drivers bribing their way to the front of the queue. The candidate also has plenty of application here to get those 2 marks, for example, the waiting for 2 weeks and the cost of the bribe. Analysis isn't as good. They do discuss how taking longer to transport would increase fuel costs for drivers which is good analysis. However, that is all the marks they receive. There is no more analysis and no relevant evaluation. Overall therefore this answers scores 5/8.

(b) With reference to Extract A, examine **two** causes of the high cost of transporting goods between African countries.

(8)

One cause of the high cost of transporting goods between African countries is poor infra-structure. With only approximately 29% of Sub-Saharan African roads being paved, it mean that transporting goods is very inefficient as it will take more time to cross highly congested roads that causes ~~are~~ delays. These delays and £49 bribes along the road, increase cost of production. However, there are perhaps other alternatives to transport such as Chinese built railways. These offer a much faster method of transportation that cuts ~~cost~~ time-cost and alternatively reduces high cost of transportation.

Another reason may be because of high trade barriers between the African countries. These include tariffs on imports, quotas, and government legislations such as quality check ~~...~~ of the goods imported. ~~these These increase cost of~~ These are part of the transportation of a good and thus taxes paid to enter your good into a country or other bureaucratic related cost increase transportation cost. However regional trade agreement will reduce these cost between transporting goods between African countries and result in 50% ~~of~~ increase of trade

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Examiner Comments

This is a high quality answer that achieves full marks. The candidate clearly identifies two different reasons: poor infrastructure and high trade barriers. There is application and analysis to back up both of these points as well as relevant evaluation at the end of each paragraph.

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Examiner Tip

Remember the way marks are awarded in an 8-mark question is always the same: 2 for knowledge, 2 for application, 2 for analysis, and 2 for evaluation.

Question 6 (c)

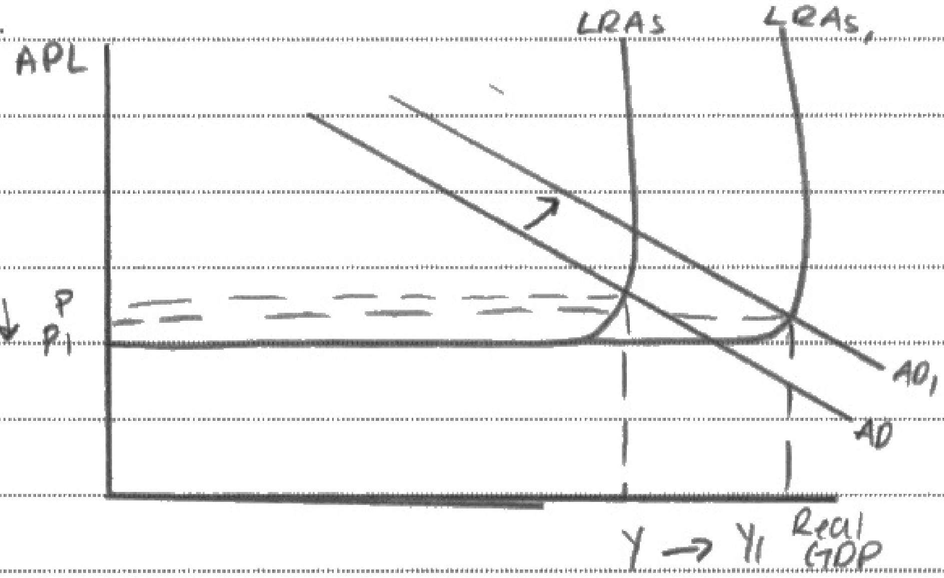
In this question the key thing that candidates needed to focus on was the link between improved transport links and economic growth. The majority of candidates could get across the idea that it would lead to an improvement in aggregate supply and/or aggregate demand. Where some candidates struggled to get higher marks was in making explicit exactly how this came about and offering contextual examples to illustrate their point. This often made the difference between levels 2 and 3 for KAA.

(c) Discuss the impact of improved transport links between African countries on economic growth rates.

(12)

Improving transportation leads to globalisation as there is increased time-space compression. Economic growth is the increase of real GDP in an economy over a given period of time. As transport links improve due to increased government spending, AD shifts Right as AD = C+I+G+(X-M). This increases real GDP in the economy and the building of new roads and ports can provide jobs which increase employment. Infrastructure improvements is an interventionist supply side policy therefore also increases the LRAS curve as well as AD which has more long term effects. So eventhough the increase in G doesn't increase AD and so real GDP and economic growth on a classical LRAS curve, increase in LRAS increases economic growth on both classical and keynsian. ~~Improving~~ Improving infrastructure leads to development as peoples standards of living improve as they have greater access to opportunities.

(economic growth shown Y→Y1)



Improved trade links increases productivity and so ~~the~~ long run average costs decrease for firms, allowing them to expand and compete more intra-regionally and globally.

The quality of current infrastructure is 'poor' and so by improving quality and productivity, not only will trade increase by '7%.' but ~~the~~ Africas PPF shifts Right. Economic growth is the goal for many economies but improving infrastructure improves development too however it can increase inequality for example rural-urban divides as rural areas are less invested into. The whole continent working on 'roads' at the same time may also lead to resource crowding out for the private sector where there is a lack of growth for individual firms and so decreased investment which decreases AD.

Improved infrastructure allows African countries to be more interdependent leading to increased migration, increase in trade for ~~[illegible]~~ cheap raw materials and increase in tourism which increases a countries economic growth. However this can lead to ~~[illegible]~~ over reliance on countries and ~~[illegible]~~ benefit countries ~~[illegible]~~ that have access to ports more than landlocked countries such as Moldova. This increases inequality between African countries which can lead to political instability.

Improved transport leads to the spread of human capital and encourages entrepreneurship and innovation as there is such a wide transfer of ideas. This leads to economic growth and increased global competitiveness as Africa can partake in export-led growth like the Asian 'tigers.'

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Examiner Comments

Overall this candidate has clearly understood that both AD and LRAS may increase as a result of improved transport links, as you can see in their diagram. However, their approach to answering the question as a whole lacks structure. There are a number of different ideas here but none of them are fully developed and so it doesn't quite hit the criteria for KAA level 3. This is a good example of a top KAA level 2 answer. The evaluation is low level 2: there are several evaluative ideas but they are not quite fully developed to get the full 4 marks available.

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Examiner Tip

There is no need to define concepts such as economic growth in this question. Examiners are not assessing you on your ability to remember definitions, but on your understanding of economics and your ability to see links between economic concepts.

Candidates need to remember that depth is more important than breadth in levels-marked questions such as this: make less different points but develop them more fully, and explain and apply them.

(c) Discuss the impact of improved transport links between African countries on economic growth rates.

(12)

Economic growth is an increase in the productive capacity ~~Improved~~ leading to an increase in real output. Improved transport links would increase economic growth as it would mean there could be more imports and exports. 'Nearly 90% of Africas transport goes by road'. So if road links were improved, a significant amount more of imports/exports could be transported faster. More exports would mean businesses are making more revenue as they ~~—~~ ~~selling~~ can get more products out. Faster shipping times may increase demand. Better transport links may act as an incentive for new businesses to start up or ~~fo~~ may improve the geographical mobility of labour. So people may be able to travel to work for better pay, which would increase growth as higher incomes mean higher disposible incomes and more consumption

More money for businesses would mean they can afford to employ more workers to keep up with the demand. This would decrease unemployment and increase GDP as the productive capacity would be higher.

However, transport links may be inefficient as they may be put in the wrong places. 'Newer Chinese-Built railways across African borders are underused'. This may be due to the struggle to compete on price of road transport or a lack of additional services like storage yards. These would be disincentives of using new transport and would therefore have no effect on economic growth

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Examiner Comments

This is a high quality answer that gains top level for both KAA and Evaluation. The clear link between improved transport and economic growth has been made – for example discussing how imports/exports could be transported faster and also how it may improve geographical mobility of labour.

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Examiner Tip

This is a relatively short answer but yet it still achieves the top levels for both KAA and Evaluation. Please remember that there is no need to fill all of the space available in the exam paper. Writing more isn't necessarily going to get you more marks unless it further develops and deepens the argument you're making.

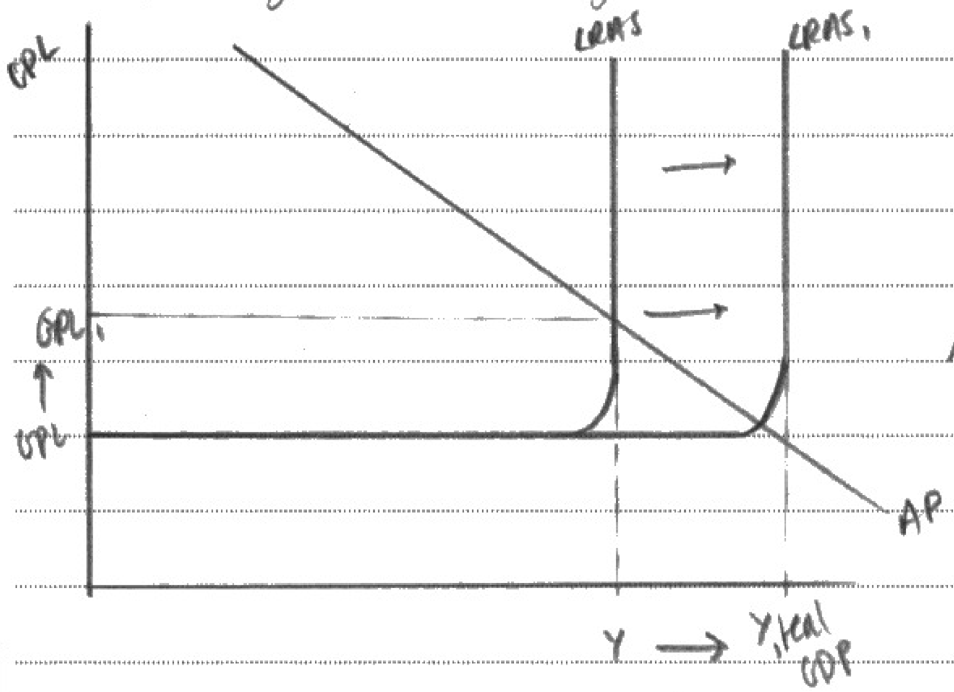
Question 6 (d)

The focus of this question is on the benefits of debt relief for Angola. The question specifically asks for 'two likely benefits', so if candidates did not include two distinct points in their answer then they could not achieve the top level for KAA. Generally there were a lot of good answers to this question with candidates able to explain benefits, often focused on how the Angolan government could now spend more money on improving public services as they don't have to spend money paying off their debt. In terms of evaluation, good candidates often spotted the point in the extract that the debt relief is only for 3 years. Many candidates also evaluated by suggesting that the Angolan government may be corrupt, suggesting that perhaps the money may not be spent wisely. Whilst this is potentially correct, candidates need to be careful not to generalise about countries and just assume that there will be corruption, without offering any explanation or evidence of why there may be corruption in a specific country.

(d) Assess two likely benefits of debt relief to Angola. Refer to Extract B in your answer.

(10)

One benefit of debt relief is that it can help ~~too~~ improve the "debt-to-GDP ratio" and ~~at~~ by doing so it can ~~lead to~~ allow the country to receive more ~~aid~~ financial aid, if needed, in the future. ~~because they~~ Debt relief has helped Angola ~~to~~ "spend supporting the economy and providing vital public services to its citizens." and reduce the amount of people in poverty. ~~One method~~ By providing vital support, the ~~a~~ country is investing into healthcare and education so that more people will have access to healthcare and better quality. Education can benefit Angola in the long run (LRAS → LRAS1) because it increases human capital and increase skills of people to earn more higher paying jobs. ~~Over time,~~ ~~increase in education~~



Furthermore, another benefit of debt relief is that Angola won't ~~need~~ need ~~to~~ to continue paying back its debts and instead, focus on growing its economy. By investing into its economy, it can help Angola move its economy to a more developed economy and if more people ~~the~~ start to have more money due to more jobs, it can reduce the cycle of poverty. As explained in the Harrod-Domar Model, increased savings can lead to economic growth due to investments. Over time, the development of Angola's economy can reduce chances of debts in the long-run. However, ~~that~~ if the money is not going to areas that need it the most it may hinder Angola's development so the government needs to have full information of its economy and where the main issues are rooted from.

ResultsPlus
Examiner Comments

In terms of KAA this answer achieves level 2. There are two points but they both lack clear explanation of the point. They both really only hint at the benefit of debt relief. For example, the first point does talk about 'investing into healthcare and education', but doesn't go further to explain exactly what that might entail. In terms of evaluation, this is very limited and vague, right at the end of the answer, and so only achieves level 1.

ResultsPlus
Examiner Tip

Remember there are two levels for evaluation on a question like this. You need to offer some development of your evaluation point to get into level 2.

(d) Assess **two** likely benefits of debt relief to Angola. Refer to Extract B in your answer.

→ ~~more~~ gov. spending for poverty
→ less crowding out

(10)

one benefit of debt relief is the ability for the government to improve income inequality and absolute poverty. 17 million people in Angola still live in absolute poverty, meaning they live on less than $2.15 a day. Without the cost of debt repayments ~~[illegible]~~ taking up most of the government's budget, the state will have more funds with which to improve absolute poverty in Angola. They could do so through introducing a minimum wage, or creating welfare benefits for those who are unemployed or unable to work. This will alleviate absolute poverty and improve the standards of living of those ~~of~~ lower income earners in Angola.

However, it depends on how the government chooses to spend and allocate the extra budget voided by debt repayments. The "provision of vital services" such as education may not have an effect on more living in absolute poverty who may not be able to go to school due to transport costs or because they need to earn an income to support their families.

Another benefit of debt relief may be that it alleviates the foreign currency gap. Loans to developing countries are often in foreign currencies. The IMF has loaned Angola $4.5 billion since 2018. This means that repayment will are likely be in dollars. Thus, the huge strain of repaying such large sums on foreign currency reserves may ~~later~~ cause a foreign currency gap, where Angola would be unable to buy life sustaining imports such as medicine, foodstuffs or manufactured goods due to a depletion in reserves.

However, arguably, debt relief was unlikely necessary, as the debt to GDP ration of Angola was already declining, and ~~also~~ exemplifying how the debt may have put less pressure on Angola regardless.

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Examiner Comments

This is a high quality answer that scores full marks. There are two clear benefits for Angola, firstly about Angola's 'improved finances' attracting foreign direct investment, and secondly about infrastructure/education. Both points are well-explained and with very good chains of argument explaining how these are clearly benefits for Angola. There is more than enough developed evaluation in this answer as well, easily getting level 2.

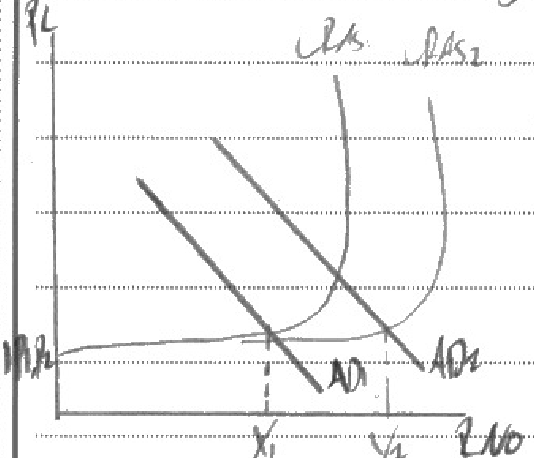
Question 6 (e)

There are two important points that candidates needed to focus on when answering this question. Firstly, that it is about market-orientated strategies. Secondly, that they needed to explain how these policies would help to 'improve development'. Unfortunately, a significant number of candidates failed to appreciate these important points and so because they hadn't answered the question they couldn't get a very high mark. If an answer didn't focus on development then it couldn't get the top level 3 for KAA. Having said that, there were many good answers, often focusing on policies discussed in the extract, in particular privatisation, but equally there are a very wide variety of possible market-based policies that could be discussed in this question.

(e) Discuss market-orientated strategies the Angolan government could use to improve development.

(15)

One strategy the Angolan government could use is deregulation ~~of the labour~~ where for labour for example they could reduce the maximum working hours of workers ~~for example~~ or reduce the national minimum wage as this improves the ~~oc~~ mobility of workers and allows for cheaper costs of production for firms. These working conditions incentivise foreign direct investment as they can utilise the lower cost of labour to lower production costs. The increased FDI brings investment and they may also help boost infrastructure whilst also creating jobs, ~~this the~~ This ~~wo~~ can increase AD from AD1 to AD2 due to the increased investment and it can in the long run potentially ~~to~~ increase LRAS to LRAS 2, increasing the productive capacity of the economy, resulting from the investment.



This means economic growth can occur, improving development with more jobs ~~being~~ created, higher incomes and higher standards of living with less poverty and less unemployment. Although FDI won't necessarily help development ~~to~~ and economic growth ~~of~~ too much as foreign firms may choose to employ migrant workers who are more skilled so in your more jobs may not be created and investment from FDI is not sustainable as they may choose to leave. Although it does help diversify the economy ~~Another strate~~ which is crucial for sustainable development.

Another strategy the ~~one~~ Angolan government could use is decreasing corporation tax as this means firms costs of production fall so they have more money to invest back into the business and the increased investment by domestic firms ~~it~~ ~~is~~ can lead to more sustainable rises in AD ~~as~~ and economic growth as ~~they can't~~ there is no risk of them moving operations elsewhere. Although this can lose government revenue they previously gained from the tax. But the bigger income ~~[illegible]~~ this may not be the case and government revenue may increase.

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Examiner Comments

This answer correctly identifies and does a fairly good job of explaining two different market-orientated policies. Firstly deregulation and secondly cutting corporation tax. The deregulation point is slightly more well-developed than the second point. However, neither point really has any context to make it specific to Angola (or really to any developing country). As such, overall this answer is a very good level 2 KAA answer, but it doesn't meet all the criteria to justify a level 3 mark. In terms of evaluation, both points have been evaluated, again the first point was better than the second. The second point is really very brief and only a level 1 evaluation point, however the first point is better and worthy of level 2, giving low level 2 overall for evaluation.

ResultsPlus
Examiner Tip

Make sure you relate your answers to the real world. Examiners are looking to see that you can apply economic theory to real-life situations.

(e) Discuss market-orientated strategies the Angolan government could use to improve development.

(15)

Market-orientated strategies rely on the free market, whereby restrictions are removed to allow for market forces of supply and demand to predominate.

The Angolan government could use privatisation to improve economic development. By privatising 100 state firms, ownership of these firms moves into the private sector. These firms are likely to be more efficient than the ~~public~~ public sector firms, whilst competition amongst these privatised firms will rise, thus leading to greater levels of efficiency. This allows firms like oil producing firms to raise their output, resulting in a rise in derived demand for labour, boosting employment in these industries, e.g. drivers may be required for transporting more oil to ports. This leads to incomes rising for Angolan citizens, leading to GNI per capita rising, raising economic development. In addition, as the Angolan government no longer run firms like the state oil firms, their costs in running the firms falls, freeing up funds for spending on improving infrastructure, e.g. water provision or electricity provision. This may aid in raising health for Angola, raising life expectancy, boosting HDI figures, causing a rise in ~~economic~~ development.

However, this will have a smaller impact on development than expected if the ~~govern~~ magnitude of privatisation is low. Currently, only 34 sales of shares from the state owned oil firm to the public have been made, reducing the incentive for the oil firm to raise efficiency and output. If only a few firms are privatised too, this will limit the rising efficiency and employment prospects, lowering the rises in GNI per capita & poverty reduction. In addition, given private firms will aim for profit maximisation, they may raise prices for Angolan citizens, thus lowering access to provisions like gas, water etc, raising absolute poverty levels as less have access to necessities for survival.

Furthermore, the move to a free floating exchange rate will aid development in Angola. The move from the managed exchange rate ~~to~~ in Angola to the freely floating exchange rate caused a depreciation in the kwanza, before stabilising. This causes Angolan exports to appear cheaper for foreign buyers, raising their attractiveness and competitiveness, thereby helping to raise export sales and export revenue. ~~This will lead to rising emp~~ As ~~the~~ Angolan exporting demand more labour, raising employment in Angola, ~~helping to raise GNI per capita and~~ leading to citizens gaining higher incomes, boosting GNI per capita & lowering absolute and relative poverty levels, thereby ~~reducing~~ improving economic development in Angola.

However, the ~~depreciation to the~~ extent to which export revenue rises due to the move to the floating exchange rate depends on the PED of exports. According to the Marshall Lerner condition, the current account of a country only improves in the long run if the PED of imports and exports is greater than 1. ~~If the~~ The PED of exports from Angola is likely to be inelastic, ~~such as is the case~~ due to the necessity for oil, ~~the depreciation~~ (oil accounts for nearly all of Angola's exports). As such, the depreciation is likely to lead to a proportionately smaller rise in demand for oil than the price fall, causing export revenue to fall, potentially therefore lowering employment in oil industries, raising poverty levels & lowering economic development.

ResultsPlus
Examiner Comments

This is an excellent answer to this question, achieving top level for both KAA and Evaluation. Both points clearly demonstrate that the candidate has very good knowledge of the policies they are discussing and they have also explained, with clear step-by-step chains of argument, how both of their policies could help to improve development in Angola. Privatisation was often a policy that candidates wrote about, but then struggled to link it to development, only focusing on efficiency, so this is a good example of how to effectively link privatisation to improved development. Both points are also well-evaluated. It was good to see the candidate also making effective use of the data and of Angola's dependence on oil to clearly illustrate their evaluation points.

ResultsPlus
Examiner Tip

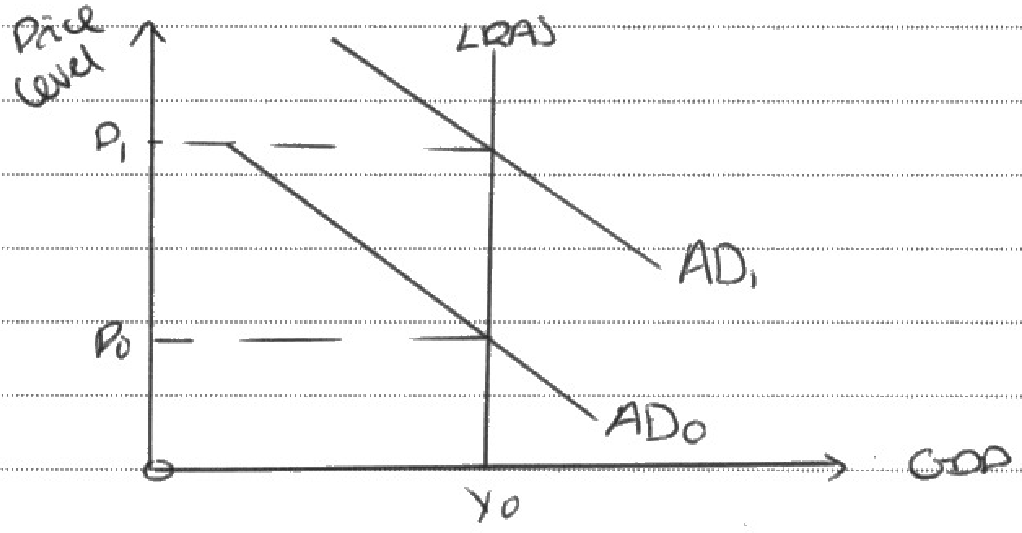
Make sure you fully answer a question. For example, in this question that means not just writing about market-based policies, but about how they can lead to an improvement in development.

Question 7

This question is about how macroeconomic policies can be used to improve the UK's competitiveness. Candidates were welcome to write about any policies they wanted, but obviously they needed to make sure they could explain how that policy would help to improve competitiveness. Weaker answers could often identify different policies that were potentially relevant, but not clearly explain, with thorough chains of argument, how that policy would help to improve competitiveness. Answers also often lacked application to the real world, which limited the mark they could get. Examiners do not expect candidates to have memorised loads of statistics about the UK economy (or any other country), but candidates are expected to be able to relate the theory behind policies they have learnt to real-world situations and to be aware of key economic issues that have occurred recently and be able to use that knowledge in their answers. Some answers also either didn't fully grasp the concept of competitiveness, or after some time writing their essay, had forgotten that this was the key focus of the question. For example answers that talked about how the UK could engage in protectionism by imposing tariffs on imports weren't relevant to this question, as that isn't going to affect the UK's competitiveness. If anything this would be likely to make it worse if other countries decided to retaliate and impose tariffs on UK exports. Effective evaluation focused on evaluating the policies themselves and how/why they wouldn't help to improve the UK's competitiveness, for example discussing other factors that would affect investment decisions by firms apart from subsidies or tax breaks offered by the government.

Macroeconomic policies could be used to impact international competitiveness. International competitiveness refers to how competitive exports are.

Fiscal policy may be used to increase international competitiveness. This is where the government can use taxation changes, government spending or borrowing to impact AD. Discretionary fiscal policy can be used to lower corporation tax. This can reduce costs which means cost savings passed on could make exports more price competitive. Furthermore, governments can reduce red tape for businesses such as quality assurance This can reduce costs further. This can result in increased profit so that investment can be done. This could improve the differentiation and innovation of products making them more appealing to consumers abroad. The extent to which this outcome will occur depends on the inflationary effects of this change. Reducing taxation and increasing government spending, to administrate legislation changes results in an expansion of AD. This results in an increase in price level.



Price level increases from P_0 to P_1 as AD expands. This means exports will be less price competitive as less taxation results in an increase in investment.

Monetary policy could be used to increase international competiveness. As interest rates fall, the cost of borrowing falls. This means that firms can take out loans with more ease. It is also likely to result in a fall in the exchange rate as ~~money~~ funds ~~leave~~ exit from UK banks. This is as the reward for saving is less. As the exchange rate falls, the value of UK exports ~~in ku s~~ appear cheaper abroad. This results in an increase in demand for exports. This can also be due to better quality goods as more loans results in increased investment. This can be beneficial as it may reduce the value of the current account deficit which is 4.2% of GDP in the UK. The extent to which this happens depends on the economies of UK trading partners. If a tradin g partner, like the US, was ~~experier~~ experiencing a recession, it is unlikely that competitiveness would increase as the US will import less goods. This is as falling incomes mean less normal goods consumed.

Another policy is supply side policy. The long run aggregate supply of the economy could be increased by increasing productivity. This could be done by reducing unemployment benefits - market - based or increasing subsidies or grants for firms - interventionist, fore example. This may reduce the output gap of the economy and increase productive potential. This is as quality and quality of factors of production increase. This increases the competitiveness of exports. However, this incurs an opportunity ~~th~~ ~~conclu~~ cost. This means less funds may be spent on healthcare or schools.

In conclusion, increasing international

competitiveness requires the consideration of many factors and is complex. A combination of methods is likely to produce the best result. However, government expenditure will be decided by other factors, such as the size of the national debt. This may mean competitiveness of stifled.

ResultsPlus
Examiner Comments

This answer discusses a number of different policies, far too many really. On the first page we have fiscal policy, then later on it moves to monetary policy, and lastly supply-side policies. Probably because the candidate has tried to write about so many different policies, there is very limited development of the points. The best-developed point is the second one about monetary policy, which manages to get into KAA level 3, but the others are very limited in chains of argument and only fit the criteria for KAA level 2. It is important to remember in a question such as this that there are loads of potential policies to write about, but candidates need to be selective and not try to write about everything. Depth of answers is what examiners are looking to see, not breadth.

In terms of evaluation, this is clear throughout the answer, although it is rather brief at the end when supply-side policies are being evaluated. The evaluation here fits clearly into the level 2 criteria (at least for the first two evaluation points). There is some development of the points: they are not simply stated, and so the candidate has gone beyond level 1. However, they could have been further developed with a longer chain of argument, and so they do not meet the level 3 criteria.

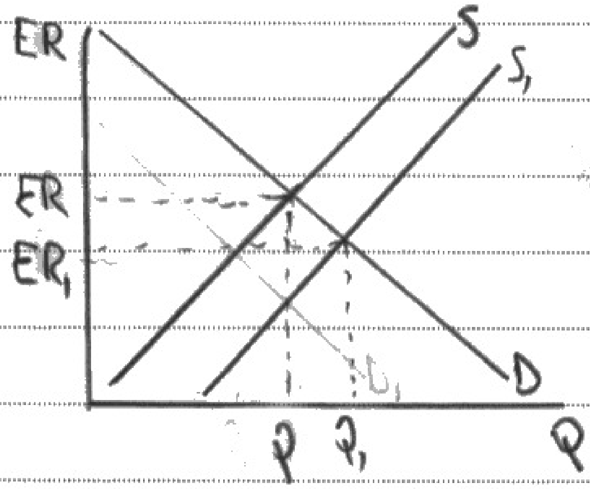
Overall this answer scores KAA low level 3, Evaluation level 2.

ResultsPlus
Examiner Tip

There is no need to define the key words in the question. Save yourself time and get straight into answering the question.

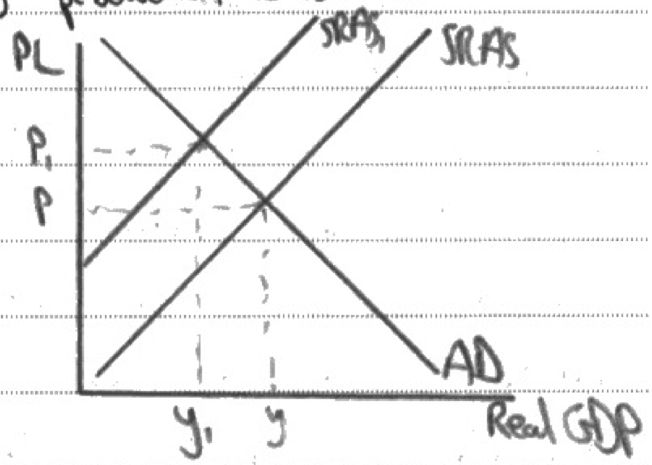
Exports are domestically produced goods which are sold in foreign markets. The UK mainly export financial services such as insurance after heavy deindustrialisation in the late 20th century which reduced the number of goods produced in the UK.

One policy which could be used to increase the UK's international competitiveness in the export markets is a decrease in interest rates. Monetary policy is the manipulation of interest rates and ~~the~~ ~~on~~ the money supply to stimulate AD. Interest rates are the cost of borrowing and the reward for saving. If interest rates fall then the reward for saving decreases, this will cause investors to take their money out of UK banks and invest in another country where they can get better returns.



This causes ~~demand~~ supply of ~~for~~ the sterling to ~~fall and~~ increase to S_1 and the exchange rate will fall to ER_1. A weaker currency will make exports appear cheaper and so they will become more competitive. This will make UK exports more competitive in international markets because they can now offer lower prices which are more desirable to consumers leading to an increase in exports which improves the current account on the balance of payments.

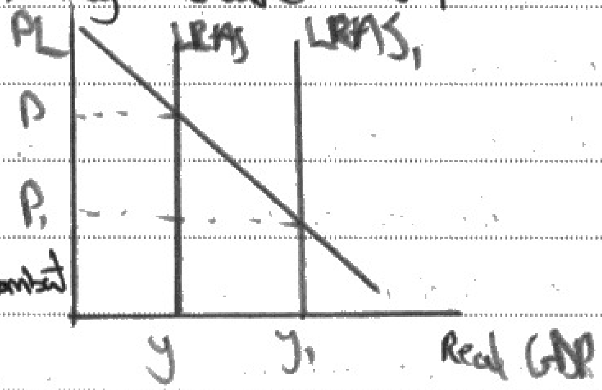
However, ~~[illegible]~~ decreasing interest rates ~~will also~~ too ~~[illegible]~~ depreciate the sterling will also cause imports to appear more expensive. This is a problem in the UK as we are heavily reliant on imports meaning costs of production to firms.



This ~~[illegible]~~ is because raw materials become more expensive so costs increase causing SRAS to shift left to $SRAS_1$. This will also cause the price level to rise from P to P_1, ~~[illegible]~~ increasing imported inflation ~~[illegible]~~ whereby prices increase due to an increase in the price of imported goods. In the UK this is a problem because inflation is already very high at 10.1%, and this new ~~equilib~~ equilibrium reduces real GDP to Y_1 meaning the number of exports will decrease and ~~[illegible]~~ a fall in interest rates will not improve UK exports competitiveness in international markets as they have to raise prices.

Between 2021 and 2022 the UK's competitiveness has dropped from 18^{th} in the world to 23^{rd}. ~~[illegible]~~ Another way the government could improve this is by investing in more apprenticeship and training schemes.

This an example of an interventionist supply side policy whereby the government intervenes to increase LRAS. The UK is renown for being the least productive in the G7 group so by investing in apprenticeships the UK can improve this. If more workers are undertaking training schemes then they become more skilled then they increase the productive potential of the economy causing LRAS to shift out to $LRAS_1$. This will cause price level to fall to P_1 helping combat the currently high inflation rates.



Furthermore, a more specialised workforce can result in exports becoming more luxury and higher quality. This will help UK exports compete with Germany who are well known for their high quality cars.

However, government spending on training schemes comes at a high opportunity cost because this money can no longer be spent on other areas such as healthcare. Furthermore, this will increase government spending, so worsening the budget deficit and increasing national debt which is already 100.2% of UK GDP.

In conclusion, investing in supply side policies is the best way to improve the competitiveness of UK exports as more specialised workers produce higher quality goods which are more desirable. Furthermore, manipulating interest rates to depreciate the currency depends on the Marshall Lerner condition whereby the sum of the elasticities must be greater than 1 to increase exports. Also is it a bad thing that the UK struggles to compete on exports especially when policies to improve this may be of detriment to future generations.

ResultsPlus
Examiner Comments

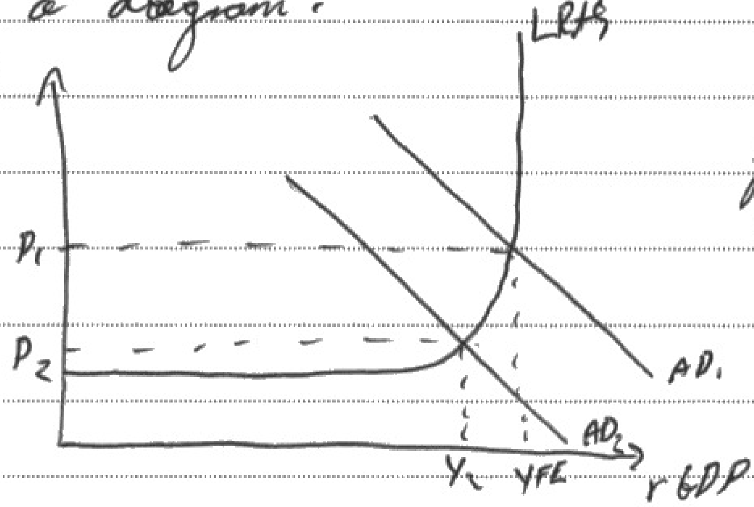
This is a top-level answer to this question, both for KAA and Evaluation. The KAA points are very clearly broken down and explained in a detailed step-by-step way along with diagrams to illustrate the points being made. For example, in the first point, the candidate hasn't just said that if the pound reduced in value it would make exports more competitive, they have explained how this could come about by starting from the beginning with cutting interest rates, and working thoroughly through to finishing with how this would increase the UK's exports.

The evaluation is also very thorough and clearly in the context of the UK economy, for example talking about how 'inflation is already very high' in the first evaluation point and about the very large national debt in the second point. Also, just like with the KAA points, there is clear step-by-step explanation breaking down and explaining the argument they are making.

Question 8

In this question the focus is on macroeconomic policies to reduce UK inflation. The question did specify that candidates could not write about monetary policy, and it was pleasing to see that nearly every student understood and followed that point. Most candidates opted to focus on contractionary fiscal policies, although sometimes they wrote about both cutting government spending and raising taxes as one general point which often led to a lack of the detailed explanation required to reach the higher KAA levels. Candidates need to remember to stick to only ONE policy at a time to give themselves the time and space to really fully develop an argument about that particular policy. The other main focus was on different supply-side policies that could help to shift out aggregate supply. Again, good answers drilled down to focus on specific supply-side policies, offering clear examples of how they could work in reality in the UK. In terms of evaluation, as with question 7, the better evaluation points focused on critiquing the policies candidates had written about and explaining why they might not be effective. With supply-side policies, time lag is a common evaluation point, but candidates need to remember that they can't simply state that something like education improvements will have a time lag, they need to explain how and why there would be a time lag, and then link that to the question as who/why it therefore won't help to reduce inflation in the short term, which is particularly important at the moment. Better answers also often appreciated the context the UK economy is in at the moment, with lots of cost-push pressures causing inflation to be so high, and that affecting what policies are likely to be most effective in combatting inflation.

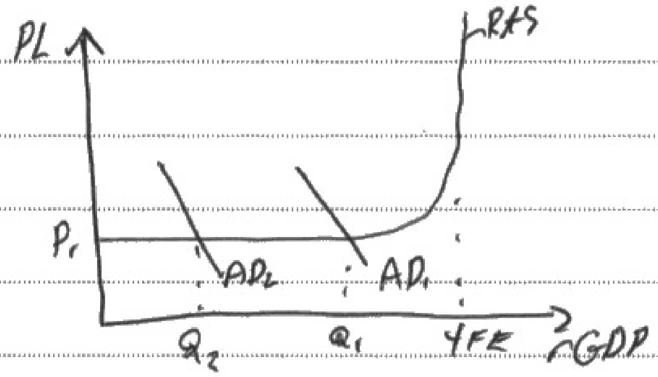
Fiscal contractionary policy is a way that the government could substantially reduce inflation. Fiscal contractionary policy is when government spending is reduced and taxation is increased. This change in tax and spending decreases aggregate demand as AD = C + I + G + (X − M) and can be shown on a diagram:



a contraction in AD from AD_1 to AD_2 leads to a fall in price level from P_1 to P_2.

An a example of this is the UKs ~~[illegible]~~ increase in corporate tax from 19% to 25%. Or more subtly the case of fiscal drag in response to high inflation of over 10% to increase tax revenues in real terms. Until 2028 income tax brackets are frozen in nominal terms meaning that as incomes increase with inflation in nominal terms ~~[illegible]~~ people will rise up brackets and hence government revenue will ~~in~~ increase in real terms. This freeze in tax brackets is expected to increase government revenues by £23 bn a year until 2026. Further decreasing ~~aggregate~~ incomes, therefore ~~consumption~~ ~~to~~ ~~&~~ consumption in the economy and so aggregate demand ~~as~~ ~~[illegible]~~ faces downward pressure and inflation is minimized.

However a contraction in ~~A~~ aggregate demand ~~to~~ is dependent on the current level of output if the government wishes to ~~a~~ lower inflation, as shown here:

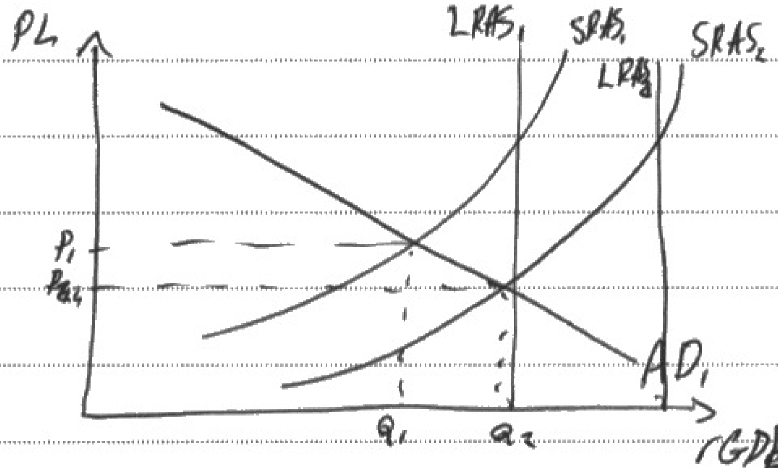


Aggregate demand* is so low ~~that~~ and far from full employment YFE that the LRAS curve is perfectly price elastic and a reduction in AD has no effect on inflation but does reduce ~~E~~ growth. This occurred during the Covid Pandemic when detachment of aggregate demand from inflation

* and the macro-equilibrium

despite £300 bn spent on fiscal stimulus inflation remained ~~0.1%~~ below 1%.

Supply side policy is another alternative to monetary policy. Through government ~~in~~ spending on ~~...~~ education, infrastructure, healthcare and training ~~the~~ ~~...~~ ~~LRAS~~ long run aggregate supply can be expanded leading to a fall in price level as shown here:



The government has pledged to spend £600 bn more than planned on these prior mentioned areas until 2028. As shown on the diagram this will expand the aggregate supply leading to ~~...~~ ~~...~~ growth from Q_1 to Q_2 and a fall in price level from P_1 to P_2.

However supply side policies are long term and have a large lag time. In the case of increasing early years education it could be up to 20 years before the ~~the~~ people enter the work force and expand ~~as~~ aggregate supply bring down costs. Aditionally the war in Ukraine has meant that most factors determining supply are out of the control of the UK such as rising oil, gas and food prices. Therefore ~~focusing on~~ and so focusing on demand may be a quicker more powerful tool for the government to tackle inflation

In conclusion ~~although~~ the UK's inflation is largely attributed to cost push, and for good reason. Although it is vital to remember that ~~excess~~ inflation was already at 5% before the war in Ukraine began ~~[illegible]~~* by the £400 bn in Quantitative Easing and £300bn in government borrowing during covid to spark ~~demand~~ aggregate demand along with record low interest rates below 1%. Therefore in order for the UK to best return to its target of 2% ± 1 it should focus on aggregate demand ~~[illegible]~~ ~~[illegible]~~ consumption as it will be fast acting and with the UK's high employment level is likely to have little effect on ~~[illegible]~~ decreasing economic growth.

ResultsPlus
Examiner Comments

This answer discusses contractionary fiscal policy to begin with. It has a diagram clearly illustrating how this would help to bring down inflation and some good context specific to the UK. However, the analysis isn't quite fully developed. The later explanation of supply-side policies is nowhere near as good, failing to really focus on one specific policy and therefore providing a very generic KAA level 2 point. Both evaluation points are reasonably well-developed, but are still lacking the completeness of the argument needed to achieve top level for evaluation. There is a good judgement at the end of this answer which is pleasing to read, but overall it isn't quite enough to get the whole essay into top level for evaluation.

Therefore, overall this answer achieves KAA level 3 and Evaluation top of level 2.

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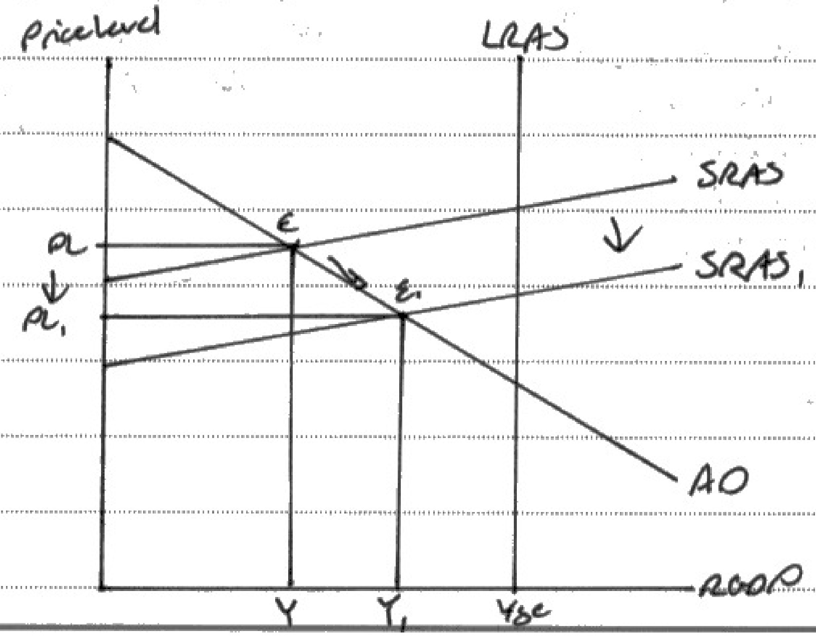
Examiner Tip

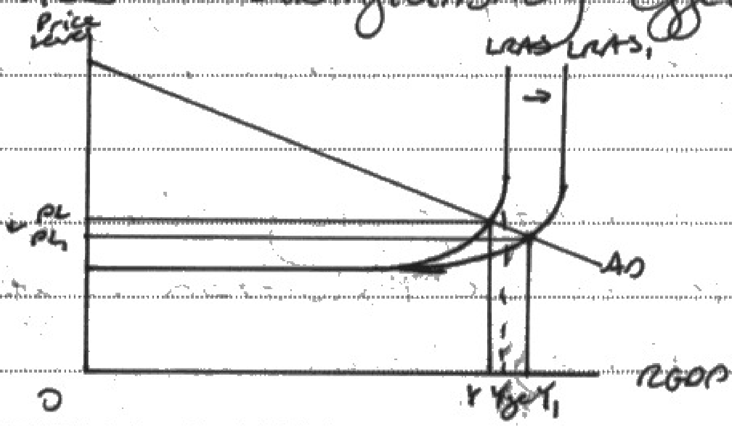
When writing about supply-side policies, don't discuss them as an overarching concept, focus on an actual, specific policy that the government could use. For example in the UK at the moment there is lots of discussion about the introduction of T-Levels to hopefully improve the quality of vocational education.

A macroeconomic policy the UK government could use to control inflation is ~~are~~ supply-side reforms. These are designed to extend LRAS outwards and increase the productive potential of an economy.

For example, the government could reduce the power of trade unions in the UK, which would give workers lower bargaining power when it comes to agreements on their salaries. This could lower inflation as it will lower costs for firms, who will be incentivised to supply more in the short-run and expand their workforce to maximise profits and gains from reduction in costs, as shown by the diagram below.



This has resulted in a fall in the price level from PL to PL_1, which ~~[illegible]~~ demonstrates its effectiveness to control inflation. Another supply-side policy that would be effective at reducing ~~[illegible]~~ rates of inflation in the UK economy would be a reduction in corporation tax rates, which have been increased to 25%. This is because high tax rates on profits impact on firms' ability to invest, as up to 70% of business investment in the UK is funded using retained profits. Any reduction in profitability will cause a reduction in investment and ~~[illegible]~~ supply will not increase. Since the rise in corporation tax, managers' purchasing indexes have fallen in the UK, with a sharp reduction in the manufacturing ~~[illegible]~~ sector. These figures imply that these sectors are contracting, whereas an increase in supply caused by greater investment, and allowed by a reduction in the corporation tax rate has a disinflationary effect (as seen below:)



A shift outwards in LRAS from increased productive capacity has a pronounced effect on reducing the price level, due to an extension along AD. This is particularly effective when the economy is near to full employment, which the UK is (there has been a positive output gap for the last few years, slightly negative in 2023 but still very close to full employment (-1.3%)). Therefore, this method can be used to control inflation.

However, it can be argued that investment by firms is dependent on other factors such as 'animal spirits', where managers decisions on investment are based on confidence and ~~emotions~~ expectations at the time, as well as expected future growth, which may be severely affected by the UK's decision to leave the EU, with forecasts suggesting that long-term economic-growth in the UK will be impacted by Brexit. As a result, these policies may have limited effect, particularly if firms do not invest after a reduction in corporation tax.

Another government policy the UK government could use to reduce inflation is ~~via~~ fiscal policy. Contractionary fiscal policy can be used to reduce aggregate demand, which has the effect of reducing the price level. This can be achieved by higher rates of taxation, which the UK government have done by imposing 'fiscal drag' on income tax bands, where the bands are frozen, so over time people get brought up in to the higher bands. This is particularly significant at the minute as private sector wage growth is over 6% in the UK, so it is likely that people will be paying a higher proportion of their ~~tax~~ income in taxes, affecting their ability to consume and spend, thereby reducing consumption and having a disinflationary impact. Contractionary fiscal policy can also involve a reduction in government spending, such as on tax credits for workers or healthcare expenditure, but these have a significant trade-off as they may cause reductions in the standard of living of people, who have less access to state provision of public goods. Using contractionary fiscal policy to control inflation has other conflicts with macroeconomic objectives, such as reducing the rate of economic growth and increased inequality, particularly if spending cuts are made on welfare payments, provision of public goods, or if tax increases are made on regressive taxes, such as VAT. Contractionary ~~fiscal~~ fiscal policy may also have very limited effect when it comes to reducing inflation, if inflationary pressures are cost-push. Demand-side policies will not affect rising costs for firms, but just reduce consumption in the economy. Producer price inflation (PPI) ~~of~~ stood over 10% during most of 2022 and has since fallen to over 6%, but still well above inflation targets of 2%. As firms are profit maximisers, they attempt to pass these costs on in the form of higher prices, evident by food and drink prices in the UK rising over 19% ~~in the year~~ in the past 12 months. ~~As~~ Contractionary fiscal policy may have limited effect in this scenario as consumers are not responsible for the rise in the price level.

The government could also use direct controls such as maximum pricing on certain items, such as food and drink, to reduce inflation in the UK. These are very effective, but it can be difficult to know what to set the price level at, as to not disincentivise supply to the market and create market failure.

Overall, in my opinion, the UK government would be best placed to reduce domestic inflation from 10.1% by using supply-side policies to mitigate the effect of cost-push inflation. However, supply-side policies often take time to cause any great effect on the wide economy, and may not lead to lower prices in the short-run. However, in the long-run, supply-side policies are very effective at placing disinflatory pressure on the economy and keeping inflation stable and close to 2%.

ResultsPlus
Examiner Comments

This is a top-level answer that includes more points than was really needed. The first point isn't quite as well-developed as the rest of the essay, not quite making it into the top level for KAA, but everything else in the essay is clearly top-level writing. There are clear and well-developed chains of argument and it is particularly pleasing to read an answer which is clearly grounded in the real world of the UK economy. There is plenty of context throughout the answer, for example discussing how the UK is nearly at full employment and the impact of the UK leaving the European Union.

ResultsPlus
Examiner Tip

Whilst this candidate has used nearly all the space provided, please don't feel that you need to do that. This writing is fairly large and also this candidate has written more points than they needed to. They could have stopped earlier and still achieved the same final mark. Examiners are definitely NOT looking for lots of different points in order to award the higher levels: it is all about the quality of the answer.

Paper Summary

Based on their performance in this paper, candidates are offered the following advice:

- Ensure you manage your time effectively. Spend 30 minutes on Section A, 1 hour on Section B, and 30 minutes on Section C. If candidates spend too long on Section A, they are in danger of running out of time for the 15 and 25-mark questions at the end of the exam paper.
- Candidates can answer the paper in whichever order they see fit. Candidates may find it helpful in terms of time management to start with Section B or C instead of Section A.
- A multiple-choice question is worth one mark whereas questions 7 and 8 are worth 25 marks. Bear this in mind in terms of how long you are spending on individual questions, especially in Section A.
- Maximise your efficiency by ensuring you only answer the precise question set. For example, in Section B, question 6(a) is asking specifically what a 'regional trade agreement' is, and not what the benefits/downsides of joining one might be.
- As part of your revision, spend time interpreting graphs. Look at the axes and think about what data the graph is showing you. If data is in percentages, this means changes between the data points would be in percentage points, something a number of candidates didn't understand on question 2(a)
- There are no marks for evaluation in Section A. Improve efficiency in time management by not including an evaluation in your answers.
- Ensure you know key formulas, such as how to calculate one number as a percentage of another number.
- When drawing diagrams remember to ensure that they are clear and have correct labels on both axes and lines.
- Ensure you carefully study and understand the figures and extracts provided in Section B. These form the context for the questions, and answers should be related to this context and not be entirely theoretical.
- Remember to keep your answers within the space provided. If you run out of space, you should ask for additional paper and clearly indicate about which question you are writing.
- There is no need to repeat the question back to the examiner. Save time and get straight on with answering the question. In 2-mark questions, for example, you can just state the answer to the question and, as long as it's correct, you will get the two marks.
- There is no need to define every word in the question. For example, in question 2(b) there is no need to define unemployment; in question 7 you do not need to define 'competitiveness', and in question 8 you do not need to define 'inflation'. You need to ensure every minute of your time spent in an exam is earning you marks.
- Remember that in Section B the 5 and 8-mark questions use a points-based mark scheme whereas the other questions use the levels-based mark scheme. For example, in question 6(b), the 8-mark question, there are 2 marks each for knowledge, application, analysis, and evaluation.

- Ensure you answer the precise question you have been set. For example, in question 6(e) you will not get any marks for discussing interventionist policies.
- To get top marks on levels-based questions you need to ensure you fulfil all the criteria for the top level (e.g. KAA Level 4 on essays). If you do not have good knowledge, analysis, and application then you cannot access the top marks.

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html

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