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## Mark Scheme (Results)

Summer 2022

Pearson Edexcel International A Level

In Economics (WEC12)

Unit 2: Macroeconomic performance  
and policy

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

## Section A

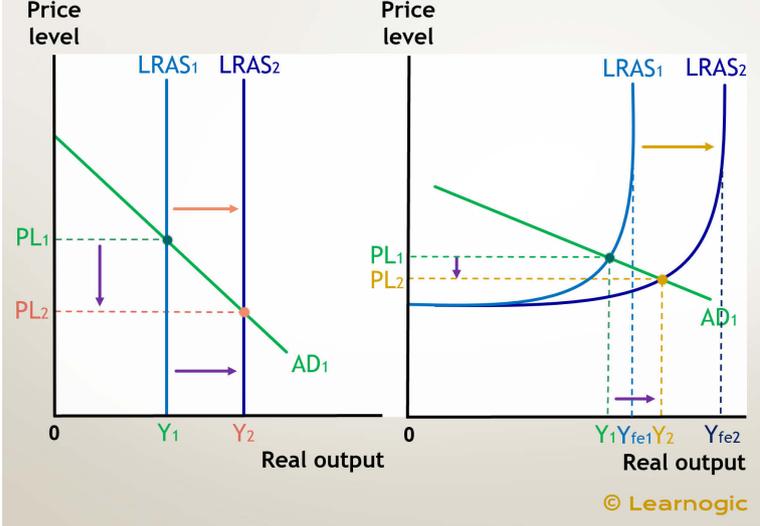
Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is C</b></p> <p><i>A is not correct as this is not calculated using the correct formula</i></p> <p><i>B is not correct as this is calculated using the formula (1-0.4)</i></p> <p><i>D is not correct as this is calculated using the formula (1/0.4)</i></p>	(1)
2	-	<p><b>The only correct answer is B</b></p> <p><i>A is not correct as this is not the role of the central bank</i></p> <p><i>C is not correct as this is not the role of the central bank</i></p> <p><i>D is not correct as it is the role of the government to achieve greater income equality</i></p>	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is A</b></p> <p><i>B is not correct as data does not refer to inactive people but to underemployment</i></p> <p><i>C is not correct as data does not refer to unemployment but to underemployment</i></p> <p><i>D is not correct as the data does not relate to the price level</i></p>	(1)
4	<p>QS2: Calculate, use and understand percentages, percentage changes and percentage point changes</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is D</b></p> <p><i>A is not correct because the price level was increasing at a faster rate between January 2016 to July 2016</i></p> <p><i>B is not correct as there was disinflation from January 2017 to July 2017</i></p> <p><i>C is not correct as the average price level was higher in July 2019 than in January 2019</i></p>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is C</b></p> <p><i>A is not correct as monetary policy is implemented by the central bank</i></p> <p><i>B is not correct as monetary policy is implemented by the central bank</i></p>	(1)

		<i>D is not correct as this will worsen the Government's budget position</i>	
<b>6</b>	<b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<b>The only correct answer is A</b> <i>B is not correct as SRAS will shift outwards</i> <i>C is not correct as LRAS will shift outwards</i> <i>D is not correct as AD will shift inwards</i>	<b>(1)</b>

## Section B

Question	With reference to the chart, explain <b>one</b> likely reason for the surplus in Malaysia's balance of trade in goods and services.	Mark
7	<p><b>Knowledge 1, Analysis 2, Application 1</b></p> <p><b>Quantitative skills assessed:</b>  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge and analysis</b></p> <p>1 mark for definition of balance of trade surplus, e.g.:</p> <ul style="list-style-type: none"> <li>- When the value of exports is greater than value of imports</li> <li>- Exports are greater than imports / (<math>X &gt; M</math>)</li> </ul> <p><b>NB Do not award marks for the definition of trade balance</b></p> <p><i>OR</i></p> <p>1 mark for identification of a reason and up to 2 marks for linked analysis, e.g.</p> <ul style="list-style-type: none"> <li>• Decreasing real incomes <b>(1K)</b> demand for imports decreases <b>(1AN)</b> as consumers will have a low marginal propensity to import <b>(1AN)</b></li> <li>• Relatively high productivity <b>(1K)</b> reduces cost per unit <b>(1AN)</b> makes exports relatively cheap, increasing the demand for Malaysian goods and services <b>(1AN)</b></li> <li>• Depreciation of the exchange rate <b>(1K)</b> makes exports relatively cheaper <b>(1AN)</b> and imports relatively expensive <b>(1AN)</b></li> <li>• Improvement in the quality of exports <b>(1K)</b> makes Malaysian goods and services more competitive <b>(1AN)</b> increases the demand for exports <b>(1AN)</b></li> </ul> <p><b>Application</b></p> <p>1 mark for appropriate use of the chart, e.g.:</p> <ul style="list-style-type: none"> <li>• In May 2021 there is a trade surplus of \$13.7 billion <b>(1)</b></li> <li>• Trade surplus in every month, May 2020 - May 2021 <b>(1)</b></li> <li>• Positive trade balance throughout the period shown <b>(1)</b></li> <li>• The value of exports is greater than the value of imports by over \$10 billion every month <b>(1)</b></li> </ul>	(4)

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Question	Draw a LRAS and AD diagram to show the effect of this net migration on the price level and real output for New Zealand.	Mark
8	<p><b>Knowledge 1, Application 3</b></p> <p><b>Quantitative skills assessed:</b>  <b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p>  <p><b>Knowledge</b>  Correctly drawn original LRAS/AD diagram with correctly labelled LRAS/AD curves and axes <b>(1)</b></p> <p><b>Application</b>  Up to 3 marks for the following information included on the diagram:</p> <ul style="list-style-type: none"> <li>• Drawing LRAS shifted to the right <b>(1)</b></li> <li>• New equilibrium showing correct lower price level <b>(1)</b> (not rewarded if 'price' is used on axis)</li> <li>• New equilibrium showing correct higher real output/income/GDP/Y <b>(1)</b> (not rewarded if 'quantity' is used on axis)</li> </ul> <p><b>NB also allow LRAS/AD diagram showing both an increase in LRAS and an increase in AD as follows</b></p> <ul style="list-style-type: none"> <li>• Drawing LRAS and AD shifting to the right <b>(1)</b></li> <li>• New equilibrium showing correct price level <b>(1)</b> (not rewarded if 'price' is used on axis)</li> <li>• New equilibrium showing correct higher real output/income/GDP/Y <b>(1)</b> (not rewarded if 'quantity' is used on axis)</li> </ul> <p><b>NB if only AD curve is shifted then maximum of 2 marks</b></p>	(4)

Question	Based on this information, calculate the <i>change</i> in Angola's population between 2019 and 2020. Show your workings.	Mark
9	<p><b>Knowledge 1, Application 3</b></p> <p><b>Quantitative Skill assessed</b>  <b>QS1:</b> Calculate, use and understand ratios and fractions  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p> <p><b>Knowledge</b>  1 mark for correct formula/implicit understanding, e.g.:  <ul style="list-style-type: none"> <li>• Population = GDP/GDP per capita <b>(1)</b></li> </ul> </p> <p><b>NB:</b> Accept GDP per capita formula <b>(1)</b></p> <p><b>Application</b>  Up to 3 marks for use of data in calculation from the following, e.g.:</p> <ul style="list-style-type: none"> <li>• 2019 → \$89.42 billion / \$2 810 = 31.82 million <b>(1)</b></li> <li>• 2020 → \$62.31 billion / \$1 896 = 32.86 million <b>(1)</b></li> <li>• Change → 32.86 million - 31.82 million = 1.04 million <b>(1)</b></li> </ul> <p><b>NB: if correct answer (1.04 million/1 million / 1 041 860) is given, award full marks regardless of working.</b></p> <p><b>NB: award 3 marks if minus sign is included in the final answer</b></p>	(4)

Question	With reference to this information, explain <b>one</b> likely impact of the increase in quantitative easing on aggregate demand.	Mark
10	<p><b>Knowledge 1, Analysis 2, Application 1</b></p> <p><b>Quantitative Skill assessed</b>  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p> <p><b>Knowledge</b>  1 knowledge mark for identification of:</p> <ul style="list-style-type: none"> <li>• increase in money supply or liquidity/</li> <li>• fall in the external value of the currency/</li> <li>• increase in the price of shares and property/</li> <li>• decrease in the yield on government bonds/domestic corporate bonds <b>(1)</b></li> </ul> <p><b>Analysis</b>  Up to 2 analysis marks for linked development, e.g.:</p> <ul style="list-style-type: none"> <li>• banks are more willing to lend to consumers and firms <b>(1)</b>  increasing consumption, investment and therefore AD <b>(1)</b></li> <li>• exports become relatively cheaper/imports become relatively expensive <b>(1)</b> leading to an increase in (X-M) and therefore AD <b>(1)</b></li> <li>• creates positive wealth effects <b>(1)</b> leading to an increase in consumption and therefore AD <b>(1)</b></li> <li>• lowers borrowing costs for domestic firms <b>(1)</b> leading to an increase in investment and therefore AD <b>(1)</b></li> </ul> <p><b>Application</b>  1 mark for appropriate reference to the information, e.g.:</p> <ul style="list-style-type: none"> <li>• QE increased by £250bn / 38.8% <b>(1)</b></li> <li>• Asset purchases increased from £645 billion in March 2020 to £895 billion in November 2020 <b>(1)</b></li> </ul>	<b>(4)</b>

Question	With reference to the table, explain what is meant by an output gap.	Mark
11	<p><b>Knowledge 2, Application 2</b></p> <p><b>Quantitative Skills Assessed</b>  <b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p> <p><b>Knowledge</b>  Up to 2 marks for defining output gap, e.g.:</p> <ul style="list-style-type: none"> <li>• Actual output <i>minus</i> <b>(1)</b> potential output <b>(1)</b></li> <li>• <i>difference</i> between actual GDP/growth <b>(1)</b> and potential GDP/growth <b>(1)</b></li> </ul> <p><b>NB</b> An output gap is clearly shown <b>(1)</b> by an accurately drawn and labelled diagram <b>(1)</b></p> <p><b>Application</b>  Up to 2 marks applying this to the context of Japan, e.g.:</p> <ul style="list-style-type: none"> <li>• In 2019 potential output is 0.5% and actual output is 0.27% <b>(1)</b> hence there is a negative output gap <b>(1)</b></li> <li>• In 2020 potential output is 0.5% and actual output is -4.83% <b>(1)</b> hence there is a negative output gap <b>(1)</b></li> <li>• Output gap of 0.23 percentage points in 2019 <b>(1)</b> and an output gap of 5.33 percentage points in 2020 <b>(1)</b></li> </ul>	(4)

## Section C

Question		Mark
12 (a)	<p>Define the term 'recession' (Extract A, line 2).</p> <p><b>Knowledge 2</b></p> <p>Negative economic growth / fall in real GDP <b>(1)</b> for two <i>consecutive/successive</i> quarters / six months <b>(1)</b></p>	<b>(2)</b>

Question		Mark
12 (b)	<p>With reference to Figure 1, explain what is meant by the savings ratio.</p> <p><b>Knowledge 2, Application 2</b></p> <p><b>Quantitative Skill Assessed</b>  <b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p> <p><b>Knowledge</b>  Up to 2 marks for defining what is meant by the savings ratio:</p> <ul style="list-style-type: none"> <li>• total savings/total disposable income <b>(1)</b> x 100 <b>(1)</b></li> <li>• proportion or percentage of total disposable income <b>(1)</b> that is saved/not spent <b>(1)</b></li> <li>• savings represent that part of income which is not spent <b>(1)</b></li> </ul> <p><b>Application</b>  Up to 2 marks for relevant application, e.g.:</p> <ul style="list-style-type: none"> <li>• Savings ratio has increased <b>(1)</b> from 3.6% in Q3 2018/to 22% Q2 2020 <b>(1)</b></li> <li>• Between Q2 2020 and Q3 2020, savings ratio fell <b>(1)</b> from 22% in Q2 2020 to 18.7% in Q3 2020/by 3.3 percentage points <b>(1)</b></li> </ul>	<b>(4)</b>

Question	With reference to the second paragraph of Extract A, analyse <b>two</b> factors that caused household consumption to increase in quarter 3, 2020.	Mark
12(c)	<p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Quantitative Skill Assessed</b></p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge and analysis</b></p> <p>1 knowledge mark for defining consumption, e.g.:</p> <ul style="list-style-type: none"> <li>• Consumer spending on goods and services <b>(1K)</b></li> </ul> <p><i>AND/OR</i></p> <p>Up to 2 knowledge marks for identifying two influences on the level of consumption in Australia and up to 2 analysis marks for linked development of two influences identified:</p> <ul style="list-style-type: none"> <li>• House prices <b>(1K)</b> when rising, increase consumer confidence/ cause the wealth effect <b>(1AN)</b></li> <li>• Interest rates <b>(1K)</b> when low implies low reward for saving and low cost of borrowing <b>(1AN)</b></li> <li>• Level of welfare payments <b>(1K)</b> when increased results in higher disposable income and consumption <b>(1AN)</b></li> <li>• Consumer confidence <b>(1K)</b> implies consumers are likely to make more purchases as they expect their financial situation to improve <b>(1AN)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for use of the data or reference to context, e.g.,</p> <ul style="list-style-type: none"> <li>• Household consumption fell by 12.5% in the second quarter of 2020 <b>(1)</b> but increased by 7.9% in third quarter <b>(1)</b></li> <li>• household consumption supported Australia’s economic recovery <b>(1)</b></li> </ul>	<b>(6)</b>

Question	With reference to Figure 2 and Extract A, examine <b>two</b> likely effects of the substantial increase in the rate of unemployment on the Australian economy.	Mark
12 (d)	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Quantitative Skill Assessed</b>  <b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge and analysis</b>  1 knowledge mark for understanding of unemployment, e.g.: <ul style="list-style-type: none"> <li>people of working age who are without work, but are able and available for work <b>(1K)</b></li> </ul> <i>AND/OR</i>  Up to 2 knowledge marks for identifying effects of an increase in the rate of unemployment and up to 2 analysis marks for linked development of two effects identified: <ul style="list-style-type: none"> <li>Fall in disposable income <b>(1K)</b> leads to a fall in consumer confidence so less consumption/AD/living standards <b>(1AN)</b></li> <li>Worsening public finances <b>(1K)</b> leads to lower tax revenues from earnings/higher government spending on welfare payments <b>(1AN)</b></li> <li>Future job prospects affected <b>(1K)</b> workers lose their skills/loss of human capital, so will find it difficult to get work in the future <b>(1AN)</b></li> <li>Loss of potential output/GDP <b>(1K)</b> leads to waste of scarce resources/an increase in spare capacity <b>(1AN)</b></li> </ul> <p><b>Application</b>  Up to 2 marks for reference to Figure 2, e.g.: <ul style="list-style-type: none"> <li>Unemployment rate increased from around 5.3% in July 2018 <b>(1)</b> to around 7.5% in July 2020 <b>(1)</b></li> <li>Between Jan 2020 and July 2020, unemployment rate rose by around 2.3 <b>(1)</b> percentage points <b>(1)</b></li> </ul> <p><b>Evaluation</b>  Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: <ul style="list-style-type: none"> <li>Fall in disposable income is likely to be short term <b>(1)</b> due to the continuation of the JobKeeper Payment scheme <b>(1)</b></li> <li>Public finances will be the more significantly affected <b>(1)</b> as a result of the schemes in place to protect jobs, in addition to the welfare payments being made <b>(1)</b></li> <li>With greater supply of workers, firms can employ more workers at lower wage rates in the future <b>(1)</b> due to the reduced wage bargaining power of the workers <b>(1)</b></li> <li>Unemployment is a lagging indicator <b>(1)</b> so even in economic recovery, it takes time to hire workers and the effects may be short lived as unemployment may not be as high <b>(1)</b></li> <li>Despite the rise in unemployment, household consumption increased by 7.9% in quarter 3 <b>(1)</b></li> <li>Could reduce inflationary pressures/protect environment <b>(1)</b></li> </ul> </p></p></p>	(8)

<b>Question</b>	With reference to Extract B, discuss interventionist supply-side policies that the Australian Government could implement to increase Australia's productivity.
<b>12(e)</b>	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Quantitative Skill Assessed</b></p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge, Application and Analysis (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding of productivity</li> <li>• Understanding of interventionist supply-side policies</li> <li>• AD/LRAS diagram showing a change in LRAS consistent with analysis/use of PPF diagram</li> <li>• “Between 2010 and 2020 Australia’s average annual increase in productivity was 1.7%”</li> <li>• “Providing finance for business start-ups”: guaranteeing bank loans so that banks are more willing to lend/exemptions from certain regulations that are costly to comply with – these businesses are often innovative and disruptive, and create more competition leading to increasing productivity</li> <li>• “Investment in infrastructure improvements”: spending on e.g., broadband (digital) or roads (physical) would reduce industry costs and /or improve access to market and more efficient factors of production – this will increase competition and drive innovation leading to greater productivity</li> <li>• “Investment in high-quality education and training schemes”: introducing apprenticeship courses or improving access to higher education – this would improve the skills, flexibility and mobility of labour leading to an increase in human capital and therefore productivity</li> <li>• “Offering tax incentives and subsidies to encourage investment”: this would reduce the production costs for firms facilitating them in undertaking capital expenditure and invest in R&amp;D/technological advancements. This investment is likely to drive innovation and increase productivity</li> </ul> <p><b>NB Award a maximum of level 2 if only policies not in Extract B are considered e.g.: regional policy, investment in healthcare and housing</b></p>

	<b>NB Award a maximum of level 2 if policies are not linked to an increase in productivity</b>
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Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
<b>Level 2</b>	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
<b>Level 3</b>	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		<p><b>Evaluation (6 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Significant Government investment and support is required: Australia’s “average annual growth in real GDP per capita was 0.6%. This was below the 1% growth in GDP per capita in the USA.” – the Government may not have enough tax revenue/income to finance their spending and may need to borrow</li> <li>• Opportunity cost of this sizeable increase in government spending which could worsen the Australian Government’s public finances (no balanced budget – a macroeconomic objective)</li> <li>• Time lag involved with supply-side policies, especially with investments in education, training and infrastructure</li> <li>• Consideration of effectiveness of supply-side policies such as education – e.g. depends on the quality of education and training schemes in place</li> <li>• Consideration of effectiveness of supply-side policies such as infrastructure – e.g. poor quality projects may imply an inefficient allocation of scarce resources/factors of production</li> </ul>

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|  | <ul style="list-style-type: none"><li>• Difficult to accurately measure productivity, especially in the service sector: service sector accounts for nearly 70% of Australia's GDP: the Government may not know how much to invest/subsidise</li></ul> |
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<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1-2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	3-4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	5-6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

## Section D

<b>Question</b>	Evaluate the costs of economic growth. Refer to a country of your choice in your answer.
<b>13</b>	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Knowledge, Application and Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"><li>• Understanding of economic growth</li></ul> <p>Costs include:</p> <ul style="list-style-type: none"><li>• Environmental costs:<ul style="list-style-type: none"><li>○ increased use of non-renewable resources/the overconsumption of natural resources, has led to an increase in pollution from the burning of fossil fuels</li><li>○ deforestation has made climate change worse and has caused soil erosion/biodiversity loss, thereby creating greater external costs</li></ul></li><li>• Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in the supply chain cause an increase in cost and wage pressures</li><li>• More unequal distribution of income and wealth as the rich tend to get richer relative to the poor/increased inequality as returns to economic growth are unequally distributed, with those who already own more factors of production receiving a greater increase in income</li><li>• Balance of trade deficits:<ul style="list-style-type: none"><li>○ as average incomes rise, consumers are likely to respond by buying more imported goods, worsening the country's trade balance</li><li>○ increased production of goods and services may require more raw materials and components to be imported, worsening the country's trade balance</li></ul></li><li>• Decrease in national happiness and wellbeing if economic growth results in longer working hours and increased stress</li><li>• Decrease in living standards and quality of life if economic growth is associated with increased congestion, loss of countryside etc.</li></ul>

	<b>NB Award a maximum of Level 3 for answers with no reference to a country in their answer</b>	
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
<b>Level 2</b>	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
<b>Level 3</b>	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
<b>Level 4</b>	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	<p><b>Evaluation (8 marks) – indicative content</b></p> <p>Benefits of economic growth include:</p> <ul style="list-style-type: none"> <li>○ more employment opportunities/lower unemployment</li> <li>○ increased tax revenues for the government which may be used to improve public services or redistribute incomes</li> <li>○ higher profits for companies which may be used to improve the quality products or to produce new innovative products</li> </ul>	

	<ul style="list-style-type: none"> <li>○ consumers can afford to buy more goods and services and/or have more leisure time</li> <li>○ National happiness may increase because people have higher real incomes and can afford more goods and services</li> <li>○ Living standards and quality of life may increase e.g. because of improved housing conditions, better education and health</li> <li>● Environment costs may not arise: <ul style="list-style-type: none"> <li>○ if the country already uses renewable resources in some industries</li> <li>○ if firms invest their profits in clean and green technology leading to more sustainable growth</li> <li>○ depends on the extent of the effectiveness of the governments' environmental policies</li> </ul> </li> <li>● Inflation may not arise: <ul style="list-style-type: none"> <li>○ if economic growth is due to increase in the productive potential of the economy/rightward shift of the LRAS</li> <li>○ proximity to full employment level of output; if spare capacity exists and AD shift continues to be on elastic segment of LRAS</li> <li>○ depends on extent to which the domestic economy's capacity/ supply can meet the rising demand</li> </ul> </li> <li>● Trade deficit may not worsen if economic growth is: <ul style="list-style-type: none"> <li>○ as a result of increase in exports (export-led)</li> <li>○ generated through an increase in productivity (for e.g., through investment in capital/technology), which would increase exports</li> </ul> </li> </ul>
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Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

<b>Question</b>	Evaluate the costs of a high rate of inflation. Refer to a country of your choice in your answer.	
<b>14</b>	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Knowledge, Application and Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding of inflation/inflation rate</li> </ul> <p>Costs include:</p> <ul style="list-style-type: none"> <li>• Fall in purchasing power and real incomes, reducing living standards</li> <li>• Loss of both business and consumer confidence as a result of greater uncertainty; this reduces/postpones investment/spending and hence may have implications for economic growth</li> <li>• Increased inequality e.g. effect on those who have fixed incomes (are not protected by inflation like students, dependents, pensioners) who are often the poorest</li> <li>• Reduction in price competitiveness of the country's which worsens the current account of the balance of payments deficit and reduces international competitiveness</li> <li>• Unemployment may rise through increased levels of inefficiency and stagflation</li> <li>• Higher inflation associated with increasing AD may have detrimental impact on environment</li> <li>• The self-reinforcing effect on inflation through expectations: higher inflation - as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes</li> <li>• If the inflation rate is higher than interest rates on savings, then those individuals that depend on interest from their savings as their income will be poorer; this is as a result of a negative real interest rate</li> </ul> <p><b>NB Award a maximum of Level 3 for answers with no reference to a country</b></p>	
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–3	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>

<b>Level 2</b>	4-6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>
<b>Level 3</b>	7-9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>
<b>Level 4</b>	10-12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>
<p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Benefits may include: <ul style="list-style-type: none"> <li>○ Fall in real value of debts for firms, households and governments reducing the burden of repayments</li> <li>○ Firms are likely to benefit if prices of their goods and services rise faster than costs, thereby increasing their profit margins</li> </ul> </li> <li>• Significance of the increase in inflation, e.g. USA has seen a sharp increase in inflation (by 4.8 percentage points)</li> <li>• Depends on duration of inflation, e.g. temporary or permanent; SR vs LR considerations – this may be discussed in recent context of a country using an AD/AS diagram</li> <li>• Depends on the cause of inflation, e.g. cost-push or demand-pull</li> <li>• Inflation might not translate through to higher wages and unemployment if the workforce has limited negotiating power</li> <li>• Inflation may be associated with a lower rate of unemployment – reference to Phillips curve</li> <li>• If economic growth is low, slightly higher inflation is worth the risk to avoid deflation or depression</li> </ul>		

		<ul style="list-style-type: none"> <li>• Impact depends on the relative inflation rates, especially of the USA's main trading partners such as UK</li> <li>• Other factors may have a larger effect: exchange rates or other macroeconomic objectives (<i>ceteris paribus</i>)</li> </ul>
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1-3	<p>Identification of generic evaluative comments.</p> <p>No supporting evidence/reference to context.</p> <p>No evidence of a logical chain of reasoning.</p>
<b>Level 2</b>	4-6	<p>Evidence of evaluation of alternative approaches.</p> <p>Some supporting evidence/reference to context.</p> <p>Evaluation is supported by a partially-developed chain of reasoning.</p>
<b>Level 3</b>	7-8	<p>Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.</p> <p>Appropriate reference to evidence/context.</p> <p>Evaluation is supported by a logical chain of reasoning.</p>

