GradeMax



# Mark Scheme (Results)

## October 2017

## Pearson Edexcel International Advanced Subsidiary in Economics (WEC02)
## Paper 01 Macroeconomic Performance and Policy



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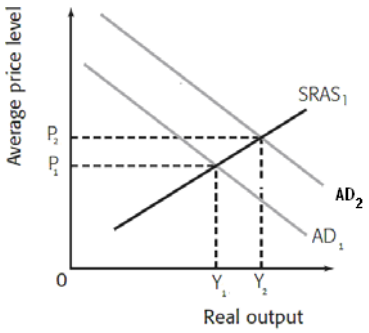
## General Marking Guidance

- 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: Supported multiple choice

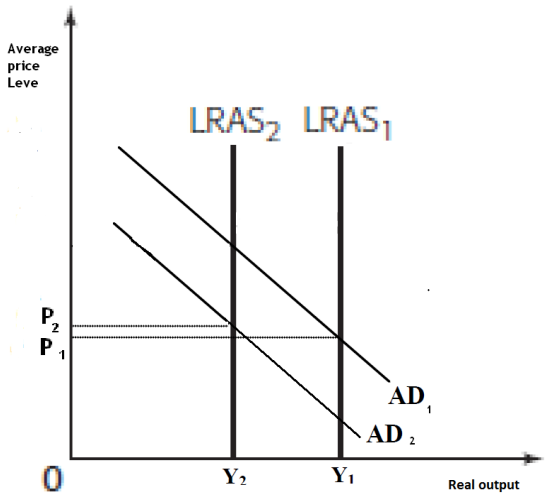
NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

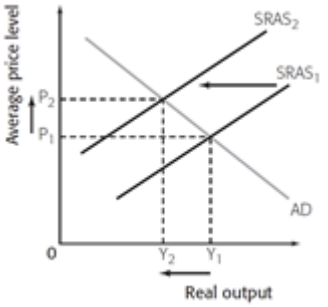
NB: Candidates may achieve up to 3 marks (rejected marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

| Question Number | Answer | Mark |
|---|---|---|
| **1** | **Answer C (1 mark)**<br>**Explanation (up to 3 marks)**<br>• Interest rate is the cost of borrowing **OR** the reward for saving (**1**)<br>• 2% decrease will reduce cost of borrowing **OR** 2% decrease will reduce reward for saving **(1)**<br>• More borrowing and spending may increase AD due to higher consumption/ investment **(1)** increasing real output and employment/decreasing unemployment **(1) OR** less saving may increase AD **(1)** as less withdrawal from circular flow increasing real output and employment/decreasing unemployment **(1)**<br>• Accurate AD/AS diagram showing outward shift in AD award up to 2 marks<br><br><br>**Rejection marks**<br>• A is incorrect because economic growth is likely to be higher with more spending, investment and lower saving **(1)**<br>• B is incorrect because the reduced rates lowers cost of borrowing so may increase investment AD and growth **(1)**<br>• D is incorrect because in short run, lower rates may increase AD and growth/in long run may increase LRAS and growth **(1)** | **(4)** |

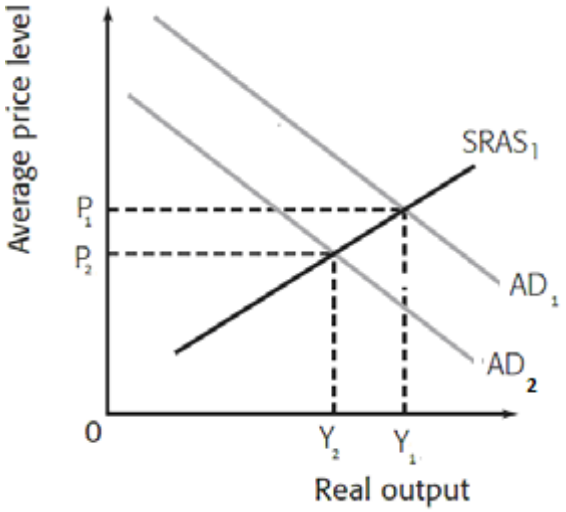
| Question Number | Answer | Mark |
|---|---|---|
| **2** | **Answer B (1 mark)**<br><br>**Explanation (up to 3 marks)**<br>• Unemployment defined as available for work but unable to find suitable employment (or similar) **(1)**<br>• Example of a supply side policy shifting LRAS right/outward **(1)** increasing productive potential of economy **(1)**<br>• Reduced benefits increase incentive/ reduce disincentive to work **(1)** increasing supply of labour **(1)**<br>• For correct diagram award 1 mark showing increase in LRAS (vertical or Keynesian) and 1 mark for impact on output/employment<br><br>**Rejection marks**<br>• A is incorrect because increase in income tax likely to decrease AD, real output and increase employment **(1)**<br>• C is incorrect because increased asset purchases by Central Bank increases funds available for lending and likely to increase AD/growth but also increase inflation **(1)**<br>• D is incorrect because increase in value of krone/ appreciation may increase imports and reduce exports, decreasing AD (x-m), reducing real output and inflation but increasing unemployment **(1)** | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **3** | **Answer C (1 mark)**<br><br>**Explanation (up to 3 marks)**<br>• Output gap defined as measure of the difference between the actual output of an economy and its trend/potential output **(1)**<br>• No spare capacity – unsustainable in long run **(1)**<br>• Point C is where actual GDP growth is above trend/potential GDP growth rate **(1)**<br>• Point C is the boom phase **(1)**<br>• Diagram shows economic cycle where GDP growth fluctuates above and below trend/potential growth **(1)**<br><br>**Rejection marks**<br>• A shows actual GDP growth on trend/potential GDP growth (no output gap) **(1)**<br>• B shows actual GDP growth below trend/potential growth (negative output gap)/recession/economic recovery beginning at Point B **(1)**<br>• D shows actual GDP growth on trend/potential GDP growth (no output gap) **(1)** | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **4** | **Answer D (1 mark)**<br><br>**Explanation (up to 3 marks)**<br>• Investment is a component of AD **(1) OR** AD=C+I+G+(x-m) **(1) OR** investment is an increase in the capital stock **(1)**<br>• Decrease in investment will decrease AD **(1)**<br>• Also will shift LRAS to the left because productive potential is reduced **(1)**<br>• This will reduce the average price level/inflation/real output **(1)**<br>• Accurate AD/AS diagram showing inward shift in AD and leftward shift of LRAS award up to 2 marks<br><br><br><br><br>**Rejection marks**<br>• A is incorrect because although AD falls LRAS does not increase **(1)**<br>• B is incorrect because AD falls and does not increase **(1)**<br>• C is incorrect because AD falls not increases **OR** LRAS will shift left **(1)** | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **5** | **Answer A (1 mark)**<br><br>**Explanation (up to 3 marks)**<br>• Supply-side shock unpredictable, rapid and sizeable change in SRAS/AS **(1)**<br>• Commodities are raw materials/inputs used in manufacturing EG Oil **(1)**<br>• Rise in commodity prices increased production costs for firms reducing SRAS/AS **(1)**<br>• Change in SRAS/AS, causes fall in real output**/**rise in average price level **(1)**<br>• Accurate diagram showing left shift of SRAS/AS correctly labelled award up to 2 marks<br><br><br>**Rejection marks**<br>• B impacts upon AD/demand-side shock as incomes reduce and consumer spending decreases **(1)**<br>• C demand-side shock increasing AD/wealth effect increasing AD **(1)**<br>• D may see increased AD as households borrow more and consumption spending increases/could affect AS in long run but not a supply-side shock **(1)** | **(4)** |

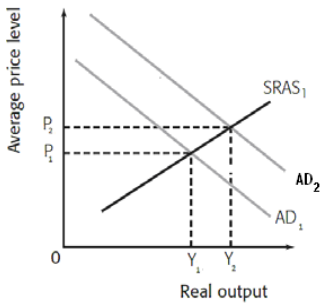
| Question Number | Answer | Mark |
|---|---|---|
| **6** | **Answer D (1 mark)**<br><br>**Explanation (up to 3 marks)**<br>• Disinflation (lower rate of price increase/lower rate of inflation) in 2011 **(1)**<br>• Prices still rising in 2011 although at a slower rate than in 2010 **(1)**<br>• Inflation still present in 2011, although rate of inflation lower than in 2010 **(1)**<br>• Average prices therefore higher in 2011 than in 2010 **(1)**<br>• If inflation is present then consumer prices rising and not falling **(1)**<br><br>**Rejection marks**<br>• A incorrect because prices increased in 2010/there was inflation of 0.7% **(1)**<br>• B is incorrect because the consumer prices data does not tell us about GDP/economic growth **(1)**<br>• C is incorrect because there was a decrease in the rate of deflation but prices were still falling **(1)** | **(4)** |

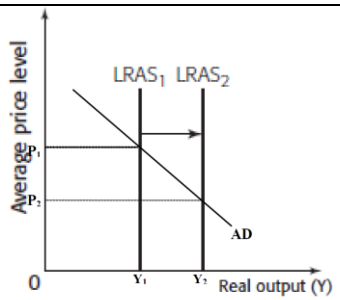
| Question Number | Answer | Mark |
|---|---|---|
| **7** | **Answer B (1 mark)**<br><br>**Explanation (up to 3 marks)**<br>• Annotation of diagram **OR** drawn diagram to show leftward shift of AD curve **(1)**; causing a fall in the price level **(1)** and fall in real output **(1)**<br>• If no annotation or diagram and written description only: Net exports (x-m) component of AD **(1)** decreased net exports would lead to a leftward shift in the AD curve **(1)**<br>• Identifying decreased real output as negative economic growth **OR** lower price level as deflationary pressure **(1)**<br><br><br><br><br>**Rejection marks**<br>• A is incorrect because X-M falls and real output will decrease and not rise **(1)**<br>• C is incorrect because the average price level will fall and not rise **(1)**<br>• D is incorrect because decrease in AD reduces average price level and real output **(1)** | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **8** | **Answer A (1 mark)**<br><br>**Explanation (up to 3 marks)**<br>• Definition/explanation of multiplier (1) **OR** formula: 1/(1-MPC) **(1) OR** definition of MPC as ΔC/ΔY<br>• Multiplier calculates the final impact of increased spending on aggregate demand **(1)**<br>• Decrease in MPC will reduce consumption spending **(1)**<br>• Lower MPC will reduce the value of the multiplier and decrease the impact of any injection **(1)**<br><br>**Rejection marks**<br>• B incorrect because decrease in marginal propensity to tax reduces withdrawals from circular flow and thus increases value of multiplier **(1)**<br>• C incorrect because decrease in MPM likely to increase multiplier as less withdrawals from circular flow of income thus increase multiplier **(1)**<br>• D incorrect because decrease in MPS likely to decrease withdrawal from circular flow of income and thus increase multiplier **(1)** | **(4)** |

## Section B: Data response

| Question Number | Answer | Mark |
|---|---|---|
| **9 (a)** | **Knowledge (Up to 2 marks)**<br>• Real GDP growth: the percentage change in GDP of an economy, after accounting for inflation **(1)**<br>• Real GDP growth takes into account the rate of inflation/Nominal GDP is not adjusted for inflation **(1)**<br>• Real GDP growth is used to measure % change in economic activity **(1)**<br>• Real GDP includes the output of foreign owned businesses/factors that are located in the country/economy **(1)**<br><br>**Application (Up to 2 marks)**<br>**Reference(s) to data Figure 1 EG**<br>• Growth in all years 2008-2015 **(1)**<br>• Highest growth of 5% in 2011 **(1)**<br>• Lowest growth of approx. 1.2% in 2013 **(1)**<br>• Any other valid/accurate data reference award 1 mark | **(4)** |

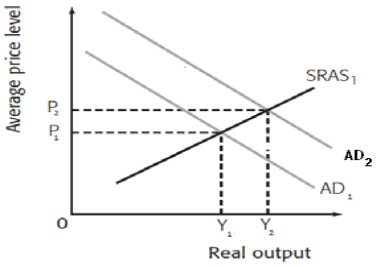
| Question Number | | Mark |
|---|---|---|
| **9 (b)** | | **(14)** |
| Knowledge, application and analysis - indicative content | | |
| | **Possible short-run and long-run effects may include:**<br>• Higher economic growth/real output<br>• Increased productive potential/capacity<br>• Increased productivity and international competitiveness (price and non-rice competitiveness)<br>• Lower inflation through increased LRAS<br>• Increased balance of trade surplus<br>• Improved living standards<br>• Greater dynamic efficiency through higher research and development spending<br>• Increased AD may mean inflation is closer to target<br>• Multiplier effect may increase impact upon AD and growth<br><br>Data references include:<br><br>• More "innovation"/investment in research and development (Extract 1)<br>• Higher economic growth (Extract 1)<br>• Increase balance of trade surplus (Figure 2)<br>• Inflation target of 2.5% may be reached (Extract 2)<br>• More sustainable economic growth without high inflation (Extract 2)<br><br>Accurate diagram showing increase in AD or increase in LRAS causing increase/decrease in average price level and rise in real output<br><br><br> | |

| | | |
|---|---|---|
| |  | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-3 | Shows some awareness of possible impact or identification of one or more impacts. Understanding of impact **or** data references<br>Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear. |
| 2 | 4-6 | Identification and some explanation of impacts identified along with some development of analysis **or** some identification of possible effects and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence. |
| 3 | 7-8 | Clear understanding and analysis of the impacts **and** data references. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall. |

| Evaluation – indicative content | | |
|---|---|---|
| | • Here we are looking for development and evidence of judgement as to the most significant effects<br>• Short term effects vs long term effects<br>• Impact will depend upon success of supply-side policies and time-lag associated with such policies<br>• Impact will depend upon size of the multiplier (MPC, MPS and MPM)<br>• Planned shift to "knowledge economy" may mean investment in education and training required to avoid structural unemployment | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | No evaluative comments. |
| 1 | 1-2 | For identifying evaluative comments without explanation. |
| 2 | 3-4 | For evaluative comments supported by some reasoning and relevant examples. |
| 3 | 5-6 | For evaluative comments supported by relevant reasoning and relevant examples. |

| Question Number | | Mark |
|---|---|---|
| **9 (c)** | | **(10)** |
| Knowledge, application and analysis - indicative content | | |
| | • Current Account – A record of all money flows to and from a country arising from exports and imports of goods and services/net exports as well as transfers of (primary) income and other net transfers/secondary income<br>• Current Account Balance –The sum of visible and invisible trade balance<br>• Negative value is a current account deficit in each year 2008-2015<br>• Value of deficit as % of GDP decreasing between 2008-2015<br>• % deficit decreases as GDP rises<br>• The likely impact upon economy will depend upon causes of falling deficit<br>• If caused by increasing net exports then increase in AD, growth and inflation<br>Diagram showing increasing impact of increasing net exports on AD, growth and inflation:<br><br> | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-2 | Shows some awareness of reasons **or** data references. |
| 2 | 3-4 | Understanding of reasons **or** some awareness of reasons and data references. |
| 3 | 5-6 | Clear understanding of reasons **and** linking to data. |

| Evaluation – indicative content | | |
|---|---|---|
| | • Here we are looking for development and evidence of judgement as to the most significant effects<br>• High inflation can make the economy less competitive as prices rise more quickly than competitor countries (although Figure 1 shows deflation in 2015)<br>• Impact on inflation will depend upon how close to full capacity the economy of Poland is (Figure 1 shows inflation falling between 2011 and 2015)<br>• Deflation may need more than increasing trade balance surplus to correct – EG may require higher domestic demand<br>• High growth may begin to increase imports on goods and services that cannot be supplied domestically thus increasing deficit<br>• Depends upon how sustained decrease in deficit is - if only short-term can be a rapid increase in deficit<br>• Long term impact may depend upon export markets – EG rate of growth in export markets may be low reducing demand for Poland's exports<br>• Currency appreciation may reduce if current account continues to improve due to falling import prices, reducing inflation | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | No evaluative comments. |
| 1 | 1-2 | For identifying evaluative comments without explanation. |
| 2 | 3-4 | For evaluative comments supported by relevant reasoning. |

| Question Number | Answer | Mark |
|---|---|---|
| **9 (d)** | **Knowledge up to 2 marks:**<br>• Definition of inflation: sustained increase in the average price level **(1)**<br>• promoting price stability **(1)** and supporting other macroeconomic objectives **(1)**<br>• Reduced inflationary expectations if people believe inflation target will be met **(1)**. If employees expect low inflation they may be prepared to accept a slower growth of pay **(1)**. This reduces the risk of cost-push inflation in the economy **(1)**<br>• The target gives monetary policy clarity **(1)** and improves the accountability and transparency **(1)** of monetary decisions by Central Bank **(1)**<br>• The Central Bank will report to the Government, who set the target range **(1)**, providing an assessment of economic trends and the Bank's forecast of future movements in inflation **(1)**<br>• Investment from overseas (FDI) may be attracted **(1)** if foreign firms believe that inflation will remain low and stable **(1)**<br>**Application up to 4 marks:**<br>• Reference to deflation (below target inflation) in Figure 1/Extract 2 **(1)** -1% deflation in 2015 **(1)**<br>• Reference to high inflation (above target inflation) in Figure 1 **(1)** 5% inflation in 2011 **(1)**<br>• Inflation target: a target range for inflation as measured by CPI of 2.5% **(1)**<br>**Award 1 mark for any other valid data reference** | **(6)** |

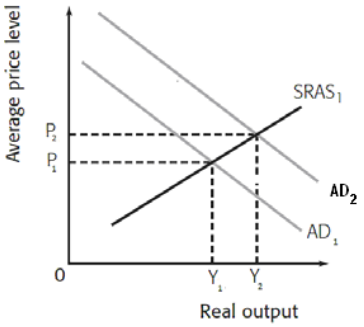
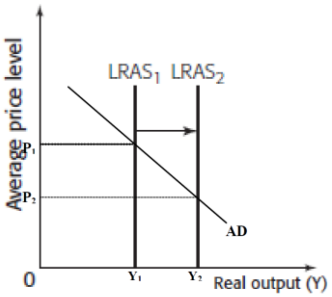
| Question Number | | Mark |
|---|---|---|
| **9 (e)** | | **(14)** |
| Knowledge, application and analysis - indicative content | | |
| | • Deflation defined – sustained decrease in the average price level It is normally associated with falling AD causing a negative output gap (actual GDP < potential GDP)<br>• Effects of deflation might include:<br>• Consumers may postpone demand if they expect prices to fall further in the future. Reduced AD.<br>• Firms may postpone investment.<br>• The real value of debt rises when the general price level is falling, consumer confidence and people's willingness to spend falls. Reduced AD.<br>• Deflation may increase unemployment/reference to Phillips Curve further reducing AD<br>• Lower profit margins: Lower prices can mean reduced revenues and profits for businesses - this can lead to higher unemployment as firms seek to reduce their costs by reducing labour (this in turn leads to reduced AD)<br>• Increase of AS:<br>• Investment can impact upon LRAS (as well as AD)<br>• High demand for exports leads to increasing investment to meet growing demand, increasing LRAS<br>• Falling asset prices such a property and shares<br>• Increase in bankruptcies<br><br>**Negative impacts of deflation can be used for KAA and positive impacts for evaluation or vice versa** | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-3 | Shows some awareness of possible cause or identification of one or more effects. Understanding of effects **or** data references<br>Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear. |

| | | |
|---|---|---|
| 2 | 4-6 | Identification and some explanation of effects identified along with some development of analysis **or** some identification of possible effects and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence. |
| 3 | 7-8 | Clear understanding and analysis of the effects **and** data references. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall. |

| Evaluation – indicative content | | |
|---|---|---|
| | • Depends on cause of deflation e.g. low AD or increased LRAS<br>• Requires evidence of awareness of possible benefits of deflation (answer is not one sided) or reasons why deflation may be beneficial (Extract 2)<br>• Measure may be misleading as based upon unrepresentative basket of goods<br>• If deflation is temporary, inflation may return as costs rise or AD increases<br>• Sustained economic growth (Figure 1) suggests that deflation may be temporary and caused by low input prices or increase in LRAS ('good' deflation) | |
| Level | Marks | Descriptor |
| 0 | 0 | No evaluative comments. |
| 1 | 1-2 | For identifying evaluative comments without explanation. |
| 2 | 3-4 | For evaluative comments supported by some reasoning and relevant examples. |
| 3 | 5-6 | For evaluative comments supported by relevant reasoning and relevant examples. |

| Question Number | Answer | Mark |
|---|---|---|
| **10 (a)** | **Knowledge and application (Up to 2 marks)**<br><br>• Current Account – A record of all money flows to and from a country arising from exports and imports of goods and services/net exports **(1)**<br>• as well as transfers of (primary) income and other net transfers/secondary income **(1)**<br>• Current Account Balance –The sum of these visible and invisible trade balances **(1)**<br>• a positive value is a current account surplus **(1)**<br>• a negative value is a current account deficit **(1)**<br><br>**Reference(s) to data Figure 1 (Up to 2 marks)**<br>**EG**<br>• Turkey has current account deficit for all years **(1)**<br>• Lowest deficit 2% of GDP in 2009 **(1)**<br>• Highest deficit 10% of GDP in 2011 **(1)**<br>• Deficit as % of GDP reducing from 2013-2015 **(1)**<br>• Any valid/accurate data reference from Figure 1 award 1 mark | **(4)** |

| Question Number | | Mark |
|---|---|---|
| **10 (b)** | | **(10)** |
| Knowledge, application and analysis – indicative content | | |
| | • Economic growth causes by increase in AD<br>• AD=C+I+G+(x-m)<br>• Extract 2 suggests consumption (C) a significant component in AD<br>• Figure 2 suggests household consumption relatively high at 68%-72% of GDP<br>• Higher domestic demand, resulting in growth increases employment and raises living standards<br>• Investment (Figure 2) also raises LRAS, increasing real output, employment and living standards<br>• Investment may also boost AD, increasing growth<br>• Current account deficit may depreciate currency, making exports more price competitive and further increase AD and growth<br><br>Accurate diagram showing increase in AD and/or increase in LRAS, increase/decrease in average price level and rise in real output<br><br><br><br><br> | |

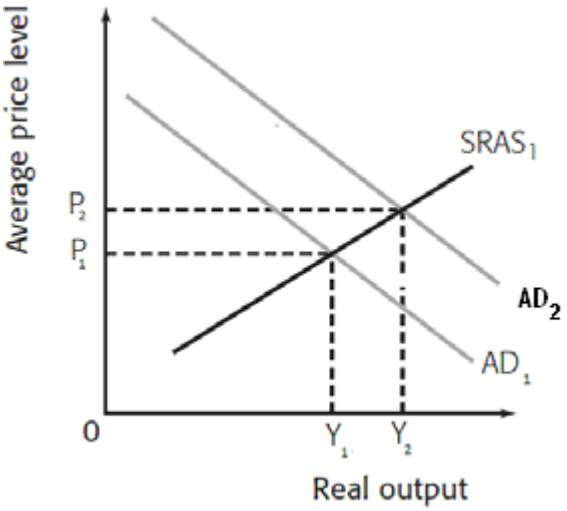
| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-2 | Shows some awareness of causes **or** data references. |
| 2 | 3-4 | Understanding of causes **or** some awareness of causes and data references. |
| 3 | 5-6 | Clear understanding of causes **and** linking to data. |

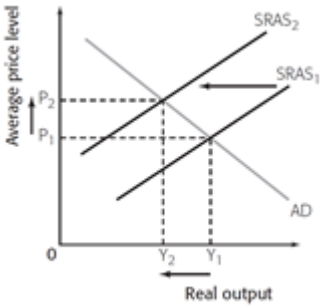
| Evaluation – indicative content | | |
|---|---|---|
| | • Reliance upon consumption for economic growth adds to current account deficit as households consume imports<br>• Imported inflation (Figure 2) as consumers purchase imported goods and services<br>• Current account balance may depreciate currency, increase input costs and reduce SRAS decreasing growth<br>• May be addressed by supply-side policies (Extract 2)<br>• Investment may increase AD and inflation, reducing international competitiveness , net exports and growth | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | No evaluative comments. |
| 1 | 1-2 | For identifying evaluative comments without explanation. |
| 2 | 3-4 | For evaluative comments supported by relevant reasoning. |

| Question Number | Answer | Mark |
|---|---|---|
| **10 (c)** | **Knowledge and application (Up to 6 marks)**<br><br>Up to 2 marks for the following:<br>• CPI measures changes in the average/general price level **OR** calculates the rate of inflation**(1)**<br>• Reference to base year **(1)**<br>• Basket of goods **(1)**<br>• Reference to weights as used in the CPI **(1)**: based on proportion of household expenditure **(1)**<br>• Annual % change in consumer prices is derived from CPI **(1)**<br><br>Up to 4 marks for the following:<br>• Price survey **(1)**<br>• Excludes housing costs **(1)**<br>• Expenditure survey **(1)**<br>• Further development such as basket updated annually/example of updating **(1)**<br>• Award 1 mark for any valid reference to % rate of CPI change from Figure 2 | **(6)** |

| Question Number | | Mark |
|---|---|---|
| **10 (d)** | | **(14)** |
| Knowledge, application and analysis - indicative content | | |
| | • Definition of inflation: sustained increase in the average price level (1)<br>• Relatively higher inflation rate means that prices increase at a faster rate in Turkey than in other (competitor or trading partners) countries<br>• Higher inflation creates uncertainty in the economy this may discourage firms from investing and lead to lower economic growth in the long term<br>• Higher inflation in Turkey can make its goods less competitive leading to lower demand for exports and therefore a deterioration in the current account<br>• If the currency depreciates because of higher inflation, then it will make imports more expensive and reduce standards of living due to higher spending on imported goods and raw materials<br>• If the inflation is cost-push, e.g. due to rising commodity prices, then this causes SRAS to shift to the left. This increase in prices leads to higher prices and lower growth<br>• Cost-push inflation can also cause a decline in competitiveness and lower growth<br>• Higher inflation can make savers worse off. This is because inflation erodes the value of money. This will be particularly a problem if interest rates on savings are low.<br>• Inflation can reduce the real value of household/ business/government debts<br>• Inflation can reduce real household incomes<br>• High inflation can make an economy less competitive as prices rise more quickly than competitor countries<br><br>Accurate diagram showing increase in AD and/or decrease in SRAS or LRAS, increase in average price level and rise/fall in real output | |



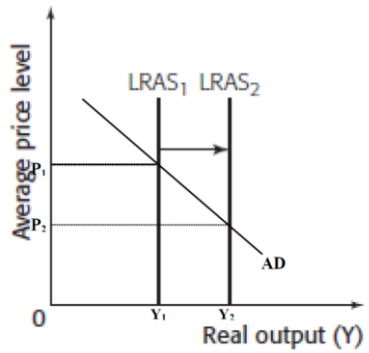




**Negative impacts of above target inflation can be used for KAA and positive impacts for evaluation or vice versa**

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-3 | Shows some awareness of possible impact or identification of one or more impacts. Understanding of impact **or** data references<br>Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear. |
| 2 | 4-6 | Identification and some explanation of impacts identified along with some development of analysis **or** some identification of possible effects and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence. |
| 3 | 7-8 | Clear understanding and analysis of the impacts **and** data references. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall. |

| Evaluation – indicative content | | |
|---|---|---|
| | • Here we are looking for development and evidence of judgement as to the most significant factors or the possible benefits<br>• Depends upon the cause of inflation (cost-push or demand-pull)<br>• Inflation may need more than monetary policy to fix<br>• Higher of investment can impact upon LRAS (as well as AD) and in long-run decrease inflation<br>• Depends upon how sustained inflation is – if only short-term can be a rapid re-adjustment of prices and this can be an advantage when LRAS increases<br>• High domestic demand may increase imports/decrease net exports, increasing current account deficit, reducing growth and inflation | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | No evaluative comments. |
| 1 | 1-2 | For identifying evaluative comments without explanation. |
| 2 | 3-4 | For evaluative comments supported by some reasoning and relevant examples. |
| 3 | 5-6 | For evaluative comments supported by relevant reasoning and relevant examples. |

| Question Number | | Mark |
|---|---|---|
| **10 (e)** | | **(14)** |
| Knowledge, application and analysis - indicative content | | |
| | Economic growth can be caused by an increase in AD components other than consumption (I or G or net exports) or increase in SRAS or LRAS or both<br><br>Interventionist policies to reduce reliance on consumption by increasing I, G or net exports might include:<br>• Increased government spending in education and training to raise levels of human capital/make labour more flexible to cope with changing structure of economy<br>• Increased investment in research and development (R&D) to develop new technologies or production techniques improve efficiency<br>• Investment in improved infrastructure to allow for better transportation linkages in the economy; better telecommunications linkages in the economy<br>• Increased tax incentives for innovation increasing government spending an investment<br>Also, market-oriented policies including:<br>• Reduction in direct taxes on firms (corporation tax) to boost investment<br>• Reduction in property tax to boost construction<br>• Labour market reform including reduction in trade union power/reduction in minimum wages/reduction in unemployment benefits to boost SRAS and LRAS<br>• Deregulation of labour market and/or business more generally to boost<br>• Measures to increase saving (which may be channelled into investment)<br>• Measures to increase exports might include devaluation, tax incentives to firms to produce in Turkey<br>Accurate diagram showing increase in LRAS, decrease in average price level and rise in real output<br><br><br><br><br>**Negative impacts of policies can be used for KAA and positive impacts for evaluation or vice versa** | |

| Level | Marks | Descriptor |
|---|---|---|
| 0 | 0 | A completely inaccurate response. |
| 1 | 1-3 | Shows some awareness of possible impact or identification of one or more impacts. Understanding of impact **or** data references<br>Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear. |
| 2 | 4-6 | Identification and some explanation of impacts identified along with some development of analysis **or** some identification of possible effects and data references. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence. |
| 3 | 7-8 | Clear understanding and analysis of the impacts **and** data references. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall. |

| Evaluation – indicative content | | |
|---|---|---|
| | • Interventionist supply-side policies are costly so there is an opportunity cost for the government<br>• May only be effective over the longer term<br>• Tax incentives - may be less income for Government<br>• A lower level of trade union power is likely to result in less job security and worsening conditions for workers<br>• May be a reduction in living standards for workers on the minimum wage and for the unemployed<br>• Deregulation negative effects on labour or the environment<br>• Higher savings may decrease AD and reduce growth<br>• Increasing home ownership may create asset price inflation | |
| Level | Marks | Descriptor |
| 0 | 0 | No evaluative comments. |
| 1 | 1-2 | For identifying evaluative comments without explanation. |
| 2 | 3-4 | For evaluative comments supported by some reasoning and relevant examples. |
| 3 | 5-6 | For evaluative comments supported by relevant reasoning and relevant examples. |

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