AL 经济逆袭宝典

Answers 答案手册

Structured

CIE AS Economics • Basis

新灯塔国际教育

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1 Basic Economic Ideas and Resource Allocation（基本经济思想与资源配置）

入门综合 （36）

1. (s23 qp 23-3(d)) **[2]**

   1(d) Explain why a doughnut might be regarded as a demerit good.
   • Doughnuts are undesirable and over-provided by the market (1)
   • This is because of information failure and means that consumers are unlikely to be fully aware of the health dangers of eating an excessive amount of doughnuts(1)

2. (w25 qp 21-3(b)) **[2]**

   • Opportunity cost is the value of the (next) best alternative forgone when a decision is taken. (1)
   • Multinational companies that might have located in Mexico may decide to go elsewhere where the energy policy is less restrictive for private companies (1) OR
   • A failure to introduce renewable methods as economists reckoned that Mexico could have produced almost half its electricity from renewable sources long before its target of 2050. (1)

3. (w25 qp 23-3(b)) **[2]**

   • Malaysia may need to produce more healthcare and elderly care services, such as hospitals, nursing homes, and medical equipment (1).
   • This change is needed because an older population requires more medical attention and long-term care, moving resources away from goods for younger people/existing provision (1).

4. (s23 qp 22-3(b)) **[2]**

   1(b) Using a production possibility curve (PPC) diagram, demonstrate the impact of the rising level of unemployment on the Nigerian economy
   • For a fully accurately labelled PPC diagram i.e., axes labelled as 2 products and curve touching both (1)
   • Showing a movement to the left within the curve or from the curve to a position within the curve (1)

5. (m24 qp 22-3(b)) **[2]**

   1(b) With the help of a production possibility curve (PPC) diagram, demonstrate the likely impact of increased investment in AI on the Japanese economy in the long run.
   Correctly labelled diagram and curved or straight line PPC (1) . Outward shift of PPC indicating increased economic capacity to produce (1) .

6. (s23 qp 21-1(a)) **[2]**

   1(a) Using the data in Fig. 1.1, calculate the change in India’ s unemployment rate between July 2020 and May 2021.
   Over this period as a whole, the unemployment rate has increased from 7.4% in July 2020 to 11.9% in May 2021. (1 mark)
   This is an increase of 4.5% in India’ s unemployment rate. (1 mark)
   This is an increase of 60.8% (the exact figure is 60.81081%) in India’ s unemployment rate

(4.5 / 7.4 × 100); accept either 60% or 61%. (1 mark)

7. (m23 qp 22-3(b)) **[2]**

• An economic stimulus package is an example of expansionary fiscal policy / demand management policy / the aim of which is to increase aggregate demand (1)
• The package involved the spending by the US government of an additional US$6 trillion in 2020–2021/this involved a deficit budget balance of minus 12.7% of GDP in mid-2021. (1)
Guidance: Accurate reference to the data is required for the second mark.

8. (m24 qp 22-3(a)) **[2]**

1(a) Using the information in Table 1.1, compare the change in projected real GDP growth of Japan with that in the US between 2022 and 2025.
Both countries experience positive growth over the period (1) . Both experience a slowdown in the rate of growth (1). Over the period Japanese growth is slower than the USA (1). Average Growth rate in Japan over the period is 1.5%, USA 2.7% (1).

9. (s23 qp 21-3(b)) **[2]**

1(b) Using the information provided, explain how agriculture caused seasonal unemployment in India in December 2020.
The agricultural sector has failed to absorb the influx of additional labour; December is not a good month to be taking on more agricultural workers; it is more likely to be a time when agricultural jobs are being lost. (1 mark)
In December 2020, 9.8 million jobs were lost in agriculture, more than the 6 million additional labour. (1 mark)

10. (s23 qp 22-3(a)) **[2]**

1(a) Compare the government budget balance of Nigeria in 2016 with the government budget balance in 2020
Between 2016 and 2020 the budget deficit (1) increased (1)
Guidance:
• Must refer to the fact that the budget is in deficit both years
• Do not accept e.g. 'became worse'

11. (s23 qp 23-3(a)) **[2]**

1(a) Using the data in Fig.1.1, calculate the percentage change in the value of sales of doughnuts in the US from 2011 to 2019.
Extrapolation of data (1) Calculation of percentage change (1)
Guidance: Data: 2011 cUSm 5500 2019 cUSm 7500
% change is 2000/5500 × 100% = 36% (accept 35–38%)

12. (s23 qp 23-3(b)) **[2]**

1(b)(i) Explain one reason why the US market for doughnuts contracted in 2 2020.
• More workers working from home (1)
• This has led to less employees in city centres, therefore less demand for doughnuts (1)
• Shopping trips have been less frequent and therefore less demand for doughnuts (1)
Maximum 2 marks

13. (s23 qp 23-3(c)) **[2]**

1(c) Comment on whether the demand for doughnuts in the US is income elastic or income inelastic.
- Identification that it is Income inelastic (1)
- Sales of doughnuts have increased to some consumers despite them having a fall in income (1)

14. (s24 qp 22-3(a)) **[2]**

1(a) Describe what has happened to consumer prices in the Eurozone between March 2021 and February 2022.
- For example, consumer prices / inflation/ CPI have risen over this period (1) by 4.89% (accept an answer between 4.8% and 4.9%) (1) rose every month except July 2021 (1).

Guidance: Other examples may include, the largest increase was in February 2022 (1), the rate of increase was generally lower before October 2021 than after. (1) Note: simply stating consumer prices have increased from 106.53 to 111.74 or by 5.21% is worth 1 MAX.
Award one mark for each valid change between March2021 and February 2022. Note:, it is not necessary to provide figures / calculations.

15. (s24 qp 22-3(b)) **[2]**

1(b) With the help of an aggregate demand and aggregate supply diagram, identify the main type of inflation in the Eurozone.
- For clearly identifying that the main type of inflation in the Eurozone is cost-push inflation (1)
- Shown on a correctly labelled diagram that shows a shift to the left of the AS curve and the increase in the price level (1)

16. (s25 qp 23-3(b)) **[2]**

- Inelastic (1) (accept perfectly inelastic)
- Reference to the typhoons in Southeast Asia meaning that supply is volatile/unpredictable.

The candidate may refer to the nature of agricultural goods means that you cannot simply grow additional red onions.
- The explanation must refer to how it affects the responsiveness of supply (1)

If a candidate refers to the PES being price elastic, then this can be accepted but only if the development is linked to the illegal importation and storage of red onions.

17. (s24 qp 21-1(a)) **[1]**

1(a)(i) Using Table 1.1:
Identify the overall trend in Sri Lanka' s balance of trade in goods and services between January 2022 and January 2023.
- The trade deficit has fallen / declined / decreased / reduced (1)

1(a)(ii) Calculate the percentage change in Sri Lanka' s balance of trade in goods and services between January 2022 and January 2023.
- (Deficit has fallen) by 52% (1).

Guidance: The answer MUST refer to the trade deficit and the fact that it has fallen for the first mark i.e., not simply improved. Accept answers in the range 51% to 53% for part (ii).

18. (w23 qp 21-3(a)) **[2]**

- Expected growth in Taiwan' s real GDP in 2021 is 4.6% minus 1.3% = 3.3% (2)
- If a candidate correctly shows the method, i.e. 4.6% minus 1.3%, but makes an incorrect calculation, one mark can be awarded. (1)
- OR if a candidate states nominal GDP growth –CPI increase = real GDP growth (1)

19. (w23 qp 22-3(b)) **[2]**

1(b) Explain why the price of oil on the world market fell in 2020.
The pandemic/increased demand for electric cars led to a fall in demand for oil products (1) so the demand curve shifted to the left/this led to a surplus so producers were forced to reduce prices to sell (1).

20. (w23 qp 23-3(b)) **[2]**

- UK (1) because
- It had the biggest percentage fall in GDP (1)
- The other three economies performed consistently better than the OECD average (1)

21. (w24 qp 21-3(b)) **[2]**

- It is when the interest rate is lower than the inflation rate in Argentina. (1)
- In January 2022, it would be -10.7%/or method of calculation. (1)

22. (w24 qp 22-3(a)) **[2]**

1(a) Identify two possible reasons why the current account on the balance of payments in Chile is in deficit in the first quarter of 2022 despite the surplus on the balance of trade in goods.
The data also states the secondary account is in surplus so the primary account (1) and /or the balance of services (1) must show a deficit.
Guidance: Please also accept valid references to any of the components of the primary account i.e., net income from investments made abroad, earnings made by residents working abroad being in deficit. (1 max if no additional reference to services)
Do not accept references to components of the secondary account e.g., transfers, government aid.
Alternative approach: Many candidates have answered why the current account deficit has grown rather than why it is in deficit in the first quarter of 2022. This is by reference to the final paragraph on page 2 of the data e.g., the fall in revenue from copper exports, the increase in the value of imported consumer goods and the impact of the pandemic.
For any accurate reference to one / all of these factors (1) plus (1) only if an accurate reference is also made to the deficit in the primary account OR the balance of services.

23. (w24 qp 23-3(b)) **[2]**

1(b) Is the price elasticity of supply of coffee beans likely to be elastic or inelastic in any one year? Justify your answer from the information provided.
Inelastic (1) (accept perfectly inelastic)
Reference to any one of the climatic problems referred to in the text such as drought and frosts in Brazil or storms in Vietnam meaning that supply is volatile/unpredictable. The candidate may refer to the nature of agricultural goods meaning that you cannot simply grow

additional output.
The explanation must refer to how it affects the responsiveness of supply (1).

24. (w25 qp 24-3(a)) **[2]**

- The forecasts for both the US and Eurozone have shown real economic growth between 2023 and 2024
- The forecast for the US has shown higher real economic growth than the Eurozone in both periods.
- The forecast for the US has shown a fall in the rate of growth between 2023 and 2024 whereas the forecast for the Eurozone has shown an increase.

Guidance: Only award marks for a valid comparison between the two years and the two economies. Note: answers which suggest GDP in the US has fallen between 2023 and 2024 must not be credited as it is the rate of growth that has fallen.

25. (s24 qp 21-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
- For the use of accurate examples of BOTH merit goods and public goods (1).
- For clearly explaining the characteristics of public goods i.e., non-rivalry and non-excludable (1).
- For clearly explaining the characteristics of merit goods i.e., better than people realise and under consumed / underproduced due to information failure (1).

AO2 Analysis (max 3 marks)
- A market economy is less likely to produce enough of both goods due to the lack of a profit motive unless heavily subsidised.
- A mixed economy may produce enough due to government involvement and the welfare motive but may be constrained by limits on government spending.

Note: Analysis should consider at least 2 markets. If only 1 market is analysed, then 2 marks maximum for analysis and 0 for evaluation.
AO3 Evaluation (max 2 marks) Offers a valid evaluation of whether enough of both types of good can be produced in at least 2 markets (1) reaching a valid conclusion (1).

26. (w24 qp 23-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
- Free goods are not scarce and have zero opportunity cost / no prices as no factors of production are required to produce them (1).
- Public goods have two main characteristics of non-excludability and non- rivalry with a brief explanation of both terms (1).
- Provide accurate examples of both e.g., fresh air and street lighting respectively (1).

AO2 Analysis (max 3 marks)
- For example, the vaccine is free at the point of use to the consumer (1). However, there is

a cost to the taxpayer (1). This means that there is an opportunity cost to the government as providing the vaccine involves the use of scarce resources (1).
Alternative approach:
• If governments provide free-of-charge vaccinations, then there is no price charged to the consumer (1). This means consumers do not need to use their own their own scarce resources to be vaccinated (1) which means there is no opportunity cost to them because they do not need to make a choice between 'consuming' the vaccine and reducing their consumption of other goods and services (1).
AO3 Evaluation (max 2 marks)
• Up to 2 marks for evaluating whether or not free-to-charge vaccinations offered by a government can be considered a free good. For example, there is an opportunity cost to the government as the money spent on buying the vaccine might have been used for spending on another priority e.g. education.

27. (w24 qp 22-4(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
• Accurately drawn and labelled production possibility diagram –curved to show (and be identified as) increasing opportunity cost (1) and –straight line to show (and be identified as) constant opportunity cost (1). N.B., axes must be labelled as products and not simply A and B or X and Y and the curves must touch both axes.
• Explanation for the difference between constant and increasing opportunity cost. For example, constant opportunity cost demonstrates no change in the rate of trade off whereas increasing opportunity costs demonstrate an increase rate in the trade off between the two products (1).
AO2 Analysis (max 3 marks)
For example, future economic growth will be influenced by the choices an economy makes about the split between consumer spending and capital spending (1). If a country decides to focus its spending and output on consumer goods, then this may create growth in the short run but may not be sustainable (1). A decision to focus on spending and output of capital goods, this may have a short run negative impact on economic growth but should create more long-term sustainable growth as output may expand (1).
AO3 Evaluation (max 2 marks)
Up to 2 marks for valid evaluation which is clearly based on the analysis (1) leading to a valid conclusion (1).

28. (w24 qp 21-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A diagram of a PPC:
• the axes of the PPC are appropriately labelled, such as manufactured/agricultural goods or consumer/capital goods or Good A/Good B (1)

- the PPC will need to touch both axes (1)
- a position within a PPC is clearly shown. (1)

AO2 Analysis (max 3 marks)

An analysis of the significance of a position within/inside a PPC:

- a position where an economy is using its resources inefficiently
- where not all available resources are being utilised
- where the output of both products is lower than it would be if all available resources were being used
- there should be some reference to permanency.

AO3 Evaluation (max 2 marks)

Offers a valid judgement on whether such a position is likely to be permanent (1) to reach a conclusion. (1)

29. (w23 qp 23-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award:

- up to 3 marks for AO1 Knowledge and understanding up to 3 marks for

AO2 Analysis

- up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

- Explanation of what is meant by excludability/non excludability (1)
- Explanation of what is meant by rivalry/non rivalry (1)
- Correct application to private and public goods (1)

AO2 Analysis (max 3 marks)

- Why is a mass transit service a private good with reference to both characteristics and therefore only provided by the private sector? (up to 2 marks)
- Why is a mass transit service not a public good with reference to both characteristics and therefore not provided by the public sector? (up to 2 marks)

AO3 Evaluation (max 2 marks)

- Assessment of whether a mass transit service might only be provided by the private sector with 1 mark reserved for a justified conclusion.

30. (w23 qp 22-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award:

- up to 3 marks for AO1 Knowledge and understanding.
- up to 3 marks for AO2 Analysis
- up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks) Free goods are not scarce and have zero opportunity cost/no prices as no factors of production are required to produce them (1) Public goods have two main characteristics of non-excludability and non- rivalry with a brief explanation of both terms (1) Provide accurate examples of both e.g., fresh air and street lighting respectively (1)

AO2 Analysis (max 3 marks) Explanation of why each of the two characteristics of public goods lead to the free rider problem (1 + 1) and why this makes it impossible/unrealistic to charge a price for them so the market economy would not supply them and therefore they must be provided by the government (1)

AO3 Evaluation (max 2 marks)

- Consideration of the view that pure public goods can never be provided in a market economy unless they are directly funded by the government (1)
- Or could be considered to be quasi or semi-public goods in which case a price could be charged, and they could be provided by a market economy (1)
- Reserve one mark for a justified conclusion (1)

31. (m23 qp 22-3(a)) **[8]**

2(a) Explain the functions of price in resource allocation and consider the importance of these functions in relation to the potential effectiveness of a market economy.
and award:
- up to 3 marks for AO1 Knowledge and understanding up to 3 marks for
AO2 Analysis
- up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)
A clear knowledge and understanding of at least two functions of price in resource allocation:
- rationing (1)
- signalling (transmission of preferences) (1)
- incentivising (1)

Two functions well explained can gain 3 marks; 1 function explained can achieve a maximum of 1 mark.
AO2 Analysis (max 3 marks)
An analysis of the importance of rationing (1), signalling (transmission of preferences) (1) and incentivising (1) to the operation of a market economy. Note: this must be in the context of a market economy.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on the importance of at least two functions in relation to the potential effectiveness of a market economy (1) to reach a justified conclusion. (1)

32. (s23 qp 21-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (3 marks maximum) An understanding of a PPC shown through an accurate diagram, with correctly labelled axes (1), a movement along a PPC showing a trade-off between production on the two axes (1), and a shift of a PPC showing an increase in production of two goods with no trade-off. (1)
AO2 Analysis (3 marks maximum) Uses the PPC to explain that a movement along a PPC is caused by a reallocation of resources (1), as resources are shifted between the two types of product, involving an opportunity cost (1), but a shift of a PPC is caused by an increase in the quantity and/or quality of resources, allowing more of both goods to be produced. (1)
AO3 Evaluation (2 marks maximum) Offers a valid judgement on whether a movement along, or a shift of, a PPC is likely to have the most immediate impact on an economy (1) to reach a conclusion. (1)

33. (w25 qp 21-3(d)) **[6]**

Up to 4 marks for explanation/analysis:
An accurate diagram of a subsidy:
- Axes correctly labelled and demand and supply curves correctly drawn and labelled.
- Supply curve shifts to the right leading to a new equilibrium position . (1)

Explanation of the potential advantages of a subsidy, including a lower price and a higher quantity. (Up to 2 marks)
Explanation of the potential disadvantages of a subsidy, including the fact that it will need to be financed by the government, it could lead to inefficiencies and there would be an opportunity cost. (Up to 2 marks)
Up to 2 marks for evaluation:
Relevant evaluation of whether the potential advantages of providing a subsidy to keep down the price of electricity in Mexico will outweigh the
potential disadvantages (1) to reach a conclusion. (1)

34. (w25 qp 23-3(d)) **[6]**

Up to 3 marks for explanation/analysis of why the Malaysian government should provide free childcare to working parents.
- Supports low-income families by reducing childcare costs, helping to reduce poverty and income inequality.
- Raises overall consumption and tax revenue, supporting higher economic growth.
- Reduces financial pressure on parents by removing childcare costs, allowing them to save or consume on other goods and services.
- Makes it easier for both parents to work, improving household income and living standards.

Up to 3 marks for explanation/analysis of why the Malaysian government should not provide free childcare to working parents.
- Providing free childcare has a high opportunity cost, as government spending could be better used on healthcare, pensions, or infrastructure.
- It distorts the price mechanism by making childcare artificially cheap, leading to overconsumption and inefficient use of resources.
- It may reduce incentives for private childcare providers, lowering quality, efficiency, and competition in the market.
- Funding it through higher taxes could discourage work and investment, reducing overall economic productivity.

Up to 3 marks maximum for each perspective, with an overall maximum of 4 marks.
Guidance: The assessment must clearly demonstrate economic impacts. If only the reason why or why not free childcare should be provided, then a maximum of 3 marks.
Up to 2 marks for evaluation
- That clearly considers both viewpoints. For example, although free childcare helps families and can increase economic growth, but the government must consider the opportunity cost and how it might distort the price mechanism.
- Comes to a reasoned conclusion as to whether the government should provide free childcare to working parents (reserve 1 mark.)

No mark for eval can be awarded if just one perspective is considered .

35. (w25 qp 21-3(e)) **[6]**

Up to 4 marks for explanation/analysis:
• Explanation/analysis of the potential benefits of Mexico keeping more of its oil to generate the country' s electricity, such as in relation to a shift towards greater energy self -sufficiency. (Up to 3 marks)
• Explanation/analysis of the potential limitations of Mexico keeping more of its oil to generate the country' s electricity, such as whether Mexico has the capacity to produce enough electricity for its population of about 130 million or the possible impact of such a policy on its balance of trade (2022 data shown in Fig. 1.1) given that its crude oil will now be kept in the country rather than exported. (Up to 3 marks)
Up to 2 marks for evaluation:
• Relevant evaluation which weighs up the potential benefits and limitations of Mexico keeping its oil to generate the country' s electricity (1) to reach a conclusion. (1)

36. (w25 qp 21-3(c)) **[4]**

1(c) Consider the extent to which direct provision of electricity in Mexico through state-owned companies may be advantageous to consumers.
Potential advantages:
• State-owned companies seen as more likely to be drivers of growth, possibly leading to higher living standards.
• The government may have more financial resources to support the state - owned companies than the private sector, which could lead to lower prices and a more efficient supply to consumers.
• State-owned companies might be more likely to operate in the national interest than private companies, potentially benefitting. (Up to 2 marks)
Potential disadvantages:
• Operating costs of the state-owned electricity producers are significantly higher than in private companies, which could lead to higher prices for consumers.
• State-owned companies have old and inefficient plants that are expensive to maintain, which could lead to a less efficient supply to consumers.
• There will be less investment in renewable energy because the government has little interest in this. (Up to 2 marks)
Max 3 marks
Note: The focus of the question is consumers.
Evaluation
Offers a valid judgement on the extent to which direct provision of electricity in Mexico through state-owned companies may be more advantageous to consumers
Max 1 mark

Further Practice （进阶）

1. (s25 qp 21-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)

A knowledge and understanding of a PPC diagram:
- Vertical axis correctly labelled, e.g. Good Y, Consumer Goods, Agricultural Goods. (1)
- Horizontal axis correctly labelled, e.g. Good X, Capital Goods, Manufactured Goods. (1)
- PPC touches both axes. (1)

AO2 Analysis (max 3 marks)
An analysis of the reasons for a movement within a PPC and a shift of a PPC:
- Movement within a PPC is caused by a reallocation of existing resources. (1)
- A shift of a PPC is the result of an increase in the quantity and/or quality of resources or the impact of an improvement in technology. (1)
- A shift of a PPC does not involve the concept of opportunity cost because with the use of additional resources, more of two goods could be produced. (1)

AO3 Evaluation (max 2 marks)
Offers a valid judgement on the extent to which opportunity cost determines the shape of a PPC, distinguishing between constant opportunity costs (a straight line) and increasing opportunity costs (a curve) (1) to reach a conclusion. (1)

2. (w25 qp 22-2(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
For a fully accurately labelled diagram showing 2 products (not X and Y, P and Q etc.) (1) and an explanation that a movement means a decision to produce more of one product than another (1) and an explanation that a shift means that more (or less) of both products can be produced due to a change in productive capacity (1). Also accept a diagram showing an accurate shift in the PPC along with an explanation that this results from increased/decreased resources in the economy (1).
AO2 Analysis (max 3 marks)
For analysis that clearly explains what is meant by opportunity cost (1) and fully explains what is meant by increasing opportunity cost in terms of rate of which one product is given up for another product (1) and by a constant opportunity cost in terms of the rate of which one product is given up for another product (1)
AO3 Evaluation (max 2 marks)
For evaluation that explains that whether the opportunity cost is equal will depend on the ease of transferring production resources from one product to another (1) and reaches a justified conclusion (1)

3. (w25 qp 21-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for
AO2 Analysis and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
Free goods:
- A free good is one which is consumed by people without a situation of scarcity arising, i.e. there is enough of the good to satisfy everybody and it has no opportunity cost, such as sunlight. (1) Private goods (economic goods):

• A private or economic good is one which is consumed by an individual for their own private benefit, such as clothing. (1)
Use of appropriate examples of each type of good to support the explanations. (1)
AO2 Analysis (max 3 marks)
Free goods:
• As a free good is not scarce, it does not require a market. The supply of the good equals the demand for it at zero price. It takes no factors of production to produce a free good and so there is no opportunity cost involved; analysis of the significance of there being no opportunity cost. Private (economic) goods:
• Excludability: people can be excluded from consuming it if they do not pay the required price for it.
• Rivalry: the consumption of a private good by one person reduces its availability for other people, i.e. there is rivalry in such a situation because consumers are in competition with other consumers to consume a particular product.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on the significance of the distinction between the two types of good (1) to reach a conclusion. (1)

4. (s25 qp 22-2(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
For a clear explanation that free goods are those that are not scarce / have zero opportunity cost / no factors of production are involved in producing them (1) and public goods are those that have the characteristics of non-excludability and non-rivalry (separately explained) (1).
For appropriate examples of both types of goods, e.g., fresh air as a free good and national defence as a public good
Note: do not accept examples such as roads, education or health services or explanations that public goods are simply those provided by a government (1)
AO2 Analysis (max 3 marks)
The characteristics of public goods make it easy for consumers to not pay for goods and services making it difficult for firms to charge a price / recognition of the free rider problem (1) meaning that people can enjoy the benefits without paying for it / firms are unable to make a profit (1) meaning that a market economy is unlikely to provide them (1).
AO3 Evaluation (max 2 marks)
Unless there is some method of effectively charging consumers by making public goods excludable OR receiving e.g., a subsidy from the government to produce them OR businesses are genuinely motivated to act in the interests of the public, (1) it is unlikely that a market economy could ever produce public goods (1).

5. (m25 qp 22-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) Explanation of rivalrous/non rivalrous

(1) Explanation of excludable/non excludable (1) Correctly applied to a public good and a private good (economic good) to explain the difference (1)
AO2 Analysis (max 3 marks) The extent to which a beach might be rivalrous (1); the extent to which a beach might be excludable (1); the alternatives are also considered (1)
AO3 Evaluation (max 2 marks) One mark for a valid explanation that the extent a beach could be described as a public good (e.g. a quasi-public good). Reserve one mark for a justified conclusion.

6. (m25 qp 22-2(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) An accurate PPC diagram –a concave or straight-line curve that meets both axes with appropriate and correctly labelled axes (1); explanation of scarcity and / or opportunity cost (1) and how the scarcity in factor endowments/scarce results and infinite wants results in choices having to be made (1).
AO2 Analysis (max 3 marks) If the candidates uses a straight line PPC Uses the diagram to explain that scarcity is shown as a point on the straight line PPC (1); the opportunity cost of changing production combinations is shown as a movement along the PPC (1), the opportunity cost is equal due to the negative one gradient of the PPC (accept constant trade off although not strictly true) (1)
If the candidates uses a concave PPC Uses the diagram to explain that scarcity is shown as a point on the concave PPC (1); the opportunity cost of changing production combinations is shown as a movement along the PPC (1), the opportunity cost is not equal due to the increased trade-off the greater the proportion of resources allocated to the production of a good (1)
AO3 Evaluation (max 2 marks) One mark for a valid explanation that the extent to which each choice has an equal opportunity cost depends on the shape of the PPC (1) or whether or not there are unused factors of production when the choice is being made (1). Reserve 1 mark for a justified conclusion.

7. (s25 qp 23-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
A merit good is thought to be desirable but is underprovided/underconsumed (1) due to information failure/a lack of awareness/better than is realised (1) By providing healthcare free of charge, the government encourages greater consumption and improves overall welfare (1).
AO2 Analysis (max 3 marks)
For example, an explanation that some healthcare services, such as vaccinations, act as public goods because they are non-excludable and non- rival meaning that they will not be provided by the private sector (1). Governments provide them to prevent under-provision and protect overall public health (1); Government provision removes financial barriers, ensuring fair access and reducing inequality (1).

AO3 Evaluation (max 2 marks)
• Up to 2 marks for evaluating whether or not government provision of healthcare free of charge may not always be successful. For example, if individuals continue not to see the benefits of healthcare, then providing it free of charge may not see an increase in its consumption (1); time, travel or waiting costs may discourage people from using free healthcare services despite no direct charge (1).
Please use a text box to show the mark split e.g., 3 3 1

8. (s24 qp 23-3(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
• For a fully accurate diagram that is clearly labeled as consumer goods and capital goods with the curve touching both axes. (1)
• The diagram must show the movement from capital goods to consumer goods e.g., by means of an arrow (1)
• Accompanied by an explanation that this is a movement along the curve (rather than a shift). (1)
AO2 Analysis (max 3 marks
Of how a government might allocate more resources to consumption and less to investment e.g.:
• By reducing taxes on income / consumer expenditure. (1)
• By increasing government expenditure to provide subsidies for consumers. (1)
• By reducing government support to businesses for investment. (1) (Maximum of 2 marks overall)
• PLUS 1 mark if shown on a diagram as either a movement along the curve or shift within the curve that is clearly explained.
AO3 Evaluation (max 2 marks)
For a clear assessment of the limitations of this approach including an assessment of time lags, the possible response of businesses and consumers etc. Reserve 1 mark for a justified conclusion
Please use a text box to show the mark split e.g., 3 2 1

9. (s24 qp 22-1(a)) **[8]**

Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
A merit good is thought to be desirable but is underprovided / underconsumed due to information failure/a lack of awareness/better than is realised (1) whereas a demerit good is thought to be undesirable but is overprovided / overconsumed due to information failure/a lack of awareness/worse than is realised (1) Third mark to be awarded for valid examples of both a merit and a demerit good. (1)
AO2 Analysis (max 3 marks)
• Points to consider:

• A subsidy may encourage poorer households to consume more merit goods as the reason for underconsumption may be unaffordability as it reduces the price of merit goods. (1)
• However, quantity demanded may be price inelastic meaning it is less responsive to price changes so quantity demanded will be less responsive to the change in price/the rise in quantity demanded would be less than the decrease in price. (1)
• The problem of information failure persists meaning that consumers remain unaware of the benefits and therefore do not increase consumption, regardless of the fall in price. (1)
AO3 Evaluation (max 2 marks)
• For a balanced evaluation of whether a subsidy will always be effective with 1 mark reserved for a justified conclusion.
Please use a text box to show the mark split e.g., 2,2,1

Advanced Practice （培优）

1. (w25 qp 24-3(b)) **[12]**

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• An understanding of what is meant by a merit good and a subsidy and how this might increase the consumption of merit goods.
• An analysis of the advantages and disadvantages (effectiveness) of using a subsidy (including the limitations, e.g., imperfect information.)
• Advantages include the fact that subsidies lead to lower costs for producers which should lead to lower prices for consumers and therefore increased consumption whereas:
• Disadvantages include the cost to the government and imperfect information which may mean that consumption does not increase despite lower prices
• An analysis of the advantages and disadvantages of at least one alternative policy that may be used, e.g., information provision, direct provision, (together with their limitations.)
Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts, etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
That considers the extent to which a government should subsidise the production of merit goods to increase their consumption and arrives at a reasoned and justified conclusion.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.

2. (s25 qp 21-2(b)) **[12]**

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• An increase in the quantity of resources: an increase in the quantity of land, labour, capital or enterprise would enable an economy to produce more of all goods and so the PPC shifts outwards.
• An increase in the quality of resources: it is not only an increase in the quantity of resources that can cause a shift to the right of a PPC; if there is an increase in the quality and productivity of the factors of production, this will also lead to a shift to the right of a PPC.
• Technological change: this could be a cause of a shift to the right of a PPC.
Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
Accept all valid responses.
AO3 Evaluation
• Evaluation of the influence of both the quantity and the quality of resources/factors of production in bringing about a shift to the right of a PPC.
• Evaluation of the potential influence of both the quantity and quality of resources in expanding an economy' s productive capacity through the increased availability and quality of inputs.

3. (m25 qp 22-3(b)) **[12]**

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis The meaning of the terms subsidy/merit goods An explanation of how a subsidy would reduce the costs of production which would, in turn, reduce the price and increase the quantity demanded. An explanation of potential problems from using subsidies –opportunity cost of increased government spending, increased dependency, incorrect targeting, when to remove provision. An explanation of alternative methods e.g. improved information but the analysis must focus on how the method would increase the consumption of merit goods.
Accept any valid policies but the analysis must focus on how they may increase the consumption of merit goods and discuss their advantages and disadvantages.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Consideration that fully assesses the relative effectiveness of subsidies with at least one other method and arrives at a reasoned conclusion - for example, the relevance of elasticities of demand
A justified conclusion as to whether introducing subsidies is the best method to increase the consumption of merit goods.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.

4. (w25 qp 22-3(b)) **[12]**

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Responses should be aware that the question is focused on factors of production that cause an outward shift of the PPC i.e., an overall increase in potential output. Points to consider in the discussion may include: -
• the ease of increasing the labour force through e.g., increasing the retirement age, attracting more people into the labour force etc.
• the quality of the labour force including the importance of education and training
• the importance of at least one other factor of production e.g., enterprise, capital and /or land
The analysis should focus on the necessity of increasing the size of the labour force to increase potential output and compare this with the advantages and disadvantages of increasing at least one other factor of production. For example:
• An increase in the size of the labour force provides more workers therefore increasing the number of goods and services that can be produced
• This will increase total output if other factors of production are maintained
• This will lead to an increase in economic growth and an outward shift in the production possibility curve
However:
• An increase in the labour force may not be possible
• Other factors of production may be more important, for example, enterprise, capital and /or land
• It may be more advantageous to develop the productivity of the existing labour force through training, better technology etc.
• This depends however on the receptiveness of the workforce along with the availability of enterprise skills, capital and land.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
3(b) Level responses will consider alternative policies / concepts etc. and will be balanced.

Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
That clearly analyses both sides of the question and comes to a valid conclusion.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.

5. (s25 qp 24-3(b)) **[12]**

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks.
AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• An understanding of what is meant by merit goods
• An understanding of the reasons why governments should support the provision of merit goods, including:
• The perceived benefits of merit goods and their underconsumption due to information failure / price etc., meaning that governments should support their provision e.g., through direct provision, subsidies, the provision of information etc.
• HOWEVER, the reasons why governments should not always support the provision of merit goods include:
• Government inefficiency, the opportunity cost of not spending money on alternative projects, the lack of government funding to finance this provision leading to a possible budget deficit.
• Information failure may still exist.
• Private provision may be possible and more efficient.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider benefits/drawbacks etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
2(b) AO3 Evaluation
That clearly assesses whether governments should always support the provision of merit goods such as education and health care by considering the advantages and disadvantages of doing so and reaches a valid conclusion.
one-sided response cannot gain any marks for evaluation.
Accept all valid responses.

6. (m25 qp 22-2(b)) **[12]**

AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis An understanding of the term free market economy An explanation of the potential advantages of a free market economy – efficient allocation of scarce resources, competitive prices and increased choice for consumers,

increased innovation and invention, increased investment (via the profit motive), reduction in monopoly power An explanation of the potential disadvantages of a free market economy –under-provision of merit goods/overproduction of demerit goods, absence of public goods, negative externalities, private sector monopolies, increased income and wealth inequalities
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Consideration that fully assesses the extent to which the allocation of resources in the free market is always desirable.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.

7. (s25 qp 21-3(b)) **[12]**

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Explanation of the potential advantages and benefits of an increase in the tax on a demerit good:
- The increase in the indirect tax will increase the price of the product.
- The increase in price is likely to decrease the consumption of the product.

Explanation of the potential disadvantages and limitations of an increase in the tax on a demerit good:
- The demand for the demerit good may be relatively inelastic meaning that the increase in tax will only have a relatively slight impact.
- Other methods may be more effective in decreasing consumption, such as an information campaign to make consumers more aware of the

potential disadvantages of consuming a demerit good or the establishment of a minimum price for a demerit good.
Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
Accept all valid responses.
AO3 Evaluation
- Evaluation of the potential effectiveness of an increase in the tax on a demerit good.
- Evaluation of whether other methods, such as an information/education campaign, might be more effective.
- In conclusion, whether an increase in the tax on a demerit good is always the best way to

decrease the consumption of such a good.
Accept all valid responses.

8. (s25 qp 22-3(b)) **[12]**

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Merit goods are those considered desirable by society but are under consumed and therefore the quantity of consumption and production should be encouraged whereas demerit goods are those considered undesirable by society but are over consumed and therefore the quantity of consumption and production should be discouraged.
Analysis should focus on the extent to which this is achievable. For example:
- Use of subsidies / maximum prices / taxation / minimum prices.
- Direct provision of merit goods.
- Providing information on the benefits of merit goods / drawbacks of demerit goods.

Considering the problems, for example:
- PED together with the receptiveness of consumers e.g., towards consuming more merit goods / fewer demerit goods.
- The drawbacks of policies of minimum prices and maximum prices explained including costs of enforcement.
- The cost (including opportunity cost) of provision of merit goods.
- Receptiveness of consumers towards more information provision and thus its effectiveness compared to its cost.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation That clearly analyses and compares both the extent of how both are achievable together with the associated problems and comes to a valid conclusion to answer the question.
A one-sided response cannot gain any marks for evaluation.
2(b) AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

2 The Price System and the Microeconomy（价格机制与微观经济）

入门综合 （36）

1. (m25 qp 22-1(a)) **[2]**

   1(a) Using Fig. 1.1, calculate the percentage change in the world price of olive oil between May 2022 and January 2023.
   An increase /rise etc. (1) of 43.8 (%) (1)
   Guidance: Accept any figure between 43 and 44 Note: as the question refers to the 'percentage change' the % sign can be inferred if missing.

2. (m25 qp 22-1(b)) **[2]**

   1(b) Some restaurants and commercial kitchens are using sunflower as an alternative to olive oil.
   Explain how economists would measure the impact of rising olive oil prices on the demand for sunflower oil.
   For recognition that they would use cross elasticity of demand / accept the formula (1) for recognition that as the two goods will be substitutes, the coefficient value will be positive (1).

3. (s25 qp 23-1(a)) **[2]**

   1(a) Use a demand and supply diagram to demonstrate how 'a series of typhoons' affected the market price of food crops in Southeast Asia in January 2023.
   • An accurate/fully labelled supply and demand diagram showing a shift to the left of the supply curve (1)
   • New equilibrium showing higher equilibrium price and lower equilibrium quantity (1)

4. (w20 qp 22-1(b)(i)) **[1]**

   1(b)(i) State the concept that an economist would use to measure the Accept the formula as sufficient knowledge responsiveness of the demand for natural vanilla to a change in the of the concept if it is clear that the price of vanillin. candidate knows the concept underlying the formula. The relationship would be measured using the concept of cross elasticity of demand (1 mark)

5. (s24 qp 22-1(d)) **[6]**

   1(d) Using the concept of price elasticity of demand, assess the relative impact on poorer households, including those on fixed incomes, of rising prices of food and energy.
   For explanation/ analysis (up to 4 marks) For a fully accurate formula of PED and / or an explanation of what it measures in terms of the responsiveness / percentage change in quantity demanded compared to a change in price (1)
   For an explanation that food and energy would be classed as essential/necessity goods and therefore price inelastic meaning that quantity demanded would be less responsive to a change in price / the fall in quantity demanded would be less than the increase in price (1)
   For an explanation that poorer households (including fixed income households) would suffer a great detrimental / negative effect because their income does not rise in line with inflation and / or they are unlikely to be in a position to negotiate for higher wages (1)

For an explanation that this situation can only be overcome if e.g., government support is made available to assist poorer households with the rising prices of food and energy. (1)
ALTERNATIVELY, the 4th mark can be given for a comparison to higher income households who will probably be in a position to either negotiate for income increases in line with inflation OR absorb the rising prices of food and energy.
For evaluation
That clearly assesses the extent of the impact solely on lower income households e.g., by considering the amount of possible government assistance possible, the degree to which such households can compensate for the price rises etc., Reserve 1 mark for a justified conclusion. That clearly assesses the relative impact on different types of households (including high-income households) by considering e.g., the proportion of income spent on food and energy together with their ability to negotiate for higher pay. Reserve 1 mark for a justified conclusion.
Please use a text box to show the mark split e.g., 3,1

6. (w21 qp 23-1(d)) **[6]**

1(d) Discuss whether cuts in direct taxes would increase the demand Alternative ways of expressing disposable income for all types of consumer goods in China. are acceptable and should be rewarded, e.g. more spending power, more money in the pockets Award 1 mark for recognising that a cut in direct taxes may increase of consumers, etc. demand for consumer goods due to a rise in disposable income (1)
Up to 2 marks for explanation of why a cut in direct taxes would increase demand for normal/luxury with a positive YED value consumer goods
Up to 2 marks for an explanation of why a cut in direct taxes will not lead to an increase in demand for inferior/negative value consumer goods
Up to a maximum mark of 5 for analysis
Reserve 1 mark for a reasoned conclusion

7. (w25 qp 22-1(b)) **[2]**

1(b) With the help of a demand and supply diagram, demonstrate why cocoa bean prices have continued to fall in 2023.
• For an accurately drawn and labelled supply and demand diagram (1) that shows supply shifting to the right or further to the right than demand and showing the resulting decrease in price which can be shown by an arrow or P1 and P2 or an accompanying explanation (1)
Guidance: a diagram alone with the appropriate annotation is enough for the 2 marks.

8. (w24 qp 23-1(a)) **[2]**

1(a) Use a demand and supply diagram to show why there was a 'huge' increase in the price of Arabica coffee beans in 2021.
• Supply and demand diagram with correct axes and showing shift to the left of the supply curve (1).
• New equilibrium price and quantity (1).
Guidance: No explanation is required.

9. (w23 qp 22-1(a)) **[2]**

1(a) Using the data in Table 1.1, calculate the percentage change in the average real global price of oil between 2014 and 2020.
- For an answer which clearly states the change is −57.4 % (2)
- For an answer that simply states a change of 57.4 % (1) and indicates this is a fall/decrease in the average real global price of oil (1)
- For an answer that states the price has fallen and does not provide an accurate figure (1 maximum)

Guidance Allow figures between 57% and 58%. Do not accept a negative value unless the answer is within −57% and −58%

10. (w22 qp 21-1(a)) **[2]**

1(a) Explain how ‘a product’ s price acts as a signal of its scarcity’ .
For a reference to a situation where there are limited resources to satisfy unlimited wants and needs and so price rations the available resources among competing buyers (1 mark)
For a development in terms of a rising demand for a product, relative to its supply, will push up prices and act as an incentive to increase the quantity; the existence of scarcity giving rise to the need to make choices between the different uses that can be made of the scarce resources (1 mark)
2 marks maximum

11. (w20 qp 22-1(b)(ii)) **[3]**

1(b)(ii) Explain the value that you would expect for this measurement. Accept answers where the candidate refers to the text and explains that since For stating that the value would be positive because these goods are the two products are close substitutes you substitutes (1 mark) would expect the value to be high.
For an explanation of why a positive relationship would be expected i.e. a fall in the price of vanillin has caused a fall in the demand for vanilla (1 mark)
For an explanation that the higher the size of the coefficient the stronger will be the relationship (1 mark)

12. (w22 qp 22-1(a)) **[1]**

1(a) Identify one possible cause of the decline in world export prices of Extract 1 contains possible causes. These maize. include supply factors such as large global supplies and good harvest prospects from For the identification of one possible cause (1 mark) South America and demand factors such as lower demand for maize from the biofuel and animal feed industries. The cause identified does not have to be confined to the data. Any valid demand or supply factor is acceptable provided it identifies why demand or supply may change.

13. (w22 qp 22-1(b)) **[2]**

1(b) Explain one change in a factor of demand that would lead to maize Any appropriate demand factor can be prices rising in Malawi despite the increase in domestic production. accepted. Change in tastes, rise in income, rise in the price of a substitute etc. For identification of any appropriate demand factor (1 mark) The explanation may be supported by a And for an explanation of why this could lead to a rise in maize prices in diagram but do not reward an unexplained Malawi, i.e., this may lead to demand (shifting to the right and therefore) diagram for the second mark. exceeding supply / a shortage. (1 mark)

14. (s21 qp 21-1(b)) **[4]**

1(b) Explain one possible demand factor and one possible supply factor that Demand factors could include: could have caused the increase in Vietnam' s export sales of fruit and • increase in income vegetables. • more effective advertising
• population growth For an explanation of one possible demand reason (Up to 2 marks) (1 mark for identification, 1 mark for further development) • tastes have changed in favour of the products, e.g. healthy living For an explanation of a one possible supply reason (Up to 2 marks) Supply factors could include: (1 mark for identification, 1 mark for further development) • use of more land
• more favourable weather conditions
• reduction in costs of production
• improved technology

15. (w20 qp 22-1(c)) **[4]**

1(c) Explain why the price elasticity of supply of ice cream made with The most important factors that influence vanillin is likely to be relatively more elastic than the price elasticity of the price elasticity of supply are the ease supply of ice cream made with natural vanilla. with which production can be increased or decreased and the availability of stocks. For a clear understanding of the concept of price elasticity of supply (this The former is determined for e.g. by the could be shown through an accurate formula for PES) (1 mark) nature of the product, the availability of required factors of production any stocks held and the existence of spare capacity. And the distinction between elastic and less elastic in terms of the extent to It is likely that the price elasticity of supply which the quantity of ice cream supplied can respond to a change in price of ice cream made with vanilla is less (1 mark) elastic than that made with vanillin because the text makes it clear that it takes a long time to produce new vanilla For an explanation of why the price elasticity of supply of ice cream made plants (3 years) and many farmers left the with vanillin is likely to be higher than the price elasticity of supply of ice industry in the years that vanilla prices cream made with vanilla (or why the price elasticity of supply of ice cream were falling meaning that there is unlikely made with vanilla is likely to be lower than the price elasticity of supply ice to be any spare capacity. So even though cream made with vanillin. (Up to 2 marks) vanilla prices are rising rapidly the quantity of natural vanilla supplied may be slow to rise. Vanillin on the other hand is made from 'more reliable sources of plentiful raw materials' that indicates that an increase in the quantity supplied can be made much more easily and the price elasticity of supply is likely to be more elastic.

16. (w20 qp 22-1(a)(i)) **[3]**

1(a)(i) from 2004 to 2009 The extract makes it clear that the fall in price of vanilla from 2004 to 2009 is For an accurately labelled diagram showing a decrease in the demand for because of a decrease in the demand for vanilla vanilla caused by a fall in the price of (1 mark) and the fall in price of vanilla (1 mark) vanillin that is more reliable in supply.
For an accompanying explanation of the cause of this decrease in demand for vanilla. The extract indicates that this was a fall in the price of vanillin. (1 mark)

17. (s22 qp 23-1(c)) **[4]**

1(c) Using the information provided, consider whether the The data refers to the supply of avocados as being supply of avocados is price elastic or price inelastic in 'unpredictable' and therefore difficult to control when the short run and in the long run. price changes. This is a short run consideration. Longer term improved methods of farming and irrigation Price inelastic in short run (1 mark) valid reason e.g., can make supply more responsive to price changes. reference to drought and lack of water affecting supply (1 mark)
Price elastic in long run (1 mark) valid reason e.g., New producers enter the market (1 mark)

18. (w25 qp 24-1(c)) **[4]**

1(c) Explain, with the help of a diagram, why an increase in productivity in US firms may reduce the price of their products and consider whether this will always be the outcome.
- An increase in productivity suggests production is more efficient and will reduce costs. (1)
- This should have the effect of shifting the supply curve to the right as shown on an accurately labeled diagram. (1)
- The fall in price should be shown on the diagram, e.g., by an arrow or P1 P2, and linked to the increase in productivity. (1)

For evaluation 1 mark maximum:
An assessment why the price may not fall, e.g., because businesses decide not to pass the fall in potential price on to consumers and include the extra profit in their costs meaning the supply curve does not shift to the right or other costs increase to offset the improvement in productivity; due to perfectly elastic demand. (1)

19. (m24 qp 22-1(c)) **[4]**

1(c) With the help of a demand and supply diagram, consider the impact of additional investment in AI on the price and output of a US carmaker.
Correctly labelled diagram showing initial equilibrium (1) . Rightward shift in Supply curve establishing new equilibrium a lower P and increased output (1). Explanation of changes with clear reference to diagram provided. Correct shift (1). Correct new equilibrium (1).

20. (s22 qp 23-1(e)) **[6]**

1(e) Discuss whether the price mechanism in the avocado The market is operating effectively-price is signalling market is working to allocate resources successfully. consumer preferences and being responsive to changes in demand and supply. For analysis that shows that the market is in fact operating successfully Market could collapse if the health benefits prove to be (up to 3 marks) wrong. New producers such as Kenya could flood the market with additional supply leading to a collapse in For analysis that explains why the market may not operate prices. Environmental pressures due to pressure on successfully in the future water supplies and forests being destroyed to plant new (up to 3 marks) avocado bushes.
5 marks maximum for analysis leading to
A valid conclusion as to whether the price mechanism in the avocado market is working to allocate resources successfully (1 mark)

21. (s23 qp 23-2(a)) **[8]**

2(a) Explain, with the help of examples, the significance of the size and sign of the coefficient of income elasticity of demand for the classification of a good and consider how confident you are of this classification.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) Knowledge of what is meant by income elasticity of demand (1) Formula for calculation of income elasticity of demand (1) Meaning of elastic/inelastic income elasticity of demand (1)
AO2 Analysis (max 3 marks) Analysis of the significance of the size and sign of the coefficient for normal goods with relevant examples (1) Analysis of the significance of the size and sign of the coefficient for necessity goods with relevant examples (1) Analysis of the significance of the size and sign of the coefficient for inferior goods with relevant examples (1) Analysis of the significance of the size and sign of the coefficient for superior goods with relevant examples (1)
Award maximum of 1mark for two types of good but with no examples. Award maximum of 2 marks for three types of good but with no examples.
AO3 Evaluation (max 2 marks) For a brief comment such as
- Classification is dependent on income level of individual/household in case of inferior goods or necessities or superior goods
- A necessity for a low-income household could be a normal good for another household
- YED is an estimate calculated over separate time periods
- Reserve 1 mark for a justified conclusion

AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

22. (w20 qp 21-3(a)) **[8]**

3(a) Cross elasticity of demand for bread with respect to the price of rice is +1.4 while the cross elasticity of demand for bread with respect to the price of butter is -0.7. Explain why the cross elasticity of demand figures for bread differ.
Up to 2 marks for Knowledge and Understanding
- What is meant by XED (1 mark) Cross elasticity of demand:
- The formula for XED (1 mark) • the percentage/proportionate change in the quantity demanded of Good A divided by the 2 marks maximum percentage/proportionate change in the price Up to 6 marks for Application of Good B
- Application to goods as substitutes/positive XED (1 mark)
- Application to bread and rice as substitutes (1 mark)
- Application to figure and strong relationship (1 mark)
- Application to goods as complements/negative XED (1 mark)
- Application to bread and butter as complements (1 mark)
- Application to figure and weak relationship (1 mark)

6 marks maximum

23. (s24 qp 23-2(a)) **[8]**

2(a) From 2030, the only new car production allowed in the United Kingdom 8 (UK) will be for electric cars.
Excluding the price of electric cars, explain the determinants of demand for electric cars and consider which of these determinants is likely to be of greatest significance at the present time.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) Knowledge and understanding of income, price and availability of substitutes and fashion, taste and attitudes.
For an explanation of what is meant by the role of income, price and availability of substitutes, complements, fashion, taste, and attitudes as determinants of demand. (1x3)
AO2 Analysis (max 3 marks)
For analysis of the significance at the present time of at least 2 of these determinants. e.g., attitudes may have a great significance because of an increased awareness of the impact on the environment. e.g., income may have a great significance if economies are in recession. e.g., if petrol prices rise leading to a fall in demand for petrol-driven cars then the demand for electric cars may rise.
Up to 2 marks for any developed point.
AO3 Evaluation (max 2 marks) For a clear consideration which of the determinants is likely to be the most significant at the present time. Reserve 1 mark for a justified conclusion.
Please use a text box to show the mark split e.g., 3 2 1
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

24. (w23 qp 21-2(a)) **[8]**

2(a) With the help of a diagram, explain what could cause an increase in demand for a product and consider whether the impact of an increase in demand on the price of the product will be the same in the short run and the long run.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
An understanding of the demand for a product, shown through an accurate diagram, with correctly labelled axes (1), correctly labelled demand and supply curves and a correctly labelled shift of the demand curve to the right (1) and with equilibrium positions in terms of both price and quantity clearly shown or a movement from E1 to E2. (1)
AO2 Analysis (max 3 marks)
Uses the diagram to explain what could cause a shift of the demand curve to the right for a product and analyses the causes of an increase in demand for a product.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on whether the impact of an increase in demand on the price of the product will be the same in the short run and long run (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

25. (w23 qp 23-2(a)) **[8]**

2(a) The price elasticity of supply (PES) for a new smartphone is estimated to be 0.8 in the short run and 1.8 in the long run.
Explain what these estimates mean for producers and consumers of smartphones and consider why the estimates differ.
Follow the point-based marking guidance at the top of this mark scheme and award:
• up to 3 marks for AO1 Knowledge and understanding up to 3 marks for
AO2 Analysis
• up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
Meaning of price elasticity of supply (1) an accurate formula (1) an explanation of what is meant by elastic/inelastic based on the responsiveness of changes in supply to changes in price (1).
AO2 Analysis (max 3 marks)
Analysis of why the values may differ due to e.g., the time period, level of stock, changes in the production process etc. Up to 2 marks for each reason explained. Maximum of 3 marks overall
AO3 Evaluation (max 2 marks)
An assessment as to why the impact on consumers and producers may differ according to these different estimates e.g., on availability, pricing and investment decisions.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

26. (w24 qp 22-2(a)) **[8]**

2(a) With the help of a diagram(s), briefly explain how the cause of a movement along the demand curve differs from the cause of a shift in the demand curve and consider the impact on the demand for one good of price changes in other goods.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
• An accurate demand (and supply) diagram/or 2 separate diagrams clearly demonstrating a movement and a shift (1). NB: it is not essential to show the supply curve or changing price and output.
• Explanation that a movement occurs due to a change in price (1) and that a shift occurs due to a change in a non-price factor (1).
AO2 Analysis (max 3 marks)
Candidates may analyse the impact on the demand for one good as a result of whether they are substitutes or complements of other goods (of any valid relationships between goods):
This will include an analysis of the impact on demand for one good because of e.g.:
• Price changes and the availability of complements (a negative value indicates a complement) e.g. a rise in the price of the complement would be expected to reduce the demand for the 'other good'.
• Price changes and the availability of substitutes (a positive value indicates a substitute) e.g. a rise in the price of the substitute would be expected to increase the demand for the 'other good'.

- For example, an increase in the price of a complement good is likely to reduce the demand of the good (1) due to the nature of the joint demand between both goods (1).
- For example, a rise in the price of a substitute good is likely to increase the demand for the other good (1) if the consumer now sees the other good as a direct replacement (1).
- Note: Diagrams are not essential.

Note: Maximum of 2 marks if only one relationship is analysed. References to changes in income/fashion/tastes/attitudes must not be rewarded.
2(a) AO3 Evaluation (max marks)
Up to 2 marks for considering the overall impact of these two factors depending on the size and values of the XED coefficients on the demand for one product (1) leading to a valid conclusion about the overall size of the impact of changes in the price of ‘other goods (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

27. (s22 qp 22-3(a)) **[8]**

3(a) With the help of diagrams, use the concept of income elasticity of For a normal good, at a time when incomes demand to explain the impact of a fall in incomes on the equilibrium are falling, demand will be expected to fall price and equilibrium quantity of a normal good and an inferior resulting in a shift to the left of the demand good curve. For an inferior good, at a time when incomes are falling, demand will be expected For knowledge and understanding of the meaning of income elasticity to rise resulting in a shift to the right of the of demand (1 mark) together with an accurate formula (1 mark) demand curve. This will result in a fall and rise respectively in the equilibrium price and Note: the correct KU of the meaning of income elasticity may be quantity demanded which should be clearly rewarded with 1 mark if it is clear within the application even if it was shown on two separate diagrams as required initially incorrect within an opening statement / definition. by the question Do not reward application where one diagram is used to illustrate the For application that explains the meaning of a normal good (1 mark) effects on both types of goods. The and uses a diagram to illustrate that the demand curve will shift to the left maximum mark that this type of response (1 mark) leading to a fall in equilibrium price and quantity demanded could score is [2+3+1] which is clearly shown on the diagram (1 mark). Diagrams showing the relationship between For application that explains the meaning of an inferior good (1 mark) income and q demanded for normal and and uses a separate diagram to illustrate that the demand curve will shift inferior goods must not be rewarded (unless to the right (1 mark) leading to a rise in equilibrium price and quantity solely used as part of the explanation of the demanded which is clearly shown on the diagram (1 mark). meaning of what normal and inferior goods are) as they clearly do not show the changes in equilibrium price and quantity. The only diagrams that may be accepted here are normal supply and demand diagrams that clearly show the appropriate shifts in demand and the resulting changes in equilibrium price and quantity demanded.

28. (w22 qp 21-2(a)) **[8]**

2(a) Explain two factors that will determine the price elasticity of Definition of PED: the measurement of the demand for a particular brand of car and how this price elasticity extent to which a change in price leads to a of demand may change over time. change in quantity demanded
For Knowledge and Understanding: Formula of PED: percentage change in the For a correct

definition of price elasticity of demand quantity demanded of a product divided by the For a correct formula of price elasticity of demand. (Up to 2 marks) percentage change in the price of a product.
2 marks maximum Factors affecting PED:
• the availability and price of substitutes: For Application: the market contains many firms and so Application of one factor affecting the PED for a particular brand of PED for a particular brand of car is car, taking into account how this may change over time. likely to be relatively elastic (Up to 3 marks) • the price of the product relative to income: the higher the relative Application of a second factor affecting PED for a particular brand of proportion of income accounted for by car, taking into account how this may change over time. a particular brand of car, the more (Up to 3 marks) elastic the PED is likely to be, although this could change over time as 6 marks maximum incomes rise
• loyalty: if consumers have a strong loyalty to a particular brand of car, this will tend to make PED relatively inelastic
• need or want: the degree to which a particular brand of car is seen as a necessity or a luxury
• the time period: the PED for any particular brand of car is likely to increase over time, so it is more likely to be relatively elastic in the LR than in the SR

29. (m25 qp 22-1(d)) **[6]**

1(d) Assess the likely impact of increasing stocks of olive oil on the price and quantity of olive oil traded in the future.
Up to 3 marks for explanation / analysis that increasing stocks will lead to a fall in price/rise in quantity.
For an explanation that e.g., stocks will initially reduce supply in the market (1) raising the price (1) and reducing the equilibrium quantity (1); the increase of stocks will allow for an increased supply when olive harvests are low (1) and reduce equilibrium price (1) This will reduce volatility in the market (1) and stabilise incomes for producers (1).
Up to 3 marks for explanation / analysis that increasing stocks will not lead to a fall in price/rise in quantity.
If the cost of storing the olives is significant then olive producers may still need to increase prices (1). Consumers may perceive the quality of 'stored' olives of a lower quality/ the quality of the olives may deteriorate over time (1) and may reduce demand and switch to alternatives which may reduce the quantity traded (1). 4 marks max for analysis
Evaluation That clearly assesses the likely impact on both the price and quantity of olive oil e.g. by considering the extent of any price change being dependent upon that which sufficient stocks can be held –reserve 1 mark for a justified conclusion.

30. (s21 qp 21-3(a)) **[8]**

3(a) With the aid of diagrams, explain how consumer surplus is affected by A decrease in the price of a product will a decrease in the price of a luxury product with many substitutes, and increase the consumer surplus as more of an essential product with few substitutes. consumers are willing to pay the lower price. For Knowledge and Understanding The extent of this will depend on the price For correct diagram: elasticity of demand for a product. Axes correctly labelled: P/Q (1 mark) Existence of consumer surplus (1 mark) In the case of a luxury product with many substitutes, PED will be elastic. 2 marks maximum In the case of an essential product with few For Application substitutes, PED will be inelastic.

How consumer surplus is affected by a decrease in the price of a luxury product with many substitutes: elastic PED. (Up to 3 marks) How consumer surplus is affected by a decrease in the price of an essential product with few substitutes: inelastic PED' (Up to 3 marks)
6 marks maximum

31. (s23 qp 23-2(b)) **[12]**

2(b) When the price of a product changes, it usually changes the consumer surplus in the market. Assess how variations in price elasticity of demand for a product determine the extent of changes in consumer surplus in a market.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include
AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)
- Knowledge and understanding of consumer surplus
- Accurate labelled diagram of consumer surplus
- Explanation of effects on consumer surplus when the price of a product increases
- Explanation of the effects on consumer surplus when the price of a product decreases
- Explanation of the change in consumer surplus for a product with a price elastic PED
- Explanation of the change in consumer surplus for a product with a price inelastic PED
- Comparison of changes in consumer surplus where there are variations in the PED for a product

Level 2 max for 1 sided answers i.e. those that analyse the impact of elastic or inelastic PED
AO3 Evaluation (max 4 marks)
- Change in consumer surplus depends on the relative extent of the price change
- Change in consumer surplus also depends on the coefficient of PED
- It is assumed that a price change is the only factor that determines a change in consumer demand for a product

A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

32. (s24 qp 21-3(b)) **[12]**

3(b) Assess the extent to which price elasticity of supply or cross elasticity of demand is most useful to businesses.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- An assessment of the usefulness of PES e.g., it estimates how quickly a business will take to respond to changes in demand, levels of stock it can hold etc., but this is only an estimate and may change.
- An assessment of the usefulness of XED e.g., it tells the business whether their product is a substitute (positive XED) or a complement (negative XED) and how close the relationship

is and hence its sensitivity to the actions of other businesses, but the speed of change may mean it is quickly out of date.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• For a full evaluation of the usefulness of both measurements compared with each other leading to:
• A valid conclusion
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

33. (w24 qp 23-1(d)) **[6]**

1(d) Assess the extent to which coffee bean producers will gain from the huge increase in coffee bean prices in 2021.
Up to 3 marks for explanation/analysis of the gains to coffee bean producers:
• If the demand for coffee is price inelastic in demand, then coffee producers would be expected to gain (in terms of increased revenue).
• For example, increased revenue per lb. of coffee sold; increased funds available to invest and innovate in better methods of storing coffee beans in the event of future storms.
• Producers in Brazil and Vietnam and with existing stocks of coffee that survived the frost and storms would expect to increase their own sales at the expense of those rivals unable to produce a large enough yield of coffee.
• Similarly, producers in countries not affected by climatic problems should benefit from increased sales and revenue.
Up to 3 marks for explanation/analysis of the extent to which coffee bean producers will not gain:
• If the demand for coffee is price elastic in demand, then coffee producers would not be expected to gain (in terms of reduced revenue).
• For example, those producers unable to produce a sufficiently large enough yield may make losses which may ultimately result in business closures.
• Similarly, depending on the strength of the XED, total revenue may fall if the huge price increase in 2021 results in sufficient numbers of consumers switching their preferences to substitute goods e.g. tea.
Up to 3 marks maximum for each perspective, with an overall maximum of 4 marks.
Up to 2 marks for evaluation:
• That clearly considers whether or not coffee bean producers will gain from the huge increase in coffee bean prices in 2021.
• Comes to a reasoned conclusion as to whether advantages outweigh disadvantages or vice versa (reserve 1 mark)
Note: No mark for eval can be awarded if only one perspective considered.

34. (s24 qp 23-2(b)) **[12]**

2(b) Assess whether cross elasticity of demand is likely to be more important in determining the demand for electric cars than income elasticity of demand .
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- Explanation of what is meant by cross elasticity of demand.
- The significance of the price and availability of substitute models of both petrol and electric cars and their complements e.g., petrol and charging points etc.
- The weaknesses of the concept.
- Explanation of what is meant by income elasticity of demand.
- The significance of income in the decision to purchase an electric car including the relationship of changes in income to changes in demand.
- The weaknesses of the concept.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
That clearly assesses the extent to which cross elasticity of demand is likely to be more important than income elasticity of demand in determining the demand for electric cars by comparing the significance and weaknesses of both concepts and reaches a justified conclusion.
A one-sided response cannot gain any marks for evaluation. Please use a text box to show the mark split e.g., L2 5 L1 2
AO1 Knowledge and Understanding and AO2 Analysis 8
AO3 Evaluation 4

35. (w23 qp 21-2(b)) **[12]**

2(b) Assess whether price elasticity of demand (PED) or income elasticity of demand (YED) is likely to be of greater importance to a firm producing cars.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- An understanding of the meaning and formula of PED.
- An understanding of the meaning and formula of YED.
- An analysis of how each of these concepts can be applied to the specific context of a firm producing cars.

Guidance: A clear comparison of the strengths and weaknesses of these two concepts in the context of car production needed to get into Level 3.

(Up to 8 marks)
AO3 Evaluation
• PED should be easier for a firm to calculate than YED.
• PED will indicate whether price should be increased or decreased.
• However, a firm will need to take into account the availability of substitutes, the amount spent on the product and the time period under consideration.
• YED will be helpful in giving a firm an indication of the extent to which a change in income may affect spending on cars.
• However, a firm will need to take into account whether a car is seen as a normal or an inferior good, the proportion of income that is spent on the car and whether an economy is experiencing an upturn or a downturn.
• In conclusion, PED is likely to be of greater importance than YED, but YED will still be of some use.
Accept all valid responses.
(Up to 4 marks)
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

36. (w23 qp 23-2(b)) **[12]**

2(b) Assess whether knowledge and understanding of price elasticity of demand (PED) or cross elasticity of demand (XED) is likely to be more useful to a producer of smartphones.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Analysis of the benefits of using PED for a smartphone producer e.g., for raising / decreasing the price to maximise revenue.
• Analysis of the limitations of the use of using PED e.g., the figures are only estimates and may change over time.
• Analysis of the benefits of using XED for a smartphone producer e.g., to determine whether it is a complement or a substitute for a product produced e.g., by a different business to enable it to react to competitor pricing decisions.
• Analysis of the limitations of using XED e.g., other factors may have a greater influence e.g., brand loyalty to a competitor.
If limitations of only one measure are analysed then L3 mid-point maximum. If only one measure is analysed or no reference to smartphone producers then L2 maximum.
AO3 Evaluation
• Assessment of whether PED or XED is more useful to the producer.
• Need to use other sources of information in decision-making –e.g., YED.
• Justified conclusion.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

Further Practice （进阶）

1. (s25 qp 23-2(a)) **[8]**

2(a) Semi-conductors are widely used in the production of many types of electronic goods such as smartphones. It has been estimated that the price elasticity of supply for semi-conductors is 0.2 in the short run and 0.8 in the long run.
Explain what these estimates mean for producers of smartphones that use semi-conductors and consider the significance of the long run estimate.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
Meaning of price elasticity of supply (1) an accurate formula (1) an explanation of what is meant by price inelastic supply based on an increase in price leading to a proportionately smaller increase in quantity supplied. (1).
AO2 Analysis (max 3 marks)
Analysis of why the values may differ due to e.g., the time period, level of stock, changes in the production process etc. Up to 2 marks for each reason explained. Maximum of 3 marks overall.
AO3 Evaluation (max 2 marks)
An assessment of the significance of the long run estimate –e.g. possible shortages in the production of goods that require semi-conductors (1); investment into improving supply chains (1); investment into expanding capacity (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

2. (m21 qp 22-3(a)) **[8]**

3(a) Explain how you would use the concept of cross-elasticity of demand to measure the impact on the demand for cars when there is a rise in the price of fuel for cars and when there is a rise in the price of public transport.
For knowledge and understanding of cross elasticity of demand. What it measures (1) Formula (1) (Up to 2 marks)
For application using the concept to explain the impact of a rise in the price of petrol on the demand for cars
- For stating that since cars and fuel are complements the coefficient will be negative (1)
- For explaining why a negative coefficient will result when there is a rise in the price of fuel (1)
- For explaining that the impact will be greater and the coefficient will be higher the closer the relationship (1) (Up to 3 marks)

For application using the concept to explain the impact of a rise in the price of public transport on the demand for cars
- For stating that since cars and public transport are substitutes the coefficient will be positive (1)
- For explaining why a positive coefficient will result when there is a rise in the price of public transport (1)
- For explaining that the impact will be greater and the coefficient will be higher the closer

the relationship (1) (Up to 3 marks)

3. (s25 qp 24-2(a)) **[8]**

2(a) With the help of a formula, explain the meaning of price elasticity of demand and consider the significance to a firm of having price elastic or price inelastic demand for its product.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
- It measures the responsiveness of changes in demand to changes in price (1)
- Correct formula (1)
- Meaning of price elastic and price inelastic in terms of the percentage / proportionate response of changes in demand to changes in price (1)

AO2 Analysis (max 3 marks)
- Analysis of the impact of rising OR falling prices on the demand for a firm' s products when PED is inelastic (1)
- Analysis of the impact of rising OR falling prices on the demand for a firm' s products when PED is elastic (1)
- Analysis of the effect of both rising and falling prices on the demand for a firm' s products when PED is both elastic and inelastic (3).

AO3 Evaluation (max 2 marks)
That offers a valid judgement on the importance of the distinction between price elastic and price inelastic demand for determining the impact of price changes on the sales of a firm' s products.
1 mark for assessing what a firm should do to influence demand/spending when demand is elastic. 1 mark for assessing what a firm should do to influence demand/spending when demand is inelastic.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

4. (w24 qp 22-2(b)) **[12]**

2(b) Assess whether knowledge of income elasticity of demand or price elasticity of demand for its product is more useful to a business aiming to increase the total expenditure on its product during a period of economic growth.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Responses should focus on how the two measures are used rather than displaying merely knowledge and must relate to a period of economic growth which may lead to rising incomes and prices.
- Advantages and disadvantages of using income elasticity of demand include the opportunity to classify products as normal or inferior goods and may influence what type of goods to

produce. The measure may be less useful in terms of pricing decisions and may be based on historical data which may be inaccurate.
• Advantages and disadvantages of using price elasticity of demand include the opportunity to measure the impact of price changes but again suffer from the use of historical data which may be inappropriate in a time of economic growth and rising incomes which could affect PED values.
Accept any valid analysis that relates to the use of these measures during a period of economic growth and their impact on the aim of increasing sales revenue.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
2(b) AO3 Evaluation
• Requires an assessment of the use of both measures in comparison with each other in terms of their usefulness to a business aiming to increase sales revenue in a period of economic growth. Leading to
• A justified conclusion as to which is the most useful method.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5. (m22 qp 22-3(a)) **[8]**

3(a) Use examples to explain why the supply of some products is price For full marks there must be an elastic and the supply of other products is price inelastic. explanation of at least two factors that influence elasticity. If the candidate For knowledge and understanding of what is meant by price elasticity of considers only one factor and reverses supply. What it measures (1 mark) and the formula (1 mark). this factor, then 1 maximum for the second application. For example, if a candidate For application that uses valid example(s) to explain price elastic supply (1 suggests that a product is elastic in supply mark) identifies a factor that makes the supply of the product price elastic (1 because there are plentiful resources and mark) and why (1 mark) explanation of a factor that influences the elasticity. then reverses this to explain that price (Up to 3 marks) might be inelastic because of a shortage of resources, this can only be credited For application that uses valid example(s) to explain price inelastic supply once. (1 mark) identifies a factor that makes the supply of the product price inelastic (1 mark) and why (1 mark) explanation of a factor that influences the elasticity. (Up to 3 marks)

6. (s22 qp 21-3(a)) **[8]**

3(a) Explain two factors that determine the price elasticity of supply of a Definition of price elasticity of supply: manufactured product. • percentage change in the quantity supplied of a product divided by the Knowledge and Understanding: percentage change in the price of a For a correct definition/formula of price elasticity of supply. product (Up to 2 marks) Factors affecting the price elasticity of Candidates need to refer to the percentage/proportionate change in both Q supply of a manufactured product: and P to be awarded the second mark.

• the number of producers: many such products will be produced in a 2 marks maximum market with many producers, but Application: this is not always be the case, e.g., Application of one factor determining the price elasticity of supply of a a monopoly manufactured product. (Up to 3 marks) • the existence of spare capacity: if (1 mark for identification of the factor and up to 2 marks for explanation) there is spare capacity, PES will be more elastic than would otherwise Application of another factor determining the price elasticity of supply of a be the case manufactured product. (Up to 3 marks) • the ease of storing stocks: this (1 mark for identification of the factor and up to 2 marks for explanation) should be easier with manufactured products than 6 marks maximum perishable products, so PES will be relatively elastic
• the time period: if more firms join the industry over time, PES will be relatively elastic
• the factor mobility: the easier it is to move resources into the production of manufactured goods, the more elastic PES will be
• the time taken to produce a product: the shorter the time, the more elastic supply will be

7. (w24 qp 21-2(a)) **[8]**

2(a) Explain the determinants of supply for an agricultural product, such as rice, and consider which of these determinants is likely to be of the greatest significance at the present time.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A knowledge and understanding of the determinants of supply for an agricultural product, such as rice (there should be at least two determinants):
• physical factors, e.g. climate and soil
• institutional factors, e.g. land tenure and land reforms
• infrastructural factors, e.g. irrigation and storage facilities
• the price of rice and the prices of other agricultural products.
AO2 Analysis (max 3 marks)
An analysis of the importance of these determinants of supply for an agricultural product, such as rice. For example, if rice is relatively easy to store, the supply will be more elastic.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on which of these determinants of supply for an agricultural product, such as rice, is likely to be of the greatest significance at the present time (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

8. (w23 qp 22-2(a)) **[8]**

2(a) With the help of a formula, explain what is meant by the term price elasticity of demand for a product and consider the extent to which it allows an entrepreneur to determine the effect of price changes on the total expenditure on their product.
Follow the point-based marking guidance at the top of this mark scheme and award:
• up to 3 marks for AO1 Knowledge and understanding
• up to 3 marks for AO2 Analysis
• up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks) For a clear understanding of the meaning of price elasticity of demand (1) plus an accurate formula (1) plus a clear understanding of what is meant by price elastic and price inelastic that refers to relative proportionate or percentage changes rather than large or small changes (1)
AO2 Analysis (max 3 marks) Up to 2 marks for clear analysis of how total expenditure on a product is affected by price changes if the demand is price elastic. Up to 2 marks for clear analysis of how total expenditure on a product is affected by price changes if the demand is price inelastic. Note: as the question refers to price changes it is expected that answers should consider both price increases and price decreases. If either part of the analysis only considers a price rise or a fall, then a maximum of 1 mark for that part of the analysis. If both parts of the analysis consider a price rise or fall then a maximum mark of 2 i.e., 1 + 1.
AO3 Evaluation (max 2 marks) Up to 2 marks for considering the extent to which the concept can help the entrepreneur and making a judgement.
• Consideration of the accuracy of the measure and the ease of calculation for an entrepreneur
• Consideration of other factors which may affect total expenditure on a product when price changes.
• Reserve 1 mark for a conclusion that focuses on the extent to which it allows the entrepreneur to determine the effect of price changes.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

9. (s23 qp 22-2(a)) **[8]**

2(a) With the help of a diagram(s), explain what is meant by consumer surplus and producer surplus and consider whether a rise in the price of a product because of higher costs of production is likely to always reduce the consumer surplus.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) For a clear understanding of consumer surplus i.e., the difference between the price a consumer is willing to pay for a product and its market price (1). For a clear understanding of producer surplus i.e., the difference between the price a producer is willing to accept and what is actually paid (1). Both clearly shown on an accurately labelled diagram (s) (1)
AO2 Analysis (max 3 marks) An accurately labelled diagram(s) showing a shift to the left in the supply curve (1) which explains and shows the extent of the change in consumer surplus for a product with an elastic price elasticity of demand (1) compared to a product with an inelastic price elasticity of demand (1)
AO3 Evaluation (max 2 marks) Following suitable analysis of PED, it can be concluded that the overall impact is that consumer surplus will always fall (1) with a conclusion that the extent of the fall is dependent on the value of the price elasticity of demand (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

Advanced Practice （培优）

1. (s25 qp 23-2(b)) **[12]**

2(b) Assess the likely effects on resource allocation of a continuing increase in demand for semi-conductors.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• An analysis of the impact of continuing increases in the demand for semi- conductors. For example, the rationing function of the price mechanism will result in rising prices for the semi-conductors to remove the excess demand; the incentive function –rising prices will encourage producers to investigate ways to increase production levels; the signaling function –rising prices may encourage more firms to enter the market.
• However, the effects on resource allocation may depend on the availability of silicon, the costs of extraction, time lags and government legislation to limit environmental damage.
• Accept any other reasonable analysis of the effects on resource allocation –e.g. a PPC approach where producers are likely to increase the allocation of scarce resources for semi-conductor production –thereby creating an opportunity cost in terms of potential output of "other goods." In addition, accept a correct analysis based on it may depend on the type of economy in question.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation That clearly analyses at both sides of the question and comes to a valid conclusion.
A one-sided response cannot gain any marks for evaluation. Please use a text box to show the levels applied and mark split e.g., L3 6 L1 2
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

2. (w25 qp 22-2(b)) **[12]**

2(b) Assess the view that a business should be more concerned about the income elasticity of demand for its product than its cross elasticity of demand when incomes are falling.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Analysis of the advantages and disadvantages of using income elasticity of demand. For example, it lets the business know whether it produces inferior or normal goods and therefore what to produce more of when incomes are falling but businesses may not be so flexible. Alternatively, the predictions may be incorrect or the same measurement may not be applicable

to all households.
• Analysis of the advantages and disadvantages of using cross elasticity of demand. For example, for substitutes, it allows businesses to track the actions of competitors when incomes are falling. For complements, businesses can try to ensure they are aware of the impact on their own products depending on the impact on the complement. However, data may be out of date and make it unreliable.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
Guidance: Answers that do not refer to falling incomes cannot gain more than a mid-Level 2 mark.
AO3 Evaluation
That clearly analyses both sides of the question and comes to a valid conclusion.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
2(b) AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

3. (s21 qp 21-3(b)) **[12]**

3(b) Discuss the extent to which knowledge of the income elasticity of Income elasticity of demand can be useful demand for its product is likely to be more useful to a business than to a business in relation to: knowledge of the cross elasticity of demand for its product • normal goods (positive YED)
• inferior goods (negative YED) For Analysis
• economic development of a country Analysis of the usefulness of income elasticity of demand to a business, with • boom or recession: effect on business the use of appropriate scenarios. (Up to 4 marks) planning
Analysis of the usefulness of cross elasticity of demand to a business, with the use of appropriate scenarios. (Up to 4 marks) Cross elasticity of demand can be useful to a business in relation to: 8 marks maximum • substitutes/alternative demand
For Evaluation (positive XED)
• complements/joint demand (negative For exercising some judgement on whether knowledge of the income XED) elasticity of demand for its product is likely to be more useful to a business than knowledge of the cross elasticity of demand for its product with regard to changes in the price of the products of other businesses. (Up to 4 marks)
Reserve 1 mark for a conclusion
4 marks maximum

4. (s21 qp 22-3(b)) **[12]**

3(b) An economy is experiencing a fall in average incomes during a severe Income elasticity of demand would be recession. useful to an entrepreneur because it would indicate those goods that are likely to Discuss the extent to which the concepts of income elasticity of experience a decrease in demand and demand and price elasticity of demand might be useful to an those that should experience a rise in entrepreneur in this economy and consider which would be

more demand i.e. normal goods and inferior useful. goods respectively
For analysis that explains the usefulness of income elasticity of demand to Price elasticity of demand will inform an an entrepreneur when incomes are falling. (Up to 4 marks) entrepreneur of the possibility of changing prices to increase revenue. For analysis that explains the usefulness of price elasticity of demand to an entrepreneur when incomes are falling (Up to 4 marks) The estimates might be used by an entrepreneur or firms for sales forecasting, And for evaluation that clearly compares the usefulness of each concept investment decisions, production planning, (3 marks) that leads to a reasoned conclusion as to which is the most useful location and new markets. (1 mark) There are no KU marks awarded in part (b) for merely explaining/ defining terms or phrases within the question

5. (w24 qp 21-2(b)) **[12]**

2(b) Assess whether the supply of agricultural products is likely to be more price elastic or less price elastic than the supply of manufactured products.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
A knowledge and understanding and analysis of possible factors affecting the PES of agricultural products and manufactured products, including:
- the number of producers
- the existence of spare capacity
- the ease of storing stocks
- the time period
- the extent of factor mobility
- the length of the production process.

Answers should analyse how PES is affected by each of these, with a clear distinction between the two types of products.
Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one-sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
- Evaluation of whether the supply of agricultural products is likely to be more price elastic or less price elastic than the supply of manufactured products.
- In conclusion, PES for agricultural products is likely to be less elastic than the PES for manufactured products.

Accept all valid responses. A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

6. (w23 qp 22-2(b)) **[12]**

2(b) Assess whether the concept of price elasticity of supply or cross elasticity of demand will be the more useful to a business wanting to increase its total sales in a growing economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Analysis of the concept of price elasticity of supply may explain its use in increasing a business' total sales by examining the following.
• Usefulness depends on the type of goods and whether decisions need to be made in the short run or long run.
• It may help businesses with regards to stock holding and decisions about which products to focus on
• It may help businesses make decisions about productive capacity and whether e.g., to invest in new technology BUT
• It depends on the accuracy of the data used to produce the value.
• This may change over time and the value may have little value in a growing economy.
• Some products, such as agricultural/perishable products, will naturally have a more price inelastic supply and knowledge of the value may have little use.
Analysis of the concept of cross elasticity of demand may explain its use in increasing a business' s total revenue by examining the following.
• It will mean the business understands the relationship between its product and others i.e., whether they are complements or substitutes.
• It also measures the closeness of the relationship and informs decisions about how quickly and the extent to which it should react for example if a competitor changes its prices.
• It should assist a business to develop a pricing strategy that maximises opportunities to generate more sales BUT
• The usefulness depends on the accuracy of the data and in a growing economy, it may not be possible to keep the value up to date. It is therefore often dependent on estimates that may be inaccurate.
• Businesses may not be able to act on the data by changing prices if their cost structure cannot be easily changed.
• Other variables other than cross elasticity of demand may be more important for example non price determinants such as brand loyalty.
Better answers will refer directly/implicitly to their usefulness to a business operating in a growing economy. Answers which do not are unlikely to gain more than L3 lower band.
One sided response i.e., those that only consider one concept or do not analyse the problems of at least one concept will not gain beyond L2.
2(b) AO3 Evaluation
• Consideration of the likely effectiveness of both measures in increasing total sales in a growing economy that assesses which is most likely to be effective. If there is no direct/implicit reference to a growing economy, then L1 upper maximum.
• Candidates may consider an alternative concept e.g., YED to assess whether sales would actually grow in these circumstances,
• A justified conclusion which is most likely to be effective.

Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

7. (w25 qp 21-2(b)) **[12]**

2(b) Assess whether knowledge of a product' s income elasticity of demand is more important to a firm producing it than knowledge of its cross elasticity of demand.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• A knowledge and understanding and analysis of income elasticity of demand (YED), such as in relation to whether a product is a normal good, where YED will be positive, or an inferior good, where YED will be negative and an analysis of the importance of it to a firm, i.e. the extent of its importance.
• A knowledge and understanding and analysis of cross elasticity of demand (XED), such as in relation to whether two goods are substitutes, where XED will be positive, or complements, where XED will be negative and an analysis of the importance of it to a firm, i.e. the extent of its importance
(Up to 8 marks)
Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one-sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
Evaluation of whether YED or XED is likely to be more important for a firm producing a product to reach a conclusion.
Accept all valid responses. A one-sided response cannot gain any marks for evaluation.
(Up to 4 marks)
2(b) AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

8. (w22 qp 21-2(b)) **[12]**

2(b) Discuss whether knowledge of price elasticity of demand or The usefulness of knowledge of price income elasticity of demand would be of greater use to a elasticity of demand: business that produces cars. • the business will be able to predict the effect of a change in the price of a car For Analysis: on demand reasonably accurately Analysis of the usefulness of knowledge of the price elasticity of • if demand is price elastic, a fall in price demand to a business that produces cars. (Up to 4 marks) will lead to an increase in revenue
• if demand is price inelastic, a fall in Analysis of the usefulness of knowledge of the income elasticity of price leads to a decrease in revenue demand to a business that produces cars. (Up to 4 marks) • if PED is unitary elastic, a change in price will not lead to a change in 8 marks

maximum revenue
For Evaluation: The usefulness of knowledge of the income For exercising some judgement on whether knowledge of price elasticity of demand: elasticity of demand or income elasticity of demand would be of • the business will benefit from knowing greater use to a business that produces cars.(Up to 4 marks) about the effect of changes in income in an economy, e.g. as incomes Reserve 1 mark for a conclusion increase, production can shift from a basic car 4 marks maximum • knowledge of YED will enable the business to plan for the future, e.g. having the resources to meet demand
• increases in income in an economy may lead the business to produce better and more luxurious cars with more features and functions (luxuries have a YED of more than 1 and so the business will be able to know whether to produce more luxury goods)

3 Government Microeconomic Intervention(政府微观干预)

入门综合 （36）

1. (w22 qp 22-1(d)) **[3]**

   1(d) Explain, with the help of a diagram, how a rise in the minimum price of Two marks are available for an accurate maize in Malawi will encourage production. diagram showing a movement upward (rise) of the guaranteed price and the For a fully accurate S and D diagram that clearly shows a rise in the minimum extension in supply. The diagram must be price of maize and the increase in supply (2 marks) accurately labelled.
   OR There must be an explanation that accompanies the diagram that clearly For a fully accurate S and D diagram that clearly shows the introduction of a explains this is a rise in the minimum price minimum price of maize and the increase in supply (1 mark max) rather than the introduction of a minimum price for full marks. For an accompanying explanation that clearly explains that there has been a rise in the minimum price of maize and that this should increase its production If the diagram does not make it clear that because it will encourage farmers to produce more maize. (1 mark) this is a rise in the minimum price then a maximum of one mark should be awarded overall.

2. (w23 qp 22-1(c)) **[4]**

   1(c) With the help of a diagram, explain why the supply problem referred to may lead to increases in the price of electric cars in the future and consider one policy that may be used to overcome this supply problem.
   The shortage of lithium may be caused by a fall in its supply or an increase in its demand (not matched by an increase in its supply). For an accurate supply and demand diagram showing the effect on the price of lithium and/or the price of electric cars due to either of these changes (1) explaining that this will add to the cost of production of electric cars (1) and therefore increase the price of electric cars (1).
   IF an accurate supply and demand diagram is drawn to illustrate the increase in the price of electric cars without any reference to the price of lithium and its importance as a cost of production then 1 mark MAX.
   Clearly there are several potential valid policies, but these must clearly address the problems identified in the data i.e., a worldwide shortage in the supply of lithium needed for car batteries in electric vehicles. Evaluation must therefore focus on increasing the supply of lithium and not electric cars and methods may include:
   - R and D into alternative raw materials other than lithium or improve its extraction
   - Tax and subsidy incentives to increase R and D
   - Tax and subsidy incentives to increase the number of lithium mines.

   Identify and explain valid policy and briefly explain how that this might overcome the problem of a lack of lithium (1)
   Guidance Any valid way should be rewarded but it must clearly relate to the problems identified in the data and explain how the problem may be overcome for full marks.

3. (w22 qp 21-1(c)) **[4]**

1(c) Explain, with the help of a diagram, how an effective minimum Effective minimum price: price would affect the market for a basic food, such as rice in • a minimum price in a market is where a Haiti. price floor is established
• to be effective, this needs to be above For an explanation of the effect of a minimum price in a market the equilibrium price (Up to 2 marks) • the equilibrium price in a market would For a correctly drawn and labelled diagram to show the operation of a be higher than would be the case if minimum price in a market for a basic food, such as rice in Haiti there was no government intervention (Up to 2 marks) • farmers are therefore guaranteed 4 marks maximum these prices
• this is likely to have a positive effect on their incomes
• it could lead to excess supply/surplus
• this could lead to the possibility of food rotting in warehouses Diagram:
• One mark for correctly labelled P, Q, D and S
• One mark for showing a minimum price line above the equilibrium, for showing a price higher than the equilibrium price and for showing the change in quantity

4. (w24 qp 23-1(c)) **[4]**

1(c) Consider whether a buffer stock scheme is likely to be successful in reducing the price fluctuations shown in Fig. 1.1.
Buffer stocks schemes occur when governments buy and sell coffee beans to stabilise prices (1). Governments will supply surplus stocks of coffee beans in the event of a poor yield to minimise excessive price rises (1) and buy excess supplies of coffee beans when yields are sufficiently high enough to cause significant price reductions. (1)
For valid evaluation
• For example: If the coffee beans cannot be stored in a way that maintains its quality, it may not be sold at the intended market price (1).
• Other relevant factors include the government' s budget/ability to finance the scheme.

5. (s25 qp 24-1(c)) **[4]**

1(c) Consider the extent to which the potential advantages of subsidies given to firms by the Malaysian government outweigh their potential disadvantages.
• Advantages include the reduction in firms' costs of production, which may increase their competitiveness, leading to an increase in sales and AD, reducing unemployment as AS and AD both increase. It may also reduce prices for consumers, increasing consumer surplus. (MAX 2 marks)
• Disadvantages include payments to firms may be used to boost profits and not reduce costs; payments will be expensive for the government and could contribute to a budget deficit, may lead to inefficiency, may lead to overseas retaliation. (MAX 2 marks)
Max 3 marks overall
Up to 1 mark for valid evaluation:
• Relevant evaluation which considers the extent to which the potential advantages exceed the potential disadvantages of subsidies, in the context of Malaysia, for example, overall, the potential disadvantages are greater as subsidies are a significant expense for the Malaysian government.

6. (w25 qp 22-1(c)) **[4]**

1(c) Consider whether a buffer stock system controlled by the government of Ivory Coast would be likely to prevent fluctuations in the price of cocoa beans.
• A buffer stock system combines both maximum price and minimum price controls / is designed to minimise price fluctuations / price falls (1)
• If the price falls below a certain fixed point / minimum price the government will purchase and store cocoa beans therefore reducing supply/controlling demand to raise the price of cocoa beans (1). If the price rises beyond a certain point / maximum price, this buffer stock is released thus increasing supply and reducing the price of cocoa beans (1).
Guidance
• A response that only refers to governments buying stocks of cocoa beans in times of a surplus and selling them in times of a shortage to minimise price fluctuations is worth 1 additional mark maximum for analysis.
Reserve 1 mark for valid evaluation e.g.,
• Cocoa beans may be difficult/expensive to store / perishable/ may be an illegal market set up so it may not prevent fluctuations in the price of cocoa beans / the government do not have the budget to buy any surplus. (1)
Guidance
• The eval mark can be awarded even without any analysis marks being given PROVIDED there is a reasonable understanding that a buffer stock scheme only works when stocks can be held/released.

7. (w22 qp 23-1(d)) **[4]**

1(d) Explain two other ways, apart from subsidies and reductions in Various possibilities include: sales tax, in which the government might support Pakistan' s • A minimum price for a given crop farmers. • Income support through transfer payments
• Advice on how to cut costs and improve crop Identification of an additional way (1 mark) plus an explanation of how yields this will support farmers (1 mark) • Cheap finance to buy better quality seed
• Policy of protectionism (N.B. do not accept 2 Up to 2 marks per identified way × 2 policies of protection as 2 separate ways)
• Education and training

8. (w22 qp 22-1(e)) **[4]**

1(e) Discuss, with the help of a diagram, whether a subsidy on maize The diagram should show a shift to the production will always benefit both the producers of maize and poorer right of the supply curve and a fall in price- households in Zimbabwe equally. benefitting consumers and the payment to producers shown as the vertical distance For an accurately labelled diagram that shows the shift to the right of the between the new supply curve and the old supply curve and the fall in equilibrium price that benefits the consumer supply curve at the new price. (1 mark) For both marks for the diagram, the impact on the price paid by the consumer and the and the rise in price received by the producer (plus 1 mark) effective price received by the producer must be clearly shown. and for an evaluative comment that refers to and accurately explains the significance of at least one measure of elasticity on the benefit to the producer The answer just requires a brief and / or the consumer. (1 mark) explanation that the extent of the benefit to producers and consumers depends mainly and

reaches a justified conclusion that benefit may / may not be enjoyed on PED e.g. if it is elastic then producers equally. (1 mark) will gain more and if inelastic, consumers will. May also depend on PES and consumers gain more when PES is more elastic and vice versa. Justified conclusion needed for final mark

9. (w22 qp 23-1(c)) **[4]**

1(c) Analyse, with the help of a diagram, how the sales tax on A sales tax increases the price of fertilisers to fertilisers affects the market for fertilisers in Pakistan. farmers in Pakistan. This can be shown by a shift to the left of the supply curve. For an accurate diagram that uses an accurately labelled D and S diagram to show a shift in the supply curve (1 mark) and the increase The effect on the market is likely to depend upon in price and reduction in quantity (1 mark) the PED for fertilisers and the size of the sales tax. For an explanation that the fall in demand will depend upon the PED for fertilisers and /or the size of the sales tax. (Up to 2 marks)

10. (s23 qp 22-1(e)) **[6]**

1(e) Assess whether adjusting the collection of direct tax or indirect tax is likely to be more effective in increasing the tax revenue collected by the Nigerian government.
Up to 4 marks for the explanation/analysis:
• For a simple assessment of the strengths and weaknesses of different methods of collecting direct and indirect tax with no explicit link to their effectiveness in increasing the tax revenue collected by the Nigerian government then (maximum of 1 mark overall)
• One method of adjusting direct tax may be to introduce a more progressive income tax. Analysis should consider the advantages and disadvantages of this in raising more domestic tax revenue. (Up to 3 marks maximum; but 1 mark maximum if only advantages or disadvantages are analysed.)
• One method of adjusting indirect tax may be to further increase the rate of VAT higher than the rate of 7.5% mentioned in extract 2. Analysis should consider the advantages and disadvantages of doing this in raising more domestic tax revenue. (Up to 3 marks maximum; but 1 mark maximum if only advantages or disadvantages are analysed.)
A maximum of 3 marks if only one type of tax is analysed.
Issues to consider for both the above may include:
• Fairness and equality
• The amount that may be raised
• Costs of ensuring compliance etc.
Up to 2 marks for evaluation:
• Which must compare and weigh up the likely effectiveness of both types of tax in raising tax revenue with consideration of the problems faced by the Nigerian government in increasing the amount of tax revenue raised.
• Reaches an overall conclusion as to which type of tax is likely to be the most effective.

11. (s21 qp 23-1(d)) **[6]**

1(d) Discuss whether a minimum price for fuel would be A minimum price for fuel above the equilibrium price effective in reducing the congestion caused by the would increase the price for car users and in theory, demand for roads exceeding supply. lead to reduced demand and reduced congestion. However, this would only be effective if the demand for For an analysis

of the effect of introducing a minimum price in fuel was price elastic. In addition, it will lead to excess a market. (up to 3 marks) supply and the possible formation of informal markets. It also depends on the ability of the government to For analysis which explains why a minimum price may not be maintain and enforce the minimum price. effective. (up to 3 marks)
MAXIMUM of 5 marks for analysis
1 mark for a justified conclusion as to whether a minimum price would be effective in reducing congestion

12. (s23 qp 23-1(f)) **[6]**

1(f) Assess the likely effects on UK consumers and the UK government of a ban on online adverts for sugary foods.
Up to 4 marks for explanation/analysis of any valid effects such as
- Consumers, especially children, may be healthier/less obese
- A wider range of alternative healthier snacks could become available
- Reduced pressure on the NHS as less obese people
- Educational standards and workplace productivity could improve
- Could result in less tax revenue for government due to lower sales of sugary foods and reduced advertising from manufactures of sugary foods

For an explanation of the benefits and costs of the likely effects on UK consumers and the government but with no explicit reference to the context of sugary foods (1 mark max)
For an analysis that explains the benefits to UK consumers and the government of a ban on online adverts of sugary foods (Up to 2 marks)
For an analysis that explains the costs to UK consumers and the government of a ban on online adverts of sugary foods (Up to 2 marks)
Up to 2 marks for evaluation:
- Uncertain impact of advertising ban
- Not easy to measure impact on consumer demand or government revenue
- Other forms of advertising will continue
- Reserve 1 mark for a justified conclusion

13. (s25 qp 22-1(e)) **[6]**

1(e) Assess the extent to which the policies suggested to improve infrastructure and to reduce the high rates of unemployment in South Africa are likely to reduce income inequality.
Policies that may be referred to are all supply side policies and are those which:
- Improve transport links and safeguard electricity supplies.
- Setting an appropriate national minimum wage.
- Strengthening employment protection.
- Improving levels of education and training and school to job transitions.
- Promotion of entrepreneurship.

Up to 3 marks for an explanation / analysis should focus on how such policies may reduce income inequality e.g., by:
- Increasing mobility (due to improved transport links) to take advantage of job opportunities. (1)
- Raising wage levels / protecting jobs (1)
- Making people more employable / able to move into self-employment thus raising income levels. (1)

(Up to 3 marks)
Up to 3 marks for an explanation / analysis of the drawbacks of such policies in reducing income inequality
- Cost of implementation meaning such policies are possibly withdrawn (1)
- Time taken to implement such policies (1)
- Receptiveness of workforce for example, people may not understand the importance of education, may prioritise earning income now etc. (1)
- If the policies simply have the impact of making people who are already earning higher incomes even better off / the benefits are equally shared across all income levels, this will not reduce income inequality.

Note: 4 marks maximum for analysis
For a balanced evaluation that clearly assesses both sides (1) with a justified conclusion that clearly answers the question. (Reserve 1 mark).

14. (s23 qp 23-1(e)) **[6]**

1(e) With the help of a diagram, assess how the market for sugary foods in the UK might be affected by a ban on online advertising.
- Up to 4 marks for explanation/analysis: Accurately labelled diagram showing a shift to the left in the market demand curve for sugary foods
- Explanation why a ban on online advertising is likely to lead to a fall in demand for sugary foods
- Analysis of the effects of the shift in terms of the change in price and level of demand
- Some consumers may not be put off by the information provided in advertising
- Sugary foods are cheap and take up only a small proportion of the income of an adult
- Demand for sugary foods is likely to be price inelastic
- Informal market could develop amongst younger adults/children

For an analysis that explains the advantages/strengths of an online advertising ban (Up to 2 marks)
For an analysis that explains the disadvantages/weaknesses of an online advertising ban (Up to 2 marks)
Up to 2 marks for evaluation: For a brief comment such as
- The change in demand will depend on the PED for sugary foods
- Sugary foods is a diverse term-some types of product will be more affected than others
- Few palatable substitutes are available
- Manufacturers are likely to use other than online advertising to promote their products
- Reserve 1 mark for a justified conclusion

15. (s25 qp 23-1(e)) **[6]**

1(e) Assess the extent to which the increase in onion price is likely to have affected all households equally in the Philippines.
Up to 3 marks for explanation/analysis of why the increase in onion price is likely to have affected all households equally in the Philippines.
- Onions are widely used in Filipino cooking across all income groups, so a price increase impacts the food costs of most households.
- Since onions are a basic necessity with few close substitutes (i.e. demand is price inelastic), all households tend to keep buying similar quantities despite price rises, spreading the impact

evenly.
• Onions may be sold at similar prices across markets, so households across different regions face similar price increases.
• Due to cultural preferences and cooking practices, most households cannot easily switch to other ingredients, so they all experience the price rise similarly.
Up to 3 marks for explanation/analysis of why the increase in onion price is unlikely to have affected all households equally in the Philippines.
• Lower-income households spend a higher proportion of their income on basic food items like onions, so a price rise hits their budgets harder than wealthier households.
• Not all households consume the same quantity of onions. Some may rely heavily on onions in daily cooking, while others use them less, affecting the impact of the price increase.
• Wealthier households might afford substitutes or alternatives (e.g., other vegetables or flavorings), lessening the effect of onion price increases on their overall food costs.
• Households in rural farming areas might grow their own onions or buy at lower prices, while urban households depend on market purchases, so the price increase affects urban consumers more.
Up to 3 marks maximum for each perspective, with an overall maximum of 4 marks.
Up to 2 marks for evaluation
• That clearly considers both viewpoints. For example, although the price rise affects everyone, its burden is not distributed evenly across the Philippines.
• Comes to a reasoned conclusion as to whether the price rise affects all households equally (reserve 1 mark)
No mark for evaluation can be awarded if only advantages or disadvantages are considered.

16. (s25 qp 23-1(d)) **[6]**

1(d) Assess whether 'a suggested retail price' is the best way of stabilising onion prices in the Philippines.
Up to 3 marks maximum for the benefits and disadvantages of a maximum price. for each perspective.
• A maximum price (price ceiling) set below the equilibrium price can stop sellers from charging excessively high prices when supply is limited, especially during harvest failures or supply chain disruptions.
• By capping prices, the government can ensure red onions remain affordable for lower-income households, stabilising demand and avoiding volatile consumer reactions to price spikes.
• A legal price cap can reduce incentives for traders to hoard onions and sell them later at inflated prices, helping to keep the market stable.
• It provides confidence to the public that the government is actively managing food inflation, which can stabilise expectations and reduce panic buying or price-driven speculation.
However
• If the maximum price is set below the market equilibrium, quantity demanded exceeds quantity supplied. This can lead to persistent shortages and long queues for red onions.
• Suppliers may sell onions illegally at higher prices (above the ceiling) to profit from the excess demand, reducing the effectiveness of the price control.
• Farmers may cut back on onion production if they cannot cover their costs or earn a reasonable profit at the capped price, worsening long- term supply.
• Monitoring and enforcing the maximum price requires government resources. Without

proper enforcement, the policy may fail to stabilise prices effectively.
If only the benefits OR problems of a maximum price are considered, then a maximum of 2 marks.
Up to 3 marks of at least one alternative policy to stabilise onions prices in the Philippines.
• The government can provide subsidies to onion producers to lower their production costs, thereby increasing and helping meet demand at a lower price without the need for a price cap.
• A buffer stock scheme could be introduced where excess stocks of onions could be bought during times of surplus and released during times of shortages.
• The temporary removal of tariffs or controlled imports during periods of shortages,
• Promotion of investment in irrigation, storage and distribution networks to reduce production and post-harvest losses.
1(d) If only the benefits OR problems of an alternatively policy are considered, then a maximum of marks
Up to 2 marks for evaluation
• That clearly considers whether or not 'a suggested retail price' is the best way of stabilising onion prices in the Philippines when compared to an alternative policy.
• Comes to a reasoned conclusion. (reserve 1 mark)
No mark for evaluation can be awarded unless the candidate has considered the benefits and disadvantages of a maximum price and an alternative.

17. (w24 qp 22-1(d)) **[6]**

1(d) Assess the extent to which 'the government increasing its education spending' may improve the incomes of poorer households in Chile.
Up to 4 marks for the explanation / analysis:
For an explanation of the reasons / benefits of the government increasing education spending to improve the incomes of poorer households (Up to 3 marks). These may include:
• As the data makes clear, education is considered a merit good that is considered to be beneficial for the individual and society in e.g., raising income levels due to a better educated and skilled workforce.
• Additional spending may increase the availability of education provision and free college tuition fees may make it more affordable to poorer households.
• Increased provision may also reduce other costs of education, again making it more affordable and accessible.
• It may raise awareness of the benefits of education for poorer households.
For an explanation of why increased government spending on education may not have the desired effects (Up to 3 marks). These may include:
• There may still be a lack of awareness of the benefits of education due to information failure.
• Poorer households may have higher opportunity costs due to the need to start earning an income at an earlier age.
• Government spending may be unsustainable leading to reductions in future spending.
• Max: 4 marks Note: maximum of 3 marks if only one side is considered.
Up to 2 marks for evaluation (no marks if only one side is considered):
• That assesses the advantages and disadvantages of just increasing government expenditure on education to improve living standards of poorer households, this may include an assessment of the time for the policy to have the desired effect i.e., the extent (1), leading to

- A valid conclusion (1).

18. (w22 qp 23-1(e)) **[6]**

1(e) Discuss whether agricultural subsidies should not be paid to The answer should consider the benefits of farmers in countries which have lower opportunity costs in other subsidies to farmers in terms of increasing their areas of production. incomes and benefits to the economy in terms of reducing import dependence and keeping the For an explanation of the benefits of paying agricultural subsidies to prices of staple goods affordable. farmers (up to 3 marks) The evaluation should consider these benefits in countries that have lower opportunity costs in For an evaluation of whether agricultural subsidies should be paid to other areas of production e.g., may be an farmers if the country already has lower opportunity costs in other unnecessary burden on government expenditure, industries. (Up to 3 marks with 1 mark reserved for a conclusion) may invite retaliation, may restrict trade etc.

19. (w22 qp 21-1(e)) **[6]**

1(e) Discuss whether maximum price controls will always be The advantages of establishing a maximum effective in controlling inflation. price in a market in the form of a price ceiling: For a discussion of the advantages of using maximum price controls • the price will be lower than what would to control inflation (Up to 3 marks) otherwise be the case if there was no government intervention For a discussion of the disadvantages of using maximum price • this would lead to a lower rate of controls to control inflation (Up to 3 marks) inflation in an economy

- this helps the poor afford the 5 marks maximum necessities of life
- these could include essential Reserve 1 mark for a conclusion foodstuffs, housing rents and transport
- specific examples given include the 6 marks maximum price of foodstuffs, including bread in Benin and rice in Haiti The disadvantages of establishing a maximum price in a market in the form of a price ceiling:
- lower prices could stimulate demand- pull inflation
- the creation of a shortage as a result of the excess demand created in the market
- hoarding
- black/illegal markets which can charge relatively high prices
- queuing or rationing
- if the controls are not effective, it will not control inflation

20. (w25 qp 22-1(d)) **[6]**

1(d) Assess the extent to which the use of a minimum pricing policy would be the best way to ensure ‘cocoa bean farmers get paid a living wage’.
Up to 3 marks for an explanation / analysis of the reasons why the use of a minimum pricing policy would be the best way to ensure cocoa bean farmers get paid a living wage e.g.:

- It ensures that farmers receive a guaranteed price above the equilibrium market price enabling them to receive a higher income
- It encourages farmers to maintain / increase production as there is more financial security again leading to a living wage
- It reduces the instability caused by fluctuations in the global price of cocoa beans leading to a more stable income for farmers.

Up to 3 marks for an explanation / analysis of the reasons why the use of a minimum pricing policy may not be the best way to ensure cocoa bean farmers get paid a living wage e.g.:
• It may not be set at an appropriate level / may not be enforceable e.g., due to the costs of enforcement
• It may lead to a surplus due to increased supply and reduced demand for e.g. chocolate products meaning this surplus may fail to be sold
• Budget constraints for the government may make it impossible for them to buy the surplus and this makes the scheme collapse
• May make farmers complacent therefore failing to invest and in the LR incomes fall.
Guidance:
• Allow any reasonable point for either perspective, BUT it must be linked how it affects farmer' s incomes.
• Candidates may choose to compare the advantages and disadvantages of an alternative method e.g., transfer payments / subsidies to farmers. Provided this is clear that a comparison to a minimum pricing policy has been attempted, this approach can also gain full marks.
• Do not allow answers that refer to minimum wages as the policy or as an alternative.
Note: 4 marks maximum for analysis
• Evaluation that clearly assesses both sides (1) and comes to a justified conclusion whether it is the best way (1).

21. (w21 qp 22-1(e)) **[6]**

1(e) Consider whether roads and other items of infrastructure in India Reasons why some infrastructure may be would be better provided by the private sector or by the government in better provided by the government may India. include accurate explanation of:
• provision of public goods, i.e. those with For an explanation of why some infrastructure either could only or may be characteristics of non-rivalry and non- better provided by the government (up to 3 marks) excludability, e.g. street lighting
• quasi-public goods, e.g. roads and For an explanation of why some infrastructure may be better provided by the bridges private sector (up to 3 marks) • free rider problem
• merit goods 5 marks maximum • scale of investment needed Reserve 1 mark for a reasoned conclusion Reasons for private sector provision may include:
• they are private goods and why, therefore, profit motive applies leading to better efficiency
• government budget restrictions
• opportunity cost
Note: explanations must be accurate, and credit must not be given to answers that simply assert all government funded infrastructure refers to public goods

22. (s21 qp 23-1(e)) **[6]**

1(e) Discuss whether making public transport free to Various alternative policies could be consumers is the best way to allocate resources in public transport markets. –Maximum prices for bus and rail fares –Transfer payments for bus and rail transport users Analysis of the benefits of free public transport –Subsidies (up to 3 marks)
Analysis of the benefits of any other valid policy (up to 3 marks)
MAXIMUM of 5 marks for analysis
Award up to 1 mark for an evaluation of which policy is likely to be the most effective

23. (w22 qp 22-1(f)) **[6]**

1(f) Discuss whether maximum prices on staple foods such as maize are The imposition of the maximum price will likely to be effective in providing food for poorer households in lead to a shortage of maize in the market. Zimbabwe. In the absence of equilibrium price another method of distributing maize will need to For an explanation that a maximum price on the market for maize is intended be found. This might lead to queuing, first to keep the price low / affordable for poorer households (1 mark) come first served or illegal markets. A rationing system might alleviate the For an explanation of the problems/ consequences caused in the market by problems. the introduction of a maximum price for maize (up to 3 marks) Although a diagram is likely to be used, For an evaluation as to whether such problems/ consequences can be this is not a requirement of the question overcome leading to a reasoned conclusion (reserve 1 mark for the and marks cannot be allocated conclusion) (up to 2 marks) specifically. The use of a diagram if accurate and correctly explained may be used in the explanation and rewarded accordingly.

24. (w22 qp 21-1(d)) **[6]**

1(d) 'Governments use stocks to smooth fluctuations in the price of a Government action might help the workings commodity like cocoa' . of the price mechanism:
• it can help to stabilise a market Consider whether government action to smooth fluctuations
• stocks can be used to smooth helps the workings of the price mechanism. fluctuations in the price of commodity, such as cocoa, avoiding/reducing large For an explanation of how government action to smooth price price variations fluctuations may help the workings of the price mechanism • a government could buy stocks when (Up to 3 marks) there was an excess supply of a For an explanation of how government action to smooth price product in the market fluctuations may not help the workings of the price mechanism • a government could sell stocks when (Up to 3 marks) there was an excess demand for a 5 marks maximum product in the market
Reserve 1 mark for a conclusion Government action might not help the workings of the price mechanism: 6 marks maximum • it could distort the market by not allowing prices to reflect changes in the conditions of demand for, and supply of, a product
• the consideration of how such action by a government might not help the workings of the price mechanism can be discussed in relation to the different functions of the price mechanism, i.e. rationing, signalling and the transmission of preferences

25. (s21 qp 22-2(a)) **[8]**

2(a) In 2018 the UK government, concerned about the rise in obesity, The answer provided must show particularly amongst young people, imposed a tax on producers of knowledge and understanding that a sugar-sweetened drinks. demerit good is one that is worse for the consumer than they realise because of State what is meant by a demerit good, and with the help of a information failure. The diagram(s) should diagram(s) explain how a tax on producers can improve the allocation show that demerit goods are under-priced of resources in the market for sugar-sweetened drinks. and over consumed and also how a tax can improve allocation. For knowledge and understanding of a demerit good which explains that the term refers to a good that has the cost of consumption underestimated/worse for the consumer than they realise/because of information failure (1 mark) and is overconsumed (1 mark)
Application that uses a correctly labelled diagram to explain the impact of an indirect tax on

price and quantity. Diagram showing a left shift in the S curve (1 mark) the fall in quantity consumed (1 mark) and the increase in price (1 mark) (up to 3 marks)
An explanation that the tax is increasing the cost of production for producers (1 mark), which increases the price and reduces the consumption (1 mark) which removes the market failure/problem of information failure/improves the allocation of resources (1 mark) (up to 3 marks)

26. (w25 qp 24-2(a)) **[8]**

2(a) Explain what is meant by the incidence of an indirect tax and consider the extent to which it is possible for the incidence to pass from a producer of a good to a consumer of that good.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
Of the meaning of an indirect tax and the incidence of an indirect tax. Note: a diagram is NOT essential but can be used, with a separate explanation, to show what is meant by an indirect tax and/or the incidence.
• The incidence of tax refers to the extent of the burden/ proportion of tax borne by the producer and/ or consumer. (1)
• An indirect tax is a tax placed on goods or services. (1)
• It can be specific, i.e., a fixed amount per purchase or ad valorem, i.e., a % of the price charged by the retailer. (1)
• Allow references to the fact that it is seen as regressive if explained, OR accurate examples OR that it can be used to reduce consumption of demerit goods or raise revenue for governments. (1)
Award a maximum of two marks if no explanation of incidence.
AO2 Analysis (max 3 marks)
Of the possibility of passing the incidence from a producer to a consumer depending on PED. Note: a diagram is NOT essential but can be used, to assist an explanation in words, the possibility of passing the incidence from a producer to a consumer depending on PED.
• The indirect tax has the effect of raising the price of the product or service by shifting the supply curve to the left. (1)
• Analysis of the impact on the incidence if the PED is elastic. (1)
• Analysis of the impact on the incidence if the PED is inelastic. (1)
AO3 Evaluation (max 2 marks) The extent to which it is possible to pass the incidence of tax onto the consumer depends upon the PED. For explained assessment that it is more possible to pass on the incidence of tax to the consumer if the PED is inelastic. Note: the second mark is reserved for a justified conclusion.
2(a) AO1 Knowledge and understanding
AO2 Analysis 3
AO3 Evaluation 2

27. (m20 qp 22-3(a)) **[8]**

3(a) The government raises taxes to provide a toll road bridge The classification relies upon whether the goods are and streetlights in a country. Explain how an economist excludable and rival in consumption. It does not would classify each of these provisions. matter how they are paid for.
For knowledge and understanding of the characteristics that Reference to merit goods should still conclude that allow the classification of goods i.e. excludability (1 marks) and these are private goods in terms of excludability and rivalry in consumption (1 marks) rivalry. (KU: up to 2 marks)
For application that
- classifies a toll road bridge as a private good (3 marks)
- and streetlights as a public good (3 marks) (APP: up to 6 marks)

28. (m20 qp 22-3(b)) **[12]**

3(b) Discuss the view that direct taxes are the fairest and the Candidates should consider both fairness and most effective way for governments to raise revenue. effectiveness in their answers. There might be reference to the canons of taxation, but candidates Up to 4 marks for analysis that compares direct and indirect may focus on one assessment of fairness or taxation in terms of fairness (with reference to regressive and effectiveness in their answer. Canons of taxation that progressive taxes). may be discussed include certainty, cost, convenience, transparency. Up to 4 marks for analysis that compares direct and indirect taxation in terms of effectiveness. (with reference to issues such Both types of taxation must be assessed in terms of as revenue raising, disincentive effects etc) . the criteria for 4 marks. If a candidate only considers (AN: up to 8 marks) the fairness of direct taxes then award 3 maximum.
For evaluative comment with 1 mark reserved for a reasoned conclusion (EVAL: up to 4 marks)

29. (m24 qp 22-2(a)) **[8]**

2(a) With the help of a demand and supply diagram, explain how the introduction of an indirect tax affects equilibrium in a market and consider the extent to which the incidence of the tax will fall on the consumer.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) An accurate definition of an indirect tax (1) shown through an accurate diagram, correctly labelled axes and equilibrium price and quantity (1). Understanding that indirect taxes are used to discourage the consumption of demerit goods (1).
AO2 Analysis (max 3 marks) Uses the diagram to explain that an indirect tax shifts the supply curve to the left (1), which causes an increase in the price of the good to the consumer (1) and reduces the quantity demanded (1).
AO3 Evaluation (max 2 marks) One mark for a valid explanation that the incidence of tax borne by the consumer will depend on the PED of the product (1), (and that the more price inelastic demand is the greater the proportion of the tax is passed onto the consumer (1)), with a second mark for a justified conclusion.
AO1 Knowledge and understanding 3

AO2 Analysis 3
AO3 Evaluation 2

30. (w24 qp 22-5(a)) **[8]**

5(a) With the help of examples, explain the difference between the marginal rate of taxation and the average rate of taxation and consider whether a government should decide to increase the rate of indirect tax to raise additional revenue.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
• Accurate knowledge and understanding of marginal rate of tax (MRT). That is an understanding that it is the proportion of extra income taken in tax (1).
• Accurate knowledge and understanding of average rate of tax (ART) i.e., an understanding that it is the proportion of the whole of income that is taxed (1).
• An accurate example (which may be numerical/graphical) of each type of tax. MRT –a person earns an extra £100 and £40 is taken as tax then the marginal rate is 40%. ART –an individual with total earnings of £10 000, total tax paid £3000 the average rate is 30% (1).
AO2 Analysis (max 3 marks)
Discussion is likely to focus on whether the gains in revenue exceed the disadvantages of the indirect taxes:
• easier and quicker to put in place than direct taxes
• they may be less easy to avoid than direct taxes
• however, they are often seen as regressive and can lead to a higher MRT for poorer households
• their effectiveness in raising revenue depends on PED
• they may also lead to cost push inflation
Note: if only the advantages or disadvantages are considered, maximum mark of 2
AO3 Evaluation (max 2 marks)
An assessment of the strengths and weaknesses of using indirect taxes to raise additional government revenue (1), leading to a valid conclusion (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

31. (w23 qp 21-4(a)) **[8]**

4(a) Explain the reasons why governments impose taxes and consider whether an increase in income tax is fairer than an increase in sales taxes.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A clear understanding of the various possible reasons why governments impose taxes.
AO2 Analysis (max 3 marks)
Analysis of the distinction between a direct tax, such as income tax, and an indirect tax, such as a sales tax, with appropriate reference to fairness.
AO3 Evaluation (max 2 marks)

Offers a valid judgement on whether an increase in income tax is fairer than an increase in sales taxes (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

32. (s24 qp 22-2(a)) **[8]**

2(a) Explain how the Gini coefficient is used to measure income inequality and consider the relative strength of two economic reasons suggested for such inequality in a low-income country.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) For a clear understanding of what the Gini coefficient is e.g., it is a numerical measure of the extent of income inequality in an economy (1) if there is no inequality the value will be zero and at the other extreme, if all income is earned by one person the value will be one (1) For an explanation that the nearer the value is to zero income is more equally distributed and/or the nearer the value is to one the more it is unequally distributed (1).
AO2 Analysis (max 3 marks) Reasons may include:
- A lack of employment opportunities e.g., which will mean that income levels are low (1) which may be more of a problem in low-income countries because industry may be less well developed (1).
- Poor vocational training e.g., leading to fewer people being able to develop their skills and earn a higher income (1). This may be more of a problem in such countries because of the lack of finance to provide such training. (1)
- A lack of investment in education and health e.g., meaning that some people may not receive a better level of education or may suffer long term health issues which will lower their potential income levels. (1) This may be more common in such countries due to a lack of government budget (1)
- Other reasons include:
- Poor infrastructure
- Lack of access to loan finance

Analysis must focus on the strength of two of these reasons in a low-income country. Maximum of 2 marks if only one reason considered.
One mark per reason explained (+1) if clearly related to a low-income country. Accept any valid reason provided it is explained in terms of economics. Maximum of 2 marks if only one reason is considered.
AO3 Evaluation (max 2 marks)
Up to 2 marks for evaluating the relative strength of the two reasons with 1 mark reserved for a balanced judgement as to which may be the most likely reason in a low-income economy.
2(a) Please use a text box to show the mark split e.g., 2,2,1
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

33. (s22 qp 22-1(b)) **[4]**

1(b) Explain whether school lunches provided free of charge by the Candidates should demonstrate clear Russian government would be classified as private goods or public understanding of how public and private goods goods. are distinguished by reference to the terms (non)excludability and (non) rivalry but for the For clear and accurate understanding of what is meant by the term first two marks this does not need to be excludable / non excludable (1 mark) correctly applied to free school meals. For clear and accurate understanding of what is meant by the term rivalry / non rivalry in consumption (1 mark) The final two marks may only be awarded if the For a correct application of both terms to free school meals (1 mark) terms are correctly applied to free school Leading to a conclusion that free school meals must be private and not meals. The conclusion must be based on fully public goods (1 mark) accurate application.

34. (w21 qp 22-3(a)) **[8]**

3(a) Explain what is meant by consumer surplus and use diagrams to The comparison could be reversed, i.e. the assess the impact on consumer surplus when an indirect tax is candidate may first consider the price- imposed on a good with price-elastic demand compared with the inelastic good with the price-elastic good. impact when the demand is price-inelastic. This should be equally rewarded

For knowledge and understanding of consumer surplus, the difference (1) between the price a consumer is willing to pay for a product and its market price/price actually paid (1) (up to 2 marks)

And application using a diagram to show the impact of an indirect tax on the consumer surplus when the demand for a good is price-elastic. An accurately labelled diagram that clearly shows a flatter/elastic demand curve and the shift to the left of the supply curve (1), the impact on the price and quantity (1), and the fall in consumer surplus (1) (up to 3 marks)

And application using a diagram to show the impact of an indirect tax on the consumer surplus when the demand for a good is price-inelastic. An accurately labelled diagram that clearly shows a steeper/inelastic demand curve and a shift to the left of the supply curve, and the impact on price and quantity (1). The impact on consumer surplus should be clearly shown and compared with that of a price-elastic good (1) and possible reasons for the difference, e.g. degree of substitutability, addictive nature of the good, etc. (1) (up to 3 marks)

35. (w22 qp 23-3(a)) **[8]**

3(a) Explain the difference between a progressive direct tax and a A direct tax is one that is paid by individuals or regressive indirect tax, with an example of each. businesses direct to the government. It is based on an individual' s income or on the profits of a For knowledge and understanding of the difference between a direct business. Examples are income tax and profits tax and an indirect tax e.g., a direct tax is a tax on income and wealth tax. An indirect tax is so-called because it is not (1) and an indirect tax is a tax on the sale of/ spending on goods and directly collected by the government-retailers and services (1) local government agencies are the main collectors. The tax is based on the purchase of For application that provides a valid identification of a direct tax (1 products. Examples are GST or VAT and duties mark) and explains why it may be progressive with reference to the charged on sales of petrol, cigarettes and alcohol. burden of taxation as income rises (1 mark) with accurate reference to the marginal rate of taxation. (1 mark) OR the marginal rate of tax will A direct

tax is usually progressive, the rate of be higher (1 mark) than the average rate of tax (1 mark) taxation increasing as income increases. Indirect Up to 3 marks taxes are regressive since they have to be paid irrespective of the income of the consumer. For application that provides a valid identification of an indirect tax (1 mark) and explains why it is considered regressive with reference to The marginal rate of taxation is the proportion of the relative burden of taxation between higher and lower income extra income taken in tax. This will rise with a groups (1 mark) with accurate reference to the marginal rate of progressive tax thus increasing the burden on taxation (1 mark) OR the marginal rate of tax will be lower (1 mark) higher income groups. It will fall with a regressive than the average rate of tax (1 mark) tax thus increasing the burden on lower income Up to 3 marks groups. The average rate of tax refers to the proportion of income taken so for a progressive tax the marginal rate of taxation will be higher than the average rate of taxation and lower for a regressive tax.

36. (w20 qp 21-2(a)) **[8]**

2(a) Explain, with the help of examples, how imperfect information Merit good: among consumers affects their consumption of merit goods and • a particular type of private good demerit goods. • it is rival and excludable
• it has intrinsic benefits for an individual Up to 2 marks for Knowledge and Understanding
• examples include education or health care Demerit good:
• Knowledge and understanding of imperfect information in relation • a particular type of private good to a merit good and a demerit good, with the help of suitable • it is rival and excludable examples (Up to 2 marks) • it is potentially damaging for an individual
• examples include alcohol or tobacco 2 marks maximum Imperfect information and a merit good: Up to 6 marks for Application
• problem of information failure
• merit goods are likely to be under-consumed
• Application of the idea of imperfect information to the under- and under-produced consumption of a merit good (Up to 3 marks)
• consumers do not fully appreciate the value of a merit good
• Application of the idea of imperfect information to the over- Imperfect information and a demerit good: consumption of a demerit good (Up to 3 marks)
• problem of information failure 6 marks maximum • demerit goods are likely to be over-consumed and over-produced
• consumers do not fully understand the potential dangers of a demerit good

Further Practice （进阶）

1. (s25 qp 22-3(a)) **[8]**

3(a) Explain three reasons, associated with costs of production, why the supply curve for a particular market may shift to the right and consider the extent to which government microeconomic policy may also shift the supply curve for a particular market to the right.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
For an explanation of e.g., a fall in wage rates, an increase in worker productivity, a fall in

raw material costs, a fall in costs of distribution, improvements in technology etc. explaining why they may shift the supply curve to the right (1 × 3).
AO2 Analysis (max 3 marks)
Guidance:
The effect depends on the government policy used however it must be targeted at a particular market. Government microeconomic policy may include indirect taxes, subsidies, maximum and minimum prices, direct provision, regulations, provision of information and buffer stock schemes. Candidates should analyse at least one of these policies to consider the extent to which it may shift the supply curve for a particular market to the right.
For example, the government may intervene by providing subsidies to education providers (1) which may increase the supply of education to the market and shift the supply curve to the right (1) however, the extent to which this will occur will depend on e.g., the size of the subsidy, the extent to which the provider uses the subsidy in the manner intended, the PED value (1). It may also depend on whether the government also puts regulations in place which limit the supply of education by providers (1).
Note: up to 2 marks for explaining the effect of the policy itself, and 1 mark for the extent to which it might shift the supply curve to the right.
AO3 Evaluation (max 2 marks)
The extent to which the discussed policy will shift the supply curve to the right for a particular market will depend upon the responsiveness of the market itself. It may also depend on how the market may be affected by other government microeconomic policies. Allow any response based on valid analysis.
Note: reserve 1 mark for a justified conclusion.
3(a) AO1 Knowledge and understanding
AO2 Analysis 3
AO3 Evaluation 2
3(

2. (s22 qp 21-3(b)) **[12]**

3(b) Taxes are often placed on manufactured products, even those that are The incidence of a tax: necessities with few substitutes. • the incidence of a tax refers to the extent to which the burden of a tax Discuss whether the incidence of a tax on a manufactured product is borne by the producer and the always falls mainly on the producer. consumer
• this will depend on the price Analysis: elasticity of demand for the product Analysis of the incidence of a tax on a manufactured product on the • depends on the elasticity of the producer (Up to 4 marks) supply curve.
Analysis of the incidence of a tax on a manufactured product on the The producer: consumer (Up to 4 marks) • if the demand for the product is relatively price elastic, then the 8 marks maximum producer will have to pay a greater part of the tax Evaluation: For exercising some judgement on whether the incidence of a tax on a The consumer: manufactured product always falls mainly on the producer. • if the demand for the product is (Up to 4 marks) relatively price inelastic, then the consumer will have to pay a Reserve 1 mark for a conclusion greater part of the tax 4 marks maximum Necessities and substitutes:
• the degree to which a manufactured product is a necessity with few substitutes will influence the PED for the product.
• in this situation, the PED for the product is likely to be relatively price inelastic

There are no KU marks awarded in (b) for merely defining/explaining terms used within the question.

3. (s21 qp 23-2(b)) **[12]**

2(b) Growing pressures on the budget and on the The effectiveness of the tax will depend on the PED for environment from increasing tourist numbers to holidays in Barbados; incidence will vary with rate of Barbados led the government to announce a new indirect tax. tax on incoming tourists in June 2018. A diagram would help here although it is not essential. Discuss the likely effectiveness of the new indirect tax in raising tax revenue and reducing tourist numbers. There are no KU marks awarded in part b for merely explaining/defining terms or phrases within the For an analysis of how the new tax will raise tax revenue and question reduce tourist numbers (up to 4 marks)
For an analysis of other factors which may reduce the effectiveness of the new indirect tax (up to 4 marks)
Up to 4 marks for an evaluation of the likely impact on the market of the new indirect tax, that may also consider other ways in which the government could raise additional revenue and reduce tourist numbers. Reserve 1 mark for a reasoned conclusion as to whether the new indirect tax would be truly effective

4. (w22 qp 23-2(b)) **[12]**

2(b) Discuss the extent to which the introduction of a maximum price The purpose of maximum price legislation is to in a market will benefit consumers. ensure that consumers get access to supplies of essential products such as various types of food For analysis of how the introduction of a maximum price in a market and in some cases, water and power supplies. It may benefit consumers. (Up to 4 marks) may also free up income to purchase other essential items. To be effective the maximum For analysis of how the introduction of a maximum price in a market price must be below the equilibrium price in a free may not be of benefit to consumers. (Up to 4 marks) market, and this may be referred to in the first part of the analysis. An accurate diagram should not
For evaluation that clearly considers the extent to which consumers be expected but would enhance the quality of the may benefit from the introduction of a maximum price in a market (up analysis. to 3 marks) that leads to a reasoned conclusion (1 mark) However, the problem with a maximum price is that demand invariably exceeds supply at this price. Shortages can occur and this can lead to an informal market and profiteering along with rationing and queuing. Consumers may end up paying even more than the equilibrium price to get the supplies they need.

5. (s21 qp 22-2(b)) **[12]**

2(b) Compare the likely effectiveness of a policy of imposing minimum The effectiveness of a minimum price is prices on demerit goods with one other policy to improve public health dependent upon the ability to control prices and consider which policy is more likely to be successful. and the likelihood that unauthorised / illegal / underground / informal / hidden markets For analysis that explains the likely effectiveness of a minimum price on a might arise. demerit good. Maximum of 3 marks if only benefits or drawbacks are considered (up to 4 marks) Other policies include indirect taxes, education campaigns, subsidisation of For analysis that explains the likely effectiveness of one other policy. alternatives. Maximum of

3 marks if only benefits or drawbacks are considered (up to 4 marks) No credit for simply referring to part (a)
And for evaluation that clearly compares the effectiveness of both policies (3 marks) that leads to a reasoned conclusion as to which policy is more likely to be successful (1 mark)

6. (m21 qp 22-4(b)) **[12]**

4(b) Discuss whether government policies to influence the free market Policies include maximum and minimum price for a good can ever improve the allocation of resources in that prices, indirect taxes, subsidies, information market. campaigns etc.
For analysis of at least two policies to influence the free market price for The advantages and disadvantages must a good. If only one measure considered then 3 maximum. relate to the policies chosen. For example, (Up to 4 marks) maximum prices might lead to shortages, subsidies might be very expensive as might For analysis that considers the advantages and disadvantages of using information campaigns. these policies. (Up to 4 marks)
For evaluative comment on whether the policies 'can ever improve' the allocation of resources (Up to 3 marks) and 1 mark for a conclusion

7. (s22 qp 23-2(b)) **[12]**

2(b) Education and healthcare are considered to be merit Merit goods have positive side effects when consumed. goods. They are provided because of information failure which can lead to under consumption and under production. Discuss why merit goods are provided by both the Consumers of things like education and healthcare do private sector and the public sector. not perceive the true benefits usually because they do not have either any information or true information. For analysis of the reasons why merit goods are provided by Therefore, the government often provides merit goods. the public sector (up to 4 marks) Merit goods in many countries are provided by the private sector as well as the public sector. This is often For analysis of why merit goods are provided by the private because the cost of provision to the public sector is too sector great or because the cost cannot be met in full. The (up to 4 marks) case of healthcare is important in most low and middle- income countries.
For evaluation that considers why merit goods are likely to be provided by both the private and public sector (up to 3 There are no marks awarded in part b for merely marks) to arrive at a reasoned conclusion explaining / defining terms or phrases within the (1 mark) question.

8. (w21 qp 23-2(b)) **[12]**

2(b) Discuss the view that in a mixed economy the only role of Merit goods such as health provision, education government should be to provide public goods and the supply of and childcare are usually provided by both private merit goods should be left to the private sector. and public sectors in a mixed economy. When provided by the private sector, a charge is usually Analysis of the reasons why public goods are provided by the but not always made at the point of use government and not the private sector (up to 4 marks) Government provision is funded through taxation; Analysis of the reasons why merit goods may be provided by consumers will be charged a subsidised price or the private sector and/or the government (up to 4 marks) no charge at all. Much depends upon efficiency and how governments view the benefits of merit 8 marks maximum goods provision
For an evaluation of whether the only role of government in a mixed Without the involvement of government, some economy is to provide public goods and that merit goods should be merit

goods may be underprovided –may be left to the private sector (up to 4 marks) used as an evaluative comment
Reserve 1 mark for a valid conclusion Note: there are no KU marks awarded in part (b) for merely explaining/defining terms or phrases used within the question

9. (s21 qp 21-2(b)) **[12]**

2(b) Discuss whether the direct provision of goods and services by the The effect of direct provision of goods and government prevents the price mechanism from working effectively. services by the government:
• does it prevent the price mechanism For Analysis from rationing? Analysis of the prevention of the price mechanism from working effectively. • does it prevent the price mechanism (Up to 4 marks) from signalling?
• does it prevent the price mechanism Analysis of the potential fact that it does not prevent the price mechanism from transmitting preferences? from working effectively. (Up to 4 marks) The direct provision of goods and services 8 marks maximum by the government will be financed through the tax system, e.g. education and health
For Evaluation care, and so will not be allocated through a For exercising some judgement on whether the direct provision of goods and price mechanism. services by the government prevents the price mechanism from working effectively. (Up to 4 marks) However, education and health care can also be provided through a price Reserve 1 mark for a conclusion mechanism and in this situation the mechanism can function as a rationing and 4 marks maximum signalling device and as a way of transmitting preferences

Advanced Practice （培优）

1. (m24 qp 22-2(b)) **[12]**

2(b) Assess whether the improved provision of information is likely to be the best method to reduce the consumption of demerit goods.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• The meaning of improved provision of information
• How improved information would reduce the consumption of demerit goods; consumers are aware of the 'true' costs from consuming demerit goods and respond by reducing their demand –this may include a shift to the left of the demand curve, or a shift to left of the MPC curve
• An explanation of the limitations of improved information –habitual consumption, peer pressure, irrational behaviour
• An explanation of an alternative policy –taxation, minimum prices, regulation backed by fines.
AO3 Evaluation
• Consideration that fully assesses the relative effectiveness of the policies analysed in reducing the consumption of demerit goods and arrives at a reasoned conclusion concerning whether

improved provision of information is the ‘best’ approach.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

2. (s23 qp 21-2(b)) **[12]**

2(b) Assess whether education should be classified as a public good rather than classified as a merit good.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Education is classified as a merit good because it is a private good with the characteristics of being both rival and excludable; it can therefore be provided through a market because it is possible to charge a price for it, although it can also be provided by the state.
• A public good is distinct from a private good because it has the characteristics of being both non-rival and non-excludable; it is therefore difficult, if not impossible, to charge a price for it due to the existence of the free rider problem; it therefore has to be provided by the state.
AO3 Evaluation
• Public goods can only be provided by the state.
• Merit goods will be underprovided in the free market and governments should intervene to increase provision.
• However, if the demand for education is extremely low in a country, when provided through a market, a government could decide to provide it entirely through the state.
• In conclusion, education should be classified as a merit good rather than as a public good.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

3. (s23 qp 22-2(b)) **[12]**

2(b) A government wishes to keep the price of an essential food, such as rice, affordable to help low-income households.
Assess whether a policy of fixing the maximum price for an essential food is likely to be more effective than a policy of making transfer payments to low-income households.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)
The advantages and disadvantages of using a maximum pricing policy may include:
• If the price is set below the equilibrium price and quantity, then it will make e.g., rice more affordable.
• This will help low-income consumers and improve their living standards and improve their

health BUT
- It will create a shortage and informal markets may arise.
- Governments may have to increase their spending to enforce the legislation.
- Rich and poor households gain equally.

Transfer payments may include:
- Unemployment benefits
- Pensions
- Food vouchers etc.

The advantages and disadvantages include:
- They can be targeted at those most in need.
- They can be targeted at the purchase of basic foodstuffs BUT
- May be costly and have an opportunity cost.
- The policies may not be used for their intended purposes (even vouchers may be sold in illegal markets)

A one-sided response can only gain a maximum of Level 2.
AO3 Evaluation (max 4 marks)
- Consideration of the relative effectiveness of a maximum pricing policy compared with the use of transfer payments.
- Consider the impact on low-income consumers of basic foodstuffs
- In conclusion, which policy is most likely to be effective in helping low- income consumers.

Accept all valid responses. A one-sided response cannot gain any marks for evaluation.
2(b) AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

4. (w23 qp 21-3(b)) **[12]**

3(b) Governments sometimes fix maximum prices on goods for different reasons.
Assess whether the use of a maximum price is always advantageous.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
The advantages of a maximum price might include:
- The price of certain products, such as essential foods, can be limited by the establishment of a price ceiling.
- The effect of this will be to make such items more affordable to people.
- This will reduce the extent of poverty in a country.

The disadvantages of a maximum price might include:
- The impact of the maximum price will be to create a situation of excess demand in the market (this needs to be clearly explained).
- This could lead to queuing or rationing.
- It could lead to the creation of a black or illegal market.

(Up to 8 marks)
AO3 Evaluation
- Consideration of the relative balance of advantages and disadvantages of the policy.
- Consideration of the impact of this policy on producers and consumers.

- In conclusion, consideration of whether the policy will be effective and always advantageous.

Accept all valid responses.
(Up to 4 marks)
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5. (s24 qp 22-2(b)) **[12]**

2(b) Assess the extent to which government policies to redistribute income and wealth are likely to be successful.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Policies may include:
- Minimum wage rates
- Transfer payments
- Progressive income taxes
- State provision of essential goods and services
- Investment in infrastructure

Accept any valid policies but the analysis must focus on how they may be used to redistribute income and wealth and their advantages and disadvantages to be credited.
E.g., A minimum wage rate that is set above the equilibrium, should increase the income levels of those on the lowest levels and therefore possibly ensure that poverty is reduced. However, if everyone' s income levels increased, this will not have a redistribution effect. It will not impact on the self-employed. It may lead to unemployment and more poverty leading to less redistribution if businesses cannot afford the higher rates.
E.g., Progressive income taxes should ensure that those on lower incomes pay less tax as a percentage of income than those on higher incomes. This should have a redistributive effect. However, those on higher incomes may have the ability to reduce their tax burden or may simply leave the country. It may also reduce incentives to earn more.
Note: if only one policy is considered, the maximum level will be Level 2.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
2(b) AO3 Evaluation
- Requires an assessment of the likely success of more than one government policy leading to
- A justified conclusion as to whether such policies are ever likely to be successful.

A one-sided response cannot gain any marks for evaluation.
Please use a text box to show the mark split e.g., L2 5 L1 2
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

6. (w20 qp 23-2(b)) **[12]**

2(b) Discuss whether the incidence of an indirect tax on a product Incidence refers to the relative impact of an indirect always affects its consumers more than its producers. tax on consumers and producers. The extent of the incidence depends on the price elasticity of demand Analysis: and supply of the product. The more inelastic the Up to 4 marks for an explanation of the incidence of an indirect tax and PED, the greater the burden of the tax on consumers how it affects consumers in terms of the price paid and the consumer and so on. surplus with due reference to the price elasticity of demand and supply. Evaluative comment might consider those goods that Up to 4 marks for an explanation of the incidence of an indirect tax and are habit forming and often considered as demerit how it affects producers in terms of the price received and the producer goods in terms of the impact of an indirect tax on surplus with due reference to the price elasticity of demand and supply. incidence and consumption.
8 marks max
Up to 4 marks for evaluation. Reserve 1 mark for a clear conclusion of whether it is always consumers rather than producers who are most affected.
Up to 4 marks maximum

7. (w24 qp 23-2(b)) **[12]**

2(b) Assess whether the expected benefits of providing healthcare services free-of-charge at the point of use exceed the likely costs.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Potential benefits of providing healthcare services free-of-charge at the point of use include:
• It addresses concerns on affordability/inequality to access health care, insurance and information gaps e.g. preventative earlier treatments for elderly and children.
• It may also avoid a potential loss of output resulting from worker absenteeism. It increases the likelihood of resources being prioritised to patient need as opposed to profit.
Potential disadvantages from providing healthcare services free-of-charge at the point of use include:
• Demand may exceed supply which may result in increased costs to governments.
• Charging consumers will reduce on wastage in terms of 'missed' medical appointments; potential for health inequality resulting in income inequality.
• Private firms may be more efficient in providing the healthcare services required in the quantities and regions required. The opportunity cost to the government in terms of reduced spending on roads etc.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

2(b) AO3 Evaluation
• Requires an assessment of whether or not the expected benefits of providing healthcare free of charge at the point of use exceed the likely costs which leads to
• A justified conclusion which may include alternative approaches including a mixture of free and chargeable healthcare.
Note: A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

8. (w21 qp 22-3(b)) **[12]**

3(b) A government is considering whether to adopt a policy of maximum Maximum price legislation is imposed to price legislation in the market for food or to provide food subsidies to keep the price of food low so that those on alleviate hunger in a period of food shortages. low incomes can afford to buy food. The impact, however, is to reduce the supply of Discuss whether maximum price legislation or food subsidies are more food and create excess demand. Informal likely to alleviate hunger under these circumstances. markets and queuing are likely to follow, and rationing might be necessary For analysis that explains the advantages and disadvantages of maximum price legislation (up to 4 marks) Food subsidies will reduce the price of food (3 marks maximum for an analysis that just considers either the advantages and increase the supply of food, but the or the disadvantages) impact depends upon the elasticity of demand of food. The effects might only be For analysis that explains the advantages and disadvantages of food felt in the long term. The low prices might subsidies (up to 4 marks) encourage hoarding of food. There are also (3 marks maximum for an analysis that just considers either the advantages possible opportunity costs involved as well or the disadvantages) as overall pressure on the government budget 8 marks maximum Subsidies may be ineffective in times of For evaluative comment that compares the relative strengths and famine/supply chain crises, etc. weaknesses of each approach in alleviating hunger under these circumstances (up to 3 marks) Note: there are no KU marks awarded in part (b) for merely explaining/defining terms And leads to a reasoned conclusion whether maximum price legislation or or phrases used within the question food subsidies are more likely to alleviate hunger under these circumstances (1 mark)
4 marks maximum

4 The Macroeconomy（宏观经济）

入门综合 （36）

1. (m21 qp 22-1(c)) **[2]**

   1(c) Explain why deflation, as experienced by Japan, discourages Consumption is discouraged because as the consumption spending. expectations of price falls takes hold consumers hold back purchases because they For a clear understanding that deflation refers to a fall in the general expect prices to fall in the future. price level (1) Also, the general air of uncertainty encourages For explaining why, a fall in the general price level will discourage consumers to save for the future. consumption. (1) (Up to 2 marks)

2. (m23 qp 22-1(d)) **[6]**

   1(d) With the help of an AD/AS diagram, assess whether the rising inflation rate in the US has been caused by changes to the demand side or changes to the supply side of the economy.
   Up to 4 marks for explanation/analysis:
   • AD/AS diagram: Correct labelling of vertical axis (price level) and horizontal axis (real GDP/real output). (1) Movement of AD curve to the right and AS curve to the left, showing a rise in the price level. (1) (Up to 2 marks for the diagram)
   • Explanation/analysis of how the rise in inflation may be caused by an increase in aggregate demand (1) and a decrease in aggregate supply (1). This should be correctly applied to the data. (Up to 2 marks)
   Up to 2 marks for evaluation:
   • Relevant evaluation which considers both AD and AS and weighs up the factors involved in each. (1)
   • A justified conclusion on the extent to which inflation in the US has been caused by changes to the demand side or changes to the supply side of the economy. Note: this may include the comment that it is clearly a combination of both factors (1) but there is insufficient information within the data to fully answer which has had the greatest impact (1)
   • Note: no marks are available for evaluation if ONLY AD OR AS are discussed

3. (m23 qp 22-1(e)) **[6]**

   1(e) Assess the possible consequences of a rising rate of inflation for a country such as the US.
   Up to 4 marks for explanation/analysis:
   • Possible negative consequences explained, such as the uncompetitiveness of exports leading to a worsening of the current account of the balance of payments, shoe leather costs arising from searching for better returns, menu costs arising from continually changing prices, planning difficulties arising from the uncertainty caused by inflation and a redistribution of income, e.g., those on fixed incomes will lose out. (Up to 2 marks)
   • Possible positive consequences explained, such as an increase in borrowing arising from debt being less in real terms, an increase in the profits of firms, possibly leading to more workers being employed, and an increase in the value of assets, such as property. (Up to 2 marks)
   Max 4 marks
   Up to 2 marks for evaluation:
   • Relevant evaluation such as in relation to the extent of the increase in inflation and whether it is higher than other countries, the price elasticity of demand for exports, whether the

increase in prices is higher than the increase in the costs of production faced by firms and whether the rise in inflation is anticipated or not.
• A justified conclusion on the possible consequences, both negative and positive of a higher rate of inflation for a country such as the US.

4. (m24 qp 22-1(d)) **[6]**

1(d) Assess the possible impact on unemployment in Japan as a result of the increased investment in AI.
In the short run many jobs may be lost as AI capital equipment replaces labour operated machines and vehicles. E.g., Thousands of truck drivers lose their jobs: (1) for statement, (1) for example. Extra mark for some further elaboration (1).
In the long run more job opportunities may arise as was the case with the internet. E.g., High tech maintenance jobs for AI machinery. (1) for statement, (1) for example. Extra mark for some further elaboration (1).
Max of 5 marks plus 1 for Evaluated Conclusion.

5. (s23 qp 21-1(c)) **[4]**

1(c) Consider the extent to which difficulties may arise in the measurement of unemployment in India.
Inactive workers not actively seeking employment who might look for work if their situation changed. (Up to 2 marks)
Discouraged/disincentivised workers who have had no success in finding employment. (Up to 2 marks)
Disguised unemployment, i.e. people might be in employment, but are not really doing any meaningful work. (Up to 2 marks)
Unreported employment: some workers in India may be registered as unemployed but are in fact in employment, possibly in the illegal or underground or informal economy. (Up to 2 marks)
The efficiency of the tax collection system could be a valid difficulty in the measurement of unemployment. (Up to 2 marks)
The scale of the operation could also be a valid difficulty. (Up to 2 marks)
Particular difficulty of measurement in rural areas of India. (Up to 2 marks)
3 marks maximum
Evaluation Offers a valid judgement on the extent to which these are significant difficulties in the measurement of unemployment in India. (1 mark)
1 mark maximum

6. (s23 qp 21-1(d)) **[6]**

1(d) Assess whether seasonal unemployment is likely to be a more serious problem than frictional unemployment for India' s economy.
Up to 4 marks for explanation/analysis: Explanation/analysis of seasonal unemployment in India, such as in relation to employment in the agricultural sector. (Up to 2 marks)
Explanation/analysis of frictional unemployment in India resulting from the reluctance of people to relocate to other places or other sectors to take jobs, due to geographical immobility and/or occupational immobility. (Up to 2 marks)
Guidance: Award 2 marks if detailed explanation/analysis of one type of unemployment. Award 1 mark for less detailed explanation/analysis of one type of unemployment.

Up to 2 marks for evaluation: Relevant evaluation which considers both types of unemployment. (1 mark)
A conclusion on the extent to which one type of unemployment is a more serious problem than the other for India' s economy. (1 mark)

7. (s25 qp 22-1(b)) **[2]**

1(b) Identify one possible impact on firms in South Africa and one possible impact on the government of South Africa of such a high rate of unemployment.
• Firms may find it easier / cheaper to recruit labour / pay lower wages / may suffer weaker demand for their products. (1)
• Government may have reduced tax revenue / higher welfare payments. (1)
Guidance: 1 mark maximum per impact on firms and the government respectively.

8. (s22 qp 21-1(a)) **[2]**

1(a) Describe the trend in the annual inflation rate of Bangladesh between No mark to be given to answers that just 2009 and 2019. state the eleven figures without any recognition of the overall trend. Although the inflation rate is virtually the same in 2009 and 2019, the trend has been up and down during this period, i.e., the trend is fluctuating. (1 mark)
Within this overall trend, it rose between 2009 and 2011 and then fell between 2012 and 2019, although within those years it both rose and fell. (1 mark)
The inflation rate was not lower than 5.4% in any of the years between 2009 and 2019 but was significantly higher in four of the years: 11.4% in 2011, 8.1% in 2010, 7.5% in 2013 and 7.0% in 2014. (1 mark) 2 marks maximum

9. (w24 qp 21-1(a)) **[2]**

1(a) Using the data in Fig. 1.1, describe the trend shown in the annual inflation rate in Argentina over the period February 2021 to January 2022.
• The overall trend during this period has been upward/increasing/rising from 40.7% in February 2021 to 50.7% in January 2022. (1)
• Within this overall upward trend, there has actually been a downward trend from 52.5% in September 2021 to 50.7% in January 2022. (1)

10. (s24 qp 22-1(c)) **[4]**

1(c) Consider the extent to which the shortage of supply of labour in the Eurozone may have contributed towards the increasing rate of inflation.
• Shortage of the supply of labour is likely to increase wage rates (1)
• Which will increase business costs of production/ and therefore cause cost-push inflation/shift AS curve to the left (1)
• However, energy costs have also increased further adding to costs of production (1)
For valid evaluation
• Extent therefore depends on (e.g.) relative increases in costs due to wages and energy costs (1)
Please use a text box to show the mark split e.g., 2,1

11. (s22 qp 21-1(b)) **[2]**

1(b) Explain why price changes in the food and non-food sectors in Bangladesh: Bangladesh are treated differently when calculating the CPI. There have been significant price rises in the food sector, including: A basic recognition that price changes in the food and the non-food sectors • vegetables, particularly onions in Bangladesh may be different, possibly including some appropriate • fish examples • chicken (1 mark) There have also been significant price rises A clear recognition of the importance of weights in the construction of a in the non-food sector, including: CPI/a specific reference to, and explanation of, weightings in the calculation • healthcare of the CPI for a country. There needs to be a clear reference to • transport weights/weightings by a candidate to award the second mark • energy resources such as gas (1 mark) Weighting:
• the situation where certain products are given larger weights to reflect the greater proportion of income spent on them takes into account the relative importance of the components of a CPI

12. (w25 qp 24-1(b)) **[2]**

1(b) Explain one reason why the IMF uses percentage change in real GDP and not percentage change in nominal GDP when measuring economic growth.
• Nominal GDP growth shows the growth without taking into account inflation whereas real GDP growth removes the effects of inflation. (1)
• It allows for a better / more meaningful comparison between years. (1) Note: do not award the 2nd mark without some understanding of the two terms in the question.

13. (s25 qp 22-1(a)(ii)) **[1]**

1(a)(ii) Compare the trend in the unemployment rate in South Africa between January 2020 and January 2022 with that between January 2022 and October 2022.
• It increased in the first period and then fell in the second period (1)
Guidance: The only comparison that should be accepted is a comparison of the overall trend between January 2020 and January 2022 and the overall trend between January 2022 and October 2022. Any reference to other dates is irrelevant and should not be rewarded. Any use of accurate figures must be accompanied by references to an increase followed by a fall

14. (w21 qp 21-1(a)) **[2]**

1(a) Explain how inflation can halve the 'real value' of money.
• The real value is the quantity of products that can be bought for a certain amount of money (1 mark)
• If prices double, the quantity that can be bought will be halved (1 mark)

15. (s25 qp 22-1(a)(i)) **[1]**

1(a)(i) Identify the overall change in the unemployment rate in South Africa between January 2020 and October 2022.
• It increased / rose (1)
Note: do not accept answers that identify a number of changes within these dates, only the overall change between these dates
Guidance: please ignore any correct or incorrect calculation of figures as a calculation is not required by the question. The mark should only be awarded if the candidate identifies that the unemployment rate has increased.

16. (s25 qp 21-4(a)) **[8]**

4(a) Explain how the circular flow of income in an economy changes when that economy moves from a closed to an open economy and consider what determines the extent of this change.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A knowledge and understanding of the meaning of the circular flow of income in an economy:
• The way in which income flows around an economy, from firms to households and back to firms in a continuous process. (1)
• Payments are made to factors of production in the form of income, profit and rent. (1)
• Payments from all these sources are spent on goods and services.(1)
AO2 Analysis (max 3 marks)
An analysis of injections and withdrawals/leakages as an economy moves from a closed economy to an open economy:
• CLOSED ECONOMY –Injections: Investment (I) and Government spending (G)
• Withdrawals/leakages: Savings (S) and Taxes (T)
• OPEN ECONOMY –Injections: Spending on exports (X) is added to I and G
• Withdrawals/leakages: Spending on imports (M) is added to S and T
There will be a max mark of 2 if a candidate only considers a closed economy or an open economy, and they will not, in this case, be able to gain any evaluation marks.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on what determines the extent of the change from a closed to an open economy (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

17. (s22 qp 21-1(d)) **[6]**

1(d) Analyse, with the help of aggregate demand and aggregate supply Demand-pull inflation: diagrams, how increasing wages can cause both demand-pull and • it is stated that there has been an cost-push inflation in Bangladesh. annual increase in the Wage Rate Index (WRI) of 6.6% in the last For an analysis of demand-pull inflation in relation to wage increases. month of 2019 (1 mark) • increased consumer spending, e.g., through greater consumer For an AD/AS diagram to show demand-pull inflation. confidence resulting from an (Up to 2 marks) increase in income
• the AD curve will shift to the right 1 mark for correct labelling of the diagram causing an increase in the general 1 mark for the shift to the right of AD, showing increase in price level price level
For an analysis of cost-push inflation in relation to wage increases. Cost-push inflation: (1 mark) • wage increases to employees that are not linked to higher productivity For an AD/AS diagram to show cost-push inflation. (Up to 2 marks) • the AS curve will shift to the left causing an increase in the general 1 mark for correct labelling of the diagram price level 1 mark for the shift to the left of AS, showing increase in price level The diagrams need to be accurately labelled, with the vertical axis labelled ‘general price level’ or ‘price level’ and the horizontal axis labelled ‘real output’ or ‘real GDP’.

18. (s25 qp 24-1(e)) **[6]**

1(e) Assess the possible consequences of a falling rate of unemployment for Malaysia.
Up to 3 marks for explanation / analysis of the possible positive consequences of a falling rate of unemployment for Malaysia. For example, these may include an increase in overall income levels (1) which may also improve the overall standard of living for the Malaysian population (1). This may also increase government tax revenues / reduce spending on welfare benefits (1) which may in turn be spent on improving infrastructure and spending on merit goods such as education and healthcare (1) Falling unemployment may also lead to an increase in overall output (1) which may lead to an increase in export opportunities (1) and increased investment by firms (1)
Up to 3 marks for explanation / analysis of the possible negative consequences of a falling rate of unemployment for Malaysia. For example, due to rising aggregate demand (1) this may lead to demand pull inflation if aggregate supply cannot keep up (1). As wages rise and resources become scarce (1) this may lead to cost push inflation (1). It may also lead to a decline in labour productivity (1) Rising incomes may also lead to rising demand for imports (1), which may lead to a current account deficit (1).
Max of 4 marks overall for analysis (Note: accept any reasonable generic suggestions as detailed knowledge of the Malaysian economy is not required)
Up to 2 marks for evaluation of the possible positive and negative consequences of a falling rate of unemployment on Malaysia based on the preceding analysis.
Reserve 1 mark for a justified conclusion.

19. (w23 qp 21-1(b)) **[4]**

1(b) State two internal causes of economic growth for Taiwan in 2021 and consider which of these is more likely to generate long-term economic growth.
- Identification of capital investment. (1)
- Example of capital investment by Taiwan producer of US$28 billion leading to faster economic growth (needs to refer to figure to gain the second mark). (1)
- Identification of growth in consumption expenditure. (1)
- Consumption expenditure is forecast to grow by 3.7% in 2021, the fastest growth in 17 years, leading to faster economic growth (needs to refer to the 3.7% growth figure to gain the second mark). (1)

(Max 3 marks)
Evaluation
Offers a valid judgement on which of these causes is more likely to generate long-term economic growth. (1)

20. (w23 qp 21-1(e)) **[6]**

1(e) Assess the possible consequences of a higher rate of economic growth for an economy such as Taiwan.
Up to 4 marks for explanation/analysis:
- Positive consequences: Explanation/analysis that a higher rate of economic growth will lead to increased expenditure, such as on education and health care. Explanation extended to other possible consequences, such as in relation to a higher standard of living, more jobs, higher incomes and less poverty. (Up to 2 marks)
- Negative consequences: Explanation/analysis that a higher rate of economic growth would

increase pressure on available resources which could have possible negative environmental effects, such as in relation to congestion and pollution. (Up to 2 marks)
Up to 2 marks for evaluation: Relevant evaluation which weighs up the consequences on both sides (1) to reach a conclusion on the likely overall effect. (1)

21. (w23 qp 22-1(d)) **[6]**

1(d) Explain whether unemployment caused by the diversification of petrostates away from oil and gas production is likely to be cyclical or structural and assess which type of unemployment is likely to be more damaging to these economies.
Up to 4 marks for the explanation/analysis For explaining that the potential unemployment in this situation is likely to be structural and why (1)
For analysis and comparison of the problems caused by both cyclical and structural unemployment (maximum of 2 marks if only one type of unemployment is considered) (3)
That leads to
Up to 2 marks for evaluation –these can only be awarded for relevant analysis of the problems.
- Must be related to issues faced by petrostates.
- Which must compare the problems of both types of unemployment within such economies?
- Reaches an overall and justified conclusion about which type of unemployment would be most damaging for these economies.

Guidance The explanation, analysis, and evaluation should consider both types of unemployment and points to consider may include:
- Structural unemployment is likely to be caused by problems within the supply side whereas cyclical unemployment is caused by a lack of AD in the economy.
- Long and short run impacts
- The ease of curing the different types of unemployment
- The potential costs to an economy

22. (w23 qp 23-1(c)) **[4]**

1(c) State two likely economic reasons why China experienced strong economic growth starting in the second quarter of 2020 and consider which of these is likely to have generated the greater rate of growth.
Plausible reasons could include:
- The increased demand for exports of PPE (1)
- First to experience Covid and therefore the first to recover from it due to e.g., the speed of enforcing lockdowns. (1)
- Successful government policies –one mark per stated policy e.g., fiscal, and monetary policies (1)

Up to two marks for explaining why one of the stated reasons is likely to have generated the greatest growth. (1+1)

23. (w23 qp 23-1(d)) **[6]**

1(d) Assess how economic recovery is likely to have affected employment and price stability in China.
Up to 4 marks for explanation/analysis:
- How a recovery may increase the components of AD i.e., C + G + I + X − M and how this may increase the level of employment (up to 2 marks)

• The possible impact on price stability which will depend on e.g., the position on the AS curve, the possibility of cost-push inflationary pressure (up to 2 marks).
Up to 2 marks for evaluation:
• The effects on employment and price stability will depend on the speed and the size of the recovery (1)
• For a justified conclusion (1)

24. (w24 qp 21-1(c)) **[4]**

1(c) Consider the extent to which having 'the fifth highest inflation rate in the world' is likely to be a problem for Argentina' s economy.
Explanation of why a high rate of inflation in Argentina might be a problem for Argentina' s economy, such as in terms of:
• a reduced purchasing power of money
• less competitive exports
• menu costs
• shoe leather costs
• uncertainty in the economy and the possible impact on investment
• the possible negative impact on savers
• the possible negative impact on fixed income earners.
However, there could be some benefits, such as:
• increase in profits for firms
• lower debt in real terms.
Max 3 marks (Up to 2 marks for problems and up to 1 mark for benefits)
Evaluation
Offers a valid judgement on the extent to which a high rate of inflation in Argentina is a serious economic problem, taking into account how its rate of inflation compares with other countries and/or the fact that inflation can have benefits, such as an increase in profits for firms where prices rise by more than costs and an advantage for borrowers whose debt will be less in real terms.
Max 1 mark

25. (w25 qp 23-4(a)) **[8]**

4(a) For your economy or for one that is known to you, explain three causes of inflation and consider which of these causes is likely to be most important in 2025.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
• Inflation is a sustained rise in the general price level (1).
• Understanding of three causes of inflation. The cause must be identified by name together with a brief explanation–e.g. demand-pull inflation when aggregate demand increases faster than aggregate supply, e.g., due to higher consumer spending, government expenditure etc. (1). Cost- push inflation when rising costs of production result in firms raising prices (1).
Up to 2 marks maximum for each cause, with an overall maximum of 3 knowledge marks.
AO2 Analysis (max 3 marks)
• An explanation of the identified cause of inflation for a named economy. For example, a re-

duction in income tax increases disposable income, leading to higher consumption, which raises aggregate demand and can cause an increase in the price level/demand pull inflation (1 + 1). However, if high levels of job insecurity exists then the increase in consumption/AD/demand-pull inflation may be less important (1).
AO3 Evaluation (max 2 marks)
• Evaluation should consider the extent to which a single cause can be identified as being the most important.
• 1 mark reserved for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

26. (w24 qp 22-1(e)) **[6]**

1(e) Assess the likely impact of the rise in the world copper price from 2020 on the future economic growth of Chile.
Up to 4 marks for the explanation / analysis:
Up to 3 marks for a discussion of the advantages of a rise in copper prices which include:
• Mining forms 50% of Chile' s exports and contributes towards 11% of GDP and copper is a major part of this. N.B., a simple reference to the importance of copper mining to the Chilean economy will be sufficient.
• As world demand picks up and prices rise, assuming demand for copper is relatively price inelastic, revenue from exports should rise leading to a rise in GDP.
Up to 3 marks for a discussion of the disadvantages of a rise in copper prices which include:
• Data shows revenue from copper exports had fallen in February 2022 due to higher prices suggesting PED is more elastic/more substitutes available leading to a fall in revenue and GDP if the world copper price continues to rise.
• It may encourage more competition from other copper producing countries.
• Copper is a finite resource, and extensive mining may lead to depletion in the future leading to a future fall in export revenue and GDP.
Max: 4 marks Note: maximum of 3 marks if only one side is considered.
Up to 2 marks for evaluation (no marks if only one side is considered)
• That assesses both sides and may include the argument that the fall in revenue from copper exports would be temporary due to a downturn in demand and that this would change as the world economy starts to grow again (1), leading to
• A valid conclusion (1).

27. (s21 qp 21-1(e)) **[6]**

1(e) Using aggregate demand and aggregate supply analysis, discuss the Potential advantages: possible impact on Vietnam' s economy of a sustained increase in its • increase in exports would contribute net exports. positively to Vietnam' s current account balance For an explanation of the potential advantages of a sustained increase in net • increase in aggregate demand exports using AD/AS analysis. • increase in incomes and employment (Up to 3 marks)
Potential disadvantages: For an explanation of the potential disadvantages of a sustained increase in • increase in exports could mean less is net exports using AD/AS analysis. available for the domestic market (Up to 3 marks) • could impact on the rate of domestic inflation Reserve 1 mark for a conclusion

28. (w25 qp 24-1(d)) **[6]**

1(d) Assess whether the costs of inflation are always likely to be greater than the benefits of inflation for the US.
Up to 4 marks MAX for analysis of both benefits and costs Up to 3 marks for analysis of the possible benefits of inflation, e.g., it may be a sign of economic growth and may encourage businesses to produce more and therefore reduce levels of unemployment etc. if the inflation rate is low and stable. Also, borrowers may gain.
Up to 3 marks for analysis of the possible costs of inflation, e.g., menu and shoe leather costs, lenders may lose, fiscal drag, reduced international competitiveness etc., if the inflation rate is high or becomes prolonged . This may result in reduced investment due to uncertainty.
Up to 2 marks for evaluation of positive and negative effects , e.g., it will depend on the level of inflation and whether it is likely to be prolonged. It also may depend on the rate of inflation in other countries. Reserve 1 mark for a justified conclusion.
Note: evaluation should be in the context of the US to gain any credit. For example, the data suggests that inflation in the US is largely the result of rising AD and less due to rising costs of production. Any valid evaluation must reflect this.

29. (s25 qp 23-4(a)) **[8]**

4(a) Explain two causes of economic growth and consider the extent to which their impact can be measured.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
• Economic growth is the increase in the real value of goods and services produced in an economy over time (1). Explanation of two causes of protection –e.g. Increase in AD –higher real wages, direct tax cuts, lower interest rates; increases in LRAS –increased investment, increased productivity (1+1).
AO2 Analysis (max 3 marks)
• An explanation of how each cause increases economic growth (1+1). For example, reductions in income tax will reduce disposable income thereby increasing AD and economic growth. However, if high levels of job insecurity exists then the increase in consumption/AD/economic growth may be less (1). Alternatively, the ability to measure the impact will be affected by the size of the hidden/informal economy (1).
AO3 Evaluation (max 2 marks)
• Evaluation should consider the extent to which the causes can be measured –size of hidden/informal economy.
• 1 mark reserved for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

30. (w21 qp 23-1(a)) **[2]**

1(a) Use the data in Fig. 1.1 to describe how the contribution to real It is not enough to simply quote figures –some output growth of the different components of aggregate demand measure of change in contribution is needed, i.e. in China has changed from 2010 to 2017. increase, decrease, no discernible change, etc.
Award 1 mark for any two of the following:
- Lower contribution of investment expenditure over the period
- Relatively stable contribution in consumption expenditure
- In 2010, net exports were negative but by 2017 they were positive / however, over the period they have fluctuated between positive and negative (2 marks)

31. (w21 qp 23-1(b)(i)) **[1]**

1(b)(i) What relationship might you expect between the rate of growth in real output and sales of new cars in an economy?
There is likely to be a positive correlation / would be expected to be a similar pattern / trend between the rise in GDP growth and the change in private car sales (1 mark)

32. (w21 qp 23-1(b)(ii)) **[2]**

1(b)(ii) Consider whether the evidence in Fig. 1.1 and Table 1.1 supports 2 mark to be awarded for each accurate this relationship. statement up to a maximum of 2 marks
It is broadly consistent (1) Highest and lowest rates of growth correspond (2010 and 2017 respectively) (1) There is positive growth in all years for both real output and sales of new cars, but rates of growth do not always match (1) Growth rate is more consistent than growth in car sales throughout (1) (2 marks)

33. (w24 qp 21-4(a)) **[8]**

4(a) Explain two possible causes of economic growth and consider whether the consequences of economic growth for an economy will always be positive.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A knowledge and understanding of what is meant by economic growth (1) and two possible causes of economic growth, such as:
- an increase in the number of workers
- an improvement in the quality of workers, e.g. in terms an increase in education and/or training
- a greater commitment to research and development
- an improvement in the state of technology
- investment in capital stock
- increased mobility/flexibility of factors of production
- development of new export markets. (Up to 2 marks)

AO2 Analysis (max 3 marks)
An analysis of the possible consequences of economic growth for an economy, both positive and negative, such as:
- leads to an increase in the standard of living

- could lead to a decrease in unemployment
- may lead to a depletion of resources and to environmental damage
- there could be a reduction in the quality of life, e.g. less leisure time.

AO3 Evaluation (max 2 marks)
Offers a valid judgement on whether the consequences of economic growth for an economy will always be positive (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

34. (s24 qp 21-4(a)) **[8]**

4(a) Explain three of the components of aggregate demand and consider the extent to which they may be increased without leading to inflation.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) For a clear and accurate explanation of three components of aggregate demand i.e., consumer spending, investment, government spending and / or net exports (1 × 3).
Note. Q4(b) lists three components of AD so any AO1 marks CANNOT be awarded for simply mentioning a component.
AO2 Analysis (max 3 marks) For an analysis that explains that one cause of inflation is a situation where AD rises more than AS (1) but also considers why this may or may not occur e.g., the economy is operating at less than capacity, some of the increase in AD also increases AS etc. (up to 2 marks)
Note. If both scenarios are considered, then full marks may be awarded. For one-sided answers, maximum mark of 1.
AO3 Evaluation (max 2 marks) For an answer that clearly considers both sides (1) leading to a valid conclusion (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

35. (s24 qp 21-5(a)) **[8]**

5(a) Explain three causes of unemployment and consider which cause is likely to be most damaging to a high-income economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) For a clear and accurate explanation of three causes of unemployment from frictional, structural, cyclical (demand deficient), seasonal or technological (3×1).
AO2 Analysis (max 3 marks) Each cause identified must be analysed, and judgements made about how damaging it might be for a high-income economy (3×1). For example, points to consider may include:

- Frictional unemployment may be dependent on information provision.
- Structural unemployment may be permanent and difficult to solve.

- Cyclical unemployment depends on the economic cycle.
- Seasonal depends on alternative sources of employment.
- Technological depends on occupational or geographical immobility of labour.

AO3 Evaluation (max 2 marks) For an answer that clearly assesses how damaging each cause may be to a high-income developed economy in comparison with each other (1) that leads to a justified conclusion as to which may be the most damaging (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

36. (m23 qp 22-4(a)) **[8]**

4(a) Explain the circular flow of income in a closed economy and consider the extent to which the circular flow of income changes as an economy becomes an open economy.
and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A clear knowledge and understanding that the circular flow of income in a closed economy involves households, firms, and the government (1) and has injections of I and G and leakages/withdrawals of S and T (1), so that equilibrium income is where I + G = S + T (1).
AO2 Analysis (max 3 marks)
An analysis of how the circular flow of income changes as an economy becomes an open economy, with the introduction of participation in the international economy (1) through the injection of X and the leakage/withdrawal of M (1), so that equilibrium income (is) (now becomes) where I + G + X = S + T + M (1).
AO3 Evaluation (max 2 marks)
Offers a valid judgement on the extent to which the circular flow of income changes as an economy becomes an open economy depending on the importance of international net trade (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

Further Practice （进阶）

1. (w23 qp 22-5(a)) **[8]**

5(a) With the help of a diagram(s), explain one reason for an increase in aggregate demand and one reason for an increase in aggregate supply and consider whether an increase in aggregate demand will always lead to inflation.
Follow the point-based marking guidance at the top of this mark scheme and award:
- up to 3 marks for AO1 Knowledge and understanding.
- up to 3 marks for AO2 Analysis
- up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks) Aggregate demand is the total demand for an economy' s goods and services at a given price level/it is the total of C + I + G +(X-M) (1) Aggregate supply is the total output that producers in an economy are willing and able to supply at a given price level (1) An accurate diagram showing AD and AS curves (1)

AO2 Analysis (max 3 marks) Analysis must explain a valid cause of an increase in AD (1) and a valid cause of an increase in AS (1) and show these increases by rightward shifts in both curves and the resultant impacts on the price level on an accurate diagram (1)
AO3 Evaluation (max 2 marks) Whether an increase in AD will always lead to an increase in the price level (inflation) will depend on the increase in AS and/or the shape of/position on the AS curve (1). This must be clearly explained, and reserve one mark for a valid judgement (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

2. (w24 qp 23-4(a)) **[8]**

4(a) In 2021, year-on-year inflation in many economies increased to a level not experienced for fifty years. With the help of a diagram, explain what is meant by cost-push inflation and consider whether this type of inflation has affected your own economy since 2021.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
• An explanation of cost-push inflation –when the price level rises due to higher costs of production and raw materials (1).
• An accurate aggregate and aggregate supply diagram showing a shift to the left of the short run AS curve (1).
• This results in a rise in the price level and a contraction/movement along the aggregate demand (AD) curve (1).
AO2 Analysis (max 3 marks)
Points to consider:
• For example, an increase in wages/salaries increases the firm' s costs of production (1). Firms will look to pass these additional costs onto its customers which increase the price of all goods and services (1).
• Increased import prices (due to a depreciation of the domestic currency) (1) will increase the costs of production to firms that are reliant on other countries to produce raw materials/price inelastic demand for imports (1).
AO3 Evaluation (max 2 marks)
• Evaluation should explain the extent to which inflation in the named economy is the result of cost-push factors as opposed to demand pull causes (1), leading to a justified conclusion (1).
N.B: if the evaluation is not in the context of a named economy, then no evaluation marks can be awarded.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

3. (s23 qp 21-4(a)) **[8]**

4(a) With the help of an AD/AS diagram(s), explain cost-push inflation and demand-pull inflation in an economy and consider in what circumstances one may be more damaging than the other.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (3 marks maximum) An understanding of the causes of inflation in an economy shown through an accurate diagram with correctly labelled axes (price level and real output) (1), with cost-push inflation shown by a shift of the AS curve to the left (1) and demand-pull inflation shown by a shift of the AD curve to the right. (1)
AO2 Analysis (3 marks maximum)
• Uses the diagram to explain the possible damaging effects of cost-push inflation in an economy. (Up to 2 marks)
• Uses the diagram to explain the possible damaging effects of demand- pull inflation in an economy. (Up to 2 marks)
3 marks maximum
AO3 Evaluation (2 marks maximum) Offers a valid judgement on the comparison of the two causes of inflation in an economy, including the factors that could make one cause more damaging than the other (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

4. (s22 qp 23-3(a)) **[8]**

3(a) Explain the difference between cost-push and demand- Cost-push inflation is the outcome of a rise in the costs pull inflation. of production. This results in a shift to the left of the AS curve, increasing the price level. Possible causes could For knowledge and understanding of what is meant by be an increase in wages above the rate of inflation, an inflation e.g., it is a situation where there is a increase in raw material costs or an increase in the sustained / persistent rise (1 mark) in the general / average price of fuel imports due to the depreciation of the price level / prices (1 mark) currency
For application that explains what is meant by cost push Demand-pull inflation occurs when there is an increase inflation (1 mark) an appropriate example of a cause (1 in aggregate demand not matched by an increase in mark) duly explained as to why it causes inflation (1 mark) aggregate supply. This will have a strong effect if the economy is at or close to the level of full employment. For application that explains what is meant by demand pull The cause could be an increase in government inflation (1 mark) an appropriate example of a cause (1 spending, a reduction in taxation leading to a consumer mark) duly explained why this is different to cost push boom or an increase in demand for exports following a inflation (1 mark) depreciation of the currency.

5. (s21 qp 23-3(a)) **[8]**

3(a) Explain what is meant by aggregate supply and explain A shift outwards of the AS curve can be due to one reason why the aggregate supply curve of an economy would shift outwards in –an increase in the supply of labour –net investment (i) the short run, and –other factor inputs –devaluation of the exchange rate (ii) the long run. –government regulations –discovery of new resources For explanation of aggregate supply e.g. total output in an –better education and training economy (1 mark) that distinguishes between short run and –advances in technology long run (1 mark) (up to 2 marks)
Identify a reason (1 mark) plus up to 2 marks for an explanation of why this causes the SRAS to move outwards. (up to 3 marks) Identify a reason (1 mark) plus up to 2 marks for an explanation of why this causes the LRAS to move (up to 3 marks)

6. (w25 qp 21-4(a)) **[8]**

4(a) Explain the possible causes of frictional unemployment and technological unemployment and consider whether some element of frictional unemployment is inevitable in an economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis, up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
- A knowledge and understanding of what unemployment means in general. (1)
- One cause of frictional unemployment: it is temporary and at any point in time, there will be workers transferring between jobs; this could occur simply because an individual wishes to improve their job prospects and needs to spend time searching for a new job; there will be some unemployment while the transfer between jobs takes place. Searching may take some time if information about the availability of jobs is not very good. Frictional unemployment can include not only search unemployment, but also casual unemployment and seasonal unemployment. (1)
- One cause of technological unemployment is a type of structural unemployment that arises from the introduction of technology, when existing workers do not have the skills to operate the new technology ; This is caused when developments in technology and working practices cause some workers to lose their jobs as they are replaced by capital investment. (1)

AO2 Analysis (max 3 marks)
An analysis of whether some element of frictional unemployment is inevitable, e.g. it would depend on the quality of information available about vacancies and the extent to which workers would be keen to change from one job to another. Is it always likely to occur? Candidates need to analyse the extent to which it is or is not inevitable.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on whether some element of frictional unemployment is inevitable in an economy (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

7. (s24 qp 22-4(a)) **[8]**

4(a) With the help of a diagram, explain what is meant by the circular flow of income in an open economy and consider the extent to which it can explain economic growth in such an economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) A simple circular flow diagram (1) that clearly shows/ explains separately that expenditure flows from households to firms (1) and that income flows from firms to households (1) Note:, this is all that is required for the knowledge and understanding marks regardless of the complexity of the diagram.
AO2 Analysis (max 3 marks)
• The first two marks are for an analysis of injections greater than withdrawals and how this leads to economic growth/increase in national income and (1) for an analysis of withdrawals greater than injections and how this leads to a fall in economic growth/national income (1).
• Reference must be made in some way to the fact that in open economy injections include income from exports and that leakages includes expenditure on imports along with at least one other example of an injection and one other example of a leakage for the (1).
AO3 Evaluation (max 2 marks)
• Evaluation should explain how the relative sizes of injections and leakages will lead either to economic growth or a fall in economic growth with 1 mark reserved for a justified conclusion.
Please use a text box to show the mark split e.g., 2,2,1
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

8. (s24 qp 23-4(a)) **[8]**

4(a) With the help of a diagram, explain how increases in aggregate demand affect the level of real output and the price level in an economy and consider when such increases may become a problem.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
• An understanding of the components of AD i.e., C+G+I+X-M. (1)
• An accurately labeled AD/AS diagram showing the initial equilibrium point. (1)
• That also shows a shift or shifts to the right of the AD curve and the subsequent changes in the price level and real GDP. (1)
AO2 Analysis (max 3 marks)
• For an explanation of why AD might increase. (1)
• For an explanation of why this increase may not cause problems such as inflation e.g., because of the shape of the AS curve, because AS may increase in line with AD if the increase is due to an increase in I. (1)
• For an explanation of why it may cause problems e.g., the economy is at full capacity and AS cannot increase. (1)
AO3 Evaluation (max 2 marks) For valid evaluation e.g., a recognition that increases in AD may result in an inflationary increase in the price level beyond the full employment level of

output. Reserve 1 mark for a justified conclusion.
Please use a text box to show the mark split e.g., 3 2 1
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

9. (s25 qp 22-4(a)) **[8]**

4(a) With the help of an AD / AS diagram (s), explain one demand- side and one supply-side cause of deflation and consider which is likely to be more damaging to an economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
For an understanding of what is meant by deflation (1) An accurate AD / AS diagram showing a fall in the general price level due to a left shift in the AD curve (1). An accurate AD / AS diagram showing a fall in the general price level due to a right shift in the AS curve (1).
Note: no further explanations are required.
AO2 Analysis (max 3 marks)
As indicated by the diagram, a fall in AD is also associated with a fall in GDP and employment levels. Analysis should focus on why this may be considered damaging to an economy. For example, this may lead to a fall in economic growth / a recession (1) which may lead to a rise in unemployment (1) (up to 2 marks). On the other hand, the rightward shift in AS will lead to an increase in GDP and employment and why this may be considered beneficial to an economy. For example, this may lead to an increase in economic growth (1) resulting in more people being employed (1), It may also reduce inflationary pressure (1), (up to 2 marks).
Note: 3 marks maximum overall
AO3 Evaluation (max 2 marks)
That clearly considers both causes and assesses how damaging they are to an economy.
Note: reserve 1 mark for a valid conclusion.
Please use a text box to show the mark split e.g., 3 3 1
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

Advanced Practice （培优）

1. (m23 qp 22-4(b)) **[12]**

4(b) Assess whether the consequences of economic growth for an economy are always positive.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• The positive consequences of economic growth: an improvement in the standard of living, a reduction in the rate of unemployment, an increase in incomes, an increase in the level

of aggregate demand, a possible reduction in income inequality, higher tax revenues which a government could spend on improving public services (such as education and healthcare), and an increase in business confidence leading to greater investment.
• The negative consequences of economic growth: a possible depletion of non-renewable natural resources and damage to the environment, such as through various types of pollution, an unequal sharing of the benefits of economic growth among a population leading to an increase in income inequality and a possible reduction in the quality of life of people through longer working hours and a reduction in the amount of leisure time, plus a shift towards more capital-intensive production. Answers may also refer to the dangers of inflationary pressure.
A one-sided response can only gain a maximum of Level 2.
AO3 Evaluation
Points to consider may include:
• The degree to which the potential benefits of economic growth are equally shared among a population.
• The extent to which any shift towards more capital- intensive production affects the level of unemployment
• Whether long-term economic growth brings about a short-term cost as resources are used to produce capital goods rather than consumer goods
• The extent to which the economic growth is sustainable
• Which leads to a justified conclusion on whether the consequences of economic growth for an economy are always positive
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

2. (m24 qp 22-5(b)) **[12]**

5(b) Assess whether economic growth is always desirable for an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• The meaning of the term economic growth.
• An explanation of the potential benefits of economic growth for an economy –higher incomes, reduction in unemployment, improved government finances, increased international competitiveness, increases in both consumer and business confidence, increased life expectancy.
• An explanation of the costs of economic growth for an economy –inflation, current account deficits, inequality, pollution.
AO3 Evaluation
• Consideration that fully assesses the relative perspectives of economic growth for an economy and arrives at a reasoned conclusion concerning which viewpoint (or otherwise) is most likely.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

3. (s25 qp 23-4(b)) **[12]**

4(b) Assess the extent to which economic growth is always beneficial for the people and government in an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Potential benefits of increasing economic growth. For example:
• Economic growth often leads to increased real GDP per capita, allowing consumers to enjoy more goods and services and improve their quality of life.
• As output increases, firms typically need more workers, leading to more job opportunities and reduced unemployment.
• Higher incomes and spending generate more tax revenue without raising tax rates, enabling governments to invest in public services like healthcare and education.
• Sustained growth can boost investment and consumption as expectations about future income and profits rise.
Potential costs of increasing economic growth include:
• Economic growth can disproportionately benefit the wealthy, leading to a widening gap between rich and poor, with some groups not experiencing the same level of improvement.
• Increased production and consumption associated with growth can lead to higher pollution levels, depletion of natural resources, and other environmental harm.
• If growth is too rapid, it can lead to inflationary pressures, demand-pull inflation, and potential economic instability.
• As economies grow, the demand for resources (such as raw materials, energy, and land) increases, which can lead to shortages, higher prices, and the over-exploitation of finite resources.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
4(b) AO3 Evaluation
Requires an assessment of the benefits and costs of increased economic growth (which may refer to specific groups) which leads to a justified conclusion as to whether or not economic growth is always beneficial
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

4. (s25 qp 24-4(b)) **[12]**

4(b) Assess whether the consequences of inflation in an economy are always negative.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks.
AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- An understanding of inflation
- Explanation of possible negative consequences of inflation in an economy, for example, the uncompetitiveness of exports leading to a worsening of the current account of the balance of payments, shoe leather costs arising from searching for better returns, menu costs arising from continually changing prices, planning difficulties arising from the uncertainty caused by inflation and a redistribution of income, e.g. those on fixed incomes will lose out.
- Explanation of possible positive consequences of inflation in an economy, such as an increase in borrowing arising from debt being less in real terms, an increase in the profits of firms, possibly leading to more workers being employed, and an increase in the value of assets, such as property

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation That clearly assesses whether the consequences of inflation are always negative by considering both the negative and positive consequences and reaches a valid conclusion as to whether the consequences are always negative.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5. (w25 qp 21-4(b)) **[12]**

4(b) Assess whether the consequences of technological unemployment are likely to be more serious than those of cyclical unemployment.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Technological unemployment:
- Workers are unemployed as a result of a change in the pattern of production when machines replace labour in the productive process.
- New skills are required to use the capital equipment.
- Such unemployment is due to technical progress; if workers cannot move from one industry to another because of a lack of the required skills, they will become technologically unemployed.

Cyclical unemployment:
• Workers are unemployed because of a deficiency in aggregate demand, i.e. there are insufficient jobs in an economy.
• Whereas technological unemployment affects workers in particular industries, cyclical or demand-deficient unemployment affects the whole economy with job losses across a number of industries as firms reduce their output.
Focus of analysis should be the relative seriousness of the two types of unemployment. i.e. which is more serious and why.
(Up to 8 marks)
Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one-sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• Consideration of whether the consequences of technological unemployment are likely to be more serious than those of cyclical unemployment to reach a conclusion.
Accept all valid responses. A one-sided response cannot gain any marks for evaluation. (Up to 4 marks)
4(b) AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

6. (w25 qp 22-5(b)) **[12]**

5(b) Assess the view that the effects of a high rate of inflation are always more damaging for consumers than for firms.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
For consumers problems include:
• A loss of purchasing power that particularly affects fixed income earners and those with weak wage bargaining power
• Fiscal drag pulling individuals into higher tax brackets
• Shoe leather costs
• A loss of consumer confidence particularly at a time of high rates of inflation leading to an increased use of alternative methods of payment
However
• Consumers with debts gain as the value of their debts is eroded with inflation
• Consumers with assets gain e.g., house owners
For firms problems include:
• A loss of sales domestically and overseas due to higher prices / loss of competitiveness
• Menu costs
• Increased costs of production due to raw material costs and wages rising.
• At a time of high inflation, this will lead to a loss of confidence and lower investment

- Inflationary noise leading to poor decision making

However

- If it is demand led and sales increase, then firms will make increased profits.
- If the price level is rising at a faster rate than production costs then profits will rise.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

5(b) Level responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

Guidance: Answers that refer to a moderate or low rate of inflation cannot gain more than mid-level 2 mark.

AO3 Evaluation

That clearly considers and compares both sides of the analysis and reaches a justified conclusion.

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

7. (w23 qp 22-5(b)) **[12]**

5(b) Assess whether the internal effects of inflation are more serious than the external effects of inflation for an economy.

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.

AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content Responses may include:

AO1 Knowledge and understanding and AO2 Analysis The internal effects of inflation are those which affect the domestic economy directly and may include:

- Income redistribution
- Menu costs (or the costs to firms of having to change their prices frequently)
- Shoe leather costs (or the inconvenience of having to hold smaller quantities of cash/searching for the best rate of interest)
- Uncertainty in transactions
- But also, may provide a stimulus for output and be a sign of economic growth.

The external effects of inflation are those which affect its international trade and may include.

- Declining price competitiveness of exports and increased competitiveness for imports
- This may increase the current account deficit.
- May lead to a depreciation of the exchange rate.
- Uncertainty in international transactions
- But also, depending on price elasticity of demand, it may boost revenue from exports plus it will improve the terms of trade and may be a sign of increased demand for its goods and further stimulate output.
- Both internal and external effects need to be considered to gain more than L2.
- One positive effect (in addition to negative effects) only for internal or external can gain low L3.
- Positive effects and negative effects analysed for both internal and external can gain top

L3.
AO3 Evaluation
- Consideration of both the internal and external effects of inflation for an economy
- An assessment of which effects are likely to be the most serious.
- A justified conclusion as to which effect is likely to be the most serious.

Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
5(b) AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

8. (w24 qp 23-4(b)) **[12]**

4(b) Assess whether the potential benefits of an increasing rate of inflation outweigh the potential costs for an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Potential benefits of an increasing rate of inflation include:
- It stimulates output –a low and stable inflation rate caused by existing demand may make firms feel more optimistic about the future and encourage them to invest to expand their business.
- A possible reduction in the burden of debt. If inflation is rising faster than the nominal rate of interest on previous borrowing then real interest rates become negative which may stimulate consumer expenditure which, in turn, could lead to higher output and employment.

Potential costs of an increasing rate of inflation include:
- A reduction in net exports as rising inflation rates may reduce the international competitiveness of a country resulting in reduced export revenue and increased import expenditure.
- Fiscal drag –if tax rates are not increased in line with inflation, then people are 'dragged' (pulled) into higher tax brackets. As such, lower proportions of any increase in incomes are enjoyed by the taxpayer.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
Requires an assessment of the benefits and costs of increasing rate of inflation (which may refer to specific groups) which leads to a justified conclusion as to which the benefits outweigh the potential costs.
Accept all valid responses. N.B: A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5 Government Macroeconomic Intervention（政府宏观干预）

入门综合 （36）

1. (s22 qp 21-1(e)) **[6]**

1(e) 'However, there is always the possibility that tough monetary policies Potential advantages of monetary policy: could do more harm than good to an economy, compared with the • a rise in interest rates can be possible use of fiscal policy.' effective in reducing the level of aggregate demand, especially if Discuss whether monetary policy or fiscal policy is more likely to be demand is interest-elastic; can be effective in controlling inflation. effective reducing demand-pull inflation For an explanation of the potential advantages and potential disadvantages • other monetary policies to control of monetary policy in controlling inflation. (Up to 3 marks) inflation can include a reduction of (A maximum of 2 marks if only advantages or disadvantages are explained) the money supply and a rise in the exchange rate For an explanation of the potential advantages and potential disadvantages of fiscal policy in controlling inflation. (Up to 3 marks) Potential disadvantages of monetary (A maximum of 2 marks if only advantages or disadvantages are explained) policy:
• an increase in interest rates may 5 marks maximum not be significant enough to have an effect, i.e., demand is relatively Reserve 1 mark for a conclusion inelastic
• the impact of an increase in interest rates can take a relatively long time to take effect
• it will be less useful in controlling cost-push inflation
• a rise in the exchange rate will not be useful if the PED for imports and exports is inelastic
• a reduction of the money supply may sometimes be difficult to bring about
1(e) Potential advantages of fiscal policy:
• a reduction in public expenditure can help to reduce the level of aggregate demand in an economy
• an increase in the level of taxes can also have such an effect
Potential disadvantages of fiscal policy:
• it may not always be easy for a government to change its expenditure/revenue plans
• increased taxes can have a disincentive effect
• less useful controlling cost-push inflation

2. (s25 qp 21-1(e)) **[6]**

1(e) Assess whether the Federal Reserve setting an inflation target as part of its monetary policy is likely to be helpful for the US economy.
Up to 4 marks for explanation/analysis:
• Possibly helpful: it can help to create and maintain a degree of stability and confidence in the US economy at a time of significant price increases, informing consumers and firms that appropriate action will be taken to prevent the rate of inflation from becoming too high. It can influence inflation expectations; if these remain stable, it may help to prevent (or limit) a wage-price spiral. (Up to 3 marks)
• Possibly unhelpful: the establishment of a target may not be particularly helpful as the Federal Reserve may not be willing to take the necessary measures to keep inflation at a particular level; it is aware that there is a delicate balancing act between keeping the rate of inflation close to a particular target and the risk of bringing about an economic downturn.

(Up to 3 marks)
Up to 2 marks for evaluation:
• Relevant evaluation such as in relation to the particular inflation target adopted by the Federal Reserve. (1)
• Reserve 1 mark for a conclusion on whether it is helpful for the Federal Reserve to set an inflation target for the US economy. (1)

3. (s24 qp 23-1(d)) **[6]**

1(d) Excluding interest rate changes, assess what alternative policies might be used to reduce Turkey' s rate of inflation.
Up to 2 marks for explanation / analysis of the possible effect of one alternative policy e, g., a reduction in money supply or tighter restrictions on credit i.e., additional monetary policy. These may successfully reduce AD due to less money being available for C or I but may reduce economic growth. (1 mark for an explained advantage and 1 mark for an explained disadvantage)
Up to 2 marks for explanation / analysis of the possible effect of a second alternative policy e.g., fiscal policy to increase taxation or reduced government spending. This may reduce AD as it has a direct effect of reducing C and I but it may reduce e.g., the incentive to work as taxation increases. (1 mark for an explained advantage and 1 mark for an explained disadvantage)
Up to 2 marks for evaluation that clearly assesses the likely advantages and disadvantages of these policies in comparison with each other / against interest rate changes. Reserve 1 mark for a valid conclusion.
Guidance: Other possibilities include:
• Use of supply side policy
Please use a text box to show the mark split e.g., 2 2 1

4. (s24 qp 21-1(e)) **[6]**

1(e) Assess the extent to which supply-side policies will be able to 'lead Sri Lanka back into economic growth' .
Up to 4 marks for explanation / analysis:
• Possible benefits of using supply-side policies e.g., to create a better trained, educated and healthier workforce that is more productive, an environment more suited to enterprise etc. (up to 2 marks)
• Possible drawbacks of using supply-side policies which may include the cost of provision, the time lag involved, the receptiveness of the workforce etc. (up to 2 marks)
Up to 2 marks for evaluation:
• That fully considers both potential benefits and drawbacks to reach a valid conclusion as to the extent to which supply-side policies will be able to lead Sri Lanka back into economic growth. (reserve 1 mark)

5. (w24 qp 21-1(e)) **[6]**

1(e) Assess the potential benefits and limitations of using monetary policy to control inflation in a country such as Argentina.
Up to 4 marks for explanation/analysis:
• Explanation/analysis of the potential benefits of using monetary policy to control inflation

in a country such as Argentina, such as the possibility that this will lead to a reduction in aggregate demand and how this may reduce inflation. (Up to 3 marks)
• Explanation/analysis of the potential limitations of using monetary policy to control inflation in a country such as Argentina, such as the difficulty of knowing what the appropriate interest rate should be and the possibility that demand could be relatively interest-inelastic and the meaning of this. (Up to 3 marks)
Max: 4 marks
Up to 2 marks for evaluation:
• Relevant evaluation which weighs up the potential benefits and limitations of using monetary policy to control inflation in a country such as Argentina. (1)
• A conclusion on the likely overall effect. (1)

6. (w25 qp 24-1(e)) **[6]**

1(e) Assess the extent to which maintaining interest rates at a high level will be the best policy for the US to control inflation.
Up to 4 marks MAX for analysis of both advantages and disadvantages Up to 3 marks for analysis of the possible advantages of maintaining interest rates at a high level, e.g., it is a contractionary demand policy that will reduce AD by reducing consumer expenditure and investment. This should lower inflationary pressure and keep inflation rates lower.
Up to 3 marks for analysis of the possible disadvantages, e.g., it may reduce economic growth and increase unemployment if the policy is maintained for a long period of time. It may reduce international competitiveness if it leads to an increase in exchange rates. It may also not be appropriate if the cause of inflation is due to cost push factors,
Up to 2 marks for evaluation of the advantages and disadvantages of maintaining interest rates at a high level to control inflation in the US. This may also include an assessment (although this is not essential) of other policies such as supply-side policy may be less damaging and fiscal policy. It also depends on the timescale. Reserve 1 mark for a justified conclusion.
Note: evaluation should be in the context of the US to gain any credit. For example, the data suggests that inflation in the US is largely the result of rising AD and less rising costs of production. Any valid evaluation must reflect this.

7. (s25 qp 21-1(d)) **[6]**

1(d) Assess whether increases in the interest rate make a recession in the US inevitable?
Up to 4 marks for explanation/analysis:
• Inevitable: higher interest rates (0.25% in January 2022, 1.50% in June 2022, 4.50% in December 2022) make borrowing more expensive for both consumers and firms, so that there is a fall in both AD and AS, leading to higher unemployment and a recession. (Up to 3 marks)
• Not inevitable: demand and supply may not be interest elastic and there are other factors that can influence AD and AS apart from interest rates. (Up to 3 marks)
Up to 2 marks for evaluation:
• Relevant evaluation which considers both the potential likelihood of recession and the possibility of there not being a recession in the US and weighs up the factors involved. (1)
• Reserve 1 mark for a conclusion on whether increases in the interest rate make a recession in the US inevitable. (1)

8. (m23 qp 22-1(c)) **[4]**

1(c) Consider the extent to which an increase in interest rates could reduce the rate of inflation in the US.
• An increase in interest rates will increase the cost of borrowing / or increase the incentive to save / or lead to an increase in the exchange rate (1)
• This is likely to lead to a fall in C and I / X-M because of the fall in spending /reduction in exports / rise in imports (1)
• Appreciation of the exchange rate may reduce the extent of import cost- push inflation (1)
• Overall fall in AD is likely to lead to a fall in the rate of inflation (1)
Max 3 marks
Evaluation
• The demand for borrowing funds may not be interest elastic/consumer and business confidence may remain high (1)
• The contribution to a reduction in the rate of inflation will largely depend on the degree to which it is demand-pull inflation. (1)
• There are other factors contributing to the rise in inflation from the cost side, such as the increase in the cost of shipping goods. (1)
Max 1 mark

9. (w21 qp 21-1(d)) **[6]**

1(d) Using aggregate demand and aggregate supply analysis, discuss Monetary policy involves the use of changes whether it is possible to use monetary policy to achieve both a high in interest rates and/or changes in the level of investment and a low rate of inflation. money supply and/or changes in the exchange rate For an explanation of the use of monetary policy to achieve both a high level of investment and a low rate of inflation, using AD/AS analysis If an expansionary policy is used to (up to 3 marks) encourage a high level of investment, interest rates could be lowered For an explanation of the limitations of monetary policy in achieving both a high level of investment and a low rate of inflation, using AD/AS analysis Such an approach is likely to increase the (up to 3 marks) level of aggregate demand in an economy and this could lead to an increase in 5 marks maximum inflation if AD exceeds AS Reserve 1 mark for a conclusion However, investment could increase AS in the economy and contribute to a lower rate 6 marks maximum of inflation
The timeframe is important; AD increases will occur before the investment can increase AS and so it is likely that the short- run effect would be inflationary, but the long-run effect may not be
It may be possible to lower the interest rate without causing inflation if an economy has spare capacity; if the LRAS curve is horizontal, investment could be encouraged (AD shifting right) without inflation

10. (w23 qp 23-1(e)) **[6]**

1(e) Assess whether monetary policies are the best way for high-income countries such as the US and the UK to produce an economic recovery.
Up to 2 marks for an analysis of the uses of monetary policy:
• An explanation of what monetary policy consists of
• How an expansionary monetary policy can be used to produce an economic recovery based on an increase in AD e.g., through reducing interest rates, increasing money supply e.g., through relaxing credit restrictions.

- Increasing price competitiveness of exports due to a fall in the exchange rate.

Up to 2 marks for an analysis of the drawbacks of monetary policy:

- Expansionary monetary policy may cause inflation.
- It depends upon consumer and business confidence and receptiveness towards reductions in interest rates.
- The possible effects on the cost of imports due to a fall in the exchange rate.
- Impact of time lags.

Up to 2 marks for evaluation:

- The degree of interest sensitivity on components of AD
- The impact of such policies is uncertain.
- Possible use of alternative policies
- Reserve 1 mark for a justified conclusion

11. (s24 qp 22-1(e)) **[6]**

1(e) Assess the advantages and disadvantages of the ECB 'substantially' increasing the interest rate to control rising inflation.

Up to 2 marks for explanation / analysis of the advantages of substantially increasing the interest rate to control rising inflation e.g., it will curb demand pull inflation by reducing AD and it is a relatively quick and easy policy to adopt.

Up to 2 marks for explanation / analysis of the disadvantages of substantially increasing the interest rate to control rising inflation e.g., this inflation is supply led and reducing AD will have little effect and in fact this policy may add to supply costs and cause other unintended serious consequences for the economy.

Up to 2 marks for evaluation

- That clearly considers both advantages and disadvantages / compares with an alternative policy such as supply-side policy / refers to the significance of a substantial increase No mark for eval can be awarded if only advantages or disadvantages are considered.
- Comes to a reasoned conclusion as to whether advantages outweigh disadvantages or vice versa (reserve 1 mark)

Please use a text box to show the mark split e.g., 2,2,2

12. (s25 qp 21-1(c)) **[4]**

1(c) 'In an attempt to bring about disinflation, the Federal Reserve used a contractionary monetary policy.' Consider whether disinflation is more harmful than deflation.

- Disinflation is a fall in the rate of inflation (in an economy over a period of time) (1), so although this means that the problems caused by inflation will be less they will still be in existence, such as the effect on the distribution of income, purchasing power, the competitiveness of exports, menu costs, shoe leather costs and the impact on investment planning. (1)
- Deflation is a fall in the average or general level of prices (in an economy over a period of time) (1), but this too can bring problems such as when a substantial fall in aggregate demand leads to a recession with lower output and higher unemployment and so has a potentially negative effect on the investment decisions of firms. (1)

Max 3 marks.

There will be a max mark of 2 if a candidate only considers disinflation or deflation and they will not, in this case, be able to gain any evaluation marks.

Evaluation

- What is the extent of the disinflation, i.e. by how much is the inflation rate falling? (1)
- How long is the disinflation and deflation expected to last? (1)
- To what extent are other countries experiencing disinflation or deflation? (1)

Max 1 mark

13. (m22 qp 22-1(e)) **[6]**

1(e) Discuss, with the help of an aggregate demand and aggregate supply Cuts in the rate of interest are expected to diagram, whether further cuts in Turkey' s interest rate are likely to increase consumption and investment. In 'generate inflation' or 'speed up the economic recovery' . addition, the exchange rate will fall causing a rise in net exports. Aggregate For an accurate aggregate demand/aggregate supply diagram showing demand will rise, but the impact upon equilibrium national income and price level (1 mark). prices and output and employment will be determined by the position of equilibrium For an explanation using the diagram (1 mark) of the impact of a cut in national income. interest rates upon aggregate demand (up to 2 marks). If there is no diagram or an inaccurate For evaluative comment that considers whether the interest rate cut will diagram, then the maximum mark is 4 i.e. impact upon prices/employment/economic growth. 0,2,2. (Up to 2 marks) with 1 mark reserved for a valid conclusion

14. (m21 qp 22-1(e)) **[6]**

1(e) Discuss how continuing with an expansionary monetary policy is An expansionary monetary policy means expected to boost inflation and consider whether it is likely to be cutting interest rates and/or increasing the successful. money supply. We allow quantitative easing as expansionary monetary policy. For clear understanding of the meaning of expansionary monetary policy. (1) It is expected that this will stimulate investment and/ or consumption and this will stimulate aggregate demand and might increase prices. For an explanation of how this might stimulate aggregate demand and It might also lead to a fall in the exchange rate 'boost inflation' (Up to 2 marks for each component of aggregate demand and an increase in net exports. that is considered) (Up to 3 marks) This might not work for a number of reasons. For example, investment might be For evaluative comment on whether this is likely to be successful. unresponsive to interest rate changes. The (Up to 2 marks) table also shows that despite loose monetary policy over the period, investment has stayed relatively stable. This could contribute to a conclusion.

15. (s23 qp 22-1(d)) **[6]**

1(d) Assess whether using supply-side policy is the best way to diversify the Nigerian economy away from its dependence on oil and natural gas exports.

Up to 4 marks for the explanation/analysis: of any valid supply-side policy to diversify the economy which may include:

- Training and education
- Government support to business e.g., assistance in setting up
- Improved infrastructure
- Research and development
- Deregulation.

For an explanation of the strengths and weaknesses with no explicit or clear implicit reference to how the chosen policy(ies) may help diversify the Nigerian economy away from its dependence on oil and natural gas exports then (maximum 1 mark overall)

For analysis that clearly explains the strengths of the chosen policy(ies) in helping to diversify the Nigerian economy away from its dependence on oil and natural gas exports. (Up to 2 marks)
For analysis that clearly explains the weaknesses of the chosen policy(ies) in helping to diversify the Nigerian economy away from its dependence on oil and natural gas exports. (Up to 2 marks)
Up to 2 marks for evaluation:
• Which must (weigh up) assess the analysis of the relative strengths / advantages and weaknesses / disadvantages of the policy/ policies in diversifying the Nigerian economy away from an overdependence on oil and natural gas exports.
• Supply-side policy may also be judged against an alternative policy e.g., protection of infant industries.
• Reaches an overall and justified conclusion as to whether supply-side policy is the best way in the context of the Nigerian economy (reserve 1 mark)

16. (w21 qp 22-1(c)) **[3]**

1(c) Using the information, identify one policy that could be considered a Supply-side measures mentioned in the supply-side measure and explain how this policy could make Indian extract include cutting income taxes, cutting businesses more competitive. business taxes and improving infrastructure. However, any valid supply-side measure For an identification of a valid supply-side measure that could make Indian that might make Indian businesses more businesses more competitive (1 mark) competitive is acceptable
For an explanation of how this will make businesses more competitive Any policy chosen as a supply-side (up to 2 marks) measure should be explained as a supply- side tool rather than demand-side to gain The 3rd mark must refer specifically to ‘more competitive’ . For example, one any credit at all, even for identification. For policy is to reduce business taxes (1) which will provide more available example, cutting income taxes should not money to invest in new technology (1) which will in turn improve quality of be credited if it is discussed in terms of a goods/services and/or allow prices to be reduced, therefore making the boost to consumption/demand, but only if business more competitive (1) discussed, for example, as increasing/ improving the labour force

17. (w20 qp 21-1(d)(i)) **[2]**

1(d)(i) Explain what is meant by a ‘budget deficit’ .
• A budget shows the details of government expenditure and government revenue (1 mark)
• A budget deficit is the amount by which government expenditure exceeds government revenue (1 mark)

18. (w21 qp 22-1(d)) **[6]**

1(d) Discuss whether the advantages of cutting interest rates in the Indian Cutting interest rates will have a number of economy would outweigh the disadvantages. effects. There should be an increase in consumption and investment expenditure, For an identification of the impact of the cut in interest rates upon any and this will increase aggregate demand. In component of aggregate demand (1 mark) addition, the impact will be an outflow of foreign currency and a fall in the exchange For an explanation of how this will create possible advantages for India’ s rate. This should stimulate net exports and economy (up to 2 marks) again aggregate

demand will increase. The increase in aggregate demand will stimulate For an explanation of how this will create possible disadvantages for India’ s output and employment economy (up to 2 marks) However, a disadvantage is that demand- For an evaluative comment on whether the advantages will outweigh the pull inflation will occur, and this has internal disadvantages (1 mark) and external consequences for India’ s economy
In evaluation, candidates may refer to the possible impact on LRAS due to possible additional investment. This may, of course, obviously offset any inflationary pressure

19. (m21 qp 22-1(f)) **[6]**

1(f) Discuss whether increases in government spending can offset risks If there is a downturn in foreign economies to Japan’ s economy if a downturn in foreign economies occurs. Japan would experience falling exports and this would decrease aggregate demand. This For an explanation of the risks to Japan’ s economy if a downturn in would result in falling incomes and foreign economies occurs. (Up to 1 mark) unemployment.
For an explanation of how fiscal policy could be used to offset risks to the Increased government spending could be economy of Japan (Up to 3 marks) adopted to boost domestic demand if world trade falls. It could also be used to offset the impact upon consumption of the sales tax rise For evaluative comment that reaches a reasoned conclusion that is planned in October. (2 marks)

20. (s25 qp 21-5(a)) **[8]**

5(a) Explain the difference between a budget surplus and a budget deficit and consider the extent to which a budget surplus is better than a budget deficit.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A knowledge and understanding of a government budget. (1)
A knowledge and understanding of a budget surplus. (1)
A knowledge and understanding of a budget deficit. (1)
AO2 Analysis (max 3 marks)
An analysis of the budget position:
- The benefits and limitations of a budget surplus. (2)
- The benefits and limitations of a budget deficit. (2)

There will be a max mark of 2 if a candidate only considers a budget surplus or a budget deficit, and they will not, in this case, be able to gain any evaluation marks.
Note: The question is NOT about a current account of the balance of payments.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on the extent to which a budget surplus is better than a budget deficit (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

21. (s25 qp 24-4(a)) **[8]**

4(a) Explain why expenditure on education and training is a supply-side policy and consider why its impact on the general price level may differ between the short run and the long run.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
• Supply side policy consists of government policy tools designed to increase aggregate supply (1)
• The effect is to shift the aggregate supply curve to the right (1)
• Government spending on education and training should increase worker skills and productivity and therefore increase a country' s productive capacity and therefore increase AS / shift the LRAS curve to the right (1)
AO2 Analysis (max 3 marks)
• In the short run, increased government expenditure will increase the level of AD which may lead to an increase in inflation and the general price level. (up to 2 marks)
• In the long run, increased expenditure on education and training should increase productivity and productive capacity and the shift in LRAS should lower the general price level. (up to 2 marks)
AO3 Evaluation (max 2 marks)
• That offers an overall assessment as to whether expenditure on education and training will have a different impact on the price level in the long run compared to the short run.
• For example, if the expenditure is ineffective and does not have the intended impact on productive capacity and productivity, this may simply increase the general price level.
• For example, time-lags mean short-run impact is minimal as the policy will only take effect in the long-run.
Reserve 1 mark for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

22. (m25 qp 22-5(a)) **[8]**

5(a) With the help of an AD/AS diagram, explain what is meant by an expansionary fiscal policy and consider the extent to which an expansionary fiscal policy will increase the level of aggregate demand.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
A clear understanding of what is meant by:
Expansionary fiscal policy being an increase in government spending and/or reduction in tax rates (1) Aggregate demand is the total demand for an economy' s goods and services at a given price level / it is the total of C + I + G +(X-M) (1) An accurate diagram showing AD and AS curves (1)
AO2 Analysis (max 3 marks) An explanation of how a decrease in income tax (for example) will increase disposable income (1) that cause an increase in consumption/which (as a component of AD) causes an increase in aggregate demand (1). A diagram showing a rightwards shift in

the AD curve (1).
AO3 Evaluation (max 2 marks) One mark for an explanation of whether expansionary fiscal policy will increase the level of aggregate demand (1). One mark for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

23. (s21 qp 22-4(a)) **[8]**

4(a) Explain what is meant by deflation and use aggregate demand and Do not reward 'micro' diagrams showing aggregate supply diagrams to explain how it might arise in an economy. S/D, P/Q
For knowledge and understanding of the meaning of deflation. Deflation is a Reasons why AD may fall include: fall in sustained fall (1 mark) in the general price level (1 mark) either C, I, G, X or rise in M.
One mark maximum for stating it is the opposite of inflation/negative Reasons why AS may rise include: inflation (up to 2 marks max for KU) increased investment, falling costs
And application that uses an appropriate and accurate diagram to show how deflation might be caused by a fall in aggregate demand. For an explanation why AD may fall (1 mark) a diagram that shows the resulting change in general price level (1 mark) and explains how this causes deflation (1 mark) (up to 3 marks)
And application that uses an appropriate and accurate diagram to show how deflation might be caused by a rise in aggregate supply. For an explanation as to why AS may increase (1 mark) a diagram that shows the resulting change in general price level (1 mark) and explains how this causes deflation (1 mark) (up to 3 marks)

24. (m24 qp 22-5(a)) **[8]**

5(a) With the help of an aggregate demand and aggregate supply diagram, explain how a decrease in interest rates could cause economic growth and consider whether economic growth will always result in inflation.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) A clear understanding of what is meant by:
- economic growth (1)
- inflation (1)
- interest rates (1)
- through an accurate diagram, correctly labelled axes, and equilibrium price level and real GDP (1).

AO2 Analysis (max 3 marks) Uses the diagram(s) to explain how a decrease in interest rates will impact on saving/borrowing (1) that cause will either cause an increase in consumption/investment/next exports (1) which causes an increase in economic growth/real GDP (1).
AO3 Evaluation (max 2 marks) One mark for a valid explanation that rise in inflation assumes that the economy is operating at full capacity; the growth may be focused on capital intensive industries (1) or that the source of the growth may be long term in nature (1). The second

mark is for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

25. (w21 qp 22-4(a)) **[8]**

4(a) Explain what is meant by inflation and, using diagrams, show how it Do not reward 'micro' diagrams showing can arise both as a result of a shift in the aggregate demand curve and S/D or P/Q a shift in the aggregate supply curve. Axes should show general/average price For knowledge and understanding of inflation defined as a continuous/ level and output/GDP, etc. However, if it is sustained rise (1) in the general/average level of prices –a simple reference clear from the written response that the to price level is acceptable if it is clear from the rest of the answer that this candidate understands that it is an impact refers to all prices and not just the price level of one product (1) on general or average prices, then benefit of (up to 2 marks) doubt can be given if the Y axis simply refers to P or prices and everything else on And application that uses a diagram to show that inflation can be caused by the diagram is accurate a shift to the right of the aggregate demand curve. For an explanation why AD might increase (1), an accurately labelled diagram that shows the Reasons why AD may increase include a rightwards shift in AD and resulting increase in the general price level (1), rise in C, I, G, X or a fall in M and clearly explains that inflation occurs due to this excess in aggregate demand (1) (up to 3 marks) Reasons why AS may fall include a rise in costs, tax, etc. And application that uses a diagram to show that inflation can be caused by a shift to the left of the aggregate supply curve. For an explanation why AS may fall (1), an accurately labelled diagram that shows the leftwards shift in AS and resulting increase in the general price level (1), and clearly explains that inflation occurs due to this decrease in aggregate supply (1) (up to 3 marks)

26. (s23 qp 23-5(a)) **[8]**

5(a) Explain how monetary policy may be able to reduce the rate of inflation in an economy and consider the likely success of this policy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
An understanding of monetary policy (1); tools of monetary policy :interest rates, supply of money and regulations (1); nature of a contractionary monetary policy (1)
AO2 Analysis (max 3 marks)
An explanation of how the tools of monetary policy can be applied to reduce inflation (1); analysis of these changes on aggregate demand and the price level (1); analysis of the effects on output and employment (1).
AO3 Evaluation (max 2 marks) The effectiveness of monetary policy will depend upon the response of consumers and firms, in particular to higher interest rates (1) May also depend on the rate of inflation and its causes (1) Reserve 1 mark for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

27. (w25 qp 23-4(b)) **[12]**

4(b) Assess whether supply-side policy or demand-side policy is the better way of reducing this inflation.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Possible reasons why supply-side policies are the best way to reduce demand-pull inflation:
• They increase productive capacity (aggregate supply), helping meet higher demand without causing price rises.
• Improved efficiency and productivity lower production costs, reducing inflationary pressure in the long term.
However
• They take a long time to have an effect, so they may not reduce inflation quickly.
• Some policies, like education or infrastructure investment, are expensive and may not guarantee results.
Possible reasons why demand-side policies are the best way to reduce demand-pull inflation:
• Higher interest rates reduce consumer and business borrowing, lowering consumption and investment, which reduces aggregate demand and inflationary pressure.
• Increasing taxes reduces disposable income, leading to lower consumer spending and weaker aggregate demand.
However
• They can also reduce output and employment, leading to slower economic growth and higher unemployment.
• Time lags may occur before interest rate or tax changes have a noticeable effect on spending and inflation
Potential reasons why supply-side policies are the best way to reduce cost-push inflation:
• Increasing investment in training and technology can raise productivity, allowing firms to produce more with the same resources, helping reduce cost pressures.
• Improving transport and infrastructure reduces distribution costs for firms, helping lower overall production costs and ease inflationary pressure.
4(b) However
• They take a long time to show results, so they are not effective in reducing inflation in the short term.
• External factors like rising oil prices or imported inflation cannot be controlled by domestic supply-side policies
Guidance: The assessment of both perspectives must be in the context of the reducing inflation and not a general explanation of both policies . A response that fails to do this is unlikely to achieve above a mid-Level 2 mark.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced.

Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Requires an assessment of how both supply-side policy and demand-side policy may reduce 'this inflation' which leads to a justified conclusion as to which policy is the better way for the identified country.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

28. (w25 qp 24-5(b)) **[12]**

5(b) Low unemployment is a macroeconomic policy objective for a government.
Assess the extent to which this is most likely to be achieved by supply- side policy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- An understanding of what is meant by supply side policy.
- Analysis of different types of supply side policy designed to reduce unemployment which may include training and education, reducing benefits, infrastructure development, reducing taxes
- Analysis of the limitations of such policies.
- Analysis of other policies such as fiscal and monetary policy designed to increase AD and may be more appropriate if unemployment is cyclical.
- Examples may include extra government spending and reducing income taxes together with reducing interest rates.
- Analysis of the limitations of alternative policies.

Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Of the extent to which a low level of unemployment is most likely to be achieved by supply side policy and arrives at a reasoned and justified conclusion. A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

29. (s23 qp 21-4(b)) **[12]**

4(b) Assess whether monetary policy or supply-side policy is likely to be more successful in reducing the rate of inflation in an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• The meaning of monetary policy.
• The tools of monetary policy appropriate to a contractionary monetary policy: decreases in the money supply and/or an increase in the rate of interest and an appreciation of the exchange rate.
• An explanation of the strengths and weaknesses of monetary policy to reduce the rate of inflation in an economy.
• The meaning of supply-side policy.
• Examples of supply-side policy to reduce the rate of inflation in an economy, such as making the labour market more flexible, increased expenditure on education and training and promotion of competition in markets.
• An explanation of the strengths and weaknesses of supply-side policy to reduce the rate of inflation in an economy.
AO3 Evaluation
• Consideration of whether each policy is appropriate for both types of inflation.
• To arrive at a conclusion on whether monetary policy or supply-side policy is likely to be more successful in reducing the rate of inflation in an economy.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

30. (m25 qp 22-5(b)) **[12]**

5(b) Assess whether supply-side policy is the best method to reduce the rate of inflation.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis The meaning of the terms supply-side policy and inflation An explanation of how supply-side policy would reduce the rate of inflation from increasing the productive capacity of an economy –e.g., improving the quality of factors of production via –education and training, improved health provision, development of infrastructure (road/rail links, broadband) An explanation of the drawbacks of using supply-side policy to reduce the rate of inflation –significant time lags, opportunity cost of government spending, lack of retained profit for firms to train staff, the quality of education and training, possible increase in government debt. An explanation of the advantages and disadvantages of at least one alternative policy that might be used to reduce the rate of inflation e.g., monetary and/or fiscal policy.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or

mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Consideration that fully assesses the relative effectiveness of supply side policy to reduce the rate of inflation compared with at least one other policy and arrives at a reasoned conclusion concerning whether the supply side policy is the 'best' policy.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

31. (s25 qp 22-4(b)) **[12]**

4(b) Assess the extent to which using fiscal policy would be the best way to reduce a high rate of inflation.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Use of fiscal policy will involve increasing levels of taxation and reducing government spending. The advantages include the fact that it is relatively quick and can be effective particularly if dealing with demand-pull inflation. However, it will reduce economic growth and may lead to unemployment, It will also be less effective if the main cause is cost-push inflation.
These advantages and disadvantages must be analysed against an alternative policy or policies. These are likely to be supply-side or monetary policies. The analysis should focus on their likely success in reducing a high rather than low / sustainable rate of inflation.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
That clearly compares the analysis of using fiscal policy with using at least one other policy and reaches a justified conclusion as to which is the best way.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

32. (s21 qp 22-4(b)) **[12]**

4(b) Discuss whether you would advise a government to use monetary Monetary policy can include exchange rate policy or fiscal policy to solve the problem of deflation in an economy. policy and should be rewarded.
For analysis that explains how monetary policy can be used to stimulate The evaluation here should compare the aggregate demand with due reference to the strengths and weaknesses of strengths and weaknesses of each this approach. Maximum 3 marks if only strengths or weaknesses are approach and arrive at a conclusion based explained (up to 4 marks) upon this assessment.
For analysis that explains how fiscal policy can be used to stimulate If a candidate gets MP and FP the wrong aggregate demand with due reference to the strengths and weaknesses of way around throughout their response then this approach. Maximum 3 marks if only strengths or weaknesses are award a max of [1 + 1] marks for an explained (up to 4 marks) understanding of both economic policy instruments. A response such as this And for evaluation that clearly compares the use of each policy to solve the should be recorded as [1 + 1 + 0] in the text problem of deflation (3 marks) that leads to a reasoned conclusion as to box. which policy may be the most appropriate (1 mark) There are no KU marks awarded in part (b) for merely explaining / defining terms or phrases within the question

33. (s24 qp 23-4(b)) **[12]**

4(b) Assess whether increases in aggregate demand are the best way of reducing unemployment in a high-income country.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• An understanding of what is meant by unemployment and the main types in a high-income economy.
• For a recognition that increases in aggregate demand arise normally from fiscal and / or monetary policy.
• An analysis of how policies to increase AD e.g., by reducing taxes, increasing government spending, reducing interest rates etc., may reduce cyclical unemployment but may not reduce structural unemployment.
• An analysis of how supply side policy may reduce unemployment by influencing AS e.g., through training and education, deregulation etc., but has limitations e.g., it is a long-term approach and may be costly and does not address the issue of falls in AD responsible for cyclical unemployment
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
L2 max if no reference to high-income countries

AO3 Evaluation For a clear assessment as to whether increases in AD compared with increases in AS are the best way to reduce unemployment in a high-income economy leading to a justified conclusion.
N.B. if no reference to a high-income country, no evaluation marks may be awarded
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation. Please use a text box to show the mark split e.g., L2 5 L1 2
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

34. (w24 qp 22-4(b)) **[12]**

4(b) Assess whether supply-side policy is likely to be equally successful in reducing both structural and cyclical unemployment.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• The discussion should focus on the strengths and weaknesses of supply side policy to solve both cyclical/demand-deficient and structural unemployment.
• For example, supply side policies may be used to encourage investment into education and training and infrastructure to solve structural problems in the economy and hence structural unemployment.
• However, supply side policies may be less successful in solving cyclical/demand deficient unemployment as they have less impact on the level of aggregate demand (AD) –unless for example, if they involve a direct injection of government spending due to the additional investment.
• Other disadvantages include the potential cost of the policy and the time taken for the policy to be effective.
• Although not necessary, other demand side policies, e.g., fiscal and monetary policies, may be analysed to explain the possible disadvantages of supply side policy. This is an acceptable approach.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses may consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• Requires an assessment of the advantages and disadvantages of supply side policies in solving both types of unemployment. Leading to
• An overall conclusion as to whether supply side policy is always (more) likely to be equally (more) successful in solving both types of unemployment.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

35. (s24 qp 22-4(b)) **[12]**

4(b) Assess whether supply-side policy is the most effective way to achieve long-run economic growth.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Long-run economic growth is likely to need both growth of AD and AS
• Analysis of the role of supply side policy in achieving long-run economic growth and its advantages and disadvantages. E.g., supply side policy such as training and education is more likely to increase AS, but this can also lead to an increase in AD, for example as better training leads to an increase in income and therefore an increase in consumer spending. It is also less likely to result in inflation. However, it is costly and will take time.
• Analysis of the extent to which supply side policy can lead to growth in both AD and AS. For an explanation that a problem with supply side policy is that it is less effective in directly increasing the level of AD.
• Analysis of at least one alternative policy e.g., fiscal policy or monetary policy and how they may achieve long-run economic growth, together with their advantages and disadvantages e.g., fiscal policy such as a reduction in income tax is more likely to increase AD and can be relatively quick. It may also indirectly lead to an increase in AS if more people are encouraged to enter the workforce. However, if AS does not increase, it may be inflationary. It may also reduce the amount available for government spending.
• Analysis of the extent to which these policies can lead to growth in both AD and AS. For an explanation that a problem with such policies is that they are less effective in directly increasing the level of AS.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• Requires an assessment of at least one other government policy to be compared against supply side policy in achieving long-run economic growth which leads to
• A justified conclusion as to whether supply side policy is the most effective way to achieve long-run economic growth or whether a different policy / combination of policies may be more successful that takes into account the advantages and disadvantages of such policies in increasing both AS and AD.
A one-sided response cannot gain any marks for evaluation.
Please use a text box to show the mark split e.g., L2 5 L1 2
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

36. (w23 qp 21-4(b)) **[12]**

4(b) Assess whether a government should always aim to balance its budget rather than have a budget surplus or a budget deficit.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- The meaning of a balanced budget.
- The significance of a balanced budget.
- The meaning of a budget deficit.
- Link to expansionary fiscal policy.
- Explanation in relation to such aims as reducing the level of unemployment or increasing the rate of economic growth in an economy.
- The meaning of a budget surplus.
- Link to contractionary fiscal policy.
- Explanation in relation to such aims as reducing the rate of inflation or the size of the trade balance through a reduction of imports.

(Up to 8 marks)
AO3 Evaluation
- Consideration of which fiscal position is appropriate for particular macroeconomic problems.
- In conclusion, which approach will be better for particular economic situations.

Accept all valid responses.
(Up to 4 marks)
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

Further Practice （进阶）

1. (s24 qp 21-4(b)) **[12]**

4(b) The Chinese government has re-emphasised its commitment to rebalancing the economy from one focused mainly on investment and exports to one aiming to increase the proportion spent on domestic consumption.
Assess the extent to which it would be possible to achieve this by fiscal policy alone.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- The analysis must focus on the usefulness of using fiscal policy to rebalance the economy in the way suggested. Domestic consumption can be boosted by a number of fiscal policies including policies on taxation and government spending, but the main problem would be achieving this in a sustainable way.
- This analysis must be compared with alternative policies including supply-side policies and

monetary policies plus fiscal policies with a supply-side content.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• For a full evaluation of more than one type of policy that clearly assesses and compares the potential usefulness of them to rebalance the Chinese economy leading to a:valid conclusion.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

2. (m24 qp 22-4(b)) **[12]**

4(b) Assess whether contractionary fiscal policy is likely to be the best way to reduce a current account deficit on the balance of payments.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Understanding of the terms fiscal policy/current account deficit.
• How contractionary fiscal policy might reduce a current account deficit –this may include increased taxation might reduce imports/reduce demand-pull inflationary pressure resulting in improved international price competitiveness.
• An explanation of the limitations of fiscal policy –impact on domestic growth, unemployment.
• An explanation of an alternative policy –monetary and/or supply side policies, minimum prices, regulation backed by fines.
AO3 Evaluation
• Consideration that fully assesses the relative effectiveness of the policies analysed in reducing a current account deficit and arrives at a reasoned conclusion concerning whether fiscal policy is the ‘best’ approach .
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

3. (w22 qp 23-3(b)) **[12]**

3(b) Discuss whether an increase in direct taxes or an increase in An increase in direct taxes is likely to lead to a fall interest rates is the more effective way of reducing inflation. in AD and therefore inflation due to a fall in consumption and investment. It is likely to be For an analysis of the advantages and disadvantages of increasing easy to implement and may be seen as fair if the direct taxes to reduce inflation. N.B if only advantages or tax is progressive as the burden will fall more on disadvantages are considered then maximum mark of 3. Up to higher income groups. However, it may reduce marks incentives and lead to lower economic

growth.
For an analysis of the advantages and disadvantages of increasing An increase in interest rates should lead to an interest rates to reduce inflation. N.B if only advantages or increase in savings and a fall in consumption and disadvantages are considered then maximum mark of 3. Up to investment due to the increase in borrowing. The 4 marks effects are likely to be quicker than an increase in direct taxes due to the speed of implementation. For an evaluation of which may be the more effective way of reducing However, it may have similar consequences to an inflation (up to 3 marks) that leads to a reasoned conclusion (1 mark) increase in direct taxes and it may be ineffective if interest rates are already very low, or confidence levels remain high.
Both evaluation and analysis may make reference to the fact that effectiveness of both methods depends on the type of inflation i,e., if it is cost- push rather than demand -pull, they may be ineffective..

4. (w23 qp 23-4(b)) **[12]**

4(b) Assess whether supply-side policy is the only way of reducing long- term unemployment in an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Analysis of what is meant by supply side policy and how it can be applied to reduce long-term unemployment e.g., by retraining and updating skills, by providing information on job vacancies, by encouraging business start-ups etc.
• Analysis of the advantages of using supply side policy e.g., may be non- inflationary, may be more long-term etc.
• Analysis of the disadvantages of supply side policy e.g., may take a long time to have an effect, opportunity cost, receptiveness e.g., of the workforce, policies may not work depending on the type of unemployment e.g., demand side policy may be more applicable for cyclical unemployment.
• An analysis of the advantages and disadvantages of at least one alternative macroeconomic policy.
L3 lower-level max if only the advantages and disadvantages of supply side policy are analysed.
L2 max if only advantages OR disadvantages of supply side policy are analysed.
AO3 Evaluation
• For an evaluation of whether supply side policy is the only way of reducing long term unemployment leading to a reasoned conclusion.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5. (s23 qp 22-5(b)) **[12]**

5(b) Assess whether monetary policy is the only way to control a high rate of inflation.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis (max 8 marks) Explain the advantages and disadvantages of using monetary policy to control high rates of inflation to analyse its effectiveness. Points to consider may include:
- The use of interest rates to dampen AD.
- Reductions in money supply to dampen AD.
- The use of credit regulations to influence bank lending BUT
- There is also a time lag between implementing interest rate policy and it taking effect.
- Other factors other than interest rates may affect consumer spending and offset the impact of a rise in interest rates e.g., consumer confidence, expectations etc.

Monetary policy should be compared with the advantages and disadvantages of at least one other appropriate policy e.g., supply side and/or fiscal policy
A one-sided response can only gain a maximum of Level 2.
AO3 Evaluation (max 4 marks)
- Consideration of the relative effectiveness monetary policy to control high rates of inflation compared with at least one other appropriate policy.
- Although it is not necessary within the analysis / question, reference may be made to the relative effectiveness of these policies in controlling the different types of inflation.
- A justified conclusion showing which policy is most likely to be effective in controlling high rates of inflation.

A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

6. (m23 qp 22-5(b)) **[12]**

5(b) Assess whether supply-side policies are the most effective way to correct a deficit on the current account of the balance of payments of an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Successful supply-side policies will cause a rightward shift in the long-run AS curve, reflecting more efficient production. This would make a country' s products more competitive in international markets and so there is likely to be an increase in net exports, correcting a deficit in the current account. Supply-side policies could include improvements in training and education, making labour markets more flexible, reductions in the powers of trade unions, an increase in competition and a reduction in rules and regulations.
Potential disadvantages of supply-side policies are that they are essentially a long-run solution

and so may take a relatively long period of time to have an impact, such as improvements in training and education. Some of the policies could be quite expensive and so would involve the government in considerable expenditure, money which could have spent elsewhere (giving rise to the issue of opportunity cost).
Guidance: There are a number of alternative approaches to answering this question. At the simplest level, analysis and evaluation may focus on an assessment of the effectiveness of supply side policies only. Furthermore, this may be expanded to include a direct comparison with the effectiveness of alternative policies such as fiscal, monetary or protectionist policies. In addition, such an assessment may simply be part of evaluation. However, if supply side policies are ignored or receive scant attention then only a Level 2 mark may be awarded.
A one-sided response can only gain a maximum of Level 2.
AO3 Evaluation Points to consider may include: the cause of the deficit, the cost and ease of introducing various policies, the possible unintended consequences of introducing policies etc. leading to a justified conclusion as to whether supply-side policies would be the most effective way to correct a deficit in the current account of the balance of payments of an economy.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
5(b) AO1 Knowledge and Understanding and AO2 Analysis
AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

7. (s21 qp 23-3(b)) **[12]**

3(b) Discuss whether an increase in aggregate demand would A good answer should consider firms, government and be of overall benefit for an economy. consumers/workers
For an analysis of the benefits of an increase in aggregate The benefits for an increase in AD may include demand to the economy (up to 4 marks) economic growth, higher employment etc The problems may include inflation, current account For an analysis of the possible problems for an economy if deficit etc aggregate demand increases (up to 4 marks) There are no KU marks awarded in part b for merely Up to 4 marks for an evaluation which clearly compares the explaining/defining terms or phrases within the benefits and the problems for an economy resulting from an question increase in AD with one mark reserved for a reasoned conclusion

8. (m22 qp 22-3(b)) **[12]**

3(b) Discuss the ways in which fiscal policy can be used to increase the Cuts in income and business taxes may aggregate supply of products in an economy and consider whether provide incentives and increase the supply this approach is likely to be effective. of labour and entrepreneurship to the economy. The difficulty is that they might For analysis that considers how changes in taxation can influence not stimulate these resources. In addition, aggregate supply with reference to the difficulties associated with this this could lead to a budget deficit and approach. For an analysis of how changes in taxation might work without possible inflation. the possible difficulties (3 max). (Up to 4 marks) Increases in government spending could For analysis that considers how changes in government spending can be directed to improving labour skills. influence aggregate supply with reference to the difficulties associated with Subsidies would also be included in this this approach. For an analysis of how changes in government spending category encouraging for e.g., investment might work without the possible difficulties (3 max). (Up to 4 marks) in R & D. This could also lead to a budget deficit and may take some time before this 8 marks maximum comes to fruition.

For evaluation that fully assesses the effectiveness of these approaches in A comparison of fiscal policy with another increasing aggregate supply of products in an economy (up to 3 marks) policy may be relevant within the and arrives at a reasoned conclusion concerning whether fiscal policy is evaluation but is not relevant analysis. likely to be effective. (1 mark)

9. (s24 qp 21-5(b)) **[12]**

5(b) Assess which expansionary macroeconomic policy would be most likely to enable a government to meet its economic objective of a low rate of unemployment.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• The analysis must focus on the advantages and disadvantages of using at least two expansionary macroeconomic policies to keep unemployment low. For example, one policy might be an expansionary supply-side policy with an emphasis on training and education which would allow people to be more employable, e.g., by having more relevant skills but it may be time-consuming and costly.
• This chosen policy must then be contrasted with an alternative policy / policies. For example, expansionary monetary policy may be suggested with the use of low interest rates to encourage investment and boost employment, but the investment may be directed towards more capital- intensive production.
Note. The focus of the question must be on how a low rate of unemployment may be achieved.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation:
• That clearly compares the likely success of at least two expansionary macroeconomic policies that leads to:
• A valid conclusion as to which policy would be most likely to meet the economic objective of a low rate of unemployment.
• Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

Advanced Practice （培优）

1. (s22 qp 23-3(b)) **[12]**

3(b) Discuss whether a contractionary monetary policy is the Monetary policy involves measures that influence the best way to reduce the rate of inflation. price or quantity of money. These include interest rates and the money supply. In some countries exchange For analysis that considers the advantages and rate policy is included. Interest rate changes though

disadvantages of using monetary policy to reduce the rate of have tended to be the main policy used to control the inflation (up to 4 marks with a max of 3 if only advantages rate of inflation in most countries. In theory, an increase or disadvantages are analysed) in the rate of interest should encourage more saving by consumers and less funding for investment by For analysis that considers the advantages and businesses. If effective, an increase in interest rates disadvantages of at least one other policy to reduce the rate should reduce the rate of inflation. of inflation (up to 4 marks per policy with a max of 3 if only advantages or disadvantages are analysed) Fiscal policy can also be used. This involves increasing taxation or reducing government spending to reduce
For evaluation that considers which is the best way to inflation. Both measures are at the cost of increasing reduce the rate of inflation (3 marks) to reach a justified the level of unemployment. Supply side policies are conclusion as to which is the best way (1 mark) also possible, especially if there are structural weaknesses in an economy.
There are no marks awarded in part b for merely explaining / defining terms or phrases within the question.

2. (w22 qp 22-3(b)) **[12]**

3(b) Discuss the difficulties that might be encountered when adopting supply Candidates need to show good side policies to expand the productive capacity of an economy and understanding of a range of supply side consider whether these difficulties can be overcome. policies that may expand the productive capacity of an economy and specifically, For an analysis of how supply side policies may be used to expand the they should be aware of the difficulties productive capacity of an economy and the difficulties encountered in associated with such policies including the adopting them. N.B. if only one policy and one difficulty is discussed then cost and the potentially long time period maximum of 3 marks. (up to 4 marks) before they come into effect.
For an analysis of possible methods of overcoming these difficulties in It is essential that candidates consider adopting supply side policies to expand the productive capacity of an whether these difficulties can be economy N.B. if only one method is discussed then maximum of 3 marks. overcome. For example, in developing (up to 4 marks) economies there may be a shortage of funds that might be overcome through For an evaluation of the likely success of adopting supply side policies to inward investment from abroad. expand the productive capacity of an economy taking into account the difficulties encountered (up to 3 marks) that leads to a reasoned conclusion There are no KU marks awarded in part (1 mark) (up to 4 marks) (b) for merely explaining / defining terms or phrases within the question.

3. (w22 qp 21-3(b)) **[12]**

3(b) Discuss whether supply side policies will be successful in Potential advantages of supply side increasing the quantity and quality of the factor enterprise in a policies: modern economy. • lower taxes could encourage people to become entrepreneurs For Analysis: • higher expenditure on education and Analysis of the potential advantages of supply side policies in training/reskilling could improve the increasing the quantity and quality of the factor enterprise in a modern quality of the factor enterprise, making economy. (Up to 4 marks) entrepreneurs more innovative and more willing to take a risk Analysis of the potential limitations of supply side policies in • deregulation could lead to laws being increasing the quantity and quality of the factor enterprise in a modern reduced to make the setting up of an economy.

(Up to 4 marks) enterprise easier
• financial support from the government 8 marks maximum would enable more enterprises to survive and to stay in business
For Evaluation: For exercising some judgement on whether supply side policies will Potential limitations of supply side policies: be successful in increasing the quantity and quality of the factor • the effects of supply side policies can enterprise in a modern economy.(Up to 4 marks) take a long time to show, e.g. training
• some entrepreneurs might become too Reserve 1 mark for a conclusion dependent on government support and so become inefficient 4 marks maximum • the policies will not guarantee that all enterprises will be successful
• a policy of privatisation might actually reduce the quantity of the factor enterprise needed
• questionable whether enterprise can be taught/trained

4. (w24 qp 22-5(b)) **[12]**

5(b) Assess whether the achievement of a balanced budget should always be a main government macroeconomic objective.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• This question is asking whether a balanced budget should always be a main objective rather than the main objective and consequently an analysis of the importance of other government macroeconomic objectives is not essential.
• An analysis which directly compares the strengths and weaknesses and uses of a balanced budget with a budget in surplus and deficit may gain access to Level 3 and full marks.
• The strengths of a balanced budget may include stability and may encourage both domestic and inward investment, but it may not be sufficiently flexible to deal with changing economic conditions e.g., unemployment and inflation.
• A budget deficit may enable, e.g., economic growth or reduce unemployment but may be unsustainable in the long run.
• A budget surplus may be necessary to solve inflation, but this may cause opportunity costs due to a lack of government spending.
• Analysis of other government macroeconomic objectives may be rewarded but only in the context of a balanced or unbalanced budget e.g., the problems of achieving other objectives if the sole aim is a balanced budget. These may include difficulties in controlling inflation, unemployment, creating actual economic growth etc.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses may consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• An overall assessment of whether the achievement of a balanced budget should always be a

main government macroeconomic objective.
• If part of the analysis, this should also include an assessment of the difficulties of achieving other objectives against the desirability of a balanced budget to gain higher level evaluation marks.
• Leading to an overall and balanced conclusion.
5(b) A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5. (s21 qp 21-4(b)) **[12]**

4(b) Discuss how likely it is that monetary policy would be successful in Monetary policy can be used to correct reducing inflation in an economy with a floating exchange rate. inflation in an economy by:
• an increase in interest rates For analysis • a reduction in the money supply
Analysis of the likely success of monetary policy in reducing inflation in an Cost-push inflation: an appreciation of a economy with a floating exchange rate (Up to 4 marks) currency would lower import prices of finished products and raw Analysis of the likely difficulties of monetary policy in reducing inflation in an materials/component parts economy with a floating exchange rate. (Up to 4 marks) Demand-pull inflation: an increase in 8 marks maximum interest rates and/or a decrease in the
For evaluation money supply would reduce aggregate demand and appreciate the currency For exercising some judgement on how likely it is that monetary policy would be successful in reducing inflation in an economy with a floating exchange Evaluation: appropriate reference to rate. (Up to 4 marks) elasticities, the J-curve effect and the Marshall-Lerner condition Reserve 1 mark for a conclusion
4 marks maximum

6. (s23 qp 23-5(b)) **[12]**

5(b) Assess how governments use macroeconomic intervention to achieve their macroeconomic objectives.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)
• Macroeconomic objective of price stability
• Macroeconomic objective of low unemployment
• Macroeconomic objective of economic growth
• Government budget as a form of intervention
• Scope and use of fiscal policy as a form of intervention
• Scope and use of monetary policy as a form of intervention
• Scope and use of supply-side policy as a form of intervention
• Examples of links between macroeconomic objectives and forms of intervention
• Other objectives such as distribution of income
A one-sided response can only gain a maximum mark of Level 2
AO3 Evaluation (max 4 marks)

- Consideration of the extent to which macroeconomic intervention allows governments to achieve their macroeconomic policy objectives
- Effectiveness of particular interventions in relation to specific macroeconomic objectives

Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

7. (m21 qp 22-2(b)) **[12]**

2(b) Discuss the view that supply side policies to increase the supply of Supply of labour: Training to enter the labour labour to an economy are likely to be more successful than those force, relaxation of immigration controls, designed to increase the supply of entrepreneurship. reduction of income taxes, raising of the retirement age etc. For analysis of at least two supply side measures that are designed to increase the supply of labour to an economy. If only one measure Supply of entrepreneurship: Training in considered then 3 maximum management skills, reduction in business (Up to 4 marks) taxes, subsidies, start-up grants etc
For analysis of at least two supply side measures that are designed to increase the supply of entrepreneurship to the economy. If only one measure considered then 3 maximum (Up to 4 marks)
For evaluative comment on which policies are likely to be successful (3) that reaches a reasoned conclusion (1)

8. (w20 qp 23-3(b)) **[12]**

3(b) Discuss whether knowledge of price elasticity of demand or price The idea behind this question is for candidates to elasticity of supply is more useful to a car manufacturer. consider the two elasticities and say which one provides the best information in this context. Each For analysis: measure should be analysed. Re-PES, it is relevant to explain that this will show whether the Up to 4 marks for an explanation of the usefulness of PED to a car manufacturer has the capacity to produce more or manufacturer. less as price changes. Reference to the ability to produce vehicles for stock is relevant. PED is most Up to 4 marks for an explanation of the usefulness of PES to a car useful when the manufacturer is looking at whether to manufacturer. change the price of vehicles.
8 marks max
For evaluation; that compares the usefulness of the two measures (up to 3 marks) to arrive at a reasoned conclusion (1 mark)
Up to 4 marks maximum

6 International Economic Issues（国际经济问题）

入门综合 （36）

1. (w23 qp 21-1(c)) **[2]**

1(c) Explain why the Taiwan dollar appreciated in 2020.
Explanation linking the appreciation of the currency to:
• an increase in the demand for exports/an increase in the trade surplus (1)
• and therefore the need to be in possession of Taiwan dollars in order to buy these exports. (1)
(Up to 2 marks)

2. (s24 qp 21-1(b)) **[2]**

1(b) Explain what is meant by ‘Sri Lanka has enjoyed a comparative advantage in growing and exporting tea.’ .
This means that Sri Lanka can grow and export tea at a lower opportunity cost (1) than another country (1).
Guidance: Both parts must be clear for full marks.

3. (s24 qp 21-1(c)) **[4]**

1(c) Consider the extent to which depreciation of the Sri Lankan rupee could improve the country’ s balance of trade in goods and services.
• For a clear explanation of what is meant by a depreciation (1).
• For an explanation that this should lead to a fall in the relative price of exports and a rise in the relative price of imports (1).
• And the resulting impact on the level of exports and imports and the impact on the balance of trade (1).
Max 3 marks
Evaluation This will depend upon the:
• PED of exports and imports with suitable explanation (1).

4. (w24 qp 22-1(b)) **[4]**

1(b) Consider the likely success of one policy that Chile could use to reduce the imports of consumer goods.
Allow any valid policy that may reduce the expenditure on imports.
Identification of policy (1), an explanation of how it may reduce the expenditure on imports. (up to 2 marks).
• For example, identification of a tariff (1). This will increase the price of imports (1) which may have the effect of reducing the demand/level of imports (1).
• For example, identification of a quota (1). This will limit the number of goods that can be imported (1) which will of reduce the demand/level of imports (1).
• Evaluation of the likely success of the chosen policy in switching expenditure from imports/reducing the imports of consumer goods (1).
• For example, if the PED for imports is inelastic, a tariff may make little difference in reducing imports (1).
Guidance: Examples of policies may include any example of protectionism, other policies to

boost the price competitiveness and /or availability of domestic consumer goods e.g., supply side policies.

5. (s25 qp 22-1(c)) **[4]**

1(c) Consider whether continued falls in the value of the South African rand may lead to a reduction in the current account deficit of the balance of payments.
• Continued falls in the Rand will make exports relatively cheaper (1) and imports relatively more expensive (1).
• This should lead to an increase in demand / sales of exports and / or a fall in demand / sales of imports and / or an increase in the value of net exports or (X-M) and therefore a fall in the current account deficit (1).
• Reserve 1 mark for a valid conclusion example the importance of PED and any other valid eval (Note: MLC should not be expected).
Please use a text box to show the mark split e.g. 2,1

6. (m25 qp 22-1(e)) **[6]**

1(e) Assess the extent to which a fall in the value of the US dollar against the euro is likely to affect US imports of olive oil from the EU.
For explanation/ analysis (up to 4 marks)
Up to 3 marks for explanation / analysis of the likely negative effects on US imports of olive oil from the EU A fall in the value of the US dollar (depreciation) would increase the dollar price of US imports of EU olive oil (1) which may reduce demand and imports of olive oil from the EU (1) Additionally, this may lead to an increase in demand for imports of olive oil from outside the EU / imports of olive oil substitutes again reducing the demand and import of olive oil from the EU (1)
Up to 3 marks for explanation / analysis of why a fall in the value of the US dollar might have a limited effect on US imports of olive oil from the EU.
The impact on the import of olive oil from the EU may be limited if PED is inelastic (1) due to a lack of substitutes (1) because of the situation in the Ukraine influencing the supply of sunflower oil (1). It may be limited depending on the time period of the fall in the exchange rate if olive oil is easily stored and can be used to smooth out fluctuations in the exchange rate (1)
4 marks max for analysis
Up to 2 marks for evaluation That clearly considers both perspectives and concludes the likely extent of the change on US imports of olive oil from the EU. Reserve 1 mark for a justified conclusion.

7. (w25 qp 22-1(e)) **[6]**

1(e) Assess the advantages and disadvantages of the government of Ivory Coast continuing to specialise in the production and export of cocoa beans.
Up to 3 marks for an explanation / analysis of the advantages of the government of Ivory Coast continuing to specialise in the production and export of cocoa beans e.g.:
• It allows producers to benefit from comparative advantage and become even more efficient, which will reduce costs and prices further and increase output
• It allows producers to further benefit from the increasing worldwide demand for cocoa beans and increase sales

- This can encourage / lead to economic growth as exports increase.

Up to 3 marks for an explanation / analysis of the disadvantages of the government of Ivory Coast continuing to specialise in the production and export of cocoa beans e.g.:

- Dependence on cocoa beans may make the economy vulnerable to global reductions in demand / crop failures
- It may mean less land is available for other essential food crops leading to an overreliance on imports
- A lack of diversification may hinder economic growth and also make the economy more at risk of external shocks
- It may exhaust the supply of cocoa beans and other natural resources leading to unemployment in Ivory Coast.

Note: 4 marks maximum for analysis

- Evaluation that clearly assesses both sides (1) and comes to a justified conclusion. (1)

8. (w23 qp 21-1(d)) **[6]**

1(d) Assess whether the effects of the appreciation of the Taiwan dollar on the terms of trade will benefit all industries in Taiwan.

Up to 4 marks for explanation/analysis:

Explanation of the terms of trade in relation to the ratio of average export prices to average import prices. (1 mark)

The impact of the appreciation of the Taiwan dollar will be to make exports from Taiwan more expensive and imports into Taiwan less expensive. (Up to 3 marks)

Guidance: A max of 2 marks if only the effect on exports or imports is assessed.

Up to 2 marks for evaluation:

Relevant evaluation of whether the effects of the appreciation of the Taiwan dollar on the terms of trade will benefit all industries in Taiwan, taking into account the potential impact of higher export prices and lower import prices on different industries (1) to reach a conclusion. (1)

9. (s24 qp 21-1(d)) **[6]**

1(d) Assess whether the removal of all protectionism is likely to reduce the balance of trade deficit.

Up to 4 marks for explanation / analysis:

- Possible advantages of retaining/not removing import tariffs e.g., to protect developing and declining industries from foreign competition, preserve levels of employment, prevent dumping etc. (up to 2 marks)
- Possible advantages of removing import tariffs e.g., to remove the risk of retaliation, encourage foreign investment, encourage domestic industries etc. (up to 2 marks)

Up to 2 marks for evaluation:

- That considers advantages of both alternatives to reach a valid conclusion as to whether the removal of all import tariffs is likely to reduce the deficit (reserve 1 mark).

Note: Ensure that the analysis is clearly focused on the effect on the trade balance. Accept reference to other forms of protectionism.

10. (s25 qp 22-1(d)) **[6]**

1(d) Assess the extent to which closer membership of the AfCFTA may help South Africa to achieve the growth needed to 'escape from its economic difficulties'.
• Up to 3 marks for an explanation / analysis that examines the benefits of free trade in achieving the growth needed to escape South Africa's economic difficulties e.g.:
• This will open up additional markets which may lead to export-led growth (1)
• encouraging domestic businesses to be more competitive (1)
• which may lead to lower prices and better products and therefore increase consumption at home and abroad (1) more FDI (1) (Up to 3 marks)
• Up to 3 marks for an explanation / analysis of the drawbacks of free trade in achieving the growth needed to escape South Africa's economic difficulties e.g.
• Domestic businesses will face increased competition (1)
• Leading to a possible fall in the demand for domestically produced goods (1)
• Leading to increased unemployment (1) and a possible slowdown / fall in economic growth (1)
• Which may lead to a further deficit on the current account (1) (Up to 3 marks).
Note: 4 marks maximum for analysis
• For a balanced evaluation that clearly assesses both sides (1) with a justified conclusion that clearly answers the question. (Reserve 1 mark).

11. (w25 qp 24-4(a)) **[8]**

4(a) Using two tools of protection, explain what is meant by protectionism and consider the extent to which these two tools may benefit an economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
• Protectionism is when governments seek to protect domestic industries from foreign competition. (1)
• Two examples of protectionism from import tariffs, import quotas, export subsidies, embargoes, and excessive administrative burdens (1)
• With some explanation as to how both tools protect domestic industries. (1)
AO2 Analysis (max 3 marks)
• For an explanation of the possible benefits of the selected tools to an economy, e.g., improve the current account, preserve strategic industries, maintain employment (1 per selected tool MAX 2 marks)
• For an explanation of the possible drawbacks of the selected tools to an economy, e.g., the policies may not work, e.g., because of elasticity values, retaliation by other countries. (1 per selected tool MAX 2 marks) 3 marks maximum for analysis. Note: If only 1 tool is considered then 2 marks maximum.
AO3 Evaluation (max 2 marks)
For an assessment of the extent to which the selected examples may benefit an economy including possible drawbacks, e.g., retaliation. Note: the second mark is reserved for a justified conclusion.
Please use a text box to show the mark split, e.g., 2,2,1
AO1 Knowledge and understanding 3

AO2 Analysis 3
AO3 Evaluation 2

12. (w25 qp 23-5(a)) **[8]**

5(a) Explain two reasons why an economy may have a deficit on the current account of its balance of payments and consider whether its government is likely to be concerned about this deficit.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) The current account records trade in goods and services, primary income, and secondary income between countries/A current account deficit occurs when the value of imports of goods or services, primary and secondary income exceeds the value of exports (1). Two marks for an accurate explanation of two reasons–e.g., low international competitiveness, (1) - if the country experiences strong domestic growth. (1)
AO2 Analysis (max 3 marks) An explanation of why the government is likely to be concerned at about this deficit. For example, a current account deficit could lead to downward pressure on the exchange rate, making imports more expensive and potentially causing inflation (1). Persistent deficits may reduce confidence among foreign investors, limiting inflows of capital needed to finance growth (1). However, the government may not be concerned if the deficit is temporary or caused by for example, high investment imports that may boost future productive capacity (1) A max of 2 marks for either perspective.
AO3 Evaluation (max 2 marks) An assessment of the extent that the government is likely to be concerned. For example, the level of concern will depend on the size, duration and cause of the deficit and how it is financed (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

13. (w25 qp 22-4(a)) **[8]**

4(a) Explain three components of the current account of the balance of payments and consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
Knowledge and basic understanding of 3 components of the current account. The component must be identified by name together with a brief explanation by name i.e., 3 from

- Trade in goods –the value of physical goods e.g., computers
- Trade in services –the value of invisible goods e.g., insurance/tourism
- Primary income –e.g., the dividend income earned from overseas investments
- Secondary income –e.g., the income from overseas aid or worker remittances sent back to their own country. (3 × 1)

AO2 Analysis (max 3 marks) A depreciation in the exchange rate will make exports appear cheaper and/or imports more expensive (1), this should increase export revenue and/or reduce

import expenditure and lead to a surplus (1). Also other components of the current account may influence whether the current account goes into surplus or not (1). N.B. if the impact of other sections of the current account are not considered, maximum mark of 2.
AO3 Evaluation (max 2 marks) Of an overall assessment of the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account –for example, reference may be made to the relevance of PED values and also the value of other sections of the current account. Reserve 1 mark for a valid conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

14. (w25 qp 21-5(a)) **[8]**

5(a) Explain two tools of protection used by a country when trading internationally and consider whether one is likely to have more of an impact on the country' s economy than the other.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis, up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
An explanation of what is meant by protectionism in general, i.e. to protect domestic industries from international competition. (1)
An explanation of two tools of protection used by a country when trading internationally, including tariffs, import quotas, export subsidies, embargoes and excessive administrative burdens ('red tape'). (1 × 2)
AO2 Analysis (max 3 marks)
An analysis of the two tools and how they impact an economy as methods of protection (a maximum of 2 marks if only one tool of protection is analysed).
AO3 Evaluation (max 2 marks)
Offers a valid judgement on whether one of the tools of protection is likely to have more of an impact on the country than the other (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

15. (s25 qp 24-5(a)) **[8]**

5(a) With the help of a formula, explain the causes of an improvement in the terms of trade in an economy and consider whether such an improvement can ever be harmful to an economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
- For an accurate formula i.e., index of export prices / index of import prices (1)
- An improvement is when the value / ratio increases (1)
- An improvement is when export prices rise and / or import prices fall (1)

AO2 Analysis (max 3 marks)
For example:
- An improvement in the terms of trade may be seen to be beneficial as more imports can be

purchased from the same volume of imports (1)
- However, an increase in export prices may lead to fewer exports in the long run (1)
- Which may lead to a current account deficit which may be considered harmful (1)

AO3 Evaluation (max 2 marks)
That offers an overall assessment as to whether an improvement in the terms of trade can ever be harmful to an economy.
Reserve 1 mark for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

16. (s25 qp 23-5(a)) **[8]**

5(a) The terms of trade index for an economy changed from 105 to 110 in a given year.
Explain two likely reasons for this change and consider the extent to which the change is likely to benefit the current account of the balance of payments of this economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
- An accurate definition of the terms of trade OR an accurate formula (1)
- Understanding that there is likely to be an improvement in the terms of trade if export prices rise (1) relative to import prices (1).

AO2 Analysis (max 3 marks)
- Higher exports prices allow the country to receive a higher income from selling the same quantity of goods and services abroad. This increase in export revenue improves the current account balance (1).
- When the cost of importing goods decreases, the country can now import the same quantity of goods at a lower price, resulting in lower import expenditure and an improvement in the current account balance (1). MAX 2 if only benefits considered

AO3 Evaluation (max 2 marks)
- That assesses the extent to which an improvement in the terms of trade will benefit the balance of payments and reaches a conclusion as to whether this is of benefit to an economy (1). Reserve 1 mark for a valid conclusion.

Please use a text box to show the mark split e.g., 3 3 1
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

17. (s25 qp 22-5(a)) **[8]**

5(a) With the help of a diagram (s), explain two ways in which a fall in the balance of trade in goods may affect the value of a floating exchange rate and consider the extent to which a change in the relative rate of interest between two countries may have a greater impact on the exchange rate.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)

A fully labelled diagram (1) showing and explaining that, as a result of an increase in the demand for imports this may increase the supply of currency and therefore lead to a fall in the price of the currency (1) and for showing and explaining that a fall in the demand for exports may reduce the demand for the currency and therefore lead to a fall in the price of the currency (1).
AO2 Analysis (max 3 marks)
Analysis that assesses the impact of changes in the relative interest rates on the demand and supply of the currency due to e.g., hot money flows for example, as the relative rate of interest increases in one country this may mean more overseas' residents want to move their savings to that country (1) increasing demand for the currency and increasing the exchange rate (1) however the extent will depend on factors such as stability / confidence in that country (1) and the influence of other factors affecting the exchange rate (1) (up to 3 marks)
AO3 Evaluation (max 2 marks)
An assessment of the extent to which changes in the relative rates of interest may have a greater effect on a floating exchange rate than a fall in the balance of trade in goods (1) leading to an overall conclusion (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

18. (s21 qp 23-4(a)) **[8]**

4(a) Explain how a free trade area differs from a customs The description of the principle of comparative union and explain two reasons why countries move advantage is not required. towards tariff-free trade. The main difference is in terms of a common external Up to 2 marks for an explanation of the difference between a tariff in a customs union. Reference to common policies free trade area and a customs union. as in the case of the EU is also OK. Knowledge and understanding of what is meant by a free trade area (1 mark) and knowledge and understanding of Various benefits of free trade include how this differs from a customs union (1 mark) –specialisation –higher living standards Identify a reason why countries may move to tariff free trade –cheaper and better quality products and more (1 mark) and up to 2 marks that clearly explains the benefits choice to countries × 2 (3 marks maximum per reason) –increased employment –to benefit from the principle of comparative advantage

19. (m25 qp 22-4(a)) **[8]**

4(a) With the help of a formula, explain two reasons for an improvement in the terms of trade and consider the extent to which an improvement in the terms of trade will benefit an economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) An accurate definition of the terms of trade OR An accurate formula (1) Understanding that there is likely to be an improvement in the terms of trade if export prices rise (1) relative to import prices (1).
AO2 Analysis (max 3 marks) An improvement in the terms of trade means that a unit of export buys relatively more imports (1) which may lead to an improvement in living standards (1) as imported goods appear cheaper to consumers (1). BUT this may lead to a current account

deficit (1) MAX 2 if only benefits considered
AO3 Evaluation (max 2 marks)
That assesses the advantages and disadvantages of an improvement in the terms of trade in terms of e.g., levels of unemployment and PED values and reaches a conclusion as to whether this is of benefit to an economy. Reserve 1 mark for a valid conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

20. (w24 qp 23-5(a)) **[8]**

5(a) Explain two methods of protection in international trade and consider which of these is likely to have the bigger impact on employment and output in the economy which imposes them.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
• Protectionism is when governments attempt to protect domestic businesses against foreign competition (1).
• Explanation of two methods of protection –e.g., tariffs, import quotas, export subsidies, embargoes, excessive administrative burdens ('red tape') and how each method distorts the free market/supports domestic production (1+1).
AO2 Analysis (max 3 marks overall)
Points to consider:
• An explanation of how each method affects domestic employment (1+1). For example, tariffs increase import prices and encourage expenditure switching to domestic production. This increases the level of employment as more workers are recruited to meet the additional output.
• However, if the demand for imports is price inelastic in demand, then the reduction in imports may be less (1), therefore domestic output (and employment) may not rise as much as when compared to import quotas (1).
AO3 Evaluation (max 2 marks)
• Evaluation should consider which method is likely to have the biggest impact on employment (1), leading to a justified conclusion (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

21. (w24 qp 21-5(a)) **[8]**

5(a) Explain the potential advantages of free trade and consider whether such advantages are always greater than the potential disadvantages of free trade.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
A knowledge and understanding of at least two potential advantages of free trade, such as:
• an increase in world output

- a wider range of products for consumers to choose from
- an improved standard of living.

AO2 Analysis (max 3 marks)
An explanation of at least two potential disadvantages of free trade and how these contrast with the potential advantages of free trade, such as:
- free trade involves specialisation which could mean that some economic sectors are allowed to run down, leading to higher unemployment
- overreliance on some commodities could be risky
- potential security risk if vital resources are imported.

AO3 Evaluation (max 2 marks)
Offers a valid judgement on whether the potential advantages of free trade are always greater than the potential disadvantages of free trade (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

22. (s24 qp 23-5(a)) **[8]**

5(a) Explain two possible causes of a change in the terms of trade in an economy and consider which of these causes is likely to be more important for low-income countries.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
- Explanation of what is meant by the terms of trade i.e., the ratio of export price index to the import price index. (1)
- It measures the number of exports that have to be sold to buy a given number of imports. (1)
- Terms of trade are said to improve when the ratio increases and / or to deteriorate when the ratio falls. (1)

AO2 Analysis (max 3 marks)
- The two main causes of changes in the terms of trade occur e.g., when there is an increase in export prices and a fall in import prices. Such changes are often the result of changes in the demand for exports and the demand for imports. (1)
- Low-income countries are more likely to export primary goods and to import manufactured goods. The demand for primary goods may be lower than that for manufactured goods when income rises, e.g., for agricultural goods, so import prices may fall and terms of trade deteriorates. (1)
- However, commodity prices such as oil may have an inelastic demand and prices may rise leading to an improvement in terms of trade. (1) .

AO3 Evaluation (max 2 marks)
For evaluation that considers the significance of changes in terms of trade for low-income countries that are producers of food stuffs and similar products compared to the benefits for low-income countries that have exports of products such as minerals that are in high demand in high-income countries. Reserve 1 mark for a justified conclusion.
Please use a text box to show the mark split e.g., 3 2 1
AO1 Knowledge and understanding 3
AO2 Analysis 3

AO3 Evaluation 2

23. (s24 qp 22-5(a)) **[8]**

5(a) Explain what is meant by the term protectionism and consider the effectiveness of using tariffs as a method of protectionism.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks)
Protectionism is when governments attempt to protect domestic businesses against foreign competition (1). It seeks to reduce the impact of the free market/ restrict free trade (1) by increasing the price competitiveness of domestic businesses against foreign competitors (1).
AO2 Analysis (max 3 marks)
• An explanation of how tariffs work (diagram will help although this is not essential) as a method of protectionism i.e., increasing prices of imports and increasing the price competitiveness of domestic businesses. NB: no marks for a diagram unless it is used to explain the impact on the price of imports and how it protects domestic businesses. Up to 2 marks e.g., for an explanation of how tariffs increase the price of imports (1) and how this protects domestic businesses as it increases their price competitiveness (1)
• Problems may include possible retaliation, inelastic PED for imports, possible cost push inflationary pressure. Up to 2 marks e.g., retaliation by other countries may offset the impact, if the demand for imports is price inelastic then imports may not fall and domestic businesses will not benefit, if the impact is on imported raw materials, this will lead to cost push inflation and domestic businesses who rely on such imports will not benefit.
• If only uses or problems of tariffs are discussed, maximum mark of 2.
AO3 Evaluation (max 2 marks)
• Evaluation should consider how effective tariffs may be considering both how they can protect domestic businesses and the associated problems with 1 mark reserved for a justified conclusion.
Please use a text box to show the mark split e.g., 2,2,1
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

24. (m24 qp 22-4(a)) **[8]**

4(a) Explain what is meant by a depreciation of the exchange rate and consider whether a depreciation is likely to increase domestic real output.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) An accurate definition the exchange rate (1). Understanding that there is likely to be a depreciation of the exchange rate if the demand for a currency falls (1) or there is an increase in the supply of a currency (1).
AO2 Analysis (max 3 marks) A depreciation of the exchange rate will reduce (increase) the perceived price of exports (imports) (1) which will increase the value of both (X-M) and aggregate demand (1) and increase the rate of domestic real output (1) .
AO3 Evaluation (max 2 marks) One mark for a valid explanation that this assumes that the

economy is not operating at full capacity (1) or depends on the elasticity of demand for goods that are traded internationally (1). The second mark is for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

25. (w23 qp 23-5(a)) **[8]**

5(a) Explain how import tariffs might correct an imbalance in the current account of the balance of payments and consider whether these tariffs are the best way of correcting such an imbalance.
Follow the point-based marking guidance at the top of this mark scheme and award:
• up to 3 marks for AO1 Knowledge and understanding up to 3 marks for
AO2 Analysis
• up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
• What is meant by an import tariff (1)
• What is measured by the current account of the balance of payments (1)
• What is meant by an imbalance in the current account of the balance of payments in terms of a surplus or deficit. (1)
AO2 Analysis (max 3 marks)
For an analysis of how import tariffs will affect the prices of imports (1) and how this may affect domestic consumption on imports (1) and how this may correct the imbalance (1)
Note: a diagram may be useful but cannot be expected.
AO3 Evaluation (max 2 marks)
Final effect is uncertain e.g., as a result of the PED for imports (1); other policies can be used (1); whether trading competitors retaliate (1). Reserve (1) for a justified conclusion.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

26. (w23 qp 22-4(a)) **[8]**

4(a) Explain the difference between the terms of trade and the balance of trade in goods and consider whether an economy should be more concerned about its terms of trade than its balance of trade in goods.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding. up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) The term of trade is a numerical measure of the relationship/ratio between export and import prices (1) with an accurate formula showing the measure as an index (1) whereas the balance of trade in goods measures the revenue earned from exports of goods minus the expenditure on imports of goods (1)
AO2 Analysis (max 3 marks) Analysis must consider issues concerning both the terms of trade and the balance of trade in goods. These may include:
• Up to 2 marks for an analysis of the effects of changes to the terms of trade e.g., relative change in competitiveness, increase in cost-push inflation, effects on balance of trade in goods and services.
• Up to 2 marks for an analysis of the effects of changes to the balance of trade e.g., an

increase in the demand for exports ceteris paribus may lead to an increase in the balance of trade, impact on employment levels, economic growth, inflation.
- MAX 3 marks overall

AO3 Evaluation (max 2 marks) Evaluation should use relevant analysis to consider the importance of both measures and make a judgement as to which one may be of most concern to an economy (1). Reserve one mark for a justified conclusion (1).
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

27. (w23 qp 21-5(a)) **[8]**

5(a) Explain the difference between an import tariff and an import quota and consider why a government would choose an import tariff rather than an import quota as a tool of protection in international trade.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks)
The meaning of an import tariff as a tool of protection. (Up to 2 marks) The meaning of an import quota as a tool of protection. (Up to 2 marks) (Max 3 marks)
AO2 Analysis (max 3 marks) An explanation of the various advantages and disadvantages of an import tariff as a tool of protection in international trade. (Up to 2 marks) An explanation of the various advantages and disadvantages of an import quota as a tool of protection in international trade. (Up to 2 marks)
Max 3 marks
AO3 Evaluation (max 2 marks)
Offers a valid judgement on why a government would choose an import tariff rather than an import quota as a tool of protection in international trade (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

28. (s23 qp 22-4(a)) **[8]**

4(a) Two countries each produce two products and wish to trade with each other.
Explain the difference between the principles of absolute advantage and comparative advantage and consider whether the principle of comparative advantage is always the more important influence when each country is deciding whether to trade with each other.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) Absolute advantage is a situation where, for a given set of resources, one country can produce more of a certain product than another country (1) comparative advantage exists where one country can produce a certain product at a lower opportunity cost than another country (1) plus a simple explanation that one country may have an absolute advantage in both products but the other country may have a lower opportunity cost in producing one of the products (1)
AO2 Analysis (max 3 marks) The analysis should consider the advantages and disadvantages

of using the principle of comparative advantage in deciding whether to trade or not. Maximum of 2 marks for an analysis that only considers the advantages and a maximum of 2 marks for an analysis that only considers the disadvantages.
Points to consider include (N.B. this list is not exhaustive so allow any reasoned points):
- The benefits of specialisation leading to a more efficient allocation of resources
- An increase in world output
- An increase in employment and living standards BUT
- May exhaust finite natural resources due to over specialisation.
- Strategic industry argument
- Exchange rate may not lie between the opportunity cost ratios.

Guidance:
For AO1 and AO2, it is not expected that tables / numeric examples are used. However, they are acceptable provided they are appropriately explained.
4(a) AO3 Evaluation (max marks)
For an answer that clearly compares the advantages and disadvantages of the principle of comparative advantage (1) and uses the analysis to reach a reasoned conclusion as to whether it is always the most important factor to consider (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

29. (s23 qp 22-5(a)) **[8]**

5(a) Explain the difference between cost-push and demand-pull inflation and consider which is more likely to occur if there is a depreciation in the exchange rate of a country with few natural resources.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and Understanding (max 3 marks) Cost push inflation is inflation caused by increases in the costs of production (1). Demand pull inflation is caused by increases in AD not matched by equivalent increases in AS (1). A clear explanation of the differences between the two (1)
AO2 Analysis (max 3 marks) A depreciation in the exchange rate will lead to a fall in the price of exports for the trading partner and a rise in the price of imports for the country in question. This should be analysed with reference to the impact on the different types of inflation.
Maximum of 2 marks if only demand-pull inflation is considered and should focus on the impact of the fall in price of exports and the rise in the price of imports and the possible impact on the X -M component of AD and therefore the impact on AD overall. Reference may be made to the PED of exports and the PED of imports.
Maximum of 2 marks if only cost push inflation is considered. Reference must be made to the importance of imports (1) and the fact that this country has few natural resources which probably means they must be imported for the 2nd mark.
AO3 Evaluation (max 2 marks) For an answer that clearly considers the fact that this country has few natural resources (1) to come to a justified conclusion as to which type of inflation is most likely to be the outcome for a country with few natural resources (1)
AO1 Knowledge and understanding 3

AO2 Analysis 3
AO3 Evaluation 2

30. (s23 qp 21-5(a)) **[8]**

5(a) With the help of a diagram(s), explain the likely causes of a depreciation of a floating exchange rate and consider whether such a depreciation is always beneficial to an economy.
Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (3 marks maximum) An understanding of:
- the demand for, and the supply of, a currency, shown through an accurate diagram, with correctly labelled axes (1)
- correctly labelled demand and supply curves showing appropriate shift(s) (1)
- and a fall in the value of the exchange rate. (1)

AO2 Analysis (3 marks maximum) Uses the diagram to explain what could cause a shift of the demand curve for the currency to shift to the left and/or a shift of the supply curve of the currency to the right and analyses how these shifts could impact on the value of a currency. Consideration of potential advantages and disadvantages of a depreciation to an economy.
AO3 Evaluation (2 marks maximum) Offers a valid judgement on whether the potential benefits of a depreciation of a country' s floating exchange rate always outweigh the potential disadvantages (1) to reach a conclusion. (1)
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

31. (m23 qp 22-5(a)) **[8]**

5(a) With the help of a diagram, explain what is meant by an appreciation of a floating exchange rate and consider whether a country can only benefit from the appreciation of its currency.
and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.
AO1 Knowledge and understanding (max 3 marks) A clear knowledge and understanding of the meaning of an appreciation of an exchange rate in a floating exchange rate system i.e., the exchange rate rises according to supply and demand of the currency (1). A diagram showing an appreciation of a currency: correct labelling of the axes (the vertical axis needs to be labelled either in terms of two currencies or as exchange rate) (1) and a rise in the value of a currency by a rightward shift of the demand curve and/or a leftward shift of the supply curve with the new equilibrium price shown together with an explanation of a possible cause of either shift (1).
AO2 Analysis (max 3 marks) An analysis of the potential advantages of an appreciation, such as a reduction in the prices of imports, both of finished goods and of raw materials and component parts, reducing inflationary pressures in an economy. An analysis of the potential disadvantages of an appreciation, such as an increase in the price of exports making them less competitive.
Note: maximum mark of 2 if only advantages or disadvantages discussed.
AO3 Evaluation (max 2 marks)
Offers a valid judgement on whether the potential advantages of an appreciation of an ex-

change rate always outweigh the potential disadvantages (1) to reach a conclusion. (1) N.B the significance of elasticities and the MLC may be rewarded but must not be expected as they are A2 topics.
AO1 Knowledge and understanding 3
AO2 Analysis 3
AO3 Evaluation 2

32. (w22 qp 23-4(a)) **[8]**

4(a) Explain how a higher rate of inflation in an economy compared to Terms of trade is a measure of the relationship its trading partners and a decline in the exchange rate will each between export prices and import prices in an affect the terms of trade in an economy. economy. By definition, a favourable movement or improvement is when export prices increase For knowledge and understanding of what is meant by terms of relative to a change in import prices. Import prices trade i.e., it is a measure of the ratio of export to import prices (1) plus could fall while export prices remain unchanged. an accurate formula showing index of export prices / index of import prices (1). A higher rate of inflation compared to that in trading partners will result in an increase in export For application that explains the effect of a higher rate of inflation prices and an improvement in the terms of trade. compared to trading partners on the terms of trade of an economy. It will increase the relative price of exports (1) and reduce the relative A decline in the exchange rate results in a relative price of imports (1) therefore leading to an improvement of the terms of fall in export prices compared to trading partners. trade (1) Terms of trade deteriorates. (Up to 3 marks)
For application that explains the effect of a decline in its exchange rate will affect the terms of trade in an economy. It will reduce the relative price of exports (1) and increase the relative price of imports (1) and lead to a deterioration in the terms of trade (1) (Up to 3 marks)

33. (w22 qp 22-4(a)) **[8]**

4(a) An economy adopts a freely floating exchange rate. Candidates need to demonstrate knowledge of the impact of varying Explain how this economy' s exchange rate is likely to be affected when inflation on exports and imports and the its inflation rate is much higher than inflation rates in its trading effect on the foreign exchange market. partners. Allow the first KU mark if the answer gives For knowledge and understanding of the meaning an exchange rate i.e., an example of the price of one currency the price of one currency in terms of another currency (1) and of a freely quoted against another one floating exchange rate i.e. it is determined by market forces of demand and supply for the currency (1), is not fixed by the government (1). (Maximum of 2 marks)
For application that explains the effect of the lower overseas inflation rates as a rise in demand for imports (1) which will increase the supply of the domestic currency (1) and will lead to a fall / depreciation in the exchange rate (1) (Up to 3 marks)
For application that explains the effect of the lower overseas inflation rates as a fall in demand for exports (1) which will reduce the demand for the domestic currency (1) and will also lead to a fall/ depreciation in the exchange rate (1). (Up to 3 marks)

34. (w22 qp 21-4(a)) **[8]**

4(a) Explain, with the use of a diagram(s), two factors that could Definition of a floating exchange rate bring about a depreciation in the value of a country' s exchange system: rate in a freely floating exchange rate system. • one in which the exchange rate is determined by the intersection of the For Knowledge and Understanding: demand for a currency and the supply For a correct explanation of a floating exchange rate system of a currency or not fixed by the (1 mark) government
For a correct diagram showing a floating exchange rate system Diagram: (1 mark) • vertical axis needs to indicate that it is the price of a currency rather than any 2 marks maximum price in order for the diagram to be given a mark, assuming that D and S For Application: are correctly labelled Explanation of one factor that could bring about a depreciation in the value of a country' s exchange rate in a freely floating exchange rate Factors that could bring about a system. (Up to 3 marks) depreciation:
• a decrease in the demand for a Explanation of a second factor that could bring about a depreciation currency, e.g. if fewer exports are sold in the value of a country' s exchange rate in a freely floating exchange • an increase in the supply of a currency, rate system. (Up to 3 marks) e.g. if more imports are bought
• lower interest rates 6 marks maximum • a higher rate of inflation compared with trading competitors because exports will be less competitive
• a deficit in the balance of payments on current account will contribute to a depreciation

35. (s22 qp 23-4(a)) **[8]**

4(a) Explain why some countries consistently have a deficit The current account should be defined as trade in on the current account of the balance of payments. goods, services plus other income.
For knowledge and understanding of what the current For the second mark, a deficit is where payments account of the balance of payments measures (1 mark) and received by a country are exceeded by payments made what is meant by a deficit (1 mark) by a country / where income from exports is exceeded by expenditure on imports. For application that explains the causes of a current account deficit There are many causes of a current account deficit. (up to 3 marks) These include an appreciation of the exchange rate; a reduced supply of primary goods for exports; For application that explains why some countries may deterioration in the terms of trade; reduced level of aid; experience a persistent deficit reduced transfer of earnings from migrant workers (up to 3 marks) overseas; increased protection from trading partners. The answer should focus on why some countries consistently have a deficit.

36. (s22 qp 22-4(a)) **[8]**

4(a) An economy moves from a deficit to a surplus on the current The current account should be defined as account of the balance of payments. trade in goods, services plus other income. Explain what is meant by a surplus on the current account of the For the second mark, a surplus is where balance of payments and consider the possible impact on the level payments received by a country exceed of employment and prices when there is a change from a deficit to a payments made by a country / where income surplus current account balance in an economy. from exports exceeds expenditure on imports.
For knowledge and understanding of what the current account of the The cause of the surplus will clearly be an balance of payments measures (1 mark) and what is meant by a surplus

increase in exports and / or a decrease in (1 mark) imports. However, there are several reasons why this might occur e.g., For application that explains the impact of the emerging surplus upon increased popularity of Russian exports, employment. (Up to 3 marks) government policy to dampen domestic demand etc. Give 1 mark for identifying a For application that explains the impact of the emerging surplus upon valid cause / reason and then up to 2 marks domestic prices. (Up to 3 marks) for a developed explanation of the impact on employment and use the same criteria to award marks for the impact on domestic prices.

Further Practice （进阶）

1. (w25 qp 24-4(b)) **[12]**

4(b) Assess the extent to which the principle of comparative advantage should be the main factor to consider when countries decide to trade with each other.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- Knowledge and understanding of the principle of comparative advantage.
- An explanation of the main benefits, e.g., an efficient allocation of resources, an increase in world output and employment, lower world prices and better and a wider choice of products all derive from specialisation due to comparative advantage.
- An explanation of the limitations of the theory, e.g., the danger of over specialisation, high transport costs offsetting the benefits, possible increase in unemployment, maybe strategic problems.

Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts, etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
Of the extent to which comparative advantage should be the main determinant for international trade between countries, considering the importance of other factors, e.g. strategic, that arrives at a reasoned and justified conclusion. A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

2. (w25 qp 21-5(b)) **[12]**

5(b) Assess whether all consumers, all producers and the government in a country will benefit equally from protectionism.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Consumers:
• Consumers are likely to be worse off as a result of protectionist measures. There may be a restriction of choice. In the case of a tariff, consumer surplus will be lower after a tariff is imposed because consumers will pay a higher price but will consume less (i.e. there will be a redistribution of income away from consumers).
Producers:
• Producers may gain from protectionism as there will be a higher producer surplus with producers gaining at the expense of consumers (i.e. there will be a redistribution of income towards producers). However, protectionism may reduce the incentive to be eff icient, e.g. potential benefits of the infant industry argument may not materialise.
Government:
• A government can receive revenue from a tariff. There may be an improvement in the balance of trade if protectionism is successful in reducing imports. However, whether domestic production will be able to compensate for this will depend on the elasticity of supply.
(Up to 8 marks)
Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one-sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• Consideration of whether all consumers, all producers and the government in a country will benefit equally from protectionism to reach a conclusion.
Accept all valid responses. A one-sided response cannot gain any marks for evaluation. (Up to 4 marks)
5(b)
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

3. (w25 qp 22-4(b)) **[12]**

4(b) Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:

AO1 Knowledge and understanding and AO2 Analysis
An analysis of the advantages and disadvantages of using supply-side policy to reduce a deficit e.g.,
- It is likely to be more effective in the long run and less costly to the economy.
- it may reduce the possibility of retaliation by other countries BUT
- it will have an opportunity cost and is not likely to be a short-term solution.

Examples of supply side policy may include:
- Investment in education and training to improve worker productivity and entrepreneurship which may reduce costs and lead to increased competitiveness of domestic goods, therefore increasing exports and reducing imports
- Export subsidies and subsidies for domestic industries competing against imported goods
- Policies to reduce red tape and bureaucracy to encourage competition to reduce costs
- Investment in infrastructure to reduce costs of production However:
- They take time and can be costly, which is unlikely to reduce a deficit in the short term
- Other policies such as contractionary fiscal and monetary policy may work more quickly together with protectionist policies e.g., tariffs and currency depreciation. These policies should be analysed in terms of their strengths and weaknesses in reducing a current account deficit.

Guidance: Answers that do not refer to the policies in terms of reducing a current account deficit cannot gain more than a mid-Level 2 mark.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
4(b) AO3 Evaluation
That clearly analyses both sides of the question and comes to a valid conclusion.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

4. (w25 qp 23-5(b)) **[12]**

5(b) Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Possible reasons why protectionist policies are the best way to reduce a deficit on the current account of the balance of payments.
- They may reduce the value of imports, which helps to lower the current account deficit by limiting the outflow of money from the economy.
- They may protect domestic industries from foreign competition, allowing local firms to grow

and potentially increase exports in the future.
However
• They can raise prices for consumers, as tariffs or quotas make imported goods more expensive, reducing consumer welfare.
• Other countries may retaliate with their own trade barriers, which could reduce exports and harm the economy further.
Possible reasons why contractionary policies are the best way to reduce a deficit on the current account of the balance of payments.
• They can reduce domestic demand, which lowers imports and helps decrease the current account deficit.
• They may help control inflation by reducing spending in the economy, which can stabilise the exchange rate and make exports more competitive.
However
• They can slow economic growth and increase unemployment, as lower demand reduces output in domestic industries.
• They may reduce consumer and business confidence, which can further decrease spending and investment, worsening the economic slowdown.
Guidance: The assessment of both perspectives must be in the context of the reducing a current account deficit and not a general explanation of both policies.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
5(b) Level responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Requires an assessment of whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. For example–Protectionist policies may work more quickly to reduce imports and protect domestic industries, but they risk retaliation from other countries and higher prices for consumers. Alternatively, contractionary policies may take longer to reduce the deficit but may help control inflation, though they may slow economic growth and increase unemployment.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5. (s25 qp 23-5(b)) **[12]**

5(b) Assess whether government policy can influence an economy' s comparative advantage in a good or service.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Understanding of how government policy can influence an economy's comparative advantage

in a good or service. For example:
•
• By investing in education and training, governments can improve the skills of the workforce, which can enhance productivity in certain industries.
• Government support for R&D can lead to innovation, which might give a country a technological advantage in certain sectors. This can change the opportunity cost of producing a good or service, thereby influencing comparative advantage.
• By investing in infrastructure, such as transportation networks, ports, and digital networks, governments can reduce the costs of production and distribution, making domestic industries more competitive. This can improve a country's ability to produce goods at a lower opportunity cost.
• Understanding of potential problems for governments in influencing an economy' s comparative advantage in a good or service:
• Many government policies, such as investment in education, infrastructure, or research and development (R&D), take a long time to affect the opportunity cost of producing a good or service
• Even if a government successfully creates a comparative advantage in a particular sector, global competition can erode that advantage. Other countries may adopt similar policies, or technological advancements elsewhere may outpace the country' s efforts.
• Government policies intended to enhance comparative advantage can have unintended consequences that harm other parts of the economy or create inefficiencies
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
5(b) AO3 Evaluation
Requires an assessment of the extent to which government policy can influence an economy' s comparative advantage in a good or service which leads to a justified conclusion as to which perspective is most likely to prevail.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

6. (s25 qp 22-5(b)) **[12]**

5(b) Assess whether an improvement in the terms of trade or a surplus on the current account of the balance of payments is of more benefit to an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• Analysis of the benefits of a positive terms of trade may include the ability to purchase more imports and therefore boost living standards. It may also strengthen the reputation

/ provide reassurance of the stability of the country in question and lead to a rise in FDI. However, it may arise from inflation and not be linked to greater competitiveness. It may lead to a current account deficit if exports fall.
• Analysis of the benefits of a current account surplus may include economic growth and a rise in employment. Again, it may lead to a strengthening of the reputation / provide reassurance of the stability of the country in question. However, it may be the result of obtaining growth through exports leaving little for the domestic population and hence a fall in living standards. It may also be inflationary.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
For a clear comparison of the analysis of the benefits and drawbacks of both scenarios leading to a justified conclusion.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

7. (s25 qp 24-5(b)) **[12]**

5(b) Assess whether the depreciation of an exchange rate is always beneficial to an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks.
AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
• An understanding of what is meant by a depreciation of the exchange rate
• Explanation of the potential advantages of the depreciation of an exchange rate: It can lead to an increase in a country' s exports because the prices of these products are less than they were previously; this can help to reduce a current account deficit on an economy' s balance of payments; an increase in exports can stimulate an increase in aggregate demand (AD).
• Explanation of the potential disadvantages of the depreciation of an exchange rate: It will have the effect of making imports more expensive, both of finished products and of raw materials; if raw materials are more expensive, this will increase the cost of production of domestic firms, and this could bring about cost-push inflation.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and / or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

5(b) AO3 Evaluation (max marks) 12 That offers an overall assessment as to whether a depreciation in the exchange rate is always beneficial to an economy by assessing both the advantages and disadvantages of the depreciation and also considering the significance of PED values for both exports and imports and reaches a valid conclusion.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

8. (s25 qp 21-4(b)) **[12]**

4(b) Assess whether the potential benefits of free trade always outweigh the arguments for protectionism.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Explanation of the potential benefits of free trade:
- Increase in world output.
- Resources are allocated more efficiently as a result of specialisation.
- Production can be at lower cost.
- Consumers can have a wider range of products to choose from.
- There can be a substantial increase in economic growth.
- There can be an improved standard of living.

Explanation of the arguments for protectionism:
- Infant industry argument: infant or sunrise industries are protected to allow them to be able to compete with already established firms.
- Declining or sunset industries: these can be protected to give time for the factors of production to be transferred to alternative uses.
- Strategic industries: these can be protected because of their importance to an economy.
- Current account deficit: protectionism may be used to reduce a deficit.
- Anti-dumping: protection against firms selling at a price below cost.

Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
Accept all valid responses.
4(b) AO3 Evaluation
- Consideration of the relative strength of the two sets of arguments.
- Consideration of who may benefit from free trade and protectionism.
- In conclusion, whether the potential benefits of free trade always outweigh the arguments for protectionism.

Accept all valid responses

AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

9. (m25 qp 22-4(b)) **[12]**

4(b) Assess whether the consequences of free trade are always positive for an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis Understanding of the terms free trade How free trade may benefit an economy –this may include –increased economic growth, reduction in unemployment, improved public finances, improved balance of payments. An explanation of the drawbacks of free trade –reduced domestic growth, increases in structural unemployment, over reliance on other countries for goods not produced domestically, possibility of current account deficit.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider both the potential positives and negatives and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Consideration that fully assesses the consequences of free trade and arrives at a reasoned conclusion concerning whether it is always positive –this may include reference to availability of factor endowments, how 'open' an economy is, stage of development etc.
A one-sided response cannot gain any marks for evaluation.
Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

Advanced Practice （培优）

1. (w24 qp 23-5(b)) **[12]**

5(b) Assess whether protectionism is always the best way of reducing a deficit on the current account of the balance of payments.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Protectionism:
• Advantages of protectionism –for example, tariffs can reduce the value of imports in the short term as infant industries grow and gain the economies of scale to enable them to be internationally price competitive. This reduction in foreign dependency will reduce the value of imports which (ceteris paribus) reduce a deficit on the current account.

• Problems of protectionism includes –the ability to reduce the value of imports will be influenced by the price elasticity of demand for imports. Moreover, the possibility of retaliation thereby reducing the value of exports. This may not only limit any reduction in the current account deficit but may hinder a government' s ability to achieve other macroeconomic objectives –e.g., reducing the level of unemployment or possibility of increasing cost-push inflation.
• Alternative policies that may be considered include contractionary monetary policy –higher interest rates will increase the cost of debt and mortgage repayments and leave people with less money to spend. Therefore, this will reduce their consumption of imports, improving the current account.
• Problems of the alternative policy –for example, an increase in interest rates will tend to cause hot money flows and therefore an appreciation in the exchange rate. This appreciation makes exports less competitive, and imports more attractive. Assuming demand is relatively elastic, this appreciation will worsen the current account.
Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation
• Requires an assessment of the protectionism and at least one other policy in reducing a current account deficit which leads to
5(b) A justified conclusion as to which policy may be best way to reduce economic growth or whether a combination of policies might be more appropriate.
Accept all valid responses. Note: A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

2. (w24 qp 21-5(b)) **[12]**

5(b) Assess whether an economy will always benefit from having a surplus on the current account of its balance of payments.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
Potential benefits:
• A country will have surplus foreign exchange which it could use to invest in other countries.
• A high level of exports could lead to an increase in jobs in the export sector.
• Lower spending on imports may mean that people are buying more domestic goods which could also increase employment.
• It could stimulate economic growth.
Potential disadvantages:
• A current account surplus could be a sign of weak domestic demand with lower consumer spending and this could reduce domestic employment.

- It could lead to lower economic growth.
- The surplus could have been caused by a recession in the economy.
- It can contribute to lower output and employment in those countries with a current account deficit.

Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one-sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation

- Considers the potential benefits and disadvantages of the surplus.
- Considers the size of the surplus and the possible reasons for it.
- In conclusion, will an economy always benefit from having a surplus?

Accept all valid responses. A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

3. (s24 qp 23-5(b)) **[12]**

5(b) Assess the extent to which different tools of protection can impact on the terms of trade in an economy.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis

- An explanation of what is meant by tools of protection.
- Explanation of the different tools of protection and how they may impact the terms of trade.
- Examples include tariffs which are used to increase import prices which will reduce the terms of trade but may improve them if domestic producers including infant industries are encouraged to invest and build up demand and increase export prices. However, retaliation and inelastic PED for imports may reduce the positive impact.
- Other examples include import quotas, embargoes, exchange rate manipulation etc. At least one additional tool should be explained and analysed in terms of its advantages and disadvantages in relation to its impact on the terms of trade.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
AO3 Evaluation Evaluation must focus on the impact of the tools of protection on the terms of trade. This should lead to a justified conclusion.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation. Please use a text box to show

the mark split e.g., L2 5 L1 2
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

4. (s24 qp 22-5(b)) **[12]**

5(b) Assess whether free trade is always better than a policy of protectionism for a developing economy that wishes to trade internationally
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- Analysis of the advantages and disadvantages of free trade and
- Analysis of the advantages and disadvantages of protectionism
- Both in the context of a developing economy.

Guidance: The advantages of free trade may include:
- Efficient allocation of resources due to specialisation and comparative advantage.
- An opportunity to take advantage of different factor endowments.
- Competitive pressure to keep costs down / increase efficiency / lower prices for consumers.
- Higher output / economies of scale and increased choice and availability for consumers.
- Disadvantages may include:
- Over exploitation of scarce resources.
- Closure of domestic industries and /or problems for developing industries leading to unemployment particularly in a developing economy.
- Dumping / unfair competition.
- It is likely that the advantages of protectionism will result from the disadvantages of free trade and the disadvantages of protectionism will result from the advantages of free trade.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.
Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.
Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.
NOTE: if the analysis is not in the context of a developing economy, then L2 maximum.
5(b) AO3 Evaluation
- Requires an assessment of the advantages and disadvantages of both free trade and protectionism in the context of a developing economy and a comparison of both policies which leads to
- A justified conclusion as to which policy may be best for a developing economy that wishes to trade internationally.
- Note: if the evaluation is not in the context of a developing economy, then no evaluation marks can be awarded.

A one-sided response cannot gain any marks for evaluation.
Please use a text box to show the mark split e.g., L2 5 L1 2
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

5. (s23 qp 21-5(b)) **[12]**

5(b) Assess whether the arguments for protectionism in the context of international trade are always stronger than the arguments against.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis The arguments for protectionism/against free trade. These might include:
- Infant/sunrise industry argument
- Declining/sunset industry argument
- Strategic industry argument
- To prevent dumping
- To reduce a current account deficit
- To raise revenue for a government.

The arguments against protectionism/for free trade. These might include:
- Free trade can lead to greater specialisation and, as a consequence, greater output
- Resources are allocated more efficiently
- Consumers have a wider range of products to choose from
- This can lead to improved standards of living.

AO3 Evaluation
- Considers the possible issues of protectionism and the relative strength of the different arguments.
- In conclusion, which approach will be better for particular economic situations.

Accept all valid responses.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

6. (s23 qp 22-4(b)) **[12]**

4(b) Assess whether protectionism is the best way to correct a deficit in the current account of the balance of payments.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis (max 8 marks) Protectionism can include the use of:
- Tariffs
- Embargoes
- Export subsidies etc. Analysis should consider the advantages and disadvantages of such a policy e.g.
- Possible retaliation
- Possible long-term reliance on such measures that may reduce future competitiveness etc.

Analysis should also compare this policy with the advantages and disadvantages of another policy e.g., supply side policy, fiscal or monetary policy which may include:

- Training and education to improve productivity.
- Investment in better infrastructure
- Incentives to entrepreneurs etc.
- Expenditure dampening.
- Encouragement of a depreciation in the exchange rate.

A one-sided response can only gain a maximum of Level 2.
AO3 Evaluation (max 4 marks)
- Consideration of the relative effectiveness of the policies in correcting a deficit in the current account of the balance of payments.
- A justified conclusion showing which policy is most likely to be successful in correcting a deficit in the current account of the balance of payments.

Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4

7. (w23 qp 22-4(b)) **[12]**

4(b) Assess whether a rise or a fall in the terms of trade will benefit the macroeconomic performance of an open economy that is heavily dependent on international trade.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content Responses may include:
AO1 Knowledge and understanding and AO2 Analysis Better answers will examine the impacts on the wider economy i.e., employment, price stability, economic growth as well the on the current account. Reference will also be made to the dependency on international trade.
For a rise in the terms of trade:
- This may lower inflation if raw material import prices are lower.
- Depending on price elasticity of demand, it may lead to economic growth if the income earned from exports increases and a boost to employment.
- It may however lead to lower economic growth if it leads to a current account deficit.

For a fall in the terms of trade:
- Exports may be boosted, and this may lead to higher economic growth.
- It may reduce a current account deficit.
- It may however be a sign of a weak economy with exports that are less in demand and therefore lead to lower economic growth.
- If imports are price inelastic, this may lead to import cost-push inflation if the economy is highly dependent on imported goods.
- Answers which do not refer to the heavy dependence on international trade cannot gain more than L2.
- Answers which only refer to a rise or a fall in the terms of trade cannot gain more than L2.
- At least one negative effect in addition to positive effects (either for a rise or a fall in the terms of trade) should be considered within the analysis to gain lower L3.

AO3 Evaluation
- Evaluation should consider both price elasticity of demand for exports and imports and the dependency on international trade. N.B. reference to the Marshall-Lerner condition may be rewarded but must not be expected as that is an AL topic.

- The benefits and drawbacks of both a rise in the terms of trade and a fall in the terms of trade should be carefully considered and compared to form a judgement about their impact on the wider economy.
- This should lead to a considered conclusion about which is more likely to be of benefit.

Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
4(b) AO1 Knowledge and understanding and AO2 Analysis
AO3 Evaluation 4

8. (w23 qp 23-5(b)) **[12]**

5(b) A country has a persistent deficit on the current account of its balance of payments.
Assess the likely consequences for the domestic and external economy of this country.
Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.
AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
Indicative content
Responses may include:
AO1 Knowledge and understanding and AO2 Analysis
- Explanation of what is meant by a persistent deficit on the current account of the balance of payments.
- Analysis of the consequences of a persistent deficit on the domestic economy e.g., in terms of employment levels, economic growth, inflation, living standards, government budget, business confidence, possible need to restructure the economy etc.
- Analysis of the consequences of a persistent deficit on the external economy e.g., exchange rates, ability to trade, need for imports, debt interest, etc. Note: accept answers that refer to the impact on other economies when another economy has a persistent current account deficit.

Max L 2 if only the consequences on the domestic or the external economy are considered.
AO3 Evaluation That clearly considers the likely consequences on both parts of the economy and comes to a conclusion as to the most likely consequences.
Accept all valid responses.
A one-sided response cannot gain any marks for evaluation.
AO1 Knowledge and understanding and AO2 Analysis 8
AO3 Evaluation 4