GradeMax



Mark Scheme (Results)

January 2021

Pearson Edexcel International Advanced Subsidiary
In Economics (WEC12/01)
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.

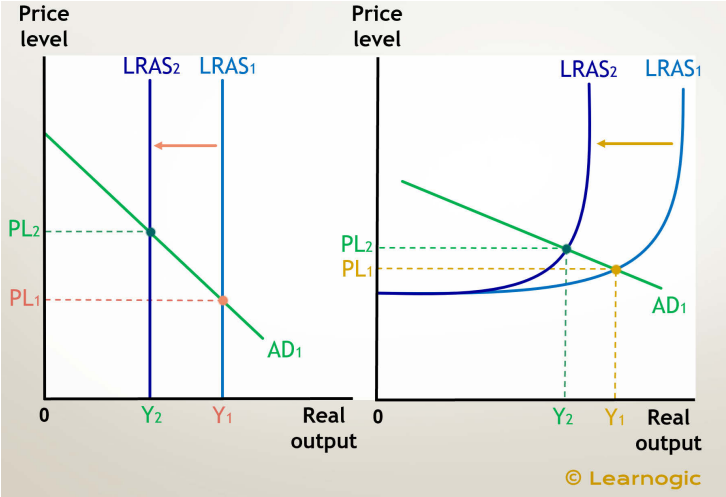
Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because potential growth is illustrated by a rightward shift in the LRAS* ***B*** *is not correct because potential growth is illustrated by a rightward shift in the LRAS* ***D*** *is not correct because potential growth is illustrated by a rightward shift in the LRAS*	**(1)**
2	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because a fall in wholesale prices is likely to cause consumer prices to fall and real incomes to rise* ***B*** *is not correct because a fall in wholesale prices implies a fall in costs* ***D*** *is not correct because there are deflationary pressures which would make it more likely that the central bank would reduce interest rates*	**(1)**
3	–	**The only correct answer is D** ***A*** *is not correct because an increase in non-price competitiveness is likely to cause an increase in exports and a fall in imports* ***B*** *is not correct because a fall in real incomes is likely to reduce the demand for imports* ***C*** *is not correct because an decrease in the non-price competitiveness of a major trading partner's products is likely to cause the developed county's exports to increase its imports to fall*	**(1)**

4	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because Portugal's exports are dependent on consumption and the savings ratios of its trading partners* ***C*** *is not correct because the fall in the savings ratio is likely to cause higher consumption and more demand for goods and services leading to more demand for workers* ***D*** *is not correct because a lower savings ratio implies a reduction in withdrawals*	**(1)**
5	**QS4**: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because at the full employment level of real output, the LRAS would be perfectly inelastic* ***C*** *is not correct because the LRAS would be perfectly elastic at high levels of spare capacity* ***D*** *is not correct because the LRAS would be perfectly elastic at high levels of spare capacity*	**(1)**
6	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because there is a budget deficit of $100bn* ***C*** *is not correct because the data relate to the budget and not to exports and imports* ***D*** *is not correct because there is a budget deficit which implies that there is a net withdrawal out of the economy*	**(1)**

Section B

Question Number	Answer	Mark
7	**Knowledge 2, Application 2** Quantitative skills assessed: **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **QS10:** Distinguish between changes in the level of a variable, and the rate of change. **Knowledge** Up to 2 marks for explaining the difference between positive and negative economic growth rates, e.g.: • A positive economic growth rate shows the percentage increase in real GDP over a given period of time **(1)** • A negative economic growth rate shows the percentage decrease in real GDP over a given period of time **(1)** **Application** 1 mark for correctly identifying a period when Ukraine had a positive economic growth rate, e.g.: • In 2016, the Ukrainian economy grew by 2.4% **(1)** 1 mark for correctly identifying a period when Ukraine had a negative economic growth rate, e.g.: • In 2014, the Ukrainian economy contracted by 6.6% **(1)**	**(4)**

Question Number	Answer	Mark
8	**Knowledge 1, Application 3** Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms.  **Knowledge** 1 mark for drawing original AD and LRAS curves with correctly labelled axes. **Application** Up to 3 marks for the following information on diagram: 1 mark for leftward shift in LRAS and, due to the shift in LRAS, 1 mark for new lower real output level. 1 mark for new higher price level. **NB Accept either Keynesian or Classical LRAS curves.** **NB Depending on the level of spare capacity shown on a diagram using a Keynesian LRAS curve, price level and real output level may decrease or stay the same.**	**(4)**

Question Number	Answer	Mark
9	**Knowledge 1, Application 3** Quantitative skills assessed: **QS5:** calculate and interpret index numbers **Knowledge** An index is a statistical measure of change in a group of individual data points. Indices are calculated relative to a chosen fixed point which is normalised to a value of 100. (1) or 1 mark for understanding of 'base year, in this case 2018. **(1)** **Application** Up to 3 marks for calculations 29 381 **(2)** x 100 = 74.9 **(1)** 39 251 **NB If correct answer is given (74.854), award full marks regardless of working.** **NB 74.854 rounds to 74.85 (2dp), to 74.9 (1dp) and 75 (whole number). Accept answers from 74.85 to 75.**	**(4)**

Question Number	Answer	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Knowledge** 1 mark for identifying one role of a central bank, e.g.: • Implementation of monetary policy/setting interest rates /asset purchases/setting lending criteria/setting reserve asset requirements **(1)** • Achieving an inflation target **(1)** • As banker to the government **(1)** • As banker to the banks – lender of last resort **(1)** **Analysis** Up to 2 marks for developing the identified role, e.g. • Central banks use various monetary policy instruments **(1)** such as interest rates, asset purchase schemes (QE), or the exchange rate **(1)** • Central banks use various monetary policy instruments **(1)** in order to meet a target rate which may be set by the government or the central bank itself **(1)** • Central banks perform various banking services such as handling accounts of government departments **(1)** and making short-term advances to the government **(1)** • If banks run into liquidity problems **(1)** they may be able to borrow direct from the central bank **(1)** **Application** 1 mark for appropriate reference to a central bank/inflation target/other target as appropriate or to the central bank being accused of "limiting economic growth".	**(4)**

Question Number	Answer	Mark
11	**Knowledge 1, Analysis 2, Application 1** Quantitative Skill assessed: **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** 1 mark for understanding/definition of 'output gap', e.g. • The difference between actual output and the maximum potential output of an economy **(1)** **Or** 1 mark for identification of one possible difficulty in measuring the output gap, e.g. • It is difficult to estimate an economy's maximum potential output level as we cannot directly observe this **(1)** **Analysis** Up to 2 marks for development of the identified difficulty, e.g.: • There may be inaccurate data on the labour force **(1)** for example difficulties in measuring the scale of labour migration /the number of people who may have left the labour market as 'discouraged workers'/the amount of under-employment in the labour market **(1)** • There may be problems in accurately measuring productivity in the economy **(1)** particularly in the service/technology sector **(1)** • Surveys of producers about the level of spare capacity may be inaccurate **(1)** for example due to misreporting, human error, time lags or survey bias **(1)** • There may be gaps in our knowledge about how much businesses are investing and the potential output from new capital **(1)** particularly in the new knowledge economy where much investment is in intangibles **(1)** • There may be difficulties in measuring real GDP **(1)** eg. due to "grey" economy, difficulties in enumerating small firms, etc **(1)**	

	Application 1 mark for appropriate use of the Figure, e.g. • The IMF consistently over-estimated the size of France's negative output gap/under-estimated the size of France's positive output gap during the period shown **(1)** • In 2007, the original estimate was a negative output gap of approximately 1.2% of potential GDP, while the final estimate was a positive output gap equal to 1.8% of potential GDP **(1)** • In 2000, the final estimate of the output gap was 2% of potential GDP higher than the original estimate **(1)**	**(4)**

Section C

Question Number	Answer	Mark
12 (a)	**Knowledge 2** • PPP adjusts for the cost of living in a country **(1)** • Using the price of a given basket of goods and services **(1)** • PPPs measure the total amount of goods and services that a single unit of a country's currency can buy in another country **(2)** • PPPs convert the cost of a basket of goods and services into a common currency **(1)** • PPPs eliminate price level differences across countries **(1)** • PPPs equalise the purchasing power of currencies **(1)** • When PPP is high a country's currency can buy more, often indicating a higher standard of living **(1)** • Used to make a more accurate comparison of GDP/GNI between countries **(1)**	**(2)**

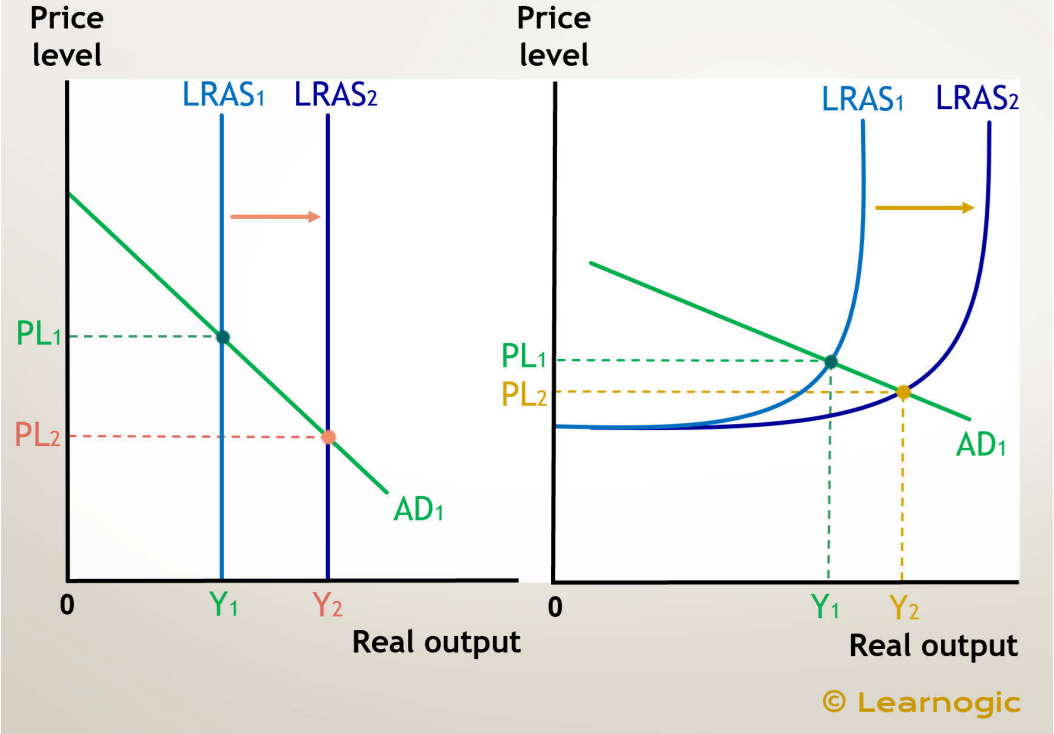
Question Number	Answer	Mark
12 (b)	**Knowledge 2 Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** Up to 2 marks for explaining the difference between GDP and GNI per capita, e.g. • GDP per capita is the value of all goods and services produced within an economy in a period of time, divided by the economy's population **(1)** • GNI per capita is the total income generated by a country's citizens in a period of time, divided by the economy's population **(1)** • GNI = GDP + income earned from nationals living in foreign countries – income earned from foreign nationals living in the country/+ net receipts of primary income from abroad **(1)** **Application** Up to 2 marks for relevant references to Figure 1, e.g. • GNI per capita is greater than GDP per capita in each year shown **(1)**, indicating net inflows of primary income from outside the Philippines **(1)** • The difference between GNI per capita and GDP per capita has increased (in absolute terms) over the period shown **(1)**, GDP per capita has increased by $2064 between 2000 and 2018/GNI per capita has increased by $2610 between 2000 and 2018 **(1)**	**(4)**

Question Number	Answer	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge and Analysis** 1 mark for an understanding of 'living standards', e.g. • An individual's quality of life **(1)** **Or** Up to 2 marks each for up to 2 limitations identified and analysed, **(1K + 1An)** e.g.: • It only shows an average for the whole country **(1)** so may mask increasing levels of income inequality/regional/gender /ethnic inequality within the Philippines/which would imply a falling or stagnant standard of living for some groups **(1)** • Income is a narrow measure of what it means to have a good standard of living **(1)** it does not include other crucial elements such as education, healthcare, relationships etc. **(1)** • It may underestimate people's true standard of living **(1)** as it does not include untraded goods and services/e.g. subsistence farming, domestic work etc. **(1)** • It may underestimate people's true standard of living **(1)** as it does not include the shadow economy/illegal activities or concealed legal activities **(1)** • An increase in GNI per capita PPP may actually indicate lower standards of living depending on how this has been achieved **(1)** or there are greater negative production externalities, e.g. pollution/global warming **(1)** • The data may be inaccurate **(1)** as the Philippines may not update their reporting often enough/so it may miss large and fast-growing sectors/it may be liable to political manipulation **(1)**	

	Application Up to 2 marks for reference to Figure 1, e.g.: • GNI per capita PPP in the Philippines rose from $3 940 in 2000 to $10 720 in 2018 (in current international $) **(1)**, a 172% increase **(1)** • GNI per capita PPP in the Philippines rose between each year shown **(1)**, but it rose more quickly in absolute terms towards the end of the period **(1)**	**(6)**

Question Number	Answer	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge and Analysis** Up to 2 marks each for up to 2 relevant factors identified and analysed, **(1K + 1An)** e.g.: • 'Levels of consumption should stay high' **(1)** boosting aggregate demand in the Philippine economy (1) • 'lower inflation' **(1)** will contribute towards rising real incomes, rising consumption and generating growth **(1)** • 'higher employment rates'/'rising real wages' **(1)** will increase average incomes in the Philippines, leading to increases in consumer confidence **(1)** • 'Government using a range of supply-side policies' **(1)** will increase the economy's productive potential, thereby shifting out the LRAS curve **(1)** • 'the services sector is also likely to grow' **(1)** boosting aggregate demand **(1)** • 'the continuing expansion of financial services and tourism' **(1)**will increase the value of the Philippines' exports, also boosting AD **(1)** **Application** Up to 2 marks for use of the data or reference to context, e.g.: • The Philippine economy was predicted 'to grow by 5.8% in 2019 and by 6.0% in 2020 and 2021' **(1)** • 'infrastructure investment projects' **(1)** • 'More workers are finding jobs in industries other than agriculture' **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • Growth is likely to be limited in the first half of 2019 due to the 'weakening global economy, rising protectionism, and the slowdown in public sector investment' **(1)** • Public sector investment spending may not occur **(1)** • If the global economy continues to weaken, this will threaten the growth of the Philippines' financial services and tourism sectors **(1)** • Supply-side policies are needed to ensure economic growth in the medium term **(1)**	**(8)**

	• Supply-side shocks may limit growth **(1)** • The expected productivity gains from investment may not occur **(1)**	

Question Number	Indicative content
12 (e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. 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. **Quantitative skills assessed** **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Supply-side policies are designed to increase productivity, competition and incentives in an economy. • Shifting outwards of the LRAS curve should create both actual and potential growth in the Philippines (allow Keynesian or classical LRAS curve): 

	• Infrastructure investment will increase the productive capacity of the Philippine economy. • The Ease of Doing Business Law will cut the costs of bureaucracy for firms and increase competition in markets, forcing firms to be more efficient. • Deregulation of the rice market will increase competition, leading to higher levels of productivity, lower prices and higher quality rice. • Amendments to the law to allow foreign ownership in key sectors, including telecommunications and transportation services, will finance investment in these sectors and allow for greater technical know-how. • Greater competition in the retail trade sector should attract more overseas investment and boost productivity. • Ensuring that state-owned enterprises compete on fair terms with private sector businesses should reduce wasteful government spending, meaning that this money can be better spent on public infrastructure projects etc. At the same time, productivity in these sectors should rise.

Level	Mark	Descriptor
	0	No rewardable material
Level 1	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.
Level 2	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.
Level 3	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.

Evaluation (6 marks) – indicative content

- Government spending on infrastructure investment projects has an opportunity cost: it may lead to more growth if spent in another sector of the economy, e.g. healthcare, education etc.
- Time lag: in particular, infrastructure investment projects may take a considerable amount of time to have an effect on the economy.
- Foreign firms may take any profits earned in the Philippines out of the country, reducing any positive multiplier effects.
- Foreign firms may out-compete domestic firms, putting them out of business, which could threaten longer term growth, or the inclusive nature of the growth.
- Reducing bureaucracy and increasing efficiency may create unemployment in the short-term. This may reduce consumption in the economy, threatening growth.
- Supply-side policies are less effective when there are large amounts of spare capacity in an economy: in this case they create potential growth but no actual growth.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	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

<table>
<tr><td>Question Number</td><td colspan="2">Indicative content</td></tr>
<tr><td>13</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
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.
Quantitative skills assessed
QS9: Interpret, apply and analyse information in written, graphical and tabular forms.
Knowledge, application and analysis (12 marks) – indicative content
• Definition of national happiness and identification of macroeconomic objectives
• Economic growth is likely to lead to increased average incomes, which raises happiness for lower income earners in particular.
• Growth may lead to higher government revenues and scope to spend on education, healthcare etc. which can increase national happiness.
• Growth may allow countries to invest in green technology/reduce energy intensity, leading to lower levels of pollution, raising happiness.
• Achieving stable inflation rates is likely to be increase happiness as high inflation rates cause uncertainty, shoe leather costs etc.
• Low unemployment should mean that those who want to work are able to find jobs, boosting their incomes, skill levels, social integration, and health. It may also lead to lower crime rates.
• Reducing imports or increasing exports is likely to create more employment in an economy, providing jobs and higher incomes, boosting happiness.
• Reference to Thailand or another country, where achieving one or more macroeconomic objective has increased national happiness.</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>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.</td></tr>
<tr><td>Level 2</td><td>4–6</td><td>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</td></tr>
</table>

		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.
Level 3	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.
Level 4	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.
	Evaluation (8 marks) – indicative content • Economic growth may require workers to work more hours, reducing their leisure time, putting strain on personal relationships and/or increasing stress, reducing happiness. • Economic growth may create negative production externalities, e.g. pollution, which reduce happiness. • Economic growth is likely to lead to increased average incomes, but after a certain point, increases in income do not lead to increases in subjective happiness. • Economic growth is usually accompanied by an increase in income inequality, which decreases the subjective happiness of lower income earners. • A very low unemployment rate may mean that workers are not moving between jobs (frictional unemployment) to find roles more suited to them, which may constrain their happiness. • A reduction in the value of imports may reduce consumer choice and access to low price/high quality imports, reducing happiness. • Reductions in government expenditure/increases in taxation in order to achieve a balanced government budget are likely to reduce disposable incomes and state provision of healthcare, education etc., reducing happiness. • Reference to India or another country, where achieving one or more macroeconomic objective has decreased national happiness.	

	NB This answer is reversible, i.e. candidates may argue either way for KAA and the reverse for evaluation.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	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.

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<tr><td>14</td><td colspan="2">
Indicative content guidance
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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.

Quantitative skills assessed
QS9: Interpret, apply and analyse information in written, graphical and tabular forms.

Knowledge, application and analysis (12 marks) – indicative content
Falling oil prices are beneficial to an economy because:

For economies which are net importers of oil, this will lead to a decrease in the value of their imports, ceteris paribus. This will:

Reduce a trade/current account deficit, meeting one of the government's macroeconomic objectives.
Reduce downward pressure on/increase AD in the economy (may be shown diagrammatically), leading to an increase in real GDP and average incomes, and an increase in employment.
Positive multiplier effects.
An increase in average incomes and an increase in employment is likely to improve the government's budget balance.

Costs of production for firms will fall, leading to a rise/rightward shift in SRAS (may be shown diagrammatically). Ceteris paribus, this will:

Decrease cost-push inflationary pressures in the economy, helping to achieve the macroeconomic objective of a low and stable rate of inflation.
Increase real GDP and average incomes in the economy.
An increase in average incomes and employment is likely to improve the government's budget balance.

For economies which are net exporters of oil, this may encourage them to diversify their economies and reduce their reliance on oil, which may be beneficial in the longer term.

NB Candidates only need to develop one of these two lines of argument for a L4 KAA mark.
</td></tr>
<tr><th>Level</th><th>Mark</th><th>Descriptor</th></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</td></tr>
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		Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	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.
Level 3	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.
Level 4	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.
	Evaluation (8 marks) – indicative content Falling oil prices may not be beneficial to an economy because: • For economies which are net exporters of oil, this will lead to a decrease in the value of their exports, ceteris paribus. This will: o Increase a trade/current account deficit, going against one of the government's macroeconomic objectives. o Put downward pressure on AD in the economy (may be shown diagrammatically), leading to less economic growth, downward pressure on average incomes, and a reduction in employment. o Negative multiplier effects. o A decrease in average incomes and a decrease in employment is likely to worsen the government's budget balance. • If this causes an increase in the quantity of oil used, it may be negative for the environment/a fall in the price of oil may disincentivise the creation/adoption of renewable energy production.	

	General evaluation points: • Effects depend on how much oil prices fall by and how long they stay low. • Effects of a change in AD on real GDP depend on the level of spare capacity in the economy; the size of the multiplier ratio; and whether a Classical or Keynesian LRAS curve is used. • There is likely to be a time lag before effects are felt. • A decrease in inflation may not be beneficial if an economy's inflation rate is at or below target. • Effects on costs of production/SRAS depend on the structure of the economy/adoption of green production methods etc. • Different effects on different economies. • Economies which are more specialised in oil production will be affected more significantly. **NB This answer is reversible, i.e. candidates may argue either way for KAA and the reverse for evaluation.**	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	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.

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